J Sainsbury plc

Annual Review 1997
and Summary Financial Statement

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Contents

Group Profile J Sainsbury plc is one of the world's leading retailers, operating three separate store chains and a bank in the UK and one store chain in the US. Through these operations, J Sainsbury plc serves more than 12.5 million customers a week.

Sainsbury's Supermarkets is the largest part of the Sainsbury Group, accounting for 89% of Group operating profit before profit sharing and exceptional costs and 75% of Group sales. The other UK food retailing arm is Savacentre, the country's only specialist hypermarket company.

Homebase, also in the UK, is our chain of home improvement stores and garden centres. In the US Shaw's Supermarkets, Inc. operates a chain of supermarkets in New England. J Sainsbury plc also has a holding of approximately 20% in Giant Food Inc., a supermarket group which is the market leader in the Washington DC and Baltimore areas.

Founded in London in 1869, Sainsbury's was privately owned until public flotation in 1973. The Sainsbury family and its charitable trusts remain major shareholders and the present Chairman, David Sainsbury, is a great-grandson of the founders.

Group Objectives To discharge the responsibility as leaders in our trade by acting with complete integrity, by carrying out our work to the highest standards, and by contributing to the public good and to the quality of life in the community.

To provide unrivalled value to our customers in the quality of the goods we sell, in the competitiveness of our prices and in the range of choice we offer.

To achieve the highest standards in efficiency of operation, convenience and customer service in our stores, thereby creating as attractive and friendly a shopping environment as possible.

To offer our staff outstanding opportunities in terms of personal career development and in remuneration relative to other companies in the same market, practising always a concern for the welfare of every individual.

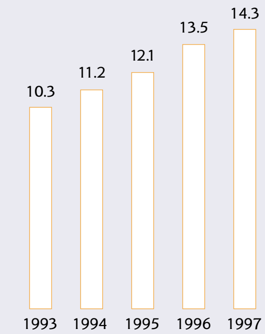
To generate sufficient profit to finance continual improvement and growth of the business whilst providing our shareholders with an excellent return on their investment.

Financial Highlights

£ million	1997 52 weeks to 8th March	1996 52 weeks to 9th March	% Change
GROUP SALES (incl. taxes)	14,312	13,499	6.0
GROUP OPERATING PROFIT before profit sharing and exceptional costs	745	854	(12.8)
Profit Sharing	(37)	(50)	
Associates	19	19	
Net Interest Payable	(76)	(59)	
GROUP PROFIT before tax, exceptional costs and profit/(loss) on sale of fixed assets	651	764	(14.8)
Profit/(loss) on sale of fixed assets	8	(4)	
Exceptional costs	(50)	(48)	
GROUP PROFIT BEFORE TAX	609	712	
Tax	(208)	(234)	
GROUP PROFIT AFTER TAX	401	478	
EARNINGS PER SHARE	22.0p	26.8p	
FULLY DILUTED EARNINGS PER SHARE before exceptional costs and profit on sale of properties	23.1p	27.8p	(16.9)
DIVIDEND PER SHARE	12.3p	12.1p	1.7
of which Final	8.8p	8.7p	

Group Sales

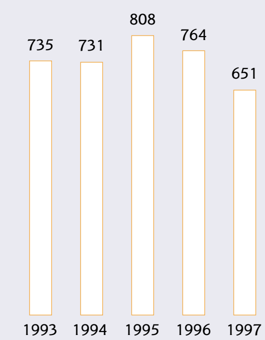
£ billion



Group sales increased by 6% to £14.3 billion.

Group Profit

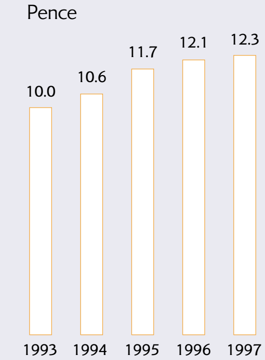
£ million



Group profit before tax, exceptional costs and profit/(loss) on sale of fixed assets decreased by 14.8% to £651 million.

Dividend per Share

Pence



Dividend per share increased by 1.7% to 12.3 pence.

Chairman's Statement

The Year's Results In a year of major change, Group sales increased by 6% to £14.3 billion and Group profit before tax, exceptional costs and property items reduced by 14.8% to £651 million. The sales growth of Sainsbury's Supermarkets continued to improve during the year as our programme of new store openings recovered and the different parts of our trading and marketing strategy started to take effect. This improvement, however, was insufficient to offset the impact of the petrol price war, the costs of the Reward Card and improvements in service, and the effects of lower sales inflation.

Homebase and the fully converted Texas stores continued to perform very well, but trading in the unconverted Texas stores was poor until they were rebadged under the Homebase fascia in December. Due to the outstanding sales uplifts achieved by the Texas stores converted to the Homebase format, we have decided to increase the speed and extent of the conversion programme, and this has led us to provide an additional £50 million for the costs of integration. Shaw's continued to make solid progress in its established markets although its performance was adversely affected by its rapid expansion into Connecticut.

We propose to increase the total dividend for the year by 1.7% to 12.3p despite the reduction in Group profit. This reflects our better trading performance and our confidence in an improving profit trend. In the future we expect to increase dividend per share broadly in line with earnings per share growth.

Group Outlook and Priorities The overall financial results for the past year have been disappointing, but each of our major businesses has established a clear strategy and a strong base for success. We have three main priorities for the year ahead. First, to sustain the improvement in sales growth in Sainsbury's Supermarkets and translate this into stable net margins. Second, to implement the accelerated Homebase conversion programme effectively, while improving the performance of rebadged stores awaiting full conversion. Third, to build Shaw's sales in Connecticut, while maintaining its steady progress in its established markets.

In the medium term, we will continue to differentiate clearly the Sainsbury's Supermarkets' offer from that of its competitors by concentrating on outstanding quality, choice and value for money. We will also ensure that Homebase and Shaw's make a greater contribution to Group profitability as performance builds following the heavy investment programme of recent years.

We believe that with these plans we can both grow the Group as a high quality, international retailer, and significantly improve our shareholders' returns.

New Management Structure and Team

In March 1997 Dino Adriano took over as Chief Executive responsible for the UK food retailing businesses. He joins me and David Bremner, appointed in August as Chief Executive, Homebase and US Businesses, in leading the Group. Strategies and medium term goals have been established for each business in the Group, and these are set out by the two Chief Executives on pages 6 and 7 and pages 16 and 17.

In July we were very pleased to welcome Sir David Scholey CBE as a Non-Executive Director. Sir David was Chairman of the S.G.Warburg Group PLC from 1989 until 1995 and is currently Chairman of the Swiss Bank Corporation International Advisory Council, a Non-Executive Director of the Bank of England and a Governor of the BBC.

Dr John Ashworth, who has served as a Non-Executive Director since 1993, retires from the Board at the Annual General Meeting. I am most grateful to him for his contribution to our affairs over the past four years and for his wise advice.

In order to sharpen accountability further and improve performance, we have set up a separate subsidiary company, Sainsbury's Supermarkets Ltd, to run the UK supermarket business.

As part of the restructuring of the Board, following the setting up of Sainsbury's Supermarkets Ltd, Colin Harvey retired from the Group Board on 8th April 1997. He will continue as Managing Director of Savacentre until June 1999.

Sainsbury's Bank An important development for the Group during the year was the establishment of Sainsbury's Bank with our joint venture partner, Bank of Scotland. We provide access to an immense customer base and our name is trusted as a financial services supplier. Bank of Scotland is a leader in direct banking and has the added advantage that its branch network has little overlap with our supermarkets.

The launch of the Bank has been extremely successful. In the first 10 weeks we opened over 150,000 accounts and further new products will be introduced this summer. Start up costs led to a loss of £6.3 million in the year but in the medium term the Bank is expected to become a significant source of profit.

Tribute to Staff I would like to thank all our staff for their hard work during the year and for their firm commitment to providing superb customer service. Theirs has been a significant contribution in a year of great change. We will continue to invest substantially in training and staff development to enhance our ability to listen to, understand and serve our customers.

David Sainsbury

Board of Directors

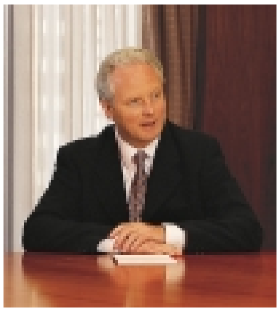
Dino Adriano.
Chief Executive, UK Food Retailing Businesses.
Appointed to Board in 1990.
Age 54.

David Sainsbury.
Chairman.
Appointed to Board in 1966.
Age 56.
(Chairman, Nomination Committee)

David Bremner.
Chief Executive, Homebase and US Businesses.
Appointed to Board in 1996.
Age 39.

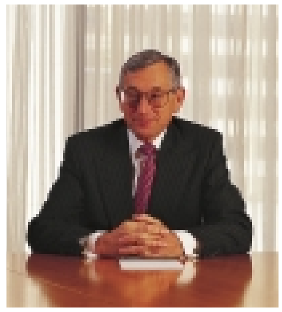
Robin Whitbread.
Retail Director,
Sainsbury's Supermarkets Ltd.
Appointed to Board in 1990.
Age 46.

Bob Cooper.
Trading Director,
Sainsbury's Supermarkets Ltd.
Appointed to Board in 1988.
Age 48.



John Adshead CBE.
Personnel Director,
J Sainsbury plc and
Sainsbury's Supermarkets Ltd.
Appointed to Board in 1989.
Age 51.

Tom Vyner.
Deputy Chairman.
Appointed to Board in 1978.
Age 60.
(Nomination Committee)



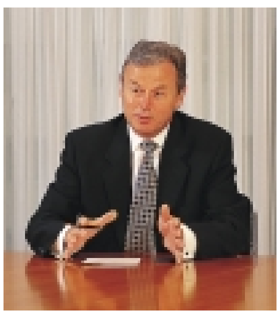
David Clapham.
Special Business Units and
Services Director,
Sainsbury's Supermarkets Ltd.
Appointed to Board in 1992.
Age 50.

Kevin McCarten.
Marketing Director,
Sainsbury's Supermarkets Ltd.
Appointed to Board in 1995.
Age 39.

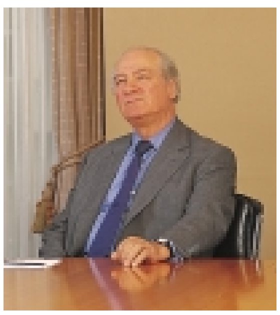
Ian Coull.
Property Director,
J Sainsbury plc and
Sainsbury's Supermarkets Ltd.
Appointed to Board in 1988.
Age 46.

Rosemary Thorne.
Group Finance Director.
Appointed to Board in 1992.
Age 45.

Dr John Ashworth.
Non-Executive Director.
Appointed to Board in 1993.
Age 58.
(Audit, Remuneration and
Nomination Committees)

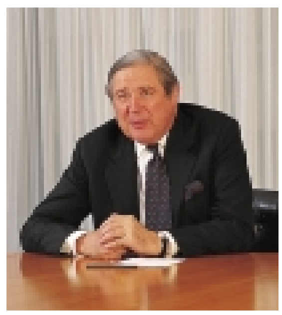


Sir Clive Thompson.
Non-Executive Director,
Chairman, Remuneration
Committee.
Appointed to Board in 1995.
Age 54.
(Audit, Remuneration and
Nomination Committees)



Sir Terence Heiser GCB.
Non-Executive Director,
Chairman, Audit Committee.
Appointed to Board in 1992.
Age 64.
(Audit, Remuneration and
Nomination Committees)

The Rt Hon
Sir Timothy Sainsbury.
Non-Executive Director.
Appointed to Board in 1995.
Age 64.
(Audit, Remuneration and
Nomination Committees)



Sir David Scholey CBE.
Non-Executive Director.
Appointed to Board in 1996.
Age 61.
(Audit, Remuneration and
Nomination Committees)

Joint Presidents

Lord Sainsbury of Drury Lane, Sir Robert Sainsbury, Lord Sainsbury of Preston Candover KG.

Chief Executive's Review – UK Food Retailing Businesses

My priority as Chief Executive is to rebuild the superiority of our offer and to ensure that we achieve our business mission of 'always striving to be the customer's first choice for food shopping'.

In a highly competitive market, Sainsbury's Supermarkets' sales increased by 6%. Like-for-like sales growth improved during the year from 2.7% in the first half to 3.7% in the second half, despite a reduction in sales inflation from 4% in the first half to less than 3% in the second half. Our market share rose from 12.5% to 12.6%. Operating profit was down by 11.1% as a result of the petrol price war and investment in the Reward Card, stock availability, customer service and training.

Plans to implement our new strategy, designed to re-establish Sainsbury's as the 'customer's first choice for food shopping', were progressed during the financial year. Our key strategies are to enhance product quality and choice, build customer loyalty, provide consistent product availability and deliver high standards of service to our customers. The major costs of implementing these have already been incurred.

Central to the customer offer was the Reward Card launched in June 1996 and enhanced by the Extra Reward Points promotion from November. There are now over nine million Reward Cards in issue.

Rebuilding our superiority in quality and choice is the key to maintaining our sales and market share momentum. The structure of the Trading Division has

▲
Dino Adriano, Chief Executive, UK Food Retailing Businesses, talking to Sharon Bernard, Delicatessen Assistant, in the new Sainsbury's store at Clapham, London which opened in November 1996.

been streamlined to enable our buyers to give higher priority to new product development. We increased product development resources and we are now communicating improvements in quality to customers through our 'Better Quality. . . Same Price' promotion. We plan to improve or replace at least one-fifth of our own brand range each year.

To achieve outstanding quality and choice, we are changing our approach to the management of product categories. During the next 18 months we will introduce a fully integrated structure for category management.

We improved our overall levels of product availability during the second half of the financial year. Performance regularly approached our target of 95% availability to customers at the end of the trading day. There is still room for improvement. It is our goal to give our customers outstanding levels of availability in all our stores at all times of the day and on all days of the week.

The current planning environment has reduced growth of new space for the sector as a whole to between 2% and 3%, approximately in balance with market growth. With the increasing use of new formats, such as 'Country Town' stores, we anticipate being able to expand sales area by between 4% and 5% each year for the rest of the decade. We opened 18 stores in 1996/97 and plan a further 18 openings in the coming year. Our programme of extensions continues with 17 more planned in the coming year, and there is scope for major extensions at a further 80 stores.

The Savacentre format will continue to be a complementary part of our development programme. We have instituted a strategic review of Savacentre's non-food offer in order to fulfil customer needs better.

I believe these programmes of change and development will generate positive results and I have established four key objectives for the business in the coming year. Firstly, I expect to see customers' perception of our quality and value for money improve relative to that of our competitors. Secondly, I am determined to sustain positive like-for-like volume growth of between 1% and 2% in the current year and to increase market share at a faster rate. Thirdly, I am planning for net margins to stabilise at or above last year's levels, before Year 2000 systems costs. And fourthly, I aim to open 18 new stores and add over 500,000 sq. ft. of profitable selling space.

The recovery of our business will not be an overnight phenomenon but we have started a process of consistent and far-reaching improvement.

12 VOL AU VENTS

Sainsbury's Supermarkets – 'always striving to be the customer's first choice for food shopping'

The restructured and refocused Sainsbury's Supermarkets business aims to become, and to be recognised once again as, the nation's best supermarket operator.

Key to the achievement in sales uplift was the development of a new supermarket strategy. Leading from this is the commitment to provide outstanding availability, excellent customer service and superior quality and choice, while giving customers very competitive prices.

Analysis

	1997	1996
Sales (incl. taxes)	£10,752.2m	£10,148.1m
Operating Profit	£661.5m	£744.3m
Number of supermarkets	378	363
Sales area ('000 sq. ft.)	10,387	9,767
Full-time employees	38,375	36,082
Part-time employees	83,190	79,746

Particular attention was paid to improving the quality and store presentation of fresh foods. Shelf space allocated to fresh foods has been increased by 15% in new stores, extensions and major refurbishments. There are now 157 fresh meat counters, 181 fresh fish counters and 328 delicatessen counters. Bakeries are in 377 stores and a full range of Fresh 'N' Ready fruit, vegetables and salads is available throughout the chain.

During the year, over 1,000 new own brand products were introduced and 500 existing lines were replaced. In March 1997, the launch of 250 improved products marked the start of the 'Better Quality. . . Same Price' promotion. Examples of the improvements include lasagne with richer bolognaise sauce, hot cross buns with fresh lemon peel, and pizzas with extra and fuller flavour cheese.

A large store typically offers 9,500 Sainsbury brand lines and 11,500 manufacturers' lines. During the year, sales of Sainsbury brand products accounted for about two-thirds of total sales. Following a trial on the Cooking Sauce range, which resulted in significant improvements to customer choice and sales, a review of the management of all product ranges is being conducted. The ranges for detergents, breakfast cereals, nappies, soft drinks and dental care are amongst the first to have been rebalanced.

Sainsbury's has continued to work in partnership with suppliers to ensure safety and quality. In addition to re-enforcing the 'Farm Assured Meat' programme to improve customer confidence, consumer concerns about genetically modified foods are being addressed. In particular, Sainsbury's would like to see the segregation of genetically modified crops from conventional crops so that customers can make an informed choice when buying food products containing genetically modified ingredients.

Sainsbury's has also been active in promoting organic produce, and is currently the leader in this market. To help address the shortfall in supply levels and improve availability of organic products generally, the company sponsored 10 suppliers of conventional produce to

Directors

Dino Adriano
Chairman

John Adshead CBE

David Clapham

Bob Cooper

Ian Coull

Hamish Elvidge

Kevin McCarten

Robin Whitbread

Self-scanning will be available in 50 stores by December 1997. It has proved popular with customers enabling them to shop more quickly.

attend the Soil Association's national conference on organic food production. Sainsbury's is also working with various international charity and non-governmental organisations to develop a Code of Conduct that will assist in monitoring own brand suppliers worldwide on social and environmental concerns.

Sainsbury's was voted by *Woman* magazine as the supermarket with the most exciting new foods on offer. Sainsbury's Indulgence Merry Christmas Pudding ice cream was one of a number of products to win an award during the year.

A new flower shop was trialled at the Cobham store and improved floral displays have been introduced in the other 337 stores selling flowers. A new style coffee shop, Espresso, forms part of the new store at Winnersh which opened in March 1997.

The Reward Card was launched in June 1996. Customers now use a Reward Card for 60% of transactions accounting for over 80% of sales. The nine million or more Reward Card holders can choose to take their points as Sainsbury Reward vouchers, Air Miles, or use them to obtain a discount on services provided by other companies with whom special deals have been negotiated. These include discounts on telephone bills, photo processing, dry cleaning and meals out.

Sainsbury's continued to maintain a highly competitive price position across its product range. Prices were on average 2% below major competitors.

A number of alternative forms of shopping were trialled during the year. 'Express Shop', the use of self-scanning equipment for Reward Card holders, was introduced at Watchmoor Park, Camberley last November. The service, now available in seven stores, is expected to be available in 50 stores by December.

Watford and Solihull stores are trialling 'Order & Collect'. Customers telephone or fax their order for picking by store staff. Later this year, more than 20,000 lines will be shown on Sainsbury's web site on the Internet, building on the success of another trial – a closed network Electronic Shop.

Sainsbury's Supermarkets employs more than 121,000 people: two-thirds are women and the same proportion work part time. Following the extension of trading hours in June 1996 to 10pm on certain nights, most stores now open for over 80 hours a week.

The process of communicating with staff was reviewed and improved during the year. In September

Blackcurrant cheesecake now has 10% more fruit, for the same price. Sales of this product have doubled since the launch of the 'Better Quality...Same Price' promotion.

The Fresh 'N' Ready range now includes 63 fruit, vegetable and salad products.


J SAINSBURY
J SAINSBURY
J SAINSBURY

1996, Business TV was launched. Using an encrypted satellite transmission service, the live and interactive programmes go out regularly to all stores and office locations and have significantly improved the speed and quality of internal communications. Also new this year was the establishment of Staff Councils with representatives drawn from all areas and levels of the business. These provide a forum for consultation and information.

Sainsbury's continued to make training a priority with the introduction in June 1996 of a new training programme called Operational Skills. The training needs of all staff were re-assessed and more than 50,000 took the opportunity for enhanced operational skills training. In addition to training for job-specific skills, staff continued to be encouraged to progress their personal development and over 1,500 adult members of staff now either have, or are progressing towards, a Level 2 National Vocational Qualification.

As part of its ongoing commitment to training Sainsbury's is working towards the Investors In People award for all areas of its business by the year 2000. Three stores, Ripley, Belgrave Road, Leicester, and Market Harborough, have already achieved the award.

The Side By Side scheme, which encourages staff to become actively involved in local community projects, is now in 150 stores. Emphasis this year has been on projects working with children, elderly people and those with disabilities. Staff at all stores, together

The Forestside, Belfast store is one of the two stores to open in Northern Ireland and is trading far above expectations.

with customers, have also raised funds for national and local charitable causes. More than £500,000 was raised in the year for BBC Children In Need, bringing the total raised for this charity alone to over £2 million in the last six years. Support has also been given to local communities through Arts Sponsorship and Town Centre Management initiatives.

Some £450 million was invested in 18 new stores and 22 extensions providing 668,000 sq. ft. of new sales area. The openings included the first two stores in Northern Ireland, Ballymena and Forestside, Belfast, and the first two stores in the 'Country Town' format, which typically have a sales area of between 15,000-20,000 sq. ft., March and Melksham.

Eighteen new stores are planned in the coming year. This includes further stores in Northern Ireland and in the 'Country Town' format.

The video wall at the new store in Clapham, London is the largest in Europe. It provides an attractive and entertaining new dimension to the High Street.


COOKSHOP
Water Filters
Kitchen Tools

Savacentre – committed to innovation, expansion and improved performance

In a highly competitive environment, Savacentre achieved sales growth of 6.8% to £802 million.

Operating profit fell by 11.9% to £30.3 million reflecting the petrol price war and investment in the Reward Card and customer service. No new stores were opened during the financial year. Sales at Sydenham and Stockton, which both opened in 1995, grew at record levels for new Savacentre openings. The sales performance was also enhanced by the Reward Card with some 400,000 customers choosing a Savacentre hypermarket as their home store.

Analysis

	1997	1996
Sales (incl. taxes)	£802.0m	£751.2m
Operating Profit	£30.3m	£34.4m
Number of hypermarkets	12	12
Sales area ('000 sq. ft.)	1,034	1,034
Full-time employees	3,023	2,796
Part-time employees	7,527	7,002

In September the Savacentre clothing range was relaunched under the new brand name I·N·I·T·I·A·L·S. This exclusive range aims to be stylish, practical and fashionable as well as good value for money.

Also new instore are DIY and bathroom shops and new concessions, such as NEXT childrenswear at London Colney and Daewoo car concessions at three stores.

During the year, the Oldbury store was enhanced by the opening of a children's play centre, a major refurbishment of the restaurant and the addition of a new petrol station. At Merton, customers can choose between a McDonald's or a Morelli Italian style restaurant, and customers with disabilities now have a dedicated parking area, which is accessible only by arrangement.

Extended trading hours are well established with customers and many stores now open until 10pm. During the busy Christmas period, the Edinburgh store opened through the night providing greater flexibility, convenience and a less crowded shopping environment.

Savacentre employs over 10,000 people. Training programmes are available to staff at all levels to help improve their performance in their current job as well as to help personal development. Recent additions include courses for electrical department staff and pre-seasonal courses for staff handling bedding plants and garden shrubs.

The stores remain active in their local communities providing a wide range of charitable contributions from Variety Club coaches to sponsorship of horse riding facilities for children with disabilities.

Savacentre plans to open a new store every 18 months. The thirteenth store opened in Leeds just after the year end in March 1997. It includes many new design features such as the Curry Kitchen offering curry ready meals, a Salad Bar and a new format restaurant. The next planned opening is at Braehead, Glasgow in 1999.

Directors

Ian Coull
Chairman

Colin Harvey
Managing Director

Edward Bonner

David Empson

John J O'Sullivan

Allan Webb

*Robin Anderson**

*Trefor Hales**

*Andrew Mitcham**

**Non-Executive*

The thirteenth Savacentre opened in March 1997 in the White Rose Shopping Centre, Leeds. With a sales area of 85,000 sq. ft., it includes many established features, such as Cookshop, as well as newer ones.

In the UK, the Homebase business has grown its operating margins for 12 consecutive years and its real like-for-like sales for the last six years. Sales this year increased by 15.7% to £492 million and operating profit rose by 25.1% to £45.3 million.

The key strengths of Homebase – product range, customer service and good space management – now have to be deployed in the enlarged business.

By the year end, we had converted 40 Texas stores to the Homebase format and, eliminating the Texas identity and brand, we rebadged the rest of the Texas stores to the Homebase fascia. We have proceeded with range integration and by the year end this was 90% complete.

In total, the former Texas business incurred a loss of £29 million for the year due mainly to the additional costs of and the disruption caused by integration with Homebase. However, we achieved a strong performance in those stores we fully converted to the Homebase format. On average these stores have achieved a cumulative sales increase of almost 40% and raised operating margins to over 8%, supporting our decision to invest in people, systems and general controls ahead of the conversion process.

David Bremner, Chief Executive, Homebase and US Businesses, talking to a customer at the Homebase store in Kensington, London.

To realise the full potential of the remaining stores we will accelerate the conversion programme and have provided £50 million of exceptional costs to do this.

These costs break down into three areas: converting 65 additional stores, more extensive conversion work on each store, and range and supply chain integration.

I have set the business five short-term targets and one long-term goal. The long-term goal is to achieve a return on net assets of around 17% in the year 2000 when we complete the conversion programme. In the short term we plan to open 10 new stores in 1997/98; to target 60 conversions, so that by the end of the year over half of the acquired stores will be in the Homebase format; to achieve an operating margin of between 7% and 8% in converted stores; to regain lost customers in the as yet unconverted stores and achieve a like-for-like sales increase in these stores of 5%; and to achieve growth in the original Homebase stores at least in line with the market.

I am confident that these targets are demanding, realistic and achievable.

Turning to the US, Shaw's made steady progress in its established markets where it increased operating profit by 10% and achieved a return on net assets of 16%. During the year Shaw's expanded its store base by over 20%. This included the 12 stores in Connecticut acquired from subsidiaries of Royal Ahold NV in October 1996. This acquisition led to lower profits in the second half than had been expected. Overall sales for the year grew by 12.4% to $2.5 billion but operating profit fell by 15.4%, on a 52-week basis, to $65.2 million.

I have set Shaw's the following four targets. Firstly, we will improve the operating margins in the established markets through improved sales and increased efficiencies. Secondly, we will seek to make our stores in Connecticut the customers' first choice for food shopping by delivering a differentiated offer based on Shaw's highly competitive, every day low price groceries and quality perishables built on the heritage of Shaw's and Sainsbury's. Thirdly, we will establish Shaw's as the second largest supermarket operator in Connecticut. And fourthly, we are targeting a return on net assets of 15%, including the Connecticut expansion, by the year 2000.

Giant, in which we increased our holding to approximately 20% in August 1996, is our other interest in the US.

Business there was severely disrupted by a strike of distribution staff in the fourth quarter. During that quarter, sales fell 6.9% on a like-for-like basis, but profits were down by over 60% to $28.7 million compared with $73.4 million for the same quarter the previous year. A satisfactory solution to the strike was reached which will reduce costs and maintain flexibility, and sales are recovering.


SAINSBURY'S
HOMEBASE
HOUSE AND GARDEN CENTRE
10% OFF
15% OFF
ALL
WALLPAPERS
NEW

Homebase – firmly established as a national home improvement chain

This was a year of intense activity for Homebase, delivering the accelerated programme of integration of the ex-Texas stores acquired the previous year. The original Homebase stores had an excellent year with increases in sales of over 15% and in operating profit of 25%.

Analysis – Homebase*	1997	1996
Sales (incl. taxes)	£492.4m	£425.7m
Operating Profit	£45.3m	£36.2m
Number of stores	99	91
Sales area ('000 sq. ft.)	3,826	3,470▲
Full-time employees	3,617	2,723
Part-time employees	6,663	4,040

**Relates to core Homebase business. Ex-Texas Analysis on page 21.*
▲Restated.

Some five million customers are now active Homebase Spend & Save cardholders. The loyalty card continues to be popular and customers may now choose the option of Air Miles instead of vouchers redeemable in Homebase, Sainsbury's or Savacentre stores.

The range of Homebase brand products continues to be strengthened. This year over 1,000 new or improved lines were launched including several new services to complement the Homebase offer. Homebase *Living* magazine was launched in March 1997. In addition to promoting what is new instore, it carries general interest features. Three editions of the magazine a year are planned.

In February 1997, Homebase launched its Home & Contents Insurance and other insurance packages. This telesales service offers a range of insurance products tailored to the Homebase customer.

Homebase continued to develop the concept of 'Shops within Shops' with the introduction of new areas such as Cookshop and a new format wallpaper shop.

The 40 Texas stores which were fully converted to the Homebase format by the year end performed well with a cumulative sales uplift of 40% in the year.

The financial performance of the remaining Texas stores was disappointing and collectively the ex-Texas stores made a loss of £29 million. This loss reflected the costs involved in accelerating the integration of the product range, now nearing completion, and the considerable investment in staff training, and in stock control and replenishment systems associated with conversions.

The Texas name was dropped totally on 2nd December – 'H Day' – when all remaining Texas stores were rebadged to the Homebase fascia overnight. The rebadging of the Texas stores created a national Homebase chain.

The completion of the conversion programme is now the key to unlocking the remaining potential from the acquisition. Sixty conversions are planned for the coming year and it is envisaged that there will be a further 60 in the following year to complete the programme. This is a demanding schedule involving more than one store a week.

To support the new nationwide

Directors

David Bremner
Chairman

Ross McLaren
Managing Director

Ian Baldwin

Steve Bradbury

Peter Guildford

Mike Powell

*Bob Cooper**

*Ian Coull**

**Non-Executive*

The former Texas store at Bedford was one of 40 stores to have been fully converted to the Homebase format by the year end. The fully converted stores typically show an uplift in sales of 40%.

chain of stores, the infrastructure to operate a national distribution operation from Elgin in the north of Scotland to Camborne in Cornwall was established.

The former Texas depot in Wellingborough is currently being extended and a replacement depot for the horticultural business is under construction in Swindon.

Analysis – Ex-Texas

	1997	1996
Sales (incl. taxes)	£641.7m	£677.9m
Operating Loss	(£29.0m)	(£10.4m)
Number of stores	198	219
Sales area ('000 sq. ft.)	7,556	8,162▲
Full-time employees	2,622	3,240
Part-time employees	4,595	7,040

▲*Restated.*

'H Day' also marked the launch of Homebase FM, the company's own instore satellite radio station. Homebase FM broadcasts special offers instore as well as providing background entertainment for our customers.

Homebase employs over 17,000 people: two-thirds work part time and the split between men and women is about equal. During the year the business recruited more management trainees than ever before. It expanded its training facilities at Hadlow Horticultural College, Kent and actively encouraged staff to improve their personal development through NVQs and other external courses. Demonstrating Homebase's commitment to training, its South West region successfully achieved the standards of the Investors in People award earlier this year.

Customer service training played a key role in the preparation of staff in the newly converted and rebadged former Texas stores. Overall, staff performance during a year of considerable change was outstanding.

Each year Homebase staff choose a corporate charity and undertake events to raise funds. In March 1997, the £179,000 raised in this way was donated to Marie Curie Cancer Care. In the coming year, staff have voted to donate the funds they raise to Childline.

In addition to the activity on store conversions and range integration, nine new Homebase stores were successfully opened and a further 10 are planned for the coming year.

In February 1997, Homebase launched a range of insurance products including a garden protection scheme. ▶

◀ *Homebase's Good Ideas Garden, featuring products and plants available in stores, won a Gold Medal and the prestigious Tudor Rose award for the best 'Show Garden' at the 1996 Hampton Court Palace Flower Show.*


RADISHES
BUNCH CELERY
CHICORY
ESCAROLE
BOSTON LETTUCE
RED LEAF LETTUCE
GREEN LEAF LETTUCE
ROMAINE LETTUCE
1.39
1.49
1.29
1.29
1.29
1.29

Shaw's – serving more new customers in more New England states

Shaw's serves two million customers each week. It offers over 30,000 quality, value-for-money products and the ongoing 'Every Day Low Prices' promotion provides further savings.

Analysis

	1997	1996*
Sales (incl. taxes)	$2.49bn	$2.30bn
Operating Profit	$65.2m	$80.0m
Number of stores	115	96
Sales area ('000 sq. ft.)	3,822	3,137
Full-time associates	6,868	5,534
Part-time associates	13,151	12,232

**Results for 1996 are for a 54-week period.*

Shaw's has invested in the latest technology to make shopping more convenient for customers. It was the first supermarket in New England to accept the national Quest Card for Electronic Benefits Payments and to offer self-checkout.

Key to Shaw's offer is the strength of the Shaw's brand which is significantly different from those of its competitors. Shaw's works with growers and manufacturers to ensure that all Shaw's products meet its high standards and offers a money back guarantee to customers if they are not satisfied.

Over 600 new Shaw's brand lines were introduced in 1996/97 bringing the total to over 5,000. These now represent nearly 40% of total sales. New product ranges introduced during the year include old-world breads which are baked on the premises, Pot O'Soups which are jointly sourced with Sainsbury's, a range of luxury ice creams called Temptation, and flavoured cream cheeses which are for use in recipes or as spreads.

Shaw's associates number around 20,000 people. Over two-thirds are part time and there is an equal proportion of men and women. One of Shaw's latest initiatives, demonstrating its ongoing commitment to the training and development of associates, is 'Shaw's University', launched in June 1996. It offers a complete curriculum to support career and individual development in all areas of the business.

All associates are encouraged to participate actively in improving the quality of life in the communities in which they live and work. A principal focus for this activity is the United Way Campaign. During 1996/97 Shaw's associates raised over $560,000 for this campaign, representing a 14% increase on the amount raised in the previous year.

Nineteen stores opened during 1996/97, including the 12 acquired in Connecticut. At the year end, Shaw's had a total of 115 stores in Massachusetts, New Hampshire, Maine, Rhode Island and Connecticut. Since the year end the company has continued to expand and has successfully entered its sixth New England state, Vermont, with the opening of two stores – one in Colchester and the other in Berlin Corners. A total of eight stores are planned for the 1997/98 financial year.

Directors

David Bremner
Chairman

Phil Francis
President and Chief Executive Officer

Ruth Bramson

Paul Gannon

Pete Gunderson

Verne Powell

Scott Ramsay

*Harry Beckner**

*Steve DuBrul**

*Robin Whitbread**

**Non-Executive*

Shaw's 100th store opened at North Quincy, Massachusetts in April 1996. It is one of 19 stores opened in 1996/97.

Ten Year Financial Record

SAINSBURY'S SUPERMARKETS

New Store Openings 1996/97

Dalston, London
Castle Court, Bristol
Sittingbourne
Emersons Green, Bristol
Newton Abbot
Paignton • Aberdeen
Clapham, London
Drumchapel, Glasgow
Sale • Winnersh
Norwich • Stroud
Kirkcaldy • March
Melksham • Ballymena
Forestside, Belfast

New stores' sales area
524,000 sq. ft.

Extensions 1996/97

Castle Boulevard, Nottingham
Chester
Woolton, Liverpool
Leamington Spa
Gloucester • Whitley Bay
Queen's Road, Norwich
Chase Lane, Ilford
Kidderminster • Denton
Burpham
Fosse Park, Leicester
Altrincham • St Albans
North Cheam
Nine Elms, London
Cardiff • Northampton
Ripley • Edinburgh
Kempshott • Sheffield

Extensions' sales area
144,000 sq. ft.

Planned Store Openings 1997/98 include:

Kenilworth
Reedswood, Walsall
Blackheath, Halesowen
Burton upon Trent
Atherleigh Way, Leigh
Wade Street, Halifax
Merthyr Tydfil
Russell Site, Hitchin
Brentwood
Glen Road, Leicester
Walton, Liverpool
Telford
Oswestry
West Street, Deal

Planned stores' sales area
502,000 sq. ft.

Planned Extensions 1997/98

Major extensions planned
at 17 stores

Planned extensions' sales area
133,000 sq. ft.

RESULTS (£ MILLION)	1988	1989
Group Sales (including VAT & sales taxes)	**5,010**	**5,915**
Increase on previous year	23.9%	18.1%
Group Operating Profit (before profit sharing)		
Sainsbury's Supermarkets	276	342
Savacentre	–	–
Homebase	4	9
Texas	–	–
Shaw's	16	22
Other operating activities	–	–
	296	**373**
Profit sharing	(24)	(27)
Associates	18	16
Interest receivable/(payable)	8	(10)
Group Profit before Tax and Property Items	**298**	**352**
Increase/(decrease) on Previous Year	**25.2%**	**18.1%**
Profit/(loss) on sale of fixed assets	10	23
Group Profit before Tax	**308**	**375**
Increase/(decrease) on Previous Year	**24.7%**	**21.8%**
EARNINGS PER SHARE*		
Basic	13.42p	16.57p
Increase/(decrease) on previous year	21.5%	23.5%
Fully diluted (before exceptional costs and excluding profit/loss on sale of fixed assets)	12.90p	14.44p
Increase/(decrease) on previous year	23.1%	11.9%
DIVIDEND PER SHARE*	**4.15p**	**4.99p**

RETAIL STATISTICS	1988	1989
NUMBER OF OUTLETS AT FINANCIAL YEAR END		
Sainsbury's Supermarkets –		
over 35,000 sq. ft. sales area	9	12
25,000 – 35,000 sq. ft. sales area	65	83
15,000 - 25,000 sq. ft. sales area	115	110
under 15,000 sq. ft. sales area	94	87
Sainsbury's Supermarkets	283	292
Savacentre	6	7
Homebase/Texas	38	48
Shaw's	60	61
TOTAL NUMBER OF STORES	**387**	**408**
SALES AREA ('000 SQ. FT.)		
Sainsbury's Supermarkets	5,463	5,964
Savacentre	436	543
Homebase/Texas (approx. 80% covered sales area)	1,645	1,886
Shaw's	1,592	1,693
Group Total	**9,136**	**10,086**
Net increase on previous year	32.6%	10.4%
New Sainsbury's Supermarkets openings	16	20
Average size of Sainsbury's Supermarkets (sq. ft.)	19,300	20,430
AVERAGE SAINSBURY'S SUPERMARKETS SALES (including VAT)**		
Per square foot (£ per week)	16.30	16.50
Share of national trade in predominantly food stores and pharmaceutical, medical, cosmetic and toilet goods outlets***	**9.9%**	**10.1%**

* *Adjusted in respect of capitalisation issues in 1984 and 1987 and rights issue in 1991.*
** *Excluding petrol.*
*** *Based on Central Statistical Office/Office for National Statistics (Re-based during 1995) and Sainsbury's and Savacentre sales, excluding petrol.*
▲ *Restated.*

1990	1991	1992†	1993	1994††	1995	1996†††	1997††††
7,257	8,201	9,202	10,270	11,224	12,065	13,499	14,312
22.7%	13.0%	12.2%	11.6%	9.3%	7.5%	11.9%	6.0%
409	516	604	716	697	784	744	662
17	23	28	36	38	41	34	30
11	13	15	18	23	31	36	45
–	–	–	–	–	–	(10)	(29)
34	30	21	19	31	40	51	41
–	3	(2)	(4)	7	3	(1)	(4)
471	**585**	**666**	**785**	**796**	**899**	**854**	**745**
(34)	(44)	(49)	(59)	(56)	(61)	(50)	(37)
1	–	1	–	–	6	19	19
(18)	(36)	13	9	(9)	(36)	(59)	(76)
420	**505**	**631**	**735**	**731**	**808**	**764**	**651**
19.3%	**20.2%**	**25.0%**	**16.5%**	**(0.5)%**	**10.5%**	**(5.4)%**	**(14.8)%**
31	13	(3)	(2)	7	1	(4)	8
451	**518**	**628**	**733**	**738**	**809**	**760**	**659**
20.3%	**14.9%**	**21.2%**	**16.7%**	**0.7%**	**9.6%**	**(6.1)%**	**(13.3)%**
20.57p	23.11p	25.69p	28.47p	28.0p	29.8p	26.8p	22.0p
24.1%	12.4%	11.2%	10.8%	(1.6)%	6.3%	(10.1)%	(17.9)%
18.15p	21.74p	25.34p	28.07p	27.0p	29.0p	27.8p	23.1p
25.7%	19.7%	16.6%	10.8%	(3.7)%	7.4%	(4.1)%	(16.9)%
6.03p	**7.27p**	**8.75p**	**10.0p**	**10.6p**	**11.7p**	**12.1p**	**12.3p**

1990	1991	1992	1993	1994	1995	1996	1997
14	19	30	41	47	53	61	75
102	117	129	136	146	155	166	169
106	102	98	99	99	98	87	87
69	61	56	52	49	49	49	47
291	299	313	328	341	355	363	378
8	9	9	9	10	10	12	12
55	61	64	70	76	83	310	297
66	70	73	79	87	87	96	115
420	**439**	**459**	**486**	**514**	**535**	**781**	**802**
6,434	6,951	7,632	8,303	8,827	9,338	9,767	10,387
665	798	798	798	864	864	1,034	1,034
2,107	2,317	2,406	2,609	2,810	3,082	11,632▲	11,382
1,928	2,107	2,229	2,448	2,740	2,762	3,137	3,822
11,134	**12,173**	**13,065**	**14,158**	**15,241**	**16,046**	**25,570§**	**26,625**
10.4%	9.3%	7.3%	8.4%	7.6%	5.3%	59.1%§	4.1%
22	20	21	23	23	20	10	18
22,110	23,250	24,380	25,310	25,890	26,304	26,906	27,480
17.26	18.17	18.51	18.84	18.60	18.53	18.59	18.69
10.8%	**11.3%**	**11.7%**	**12.3%**	**12.4%**	**12.6%**	**12.5%**	**12.6%**

† *Property profits for 1992 restated to comply with FRS 3.*
†† *1994 figures for profits and earnings per share are stated before exceptional costs of £369.5 million but after changes in accounting for depreciation of £38.7 million.*
††† *1996 figures for profits and fully diluted earnings per share are stated before exceptional costs of £48 million.*
†††† *1997 figures for profits and fully diluted earnings per share are stated before exceptional costs of £50 million.*
§ *Excluding Texas – Group total = 17,408,000 sq. ft., net increase 1,362,000 sq. ft., % increase 8.5%.*

SAINSBURY'S Savacentre

New Store Opening 1997/98

Leeds

New store's sales area
85,000 sq. ft.

HOMEBASE

New Store Openings 1996/97

Newport • Plymouth
Warrington • Altrincham
Sevenoaks • Cannock
Christchurch
Blackhall, Edinburgh
Watford

New stores' sales area
371,000 sq. ft.

Planned Store Openings 1997/98

Newbury • Kirkcaldy
Eastbourne • Truro
Dagenham
Parc Tawe, Swansea
Inverness
Huddersfield • Ewell
Gloucester

Planned stores' sales area
425,000 sq. ft.

shaw's

New Store Openings 1996/97

North Quincy • Cranston
Riverside • Newport
Newington • Bangor
Westerly • Enfield
Waterbury • Orange
Shelton • Glastonbury
Stratford • Fairfield
Willimantic
West Hartford
Wallingford
Southington • Clinton

New stores' sales area
678,000 sq. ft.

Planned Store Openings 1997/98

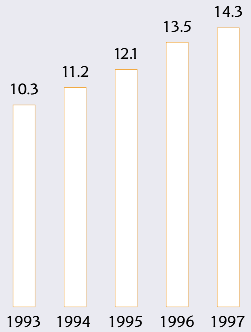
Waterford • Colchester
Johnston • Berlin Corners
Biddeford • Cohasset
East Boston • Wakefield

Planned stores' sales area
329,000 sq. ft.

Financial Review

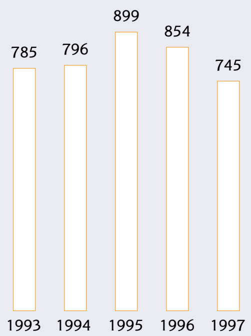
Group Sales

£ billion



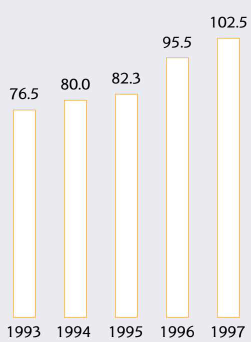
Group Operating Profit

£ million



Employee Numbers

Full-time equivalent ('000s)



Sales

Group sales increased by 6% to £14.3 billion.

Sales at Sainsbury's Supermarkets grew by 6% to £10.7 billion. Net new space (new stores and extensions net of closures) contributed 2.8% points of this improvement. Sales improved as the year progressed. Sales growth in existing stores increased from 2.7% in the first half to 3.7% in the second half. Sales inflation declined from 4% in the first half to less than 3% in the second.

The sales performance of new supermarkets matched or exceeded our expectations. In particular, the two new stores opened in Northern Ireland surpassed their pre-opening sales estimates by a significant margin.

Savacentre's sales grew by 6.8%, a creditable performance considering that no new sales area was added during the year. However, clothing sales were disappointing.

Sales at the original Homebase stores (i.e. excluding the former Texas stores acquired in March 1995) improved by 15.7% but the increase in total sales for the Homebase Group was held to 2.8% as a result of store closures and the weak performance of the unconverted Texas stores.

Rebadging of Texas stores as Homebase stores was completed in December 1996 and since then like-for-like sales, which had been falling, have started to increase.

Shaw's recorded 7.5% sales growth in sterling terms. After pro-rating Shaw's results for the prior year 54-week period to 52 weeks, the sales increase was 11.7%, reflecting in particular the impact of the 12 new stores in Connecticut which were acquired from subsidiaries of Royal Ahold NV during the year.

Profitability

Group operating profit before profit sharing, exceptional costs and profits on the sale of fixed assets reduced by 12.8% to £745 million.

The UK food retailing and petrol markets were highly competitive during the year. Growth in Sainsbury's Supermarkets' sales was offset by a decline in operating margins due largely to lower margins on petrol sales, higher investment in customer service and the costs of the Reward Card scheme introduced during the year.

The established Homebase business increased profit by over 25% but the former Texas business incurred substantial losses in unconverted stores.

Shaw's continued to achieve solid progress in profitability in established markets but incurred significant losses in its new stores in Connecticut as it sought to strengthen its market position.

The Group's share of the profits of associate companies was £19 million (1996: £19 million). Its share of the profits of Giant Food Inc. reduced to £17 million (1996: £18 million) as the results for the second half of the year were impacted by a labour dispute with distribution staff that has now been resolved.

Employees' remuneration and related costs as a percentage of sales for the Sainsbury's Supermarkets business increased to 9.5% (1996: 9.1%) as our investment in customer service continued. The number of employees in the Group increased by 11,300 to 166,000, representing 102,500 full-time equivalent employees.

A total of £37 million was set aside for profit sharing for UK retail companies (1996: £50 million). The reduction in the profit fund in the current year results from the lower profits in the year. The distribution represents an average of 4.5% of wages (1996: 7.1%) for the 115,000 employees eligible to participate in the profit sharing scheme.

Net interest payable for the year was £76 million, an increase of £17 million compared with the previous year. The increase reflects the higher average borrowings during the year and slightly higher interest rates. Interest capitalised during the year totalled £10 million (1996: £14 million).

At year end, £50 million was added to the provision for the cost of integrating the Texas stores acquired by Homebase. This additional provision is to meet the cost of increasing the speed and scope with which Texas stores are converted to the Homebase format in order to continue to secure substantial uplifts in sales and operating margins.

Profits from the sale of fixed assets during the year were £8 million (1996: £4 million loss).

Group profit before tax, exceptional costs and profits on the sale of fixed assets was £651 million, a decrease of 14.8%. After charging the £50 million increase in the Texas integration provision and crediting profits from the sale of fixed assets, Group profit before tax was £609 million.

Earnings per share and dividends

Fully diluted earnings per share, before exceptional costs and profits from the sale of fixed assets, were 23.1 pence, a decrease of 16.9% compared with the previous year.

Dividends per share of 12.3 pence (an interim of 3.5 pence and a final of 8.8 pence) represent an increase of 0.2 pence or 1.7% compared with the previous year. The total dividend is covered two times by earnings before exceptional costs.

With this level of dividend cover, we expect that, on average, future increases in dividends will be consistent with average earnings per share growth over the medium term.

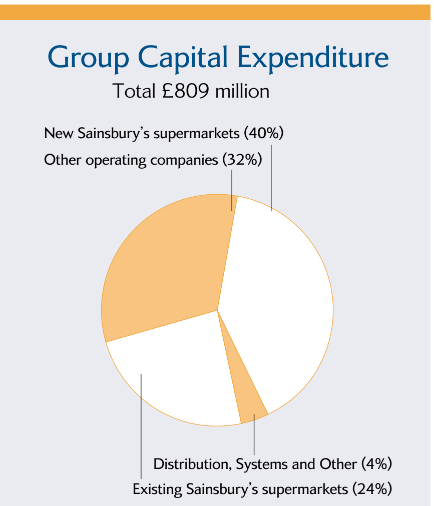
Operating cash flows

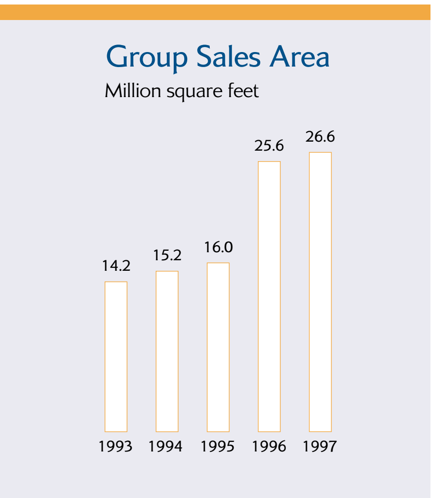
The Group generated cash from operating activities of £1,085 million (1996: £1,012 million) of which £525 million was expended on interest (including interest on finance leases), dividends and tax (1996: £561 million). Dividends and interest received were £17 million (1996: £16 million).

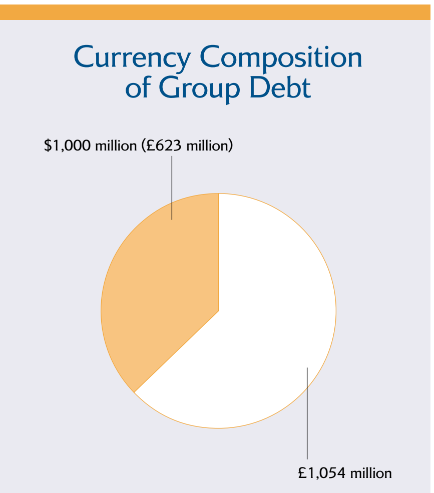
Capital expenditure and store development

Group capital expenditure was £809 million compared with £759 million in the previous year.

The cost of opening new Sainsbury's supermarkets represented 40% of total capital expenditure and 24% of the total was spent on refurbishing or extending existing Sainsbury's supermarkets. During the year we opened 18 Sainsbury's supermarkets and extended a further 22.







Capital expenditure relating to Shaw's, Homebase and Savacentre represented 32% of total capital expenditure. Shaw's added 19 new supermarkets during the year (including the 12 acquired from subsidiaries of Royal Ahold NV) and nine new Homebase stores were opened.

Continuing integration of the former Texas stores with Homebase resulted in 38 former Texas stores being converted to the Homebase format during the year and 21 being closed.

Overall, the sales area added during the year (net of closures) amounted to 1,060,000 square feet across the Group. The total sales area in the Group at year end was 26.6 million square feet.

Net Group capital expenditure in 1997/98 is expected to total approximately £720 million. We expect to open a further 18 supermarkets in the UK in the current year and to extend 17 supermarkets. In addition, 10 Homebase stores, one Savacentre and eight new Shaw's supermarkets are expected to open.

Acquisitions

The Company acquired the 25% minority interest in Homebase in August 1996 from GIB Group SA for a total consideration (including fees and costs) of £66 million.

An additional investment of £41 million was made in Giant Food Inc. to acquire two million non-voting shares. As a result, the Group's shareholding increased from 16.6% to 19.8%.

Capital structure

Total Group shareholders' funds as at 8th March 1997 amounted to £3,671 million (1996: £3,534 million). The principal movements for the year were retained profits of £177 million, the proceeds from share allotments of £25 million less goodwill write-offs of £66 million. The goodwill write-off relating to the acquisition of the minority interest in Homebase was £54 million, £21 million related to the acquisition of shares in Giant Food Inc. and £9 million was netted off against these amounts representing the sum received from Ladbroke PLC following arbitration on the purchase price of Home Charm Group PLC.

Group net debt of £1,436 million (1996: £1,217 million) gives balance sheet gearing (net debt as a percentage of shareholders' funds) of 39.1% as at 8th March 1997 (1996: 34.4%) which is below the Group's target maximum for balance sheet gearing of 40%. The increase in net debt is mainly the result of the capital expenditure programme and the acquisitions made during the year.

During the year, the Group issued \$200 million of 6⅝% Euro Medium Term Notes maturing in December 1999 and \$200 million of 6¼% Euro Medium Term Notes maturing in March 2002, which together provided more than adequate financing for the \$300 million of bonds which matured during the year.

Shortly after the year end, the Group issued £200 million of 7¼% Euro Medium Term Notes maturing in June 2002 to replace short-term borrowings.

Net interest before interest capitalised is covered nine times by profit before net interest, exceptional costs and taxation (1996: 11 times).

Treasury management

Treasury policy and significant treasury transactions are reviewed and approved by the Board.

Foreign currency transactions are hedged to reduce or eliminate exchange rate exposure. Forward cover is used for currency payments to foreign suppliers.

The Group protects its balance sheet from adverse currency translation effects by matching overseas investments with liabilities of the same currency. Movements on foreign currency borrowings used for balance sheet hedging purposes are taken directly to reserves. The interest payable on these borrowings serves partially to reduce the Group's profit and loss exposure to foreign exchange movements.

All funding requirements are covered by committed borrowing sources of over £1 billion, including a series of committed bank facilities with maturities of between two and five years.

It is the Group's policy to provide a degree of protection against interest rate volatility. It is normally planned that 50% of borrowings should be at fixed rates, although the actual mix may vary with market conditions. In this context, the Group makes use of interest rate swaps.

As at 8th March 1997, the overall fixed rate component of gross borrowings was 27%. Following the issue of £200 million 7¼% Euro Medium Term Notes shortly after the year end, the overall fixed rate component of gross borrowings rose to around 40%.

The senior long-term debt of J Sainsbury plc is rated 'A+' by Standard & Poor's Ratings Group, 'AA3' by Moody's Investors Services and 'AA-' by IBCA. Short-term indebtedness is rated 'A-1' by Standard & Poor's Ratings Group, 'P-1' by Moody's Investors Services and 'A1+' by IBCA.

Summary Financial Statement

The Directors present the Summary Financial Statement of the Group for the 52 weeks ended 8th March 1997. The Summary Financial Statement does not contain sufficient information to allow for a full understanding of the results of the Group and the state of affairs of the Company or of the Group. For further information the separate publication, entitled Annual Accounts 1997, containing the Directors' Report, the Accounts and the Auditors' Report on those Accounts (which is unqualified) should be consulted.

Corporate Governance

The Group has complied throughout the period under review with all the provisions of the Code of Best Practice contained in the Cadbury Committee's Report and as laid down in the Listing Rules of the London Stock Exchange.

Group Performance

A review of the performance of the Company and its subsidiaries during the period and at the period end, with an indication of likely developments in the Group, is contained in the Chairman's Statement on pages 2 and 3, and in the Review on pages 6 to 23. A review of the Group's financial performance and dividends payable is given on pages 26 to 29.

The Board

The Board of Directors meets regularly and is responsible for the effective management of the business. During the year a number of changes were made to Directors' responsibilities. Dino Adriano has taken over from Tom Vyner as Chief Executive of the UK food retailing businesses. David Bremner was appointed as Chief Executive of Homebase and US businesses on 19th August 1996. Tom Vyner, as Deputy Chairman, will concentrate on international buying until he retires in January 1998. Sir Terence Heiser GCB is the nominated senior Non-Executive Director. All Directors have access to the advice and services of the Company Secretary. In addition, there is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense. The Chairman and the Non-Executive Directors do not have service contracts. The service contracts for Executive Directors have either less than 24 months to run or are on a rolling 24-month basis.

Board Committees

The Company's Remuneration Committee is responsible for advising on Executive Directors' pay and benefits. The full report of the Committee is included in the Annual Accounts. The Nomination Committee advises the Board on the appointment of Executive Directors. The Audit Committee receives reports regularly from the Group Internal Audit Department and ensures that an objective and professional relationship is maintained between the Board and the external auditors. The membership of these Committees is shown on pages 4 and 5 of this Review. In February 1997 a subsidiary company was established, Sainsbury's Supermarkets Ltd, to undertake the major trading activities of the UK supermarket business and began operating on 9th March 1997. The Directors of the new company are shown on pages 4 and 5.

Directors

The Directors are shown on pages 4 and 5. All Directors shown held office throughout the period except Sir David Scholey CBE who was appointed as a Non-Executive Director on 18th July 1996 and David Bremner who was appointed on 19th August 1996. David Quarmby retired on 26th April 1996. Colin Harvey retired from the Board on 8th April 1997. Mr Harvey will continue as Managing Director of Savacentre until June 1999. The emoluments of the Executive Directors are determined by the Board on the advice of the Remuneration Committee. The aggregate emoluments of the Directors of the Company were £5.0 million (1996: £4.2 million).

Group Balance Sheet

8th March 1997

	1997 £m	1996 £m
Fixed Assets		
Tangible assets	5,893	5,458
Investments	148	117
	6,041	5,575
Current Assets		
Stocks	744	761
Debtors	253	204
Investments	7	5
Cash and liquid funds	241	209
	1,245	1,179
Creditors: due within one year	(2,804)	(2,519)
Net Current Liabilities	(1,559)	(1,340)
Total Assets less Current Liabilities	4,482	4,235
Creditors: due after one year		
Convertible Capital Bonds	(156)	(156)
Other	(595)	(480)
Provisions for Liabilities and Charges	(55)	(54)
Minority Equity Interest	(5)	(11)
	3,671	3,534
Capital and Reserves		
Called up share capital	460	458
Share premium account	1,097	1,074
Revaluation reserve	33	43
Profit and loss account	2,081	1,959
Equity Shareholders' Funds	3,671	3,534

The Summary Financial Statement on pages 30 to 32 was approved by the Board of Directors on 6th May 1997, and is signed on its behalf by **David Sainsbury**, *Chairman.*

Group Profit and Loss Account

for the 52 weeks to 8th March 1997

	Total 1997 £m	Total 1996 £m
Group Sales including VAT & sales taxes	14,312	13,499
VAT & sales taxes	917	872
Group Sales excluding VAT & sales taxes	13,395	12,627
Cost of sales	12,363	11,521
Exceptional cost of sales – Texas Homecare integration costs	50	48
Gross Profit	982	1,058
Administrative expenses	287	252
Group Operating Profit before profit sharing	695	806
Profit sharing	37	50
Group Operating Profit	658	756
Associated undertakings – share of profit	19	19
Profit/(loss) on sale of fixed assets	8	(4)
Profit on Ordinary Activities before Interest	685	771
Net interest payable	76	59
Profit on Ordinary Activities before Tax	609	712
Tax on profit on ordinary activities	208	234
Profit on Ordinary Activities after Tax	401	478
Minority equity interest	2	10
Profit for the Financial Year	403	488
Dividends	226	222
Retained Profit	177	266
Earnings Per Share	22.0p	26.8p
Exceptional cost of sales	1.8p	1.3p
(Profit)/loss on sale of fixed assets	(0.4p)	0.2p
Earnings Per Share before exceptional cost of sales and profit/loss on sale of fixed assets	23.4p	28.3p
Fully Diluted Earnings Per Share	21.8p	26.4p
Fully Diluted Earnings Per Share before exceptional cost of sales and profit/loss on sale of fixed assets	23.1p	27.8p

Statement by the Auditors to the Shareholders of J Sainsbury plc on the Summary Financial Statement

We have examined the Summary Financial Statement set out on pages 30 to 32.

Respective Responsibilities of Directors and Auditors

The Summary Financial Statement is the responsibility of the Directors. Our responsibility is to report our opinion on its preparation and consistency with the Annual Accounts and Directors' Report.

Basis of Opinion

We conducted our work in accordance with Auditing Guideline 'The auditors' statement on the summary financial statement' adopted by the Auditing Practices Board.

Opinion

In our opinion the Summary Financial Statement is consistent with the Annual Accounts and the Directors' Report of J Sainsbury plc for the 52 weeks ended 8th March 1997 and complies with the requirements of Section 251 of the Companies Act 1985, and the regulations made thereunder.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
6th May 1997

Annual Review and Summary Financial Statement

This Annual Review and the Summary Financial Statement on pages 30 to 32 do not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the Company or of the Group. The Directors' Report, the Accounts and Auditors' Report on those Accounts are contained in a separate publication entitled Annual Accounts 1997, which, together with this publication, comprise the full Annual Report and Accounts of J Sainsbury plc for 1997. Copies may be obtained, free of charge, by telephoning

Freephone 0800 387504

Shareholders wishing to receive the Annual Accounts as well as the Annual Review and Summary Financial Statement in future years should write to the Registrar at the address on the inside back cover.

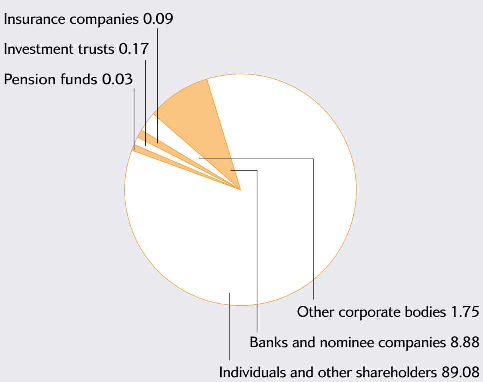
Investor Information

Shareholders' Interests at 8th March 1997

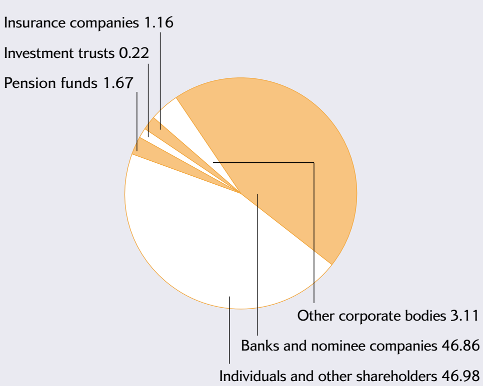
Number of Shareholders: 113,882 (1996: 111,012)

	Range of Shareholdings Shareholders %		Shares %	
	1997	1996	**1997**	1996
500 and under	43.04	39.38	0.48	0.45
501 to 1,000	19.88	20.55	0.94	0.95
1,001 to 10,000	34.12	36.99	5.52	5.73
10,001 to 100,000	2.21	2.31	3.69	3.78
100,001 to 1,000,000	0.56	0.58	11.78	11.83
over 1,000,000	0.19	0.19	77.69	77.26
	100.00	100.00	100.00	100.00

Shareholders % 1997



Shares % 1997



At the year end, the Trustees of the J Sainsbury Profit Sharing Scheme Share Trust held 11.9 million shares (1996: 19.5 million) on behalf of 39,854 participants (1996: 43,472).

Changes in the law reducing the period shares are held in trust from five to three years was the major reason for the fall in the number of shares held in Trust and the fall in the number of participants in the Scheme. The Trustees' holding is included in 'other shareholders'.

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Wednesday 9th July 1997 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Meeting and the proxy card accompany this Annual Review.

American Depository Receipts (ADRs)

In the US, the Company's ordinary shares are traded in the over-the-counter markets ('OTC') in the form of American Depository Shares, evidenced by ADRs, and trade under the symbol JSNSY. Each American Depository Share represents four ordinary shares. Citibank is the Authorised Depository Bank for the Sainsbury ADR Programme. All enquiries regarding ADR holder accounts and payment of dividends should be addressed to: Citibank, N.A., ADR Shareholder Services, 111 Wall Street, New York, NY 10043.

Share Dividend Alternative

The Company is again offering the option of a share dividend alternative to holders of ordinary shares. An 'Evergreen' system is now in operation so shareholders who have already completed a mandate and wish to receive shares for the final dividend 1996/97 need take no action.

Low Cost Share Dealing Service

The Company offers a share dealing service for J Sainsbury plc ordinary shares through The Share Centre Ltd., in conjunction with SBC Warburg. Dealing commission on both purchases and sales of J Sainsbury plc ordinary shares is 1% with no minimum charge, although purchases are subject to a minimum investment of £500.

For further information, please write to: J Sainsbury Share Dealing Service, The Share Centre Ltd., PO Box 1000, Tring, Hertfordshire HP23 4JR. The publication of the above information relating to the low cost dealing service has been approved, for the purposes of Section 57 of the Financial Services Act 1986, by The Share Centre Ltd., a member of the Securities and Futures Authority.

Personal Equity Plans

On the Company's behalf, a Single Company PEP and a General PEP are operated by The Royal Bank of Scotland. For further information contact The Royal Bank of Scotland plc, PEP Unit, Registrar's Department, PO Box 1840, 8 Bankhead Crossway North, Edinburgh EH11 4BS. Telephone: 0131 523 6101.

Nominee Service

Information on how to obtain details about the Nominee Service, to be established within CREST, will be included with the dividend documents sent to shareholders at the end of July.

Tax Information – Capital Gains Tax

For Capital Gains Tax purposes, the market value of ordinary shares on 31st March 1982 is 69.375p.

Share Price

The middle market price of the Company's ordinary shares on 8th March 1997 was 316.5p per share and the range during the year was 407p to 308p. The Company's market capitalisation on 8th March 1997 was £5,823.7 million in comparison with £6,942 million on 9th March 1996.

Further Information

Below are some useful telephone numbers:

Information about the AGM, shareholdings, dividends and changes to personal details:

The Royal Bank of Scotland 0117 930 6600

Information about low cost dealing facilities:

The Share Centre 01442 890844

An audio tape of this Annual Review can be obtained by calling 01435 866102

The Company's Environment Report is available on the Internet and by calling 0800 387504

For general enquiries about Sainsbury's Bank please call 0500 405060

For any other enquiries please contact our Customer Services 0800 636262

Information about the Company may be found on the Internet at . . . http://www.sainsburys.co.uk

Key dates in respect of the Share Dividend Alternative: Final 1996/97

Calculation period for share dividend price	19th May to 23rd May 1997
Ordinary shares record date	23rd May 1997
Last date for receipt by Registrars of mandates/ revocations (Return Date)	17th June 1997
Share Dividend Alternative certificates posted	24th July 1997
First date of dealing in new shares	25th July 1997

Shares have been issued in respect of share dividends at the following prices:

Dividend	Interim Payment Date	Issue Price	Final Payment Date	Issue Price
1992/93	18th January 1993	483.4p	30th July 1993	476.6p
1993/94	17th January 1994	406.8p	29th July 1994	389.0p
1994/95	18th January 1995	418.2p	28th July 1995	436.4p
1995/96	17th January 1996	391.2p	26th July 1996	380.4p
1996/97	15th January 1997	349.8p		

The cash equivalent of the new shares issued during the year is as follows:

Dividend	Cash Equivalent	Gross Income for UK Tax Purposes*
Final 1995/96 (paid 26th July 1996)	380.4p	475.5p
Interim 1996/97 (paid 15th January 1997)	349.8p	437.3p

*Cash equivalent grossed up for tax at 20%

Financial Calendar 1997/98

Dividend and Interest Payments

Ordinary Dividend	Final	payable 25th July 1997	
	Interim	payable January 1998	
8% Irredeemable Unsecured Loan Stock		1st March	1st September
8½% Convertible Capital Bonds 2005		6th March	6th September
\$150m 7⅜% MTN 1997		17th November	
£150m 8¼% Notes 2000		22nd December	
\$200m 6⅝% Notes 1999		31st December	
\$200m 6¼% Notes 2002		27th March	
£200m 7¼% Notes 2002		7th June	

Other Dates

Results for half year	announced in October
Interim Report circulated	November
Results for the year	announced in May
Report and Accounts	circulated in June
Annual General Meeting	July

Registered Office and Advisers

REGISTERED OFFICE

J Sainsbury plc
Stamford House, Stamford Street
London SE1 9LL

Registered Number 185647

REGISTRAR

The Royal Bank of Scotland plc
Registrar's Department, PO Box 82
Caxton House, Redcliffe Way
Bristol BS99 7NH

AUDITORS

Coopers & Lybrand
1 Embankment Place
London WC2N 6NN

SOLICITORS

Denton Hall
Five Chancery Lane, Clifford's Inn
London EC4A 1BU

STOCKBROKERS

SBC Warburg
1 Finsbury Avenue
London EC2M 2PP

Hoare Govett Corporate Finance Ltd
4 Broadgate
London EC2M 7LE

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Photograph on page 10 courtesy of Sainsbury's *The Magazine*.

J Sainsbury plc
Stamford House Stamford Street London SE1 9LL
http://www.sainsburys.co.uk

J Sainsbury plc

Annual Accounts 1997

Contents

Annual Accounts

This publication includes the Directors' Report, the Report of the Remuneration Committee, the Accounts, and the Auditors' Report for the period ended 8th March 1997. The Chairman's Statement and review of the business are contained in a separate publication entitled Annual Review 1997 and Summary Financial Statement.

These Annual Accounts together with the Annual Review 1997 and Summary Financial Statement comprise the full Annual Report and Accounts of J Sainsbury plc for 1997, in accordance with the Companies Act 1985. Copies may be obtained, free of charge, by telephoning Freephone 0800 387504.

Report of the Directors
for the 52 weeks to 8th March 1997

Principal Activity

The principal activity of the Group is the retail distribution of food and home improvement and garden products.

Group Performance

A review of the Group's performance during the period, with comments on the financial results and future developments, is contained in the Annual Review 1997 which is published separately and together with this document comprises the full Annual Report and Accounts of J Sainsbury plc.

Sainsbury's Supermarkets Ltd

Towards the end of the financial year a separate Subsidiary company, Sainsbury's Supermarkets Ltd, was established to undertake the major trading activity of the UK supermarket business and began trading on 9th March 1997. The table on page 3 shows those Directors who are also directors of the new company.

Sainsbury's Bank plc

In February 1997 Sainsbury's Bank plc was launched. The company, 55% owned by J Sainsbury plc, received authorisation under the Banking Act from the Bank of England to operate a new bank in association with Bank of Scotland.

Corporate Governance

The Group has complied throughout the period under review with all the provisions of the Code of Best Practice contained in the Cadbury Committee's Report and as laid down in the Listing Rules of the London Stock Exchange.

The Board

The Board of Directors meets regularly and is responsible for the effective management of the business. During the year a number of changes were made to Directors' responsibilities. David Bremner was appointed on 19th August 1996 as Chief Executive of Homebase and US businesses. Dino Adriano has taken over from Tom Vyner as Chief Executive of the UK food retailing businesses. Tom Vyner as Deputy Chairman will concentrate on International Buying until he retires in January 1998.
Sir Terence Heiser GCB as Chairman of the Audit Committee is the nominated senior Non-Executive Director on the Board.
All Directors have access to the advice and services of the Company Secretary. In addition there is an agreed procedure for Directors to take independent professional advice, if necessary, at the Company's expense.

Board Committees

The Company's Remuneration Committee is responsible for advising on Executive Directors' pay and benefits. The report of this committee is set out on pages 5 to 8. The Nomination Committee advises the Board on the appointment of Executive Directors. The Audit Committee receives reports regularly from the Group Internal Audit Department and ensures that an objective and professional relationship is maintained between the Board and the external auditors.

Internal Financial Control

The Directors are responsible for the Group's system of internal financial control. In order to meet that responsibility the Board has established an organisational structure with clear responsibilities and authorities, corporate standards and procedures and a thorough system of internal financial reporting.

The Board has carried out a formal review of the effectiveness of the systems of internal financial control using a Risk Self Assessment process. This was carried out in all major Group companies and the results reviewed and signed off by the Board.

The Directors believe that proper accounting records are maintained and that financial information used within the business and for publication is reliable.

The system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement and loss.

The key elements of the systems of internal financial control are:

Control Framework

There is an organisational structure with clear accountabilities and levels of authority. Group financial control standards are set out in statements to the business and are supported by procedure manuals.

Process

There are well-established planning processes which include detailed operational budgets for the year ahead and projections for future years. These are approved by the Board.

Performance against these budgets is reviewed by the Board. More detailed performance reviews are carried out by management.

There are clear policies and procedures for capital expenditure. These include investment appraisals, authorisation procedures and post-implementation reviews.

Treasury policy changes and significant treasury transactions are reviewed and approved by the Board. Foreign exchange transactions are undertaken solely for the operation of the business and exposures are actively managed to reduce or eliminate exchange rate risk.

Review

The Audit Committee has responsibility for ensuring that internal financial control is defined and monitored. It reviews interim and annual financial statements and receives regular reports from management, internal audit and external audit.

The Group has a well-established internal audit function. Homebase and Shaw's have their own internal audit departments. The responsibility for the internal audit of Sainsbury's Bank is undertaken by Bank of Scotland, whilst Group Internal Audit covers Sainsbury's Supermarkets Ltd and other Group companies. The Head of Group Internal Audit has overall responsibility for coverage and reports significant matters to, and has direct access to, the Audit Committee.

Sainsbury's Bank was established with appropriate controls in place and the existence of such controls was a factor considered by the Bank of England in granting Sainsbury's Bank authorised institution status under the Banking Act. Controls will be extended, as necessary, as the bank develops.

The Risk Self Assessment process established by the Group allows management to consider internal financial control. This is used as a regular management tool and is formally reviewed and signed off by the Board annually.

Going Concern

In order to comply with the Code, the Directors confirm that they are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group Accounts.

Profit and Dividend

The profit on the ordinary activities of the Group before tax amounted to £609 million (1996: £712 million).

The Directors are proposing the payment of a final dividend of 8.8p per share on 25th July 1997 to shareholders on the Register at the close of business on 23rd May 1997; together with the interim dividend paid of 3.5p per share, this makes a total dividend for the year of 12.3p (1996: 12.1p) per share.

Share Capital

The principal changes in share capital during the period were as follows:

- 5.6 million shares were allotted and further options granted under the Company's share schemes for employees;
- 2.7 million shares were allotted under the terms of the share dividend alternative to shareholders.

Further details are given in Note 12.

A Resolution will be proposed at the Annual General Meeting to renew the authority of the Directors to issue shares without applying the statutory pre-emption rights.

A Resolution will also be proposed at the Annual General Meeting to enable the Company to make market purchases of its own shares up to a maximum of 184 million shares.

The full text of the Resolutions is set out in the Notice of Meeting.

Share Dividend Alternative

Around 30,000 shareholders elected to take shares instead of cash for both the final dividend for 1996 and the interim dividend for 1997. Shareholders are to be offered a similar choice in respect of the final dividend payable in July 1997 and the interim dividend for 1998.

Homebase

The 25% minority interest in Homebase was purchased from GIB Group in August 1996 for £65 million. See Note 5.

Following the completion of expert determination, the Group received a repayment of £10 million relating to the purchase of Texas Homecare. See Note 5.

US Supermarket Operation

Shaw's expanded its number of outlets by purchasing 12 stores from subsidiaries of Royal Ahold NV for $52 million in October 1996.

The Group's holding in Giant Food Inc. was increased by 3% to approximately 20% following the purchase of two million shares at a cost of $62 million in August 1996. See Note 5.

Year 2000

It is estimated that work on converting computer software to deal with the year 2000 date change will cost the Group £40 million in total at current rates, of which three-quarters will be incurred by Sainsbury's Supermarkets Ltd. We have been proactive in advancing this work and half of this expenditure will be incurred in the current financial year. The costs will be charged to the Profit and Loss Account as incurred.

Policy on Payment of Suppliers

The Company intends to continue its policy of agreeing terms of payment prior to commencing trade with a supplier and it will be the Company's policy to abide by those terms based on the timely submission of satisfactory invoices.

The Company subscribes to the CBI code of good practice in the prompt payment of suppliers.

Market Value of Properties

The Directors believe that the aggregate open market value of Group properties exceeds the net book value of £4,578 million by a considerable margin.

Employment Policies

Employment policies aim to respect, motivate and develop our staff so they are responsive to the needs of customers. We are committed to equal opportunities and to investing in the development of all our people. We recognise the difficulties that people with disabilities face when seeking employment and have communicated our commitment in this area to all management. We have been awarded the usage of the symbol 'Positive about disabled people', demonstrating our commitment to improving employment opportunities for applicants with disabilities or employees who become disabled. We currently spend £38 million on training and development each year and are committed to achieving the Investors in People award throughout the Company. We have continued our drive to improve the flow of communication between senior management and staff. In response to last year's opinion survey Staff Councils have been introduced, enhancing existing communication mechanisms and ensuring that senior management are kept abreast of the views of all staff. The Group offers a full range of employee share schemes and about one-third of all shareholders are employees or former employees.

Donations

Donations to charitable organisations and local community projects amounted to £2 million (1996: £2 million), which included contributions to enterprise agencies, job creation, educational schemes, town centre management initiatives, community projects and the arts. There were no political donations.

Research and Development

The Scientific Services Division employs 156 people and has an annual expenditure of £7.5 million. It works in close co-operation with suppliers to achieve the highest standards of product quality, hygiene and safety and to maintain them throughout the Company's distribution chain and stores. The Division also develops and co-ordinates policies to address issues of concern and interest to our customers, for example environmental management and healthy eating.

Directors and Directors' Interests

The Directors of J Sainsbury plc as at 8th March 1997 are listed below, together with their respective membership of Board Committees and of the Board of Sainsbury's Supermarkets Ltd.

	Audit	Remuneration	Nomination	Sainsbury's Supermarkets Ltd
D J Sainsbury			*	
R T Vyner			*	
D B Adriano				*
D M Bremner				
I D Coull				*
R Cooper				*
J E Adshead CBE				*
C I Harvey				
R P Whitbread				*
R P Thorne				
D J Clapham				*
K McCarten				*
Sir Terence Heiser GCB	*	*	*	
Dr J M Ashworth	*	*	*	
Rt Hon Sir Timothy Sainsbury	*	*	*	
Sir Clive Thompson	*	*	*	
Sir David Scholey CBE	*	*	*	

All Directors held office throughout the period except Sir David Scholey CBE who was appointed as a Non-Executive Director on 18th July 1996 and D M Bremner who was appointed on 19th August 1996. D A Quarmby retired on 26th April 1996. C I Harvey retired from the Board on 8th April 1997. Mr Harvey will continue as Managing Director of Savacentre until June 1999.

In accordance with the Articles of Association R P Thorne, D J Clapham, Sir Terence Heiser GCB and Dr J M Ashworth will retire by rotation and, with the exception of Dr J M Ashworth, will seek re-appointment at the Annual General Meeting on 9th July 1997.

Sir David Scholey CBE and D M Bremner were appointed during the period and will be proposed for re-appointment at the Annual General Meeting. Miss Thorne and Messrs Clapham and Bremner, being proposed for re-appointment at the Annual General Meeting, have service contracts on a rolling 24-month basis.

No Director had, during or at the end of the period, any material interest in any contract of significance to the Group's business.

Details of Directors' interests in the ordinary shares of the Company are set out in the Report of the Remuneration Committee on page 7.

Report of the Directors – continued

Substantial Interests

The substantial interests notified to the Company, all of which include duplications, are set out below:

Miss J S Portrait and C T S Stone are trustees of various settlements, including charitable settlements. At 6th May 1997 the total holdings of the trusts of which the above are trustees amounted to 17% and 5% respectively.

At 6th May 1997 the interests, as trustees of charitable and other trusts and beneficially, of D J Sainsbury, the Hon S D Sainsbury, Lord Sainsbury of Preston Candover KG and the Rt Hon Sir Timothy Sainsbury were 17%, 4%, 4% and 4% respectively.

Annual General Meeting

The 1997 Annual General Meeting of shareholders will take place at 12 noon on Wednesday 9th July 1997 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of Meeting and proxy card accompany these Annual Accounts.

Auditors

A Resolution to re-appoint Coopers & Lybrand as Auditors of the Company and to authorise the Directors to fix their remuneration will be put to the Annual General Meeting.

By Order of the Board

N F Matthews

Secretary

6th May 1997

Report of the Remuneration Committee

Composition and Terms of Reference

The Remuneration Committee consists entirely of Non-Executive Directors and is chaired by Sir Clive Thompson. The membership of the Committee is shown on page 3.

The Committee's terms of reference provide for it to make recommendations to the Board on all matters relating to the remuneration of the Executive Directors of the Company. These recommendations are considered by the Board but no Director participates in the decision relating to his or her own remuneration. The Company has complied throughout the period with Section A of the best practice provisions on Directors' remuneration annexed to the Listing Rules of the Stock Exchange.

Policy on Remuneration of Executive Directors

Total Level of Remuneration

In framing its remuneration policy the Committee has given full consideration to Section B of the best practice provisions on Directors' remuneration, annexed to the Listing Rules of the London Stock Exchange. The Committee aims to ensure that the remuneration offered is competitive and will attract, retain and motivate Executive Directors of the highest calibre. In doing so, the Committee takes account of information from internal and independent sources on the remuneration for similar jobs in comparable companies in the retail sector and other large companies.

The main components of Executive Directors' remuneration are:–

i) Basic Salary

Basic salary for each Director is determined taking into account assessments of individual performance.

ii) Share Option Schemes

Two new Share Option Schemes were established following the approval of shareholders at the Annual General Meeting in 1996. The arrangements reflect the Company's belief that share ownership by Executive Directors and senior executives strengthens the link between their personal interests and those of all shareholders and incentivises personal performance.

Options to Directors up to a value of one times salary are normally granted at intervals of approximately 18 months.

Under the new approved Executive Share Option Scheme options will be granted up to the maximum amount permitted by the Inland Revenue, currently £30,000. Grants of options above the amount of £30,000 will be made under a so-called 'unapproved' Executive Share Option Scheme and will take into account the relevant institutional guidelines.

For any individual the maximum amount of outstanding options at any time under both schemes will be four times total annual remuneration. The performance criterion currently required to be satisfied prior to exercise of options will be an average over a three-year period of 2% per annum real growth in earnings per share.

iii) Long-Term Incentive Scheme

In addition to the above, a long-term incentive scheme was approved by shareholders at the Annual General Meeting in 1996. This scheme is designed to provide Executive Directors with a bonus established by a formula related to real growth in earnings per share. No bonus will be earned in respect of any year unless real growth in earnings per share as against the previous year is at least 2%. Bonuses will be paid half in cash and half in shares. The shares will be held in trust for three years and may be augmented at the end of that period depending on performance measured in relation to real growth in earnings per share.

The Remuneration Committee has reviewed the performance criterion under this Scheme and as a result of its recommendations the Board has, for the current year, stipulated as an additional criterion that the Group must achieve certain profit targets before bonuses are payable to Executive Directors.

For other senior executives who participate in the bonus arrangements, the performance criterion will be based on the achievement by the relevant operating company of its budgeted profit before tax for the year, and not on Group earnings per share.

The long-term incentive scheme came into effect in respect of the financial period ended 8th March 1997; no bonus is payable in respect of the year under review as the performance criterion was not met.

iv) Other Share Options

Executive Directors are granted and hold options under the Savings-Related Share Option Scheme (see page 8).

v) Profit Sharing

Executive Directors participate in the Company's Profit Sharing Scheme in the same way as all other participants. Although profit sharing is accounted for on an accruals basis, payments are not finally calculated and paid until after the Annual General Meeting. Accordingly, profit sharing to Directors is included on a paid basis in the table of Directors' Emoluments on page 6.

Profit sharing in respect of the period ended 8th March 1997 which will be paid in August 1997 is expected to amount to approximately 4.5% of basic salary (1996: 7.1%).

vi) Benefits

Benefits include the provision of a company car and medical insurance premiums.

Report of the Remuneration Committee – continued

Contracts of Service

With the exception of the Chairman and the Non-Executive Directors, who do not have service contracts, the service contracts for the Executive Directors are on a rolling 24-month basis, or have less than 24 months to run. The Executive Directors who are being proposed for re-appointment as Directors at the Annual General Meeting have service contracts on a rolling 24-month basis. The Remuneration Committee considers such notice periods are reasonable and necessary to attract and retain high calibre executive directors. The Committee endorses the principle of mitigation of damages on early termination of a service contract.

Company Pension Policy regarding Executive Directors

The Group's policy is to offer its most senior employees membership of the J Sainsbury Executive Pension Scheme.

The scheme is a funded, Inland Revenue approved, final salary, occupational pension scheme. Under the Group's pension arrangements the Executive Directors are entitled to a pension on retirement at age 60, or earlier in the event of 40 years service, or ill health, of up to two-thirds of their pensionable earnings (defined as salary in the last 12 months of service) subject to Inland Revenue limits. The previous practice of including the average of the performance-related bonus paid in the Company's last three financial years has been discontinued. Pensions are also payable to dependants on death and a lump sum is payable if death occurs in service.

In the case of four Directors who joined the Company on or after 17th March 1987 the Company has agreed to make up that portion of the standard pension entitlement which is in excess of Inland Revenue limits. This last obligation is unfunded, although full provision of £299,000 has been made in respect of the period ended 8th March 1997 (1996: £147,000).

Pending the outcome of further official guidance on disclosure of pension values the Company has retained the method of disclosure used last year. In respect of continuing Directors, the pension contributions included in the tables of Directors' emoluments are 8.8% (1996: 8.5%) of pensionable earnings which was the level of Company contribution into the J Sainsbury Executive Pension Scheme.

Directors' Emoluments

The aggregate emoluments of the Directors of the Company were as follows:–

	1997 £000	1996 £000
Executive Directors		
Basic salary	**2,896**	2,889
Other salary payments	**495**	62
Long-term incentive scheme/Performance-related bonus	**–**	–
Profit sharing	**200**	270
Benefits	**165**	149
	3,756	3,370
Compensation for loss of office	**336**	271
Pension contributions	**812**	465
	4,904	4,106
Non-Executive Directors		
Fees	**111**	79
	5,015	4,185

The emoluments of each of the Executive Directors are set out below:–

	Basic salary		Other salary payments		Profit sharing		Benefits		Sub totals		Compensation for loss of office		Pension contribution		Totals	
	1997 £000	1996 £000	**1997 £000**	1996 £000	**1997 £000**	1996 £000	**1997 £000**	1996 £000	**1997 £000**	1996 £000	**1997 £000**	1996 £000	**1997 £000**	1996 £000	**1997 £000**	1996 £000
D J Sainsbury[1]	**310**	296			**22**	27	**11**	11	**343**	334			**27**	25	**370**	359
R T Vyner	**475**	405			**30**	36	**22**	16	**527**	457			**42**	34	**569**	491
D B Adriano	**280**	212			**15**	18	**14**	13	**309**	243			**25**	18	**334**	261
D M Bremner[2]	**145**	–	**455**	–	**–**	–	**20**	–	**620**	–			**13**	–	**633**	–
I D Coull	**235**	225			**16**	20	**10**	8	**261**	253			**21**	19	**282**	272
R Cooper	**240**	227			**16**	20	**14**	14	**270**	261			**21**	19	**291**	280
J E Adshead CBE	**217**	204			**15**	18	**15**	14	**247**	236			**19**	17	**266**	253
C I Harvey	**180**	177			**13**	16	**10**	8	**203**	201			**16**	15	**219**	216
R P Whitbread	**195**	184			**13**	16	**13**	12	**221**	212			**17**	16	**238**	228
R P Thorne	**210**	196			**14**	17	**13**	10	**237**	223			**18**	17	**255**	240
D J Clapham	**165**	157			**11**	14	**8**	13	**184**	184			**15**	13	**199**	197
K McCarten[3]	**190**	51	**40**	62	**–**	–	**14**	5	**244**	118			**17**	4	**261**	122
D A Quarmby[4]	**54**	345			**25**	31	**1**	8	**80**	384	**336**	–	**561**	29	**977**	413
I J Hunt[5]	**–**	145			**10**	12	**–**	16	**10**	173	**–**	271	**–**	236	**10**	680
R A Clark[6]	**–**	65			**–**	25	**–**	1	**–**	91			**–**	3	**–**	94
	2,896	2,889	**495**	62	**200**	270	**165**	149	**3,756**	3,370	**336**	271	**812**	465	**4,904**	4,106

The emoluments of each of the Non-Executive Directors are set out below:–

	Fees 1997 £000	Fees 1996 £000
Sir Terence Heiser GCB	**24**	22
Dr J M Ashworth	**22**	21
Rt Hon Sir Timothy Sainsbury[7]	**22**	15
Sir Clive Thompson[7]	**22**	15
Sir David Scholey CBE[8]	**21**	–
Lady Eccles[9]	**–**	6
	111	79

Notes to the tables:–

1. Chairman.
2. Appointed 19th August 1996. Mr Bremner received £400,000 in respect of acceptance of office and £55,000 guaranteed payments in respect of performance bonus and profit sharing.
3. Appointed 2nd December 1995. In 1996 Mr McCarten received £62,000 in respect of acceptance of office. In 1997 £40,000 was paid to him in respect of guaranteed performance bonus and profit sharing.
4. Retired as a Director on 26th April 1996. 1997 pension contribution included £556,000 in respect of compensation for loss of office. In addition, D A Quarmby retains the right to exercise 391,587 options over ordinary shares previously granted under the Company's option schemes. These options have exercise prices ranging from 272.7p to 475.0p. The average exercise price is 396.4p.
5. Retired as a Director on 7th March 1996. 1996 pension contribution included £225,000 in respect of compensation for loss of office. 1997 profit sharing is in respect of financial year 1996 when he was a Director.
6. Retired as a Director on 28th April 1995.
7. Appointed 5th July 1995. The fees of Sir Clive Thompson are remitted to Rentokil Initial plc.
8. Appointed 18th July 1996.
9. Retired 5th July 1995.

Directors' Interests

Details of the Directors' interests in the ordinary shares of the Company are as follows:–

Ordinary Shares	8th March 1997	9th March 1996
D J Sainsbury†	**259,337,168**	321,674,572
R T Vyner	**19,952**	16,683
D B Adriano	**41,043**	37,764
D M Bremner	**2,456**	2,431*
I D Coull	**23,674**	23,674
R Cooper	**85,760**	81,535
J E Adshead CBE	**34,153**	29,504
C I Harvey	**81,920**	88,386
R P Whitbread	**42,781**	40,574
R P Thorne	**10,037**	7,653
D J Clapham	**31,483**	39,056
K McCarten	**1,353**	1,310
Sir Terence Heiser GCB	**1,000**	1,000
Dr J M Ashworth	**2,182**	2,112
Rt Hon Sir Timothy Sainsbury	**13,431,900**	13,431,900
Sir Clive Thompson	**881**	881
Sir David Scholey CBE	**15,000**	– *

*At date of appointment

†On 21st May 1996 D J Sainsbury's beneficial interest reduced by 62,337,404 shares and his non-beneficial interest increased by 61,732,874 shares. The change, which did not involve a disposal of shares, was of a technical nature connected with family trusts.

The above beneficial holdings include the Directors' personal holdings and those of their spouses and minor children, as well as holdings in family trusts of which a Director or his minor children are beneficiaries or potential beneficiaries. It includes also the beneficial interest in shares which are held in trust under the J Sainsbury Profit Sharing Scheme.

In addition the Directors have the following non-beneficial interests:–

D J Sainsbury has a non-beneficial interest in holdings of 66,304,671 (1996: 4,703,759) shares and £43,974 (1996: £43,974) 8% Irredeemable Unsecured Loan Stock in trusts, including a charitable trust, of which he is a trustee.

The Rt Hon Sir Timothy Sainsbury has a non-beneficial interest in holdings of 65,166,069 (1996: 66,538,569) shares.

There were no changes to the Directors' interests shown above between 8th March 1997 and 6th May 1997.

Report of the Remuneration Committee – continued

Options over Ordinary Shares

Directors' options under the Company's Executive Share Option Scheme and Savings-Related Share Option Scheme are set out in the table below:–

	Total 10th March 1996	Number granted	Number exercised	Date exercised	Option price Pence	Market price on exercise Pence	**Total 8th March 1997**
D J Sainsbury	312,247	–	–				**312,247**
R T Vyner	416,487	160	569	4.10.96	237.1	361.5	**416,078**
D B Adriano	195,590	189	569	17.4.96	237.1	372.0	**195,210**
I D Coull	233,526	141	–				**233,667**
R Cooper	244,011	401	1,075	3.4.96	237.1	371.0	**243,066**
			271	5.3.97	276.0	320.0	
J E Adshead CBE	223,514	494	271	5.3.97	276.0	320.0	**223,737**
C I Harvey	191,328	186	271	5.3.97	276.0	320.0	**191,243**
R P Whitbread	168,402	283	–				**168,685**
R P Thorne	200,926	141	–				**201,067**
D J Clapham	142,753	213	–				**142,966**
K McCarten	73,834	–	–				**73,834**

All options granted and exercised during the period are in respect of the Savings-Related Share Option Scheme.

Options outstanding above and below the market price of 316.5p on 8th March 1997 are set out in the table below:–

		Options outstanding below market price		Options outstanding above market price	
	Number of options outstanding	Number	Weighted average price Pence	Number	Weighted average price Pence
D J Sainsbury	312,247	47,666	272.7	264,581	389.7
R T Vyner	416,078	1,881	299.2	414,197	423.0
D B Adriano	195,210	2,143	302.4	193,067	421.4
I D Coull	233,667	449	306.4	233,218	421.2
R Cooper	243,066	1,709	302.6	241,357	413.7
J E Adshead CBE	223,737	2,507	305.1	221,230	402.2
C I Harvey	191,243	1,405	303.6	189,838	421.4
R P Whitbread	168,685	14,137	275.4	154,548	393.1
R P Thorne	201,067	2,983	300.6	198,084	422.6
D J Clapham	142,966	2,342	300.0	140,624	418.3
K McCarten	73,834	–		73,834	386.0

No options lapsed during the period. The options outstanding are exercisable at prices between 272.7p and 475.0p. In the period from 10th March 1996 to 8th March 1997 the highest middle market price was 407.0p and the lowest middle market price was 308.0p.

Approved by the Board on 6th May 1997.

Sir Clive Thompson
Chairman of the Remuneration Committee

Statement of 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 at the end of the period and of the profit or loss of the Group for that period. In preparing accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to assume 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 of fraud and other irregularities.

Report of the Auditors to J Sainsbury plc on Corporate Governance

In addition to our audit of the financial statements, we have reviewed the Directors' statement on pages 1 and 2 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of Opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group and the Company to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control on pages 1 and 2 and going concern on page 2, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on pages 1 and 2 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand
Chartered Accountants
London
6th May 1997

Report of the Auditors to the Shareholders of J Sainsbury plc

We have audited the accounts on pages 11 to 28.

Respective responsibilities of Directors and Auditors

As described on page 9 the Company's Directors are responsible for the preparation of 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 Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 8th March 1997 and of the profit, total recognised gains and cash flows of the Group for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London
6th May 1997

Accounting Policies

Basis of Accounts

These accounts have been prepared under the historical cost convention as modified by the revaluation of certain properties. They comply with all applicable Accounting and Financial Reporting Standards.

FRS 1 (Revised 1996) has been adopted earlier than the mandatory starting date as encouraged by the Accounting Standards Board. The 1996 Cash Flow Statement has been restated.

No Profit and Loss Account is presented for the Company as provided by Section 230(3) of the Companies Act 1985.

All the activities in the Group are continuing businesses.

Consolidation

The results of Subsidiaries and Associated Undertakings are included in the Group Profit and Loss Account from the date of acquisition.

Goodwill arising in connection with the acquisition of shares in Subsidiaries and Associated Undertakings is deducted from reserves in the period of acquisition. Goodwill comprises the excess of the purchase price over the fair value of the net tangible assets acquired.

Sales

Sales consist of sales through retail outlets and sales of development properties. Rental and other income is excluded.

Cost of Sales

Cost of sales consists of all costs to the point of sale including warehouse and transportation costs and all the costs of operating retail outlets.

Deferred Tax

Deferred tax is accounted for, at anticipated tax rates, in respect of all timing differences between accounting and tax treatment, except to the extent that it is thought reasonably probable that the tax effects of such deferrals will continue for the foreseeable future.

Depreciation

Freehold land is not depreciated. Freehold buildings, and leasehold buildings with more than 50 years unexpired, are depreciated in equal instalments at the rate of 2% per annum.

Leasehold properties with less than 50 years unexpired are depreciated to write off their book value in equal annual instalments over the unexpired period of the lease.

Certain tenants' fixtures, which have been capitalised as part of leasehold properties, are depreciated in equal annual instalments over the estimated useful life of the asset to the Group.

Fixtures, equipment and vehicles are depreciated in equal annual instalments to write off their cost over their estimated useful lives, which range from 3 to 15 years, commencing when they are brought into use.

A permanent diminution in value of any fixed asset is charged to the Profit and Loss Account.

Capitalisation of Interest

Interest incurred on borrowings to finance specific property developments is capitalised net of tax relief.

Research and Development

Research and development expenditure is written off as incurred against the profits of the period.

Pension Costs

The costs of providing pensions for employees are charged in the Profit and Loss Account in accordance with the recommendations of independent qualified actuaries. Any funding surpluses or deficits that may arise from time to time are amortised over the average service life of members of the relevant scheme.

Leased Assets

Assets used by the Group which have been funded through finance leases are capitalised and the resulting lease obligations are included in creditors net of finance charges. Interest costs on finance leases and all payments in respect of operating leases are charged directly to the Profit and Loss Account.

Stocks

Stocks are valued at the lower of cost and net realisable value. Stocks at warehouse are valued at cost, and at retail outlets at calculated average cost prices.

Foreign Currencies

Foreign currency assets and liabilities are translated at the exchange rates ruling at the Balance Sheet date. Results from overseas companies are translated at the average rates of exchange for the relevant accounting period and at the period-end rates for the balance sheets. Differences on translation of investments in overseas companies and related loans are taken directly to reserves.

Balance Sheets

8th March 1997

	Note	Group 1997 £m	Group 1996 £m	Company 1997 £m	Company 1996 £m
Fixed Assets					
Tangible assets	1	5,893	5,458	4,592	4,281
Investments	2	148	117	1,839	1,565
		6,041	5,575	6,431	5,846
Current Assets					
Stocks	6	744	761	349	357
Debtors	7	253	204	186	174
Investments	8	7	5	–	–
Cash and liquid funds		241	209	100	84
		1,245	1,179	635	615
Creditors: due within one year	9	(2,804)	(2,519)	(2,472)	(2,280)
Net Current Liabilities		(1,559)	(1,340)	(1,837)	(1,665)
Total Assets less Current Liabilities		4,482	4,235	4,594	4,181
Creditors: due after one year					
Convertible Capital Bonds	9	(156)	(156)	–	–
Other	9	(595)	(480)	(715)	(483)
Provisions for Liabilities and Charges	11	(55)	(54)	(10)	(15)
Minority Equity Interest		(5)	(11)		
		3,671	3,534	3,869	3,683
Capital and Reserves					
Called up share capital	12	460	458	460	458
Share premium account	13	1,097	1,074	1,097	1,074
Revaluation reserve	14	33	43	34	44
Profit and loss account	15	2,081	1,959	2,278	2,107
Equity Shareholders' Funds		3,671	3,534	3,869	3,683

Notes to the accounts are on pages 16 to 28.

The Accounts on pages 11 to 28
were approved by the Board of Directors on
6th May 1997, and are signed on its behalf by

D J Sainsbury *Chairman*

R T Vyner *Deputy Chairman*

Group Profit and Loss Account

for the 52 weeks to 8th March 1997

	Note	1997 £m	1996 £m
Group Sales including VAT & sales taxes	16	14,312	13,499
VAT & sales taxes		917	872
Group Sales excluding VAT & sales taxes		13,395	12,627
Cost of sales	16	12,363	11,521
Exceptional cost of sales – Texas Homecare integration costs	11	50	48
Gross Profit		982	1,058
Administrative expenses	16	287	252
Group Operating Profit before profit sharing	16	695	806
Profit sharing	17	37	50
Group Operating Profit		658	756
Associated Undertakings – share of profit	4	19	19
Profit/(loss) on sale of fixed assets		8	(4)
Profit on Ordinary Activities before Interest		685	771
Net interest payable	18	76	59
Profit on Ordinary Activities before Tax	19	609	712
Tax on profit on ordinary activities	22	208	234
Profit on Ordinary Activities after Tax		401	478
Minority equity interest		2	10
Profit for the Financial Year		403	488
Dividends	23	226	222
Retained Profit		177	266
Earnings Per Share	24	22.0p	26.8p
Exceptional cost of sales		1.8p	1.3p
(Profit)/loss on sale of fixed assets		(0.4p)	0.2p
Earnings Per Share before exceptional cost of sales and profit/loss on sale of fixed assets	24	23.4p	28.3p
Fully Diluted Earnings Per Share	24	21.8p	26.4p
Fully Diluted Earnings Per Share before exceptional cost of sales and profit/loss on sale of fixed assets	24	23.1p	27.8p

Group Cash Flow Statement

for the 52 weeks to 8th March 1997

	Note	1997 £m	1996 (restated) £m
Net cash inflow from operating activities	25	1,085	1,012
Returns on investments and servicing of finance			
Interest received		12	11
Interest paid		(93)	(73)
Interest element of finance lease rental payments		(12)	(9)
Dividends received from Associated Undertakings		5	5
Net cash outflow from returns on investments and servicing of finance		(88)	(66)
Tax paid		(206)	(271)
Capital expenditure and financial investment			
Payments for tangible fixed assets		(801)	(709)
Receipts from sale of tangible fixed assets		79	50
Purchase of investments		(1)	(4)
Net cash outflow from capital expenditure and financial investment		(723)	(663)
Acquisitions and disposals			
Purchase of minority interest in Homebase Group		(66)	–
Purchase of Texas Homecare		9	(309)
Cash acquired with Texas Homecare		–	9
Purchase of other Subsidiaries		(3)	(21)
Investment in Sainsbury's Bank by minority shareholder		7	–
Purchase of investment in Giant Food Inc.		(41)	–
Investment in other Associated Undertakings		(7)	(4)
Net cash outflow from acquisitions and disposals		(101)	(325)
Equity dividends paid		(214)	(208)
Management of liquid resources		–	–
Financing			
Issue of ordinary share capital		15	22
Debt due within a year			
Increase in short-term borrowing		331	325
Repayment of term loans		(207)	(31)
Debt due beyond a year			
Increase in long-term borrowing		260	182
Capital element of finance lease rental payments		(3)	(6)
Net cash inflow from financing		396	492
Increase/(decrease) in cash in the period		149	(29)

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	1997 £m	1996 £m
Increase/(decrease) in cash in the period		**149**	(29)
Cash inflow from increase in debt and lease financing		**(381)**	(470)
Cash inflow from change in liquid resources		**–**	–
Change in net debt resulting from cash flows		**(232)**	(499)
Loans and finance leases acquired with Subsidiary		**–**	(20)
New finance leases		**(13)**	(18)
Currency translation difference		**26**	(15)
Debt converted into share capital		**–**	44
Loan note issued as settlement for acquisition		**–**	(18)
Movement in net debt in the period	26	**(219)**	(526)
Net debt at the beginning of the period	26	**(1,217)**	(691)
Net debt at the end of the period	26	**(1,436)**	(1,217)

Group Statement of Total Recognised Gains and Losses

for the 52 weeks to 8th March 1997

	1997 £m	1996 £m
Profit for the Financial Year	**403**	488
Currency translation differences on foreign currency net investments	**(4)**	2
Total recognised gains and losses relating to the Financial Year	**399**	490

There is no material difference between the above profit for the period and the historical cost equivalent.

Reconciliation of Movements in Shareholders' Funds

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Profit for the Financial Year	**403**	488	**387**	576
Dividends	**(226)**	(222)	**(226)**	(222)
	177	266	**161**	354
Currency translation differences	**(4)**	2	**–**	–
Goodwill deducted from reserves (Note 5)	**(66)**	(103)	**–**	–
New share capital subscribed less expenses of capital issues	**25**	80	**25**	80
Other (Note 15)	**5**	–	**–**	109
Net movement in Shareholders' Funds	**137**	245	**186**	543
Opening Shareholders' funds	**3,534**	3,289	**3,683**	3,140
Closing Shareholders' Funds	**3,671**	3,534	**3,869**	3,683

Notes to the Accounts
at 8th March 1997

Note 1 Tangible Fixed Assets

	Group			Company		
	Properties	Fixtures, Equipment & Vehicles	Total	Properties	Fixtures, Equipment & Vehicles	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Cost or Valuation						
At 10th March 1996	4,878	2,458	7,336	3,793	1,762	5,555
Adjustment (see below)	12	27	39	–	–	–
Additions (see below)	470	344	814	338	228	566
Disposals	(61)	(68)	(129)	(47)	(24)	(71)
Exchange adjustments	(21)	(9)	(30)			
At 8th March 1997	5,278	2,752	8,030	4,084	1,966	6,050
Depreciation						
At 10th March 1996	654	1,224	1,878	411	863	1,274
Adjustment (see below)	(9)	48	39	–	–	–
Provided in the period	70	229	299	36	169	205
Disposals	(9)	(60)	(69)	(5)	(16)	(21)
Exchange adjustments	(6)	(4)	(10)			
At 8th March 1997	700	1,437	2,137	442	1,016	1,458
Net Book Value						
At 8th March 1997	4,578	1,315	5,893	3,642	950	4,592
At 9th March 1996	4,224	1,234	5,458	3,382	899	4,281
Capital Work-in-Progress included above						
At 8th March 1997	154	80	234	106	61	167
At 9th March 1996	98	85	183	65	66	131

The amount included in the additions of £814 million in respect of interest capitalised during the period ended 8th March 1997 was £6 million after deducting tax relief of £3 million (Company £4 million after deducting tax relief of £2 million). Accumulated interest capitalised net of tax relief included in the cost or valuation total above amounts to £245 million (1996: £241 million) for the Group, and £221 million (1996: £217 million) for the Company.

Included in the net book value of fixed assets for the Group is £84 million (1996: £84 million) for assets held under finance leases, of which £79 million (1996: £75 million) relates to properties and £5 million (1996: £9 million) to fixtures.

The Group Adjustment relates to reclassifications within the fixed asset balances of Texas Homecare, as at the date of acquisition of that business, following further review during the period.

Analysis of Properties
At 8th March 1997

		Group		Company	
		Cost	Valuation	Cost	Valuation
		£m	**£m**	**£m**	**£m**
Freehold:	Cost	4,004		3,371	
	1973 valuation		2		2
	1992 valuation		65		63
Long leasehold:	Cost	670		511	
	1973 valuation		4		4
	1992 valuation		22		22
Short leasehold:	Cost	510		110	
	1992 valuation		1		1
		5,184	94	3,992	92

If the properties included at valuation had been included at cost, the cost and accumulated depreciation figures at 8th March 1997 would have been:–

	Group		Company	
	Cost	Depreciation	Cost	Depreciation
	£m	**£m**	**£m**	**£m**
Freehold	4,035	417	3,399	331
Long leasehold	687	114	528	83
Short leasehold	513	159	113	18
	5,235	690	4,040	432

Note 2 Fixed Asset Investments

	Group		Company	
	1997	1996	**1997**	1996
	£m	£m	**£m**	£m
Subsidiaries (Note 3)			1,819	1,553
Associated Undertakings (Note 4)				
Listed on a UK stock exchange	3	3	–	–
Listed on a US stock exchange	119	98	–	–
Other	25	13	20	12
	147	114	20	12
Other investments	1	3	–	–
	148	117	1,839	1,565

The decrease in Other investments represents disposals of £2 million.

Note 3 Investment in Subsidiaries

The Company's principal Subsidiaries are:–

	Share of Ordinary Allotted Capital	Country of Registration or Incorporation
Sainsbury's Supermarkets Ltd	100%	England
Savacentre Limited*	100%	England
Homebase Limited*	100%	England
Shaw's Supermarkets, Inc.*	100%	USA
NewMarket Foods Limited	100%	England
J Sainsbury Developments Limited	100%	England
Sainsbury's Bank plc	55%	England

*Shares are held by other Subsidiaries.

All Subsidiaries operate in the countries of their registration or incorporation.

Details of other Subsidiaries will be set out in the Company's Annual Return.

Summary of movements

	Company
	£m
Shares	
At 10th March 1996	110
Acquisitions and other additions	72
At 8th March 1997	182
Long-term capital advances	
At 10th March 1996	1,443
Additions	194
At 8th March 1997	1,637
Total Net Investment 8th March 1997	1,819
9th March 1996	1,553

Total net investment by the Company in Subsidiaries at 8th March 1997 consists of total cost of shares and capital advances of £1,822 million (1996: £1,556 million) less £3 million (1996: £3 million) for cumulative amounts deducted from reserves.

Note 4 Investment in Associated Undertakings

The Company's principal Associated Undertakings are:–

	Share of Allotted Capital	Share of Profit before Tax 1997 £m	1996 £m
Giant Food Inc. (Food Retailing – US)			
125,000 Voting Common Stock of $1 each	50%		
11,779,931 Non-Voting Common Stock of $1 each	19.8%	17	18
Breckland Farms Limited (Pig Farming – UK)			
200,000 'B' Ordinary Shares of £1 each 141,532 1% Redeemable Preference Shares of £1 each	50%	1	1
(other shareholder Pauls plc)			
Hampden Group PLC (DIY Retailing – UK)			
4,470,000 Ordinary Shares of 10p each	29.7%	1	–
		19	19

Summary of movements

	Group £m	Company £m
Shares		
At 10th March 1996	98	7
Purchase of Giant Food Inc. shares (Note 5)	20	–
Exchange adjustments	(5)	–
At 8th March 1997	113	7
Share of post acquisition reserves		
At 10th March 1996	10	
Share of retained profit for the period	6	
Other adjustments to reserves (Note 15)	5	
At 8th March 1997	21	
Long-term capital advances		
At 10th March 1996	6	5
Additions in period	7	8
At 8th March 1997	13	13
Total Net Investment 8th March 1997	147	20
9th March 1996	114	12

The Group's investment in shares in Associated Undertakings at 8th March 1997 represented £265 million (1996: £224 million) in respect of the cost of shares, less goodwill of £150 million set off against reserves (1996: £129 million), less accumulated exchange adjustments of £2 million (1996: additions of £3 million). The Company's investment in shares in Associated Undertakings at 8th March 1997 represented cost of shares of £7 million (1996: £7 million).

At 8th March 1997 the market value of shares listed on a recognised US stock exchange was £241 million (1996: £206 million), and on a recognised UK stock exchange £4 million (1996: £4 million).

The proportion of the profits of the Associated Undertakings attributable to the Group and the reserves included in the Group Balance Sheet are taken from audited accounts produced within three months of the balance sheet date.

The investment in Breckland Farms Limited is held directly by J Sainsbury plc. Investments in Giant Food Inc. and Hampden Group PLC are held by Subsidiaries.

Giant Food Inc. has been classified as an Associated Undertaking in view of the proportion of voting stock held.

Note 5 Acquisitions of Subsidiaries and Associated Undertakings

5.1 Homebase

In August 1996 the Company acquired the 25% minority interest in Homebase for a consideration of £65 million together with fees and other costs. Goodwill of £54 million arising on the acquisition has been deducted from reserves. The assets and liabilities of Homebase have not been revalued as in the opinion of the Directors the difference between fair values and carrying amounts
is not material.

The Group received £10 million from Ladbroke Group PLC following arbitration on the purchase price of Home Charm Group PLC acquired in 1996. £9 million has been added to reserves and £1 million representing the interest on the award has been included in the 1997 Profit and Loss Account.

5.2 Giant Food Inc.

The additional investment in Giant Food Inc. represents £41 million for the purchase of 2 million non-voting shares less £21 million for goodwill which has been deducted from reserves. The Group's share of Giant Food Inc.'s net tangible assets at the date of acquisition has been increased by £2 million to reflect the Group's accounting policy for valuation of stock. No other fair value adjustments have been made.

Note 6 Stocks

	Group		Company	
	1997	1996	**1997**	1996
	£m	£m	**£m**	£m
Goods for resale and consumable stores	**689**	699	**349**	357
Land held for development	**55**	62	**–**	–
	744	761	**349**	357

Note 7 Debtors

	Group		Company	
	1997	1996	**1997**	1996
	£m	£m	**£m**	£m
Trade debtors	**73**	52	**10**	9
Advance corporation tax recoverable in more than one year	**40**	40	**40**	40
Amounts owed by Subsidiaries			**52**	76
Other debtors due in less than one year	**76**	16	**55**	25
Other debtors due in more than one year	**18**	50	**11**	–
Prepayments	**46**	46	**18**	24
	253	204	**186**	174

Note 8 Current Asset Investments

	Group		Company	
	1997	1996	**1997**	1996
	£m	£m	**£m**	£m
Investments listed on a recognised stock exchange at cost (equivalent to market value)	**7**	5	**–**	–

Note 9 Creditors

	Group		Company	
	1997	1996	**1997**	1996
Due within one year:	**£m**	£m	**£m**	£m
Borrowings:				
Bank loans and overdrafts	**580**	531	**535**	489
Short-term notes	**237**	53	**237**	50
$8\frac{1}{2}$% Bonds 1996	**–**	98	**–**	98
$9\frac{1}{8}$% Notes 1996	**–**	98	**–**	98
6% Loan Stock	**–**	18	**–**	18
Unsecured loan notes	**115**	3	**112**	–
Current portion of long-term indebtedness including obligations under finance leases	**8**	8	**–**	–
Total short-term borrowings	**940**	809	**884**	753
Trade creditors	**896**	816	**758**	674
Amounts due to Subsidiaries			**70**	191
Corporation tax	**187**	216	**165**	171
Social security and other taxes	**55**	47	**37**	27
Other creditors	**432**	319	**366**	275
Accruals	**132**	152	**30**	29
Proposed dividend	**162**	160	**162**	160
	2,804	2,519	**2,472**	2,280
Due after one year:				
$8\frac{1}{2}$% Convertible Capital Bonds 2005	**156**	156	**–**	–
Other:				
Secured loans	**2**	2	**–**	–
Unsecured loan notes	**319**	166	**279**	148
Term bank loans	**–**	26	**–**	26
$8\frac{1}{4}$% Notes 2000	**150**	150	**150**	150
8% Irredeemable Unsecured Loan Stock	**3**	3	**3**	3
Obligations under finance leases	**107**	101	**–**	–
Amounts due to Subsidiaries			**283**	156
Loan to Homebase Limited from minority shareholder	**–**	13		
Other creditors	**14**	19	**–**	–
	595	480	**715**	483

The $8\frac{1}{2}$% Convertible Capital Bonds were issued by J Sainsbury (Channel Islands) Limited, and are guaranteed on a subordinated basis by the Company. These bonds are convertible, at any time prior to November 2005, into $2\frac{1}{2}$% Exchangeable Redeemable Preference Shares of the issuer which are exchangeable for ordinary shares in the Company at the prescribed price of 337p per ordinary share (after adjustment to take account of the rights issue in July 1991). Alternatively, the bonds may be redeemed at par on maturity. The issuer is entitled to redeem the bonds in certain circumstances or if 80% of the bonds have been converted or redeemed. As at 8th March 1997 22% (£44 million) had been exchanged for ordinary shares in the Company.

The secured loans and £41 million of the unsecured loan notes comprise US dollar borrowings of an overseas Subsidiary. Repayment and interest terms, which vary with each loan, require a combination of annual instalments and balloon repayments with interest rates ranging from 4.8% to 10.375%.

Unsecured loan notes also include US $200 million (1), US $200 million (2) and £30 million Euro Medium Term Notes issued by the Company. The £30 million Notes, which mature in April 2000, bear interest based on sterling LIBOR. The US $200 million (1) Notes, which mature in December 1999 bear interest at 6.625% but interest on $150 million of this has been swapped into floating rates based on US $ LIBOR. The US $200 million (2) Notes, which mature in March 2002 bear interest at 6.25%.

The £150 million Notes which are repayable in December 2000 bear interest at 8.25% but this has been swapped for a floating rate based on sterling LIBOR.

Arrangements have been made to avoid exposure to fluctuating US dollar interest rates following maturity of US $150 million Euro Medium Term Notes (included under Short Term Notes due within one year) by entering into a forward swap of floating interest payments for fixed interest rate payments. A rate of 6.95% for US $150 million for five years starting in November 1997 has been contracted for.

Shortly after the year end the Company issued £200 million Euro Medium Term Notes replacing bank loans and overdrafts. The £200 million Notes, which mature in June 2002, bear interest at 7.25%.

Note 10 Summary of Borrowings

	Group		Company	
	1997	1996	**1997**	1996
	£m	£m	**£m**	£m
Due within one year:				
Bank and other loans	**932**	801	**884**	753
Obligations under finance leases	**8**	8	**–**	–
Due after one and within two years:				
Bank and other loans	**28**	163	**–**	144
Obligations under finance leases	**5**	5	**–**	–
Due after two and within five years:				
Bank and other loans	**318**	193	**432**	180
Obligations under finance leases	**11**	10	**–**	–
Due after five years:				
Bank and other loans	**128**	4	**283**	159
Obligations under finance leases	**91**	86	**–**	–
Convertible Capital Bonds	**156**	156	**–**	–
	1,677	1,426	**1,599**	1,236

Note 11 Provisions for Liabilities and Charges

	Group			Company		
	Total	Other	Deferred Tax	Total	Other	Deferred Tax
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 10th March 1996	**54**	**86**	**(32)**	**15**	**14**	**1**
Profit and Loss Account						
Property – provision released	**(2)**	**(2)**	**–**	**(2)**	**(2)**	**–**
Texas Homecare integration (see below)	**50**	**50**	**–**			
Deferred tax – UK	**8**	**–**	**8**	**(1)**	**–**	**(1)**
Deferred tax – US	**6**	**–**	**6**			
Utilised	**(61)**	**(61)**	**–**	**(2)**	**(2)**	**–**
At 8th March 1997	**55**	**73**	**(18)**	**10**	**10**	**–**

A further provision of £50 million has been made during the period to reflect the additional costs now envisaged for integrating Texas Homecare into the Homebase Group. The provision comprises the costs of converting an additional 65 Texas Homecare stores to the full Homebase format, the increased costs of each store conversion and additional costs of range and supply chain integration.

The total of other provisions of £73 million consists of £9 million relating to unutilised provisions made in 1994 for losses on realisation of surplus land and stores due for closure, £15 million representing the balance of the provision for store closure costs of Texas Homecare and £49 million representing the provision for the integration costs of Texas Homecare. The provided and unprovided liabilities for deferred tax are as follows:

	Group				Company			
	1997		1996		**1997**		1996	
	Provided	**Unprovided**	Provided	Unprovided	**Provided**	**Unprovided**	Provided	Unprovided
	£m	**£m**	£m	£m	**£m**	**£m**	£m	£m
Timing differences between depreciation and capital allowances	**16**	**191**	11	182	**–**	**163**	–	157
Other timing differences	**(34)**	**5**	(43)	5	**–**	**–**	1	–
	(18)	**196**	(32)	187	**–**	**163**	1	157

The potential liability for tax which might arise on disposal of the Group's properties has not been quantified. In the opinion of the Directors the likelihood of any such liability arising is remote.

Note 12 Called Up Share Capital

	Allotted fully paid shares	Aggregate Nominal Value	Consideration
	Number	£m	£m
Ordinary shares of 25p each			
Authorised – 2,000,000,000 shares		500	
At 10th March 1996	1,831,667,605	458	
Shares allotted:			
Profit sharing scheme	100,266	–	1
Savings-related share option scheme	5,050,478	1	13
Executive share option scheme	493,373	–	1
Share dividend alternative	2,719,093	1	10
At 8th March 1997	1,840,030,815	460	25

Contingent rights to the allotment of 46,277,448 ordinary shares in the Company at 337p (after adjustment to take account of the rights issue in July 1991) exist until November 2005 under the terms of the issue of 8½% Convertible Capital Bonds 2005 (Note 9).

The Company operates a Savings-Related Share Option Scheme for all employees with more than one year's service. This is an approved Inland Revenue Scheme and was established in 1980. The Scheme is renewable every 10 years and was last renewed in 1996. Under the Savings-Related Share Option Scheme, options have normally been exercisable within six months of the fifth anniversary of the grant of an option. In 1996, following government legislation the Company extended the Scheme to make provision for the grant of options which are normally exercisable within 6 months of the third anniversary of such a grant. At 8th March 1997 employees held 77,952 five-year savings contracts in respect of options over 39.1 million shares and 12,048 three-year savings contracts in respect of options over 3 million shares.

The Company also operates an Executive Share Option Scheme for Executive Directors and senior employees. This is an approved Inland Revenue Scheme and was established in 1984. The last grant of option under this scheme was in December 1995 and no further grants will be made, although options will remain exercisable until September 2005. An Inland Revenue Approved Executive Share Option Scheme, an Unapproved Executive Share Option Scheme and a Long-Term Incentive Scheme were established in 1996. Under the Executive Share Option Schemes options are normally exercisable between three and ten years of the date of the grant of an option. At 8th March 1997 1,176 employees had outstanding options over 24.1 million shares. No shares have been set aside for Directors under the Long-Term Incentive Scheme.

Details of these options at 8th March 1997 are set out below:–

(a) Savings-Related Share Option Scheme

	Price	Options outstanding at the end of the period	
Date of Grant	pence	1997	1996
9th January 1990	205.504	–	2,662
19th December 1990	237.120	–	3,031,709
30th December 1991	276.000	3,980,736	6,526,099
4th December 1992	393.000	5,610,787	6,183,522
6th December 1993	301.000	6,670,749	7,320,631
16th December 1994	331.000	7,230,956	8,036,213
20th December 1995	313.000	8,945,512	9,593,123
11th December 1996 (3-year period)	292.000	2,958,668	–
11th December 1996 (5-year period)	292.000	6,705,042	–
		42,102,450	40,693,959

(b) Executive Share Option Scheme

	Price	Options outstanding at the end of the period	
Date of Grant	pence	1997	1996
14th July 1986	193.648	–	85,232
7th March 1987	238.602	–	2,495
13th July 1987	281.580	124,680	200,205
9th February 1988	217.360	268,896	316,939
31st July 1989	272.688	909,048	1,052,225
28th February 1991	322.088	2,656,083	2,803,014
28th August 1992	447.000	5,033,569	5,067,550
12th March 1994	359.000	8,282,035	8,364,987
8th September 1995	475.000	6,782,292	6,880,011
1st December 1995	386.000	73,834	73,834
		24,130,437	24,846,492

Figures for all prices and options outstanding are adjusted as necessary for the capitalisation issue in July 1987 and for the rights

Note 13 Share Premium Account

	Company
	£m
At 10th March 1996	1,074
Profit sharing scheme	1
Savings-related share option scheme	12
Executive share option scheme	1
Share dividend alternative	9
At 8th March 1997	1,097

Note 14 Revaluation Reserve

	Group	Company
	£m	£m
At 10th March 1996	43	44
Transfer to Profit and Loss Account in respect of property disposals during the period and depreciation of revalued assets (Note 15)	(10)	(10)
At 8th March 1997	33	34

Note 15 Profit and Loss Account

	Group	Company
	£m	£m
At 10th March 1996	1,959	2,107
Profit retained for the period	177	161
Goodwill	(66)	
Transfer from Revaluation Reserve (Note 14)	10	10
Currency movements	(4)	
Other (Note 4)	5	
At 8th March 1997	2,081	2,278

The cumulative goodwill deducted from the reserves of the Group at 8th March 1997 amounted to £441 million (1996: £375 million).

The other credit of £5 million relates to the Group's share of adjustments to reserves made by Associated Undertakings.

No provision has been made for additional tax which would arise if profits of overseas Subsidiaries or Associated Undertakings were distributed.

Note 16 Segmental Analysis of Turnover, Profit and Net Assets

	Group									
	1997					1996				
	Turnover					Turnover				
	Incl. Taxes £m	**Excl. Taxes £m**	**Profit £m**	**Net Assets £m**	**Borrowings* & Minority Interest £m**	Incl. Taxes £m	Excl. Taxes £m	Profit £m	Net Assets £m	Borrowings & Minority Interest £m
Food retailing – UK	11,586	10,852	693	3,913		10,909	10,214	779	3,839	
Food retailing – US	1,572	1,557	41	491		1,462	1,449	51	437	
DIY retailing – UK	1,134	966	(34)	460		1,104	940	(22)	320	
Food manufacturing – UK	129	129	(3)	22		118	118	(5)	17	
Property development and other – UK	35	35	4	78		19	19	3	30	
Banking – UK	–	–	(6)	10		–	–	–	–	
Gross turnover	14,456	13,539				13,612	12,740			
Intra-group sales**	(144)	(144)				(113)	(113)			
Group turnover	14,312	13,395				13,499	12,627			
Group operating profit before profit sharing			695					806		
Profit sharing			(37)					(50)		
Associated Undertakings										
– share of profit			19					19		
– net group investment				147					114	
Profit/(loss) on sale of fixed assets			8					(4)		
Net interest payable			(76)					(59)		
Group profit before tax			609					712		
Capital employed				5,121					4,757	
Net borrowings					(1,445)					(1,212)
Minority interest					(5)					(11)
Net assets					3,671					3,534

Total administrative expenses amounted to £324 million (1996: £302 million) including provision for profit sharing. Total cost of sales amounted to £12,413 million (1996: £11,569 million) including exceptional cost of sales.

Group financing is undertaken centrally and in consequence the Group's net interest payable has not been attributed to classes of business or geographical areas.

* Borrowings, including cash and current asset investments, exclude those of Banking – UK.

** Intra-group sales relate to Food retailing – UK, £33 million (1996: £10 million), Food manufacturing – UK, £102 million (1996: £95 million) and Property development and other – UK, £9 million (1996: £8 million).

Turnover is disclosed by origin. There is no material difference in turnover by destination.

	Group	
	1997	1996
Net margin on tax inclusive sales:*		
UK	5.53%	6.67%
US	2.61%	3.49%
Group	5.21%	6.33%
Net margin on tax exclusive sales:*		
UK	5.95%	7.18%
US	2.63%	3.52%
Group	5.56%	6.76%

*Based on Operating Profit before profit sharing and exceptional cost of sales, and sales excluding intra-group sales.

Note 17 Profit Sharing

The amount provided for profit sharing for UK retail companies is calculated on the operating profits and net interest reflected in the accounts of the participating companies.

The figure on which the profit fund is based is £661 million (1996: £770 million). £34 million (1996: £47 million) has been provided for the profit fund and £3 million (1996: £3 million) for Employers' National Insurance.

Employees participate in the Profit Sharing Scheme after completing one financial year's service and obtain full benefits after the third year. In respect of the period ended 8th March 1997 approximately 115,000 employees are eligible. A distribution rate is calculated each period according to the size of the profit fund and the total qualifying pay of eligible employees and is finalised following the Annual General Meeting. The distribution rate in 1997 is expected to be approximately 4.5% (1996: 7.1%).

Profit sharing may be taken in cash under the Cash Trust or, subject to the statutory maximum, in shares under the Share Trust. The number of shares allotted to Profit Sharing Scheme participants in July 1996 is set out in Note 12.

At 8th March 1997 the Trustees of the J Sainsbury Profit Sharing Scheme Share Trust held 12 million shares (1996: 20 million) on behalf of 39,854 participants (1996: 43,472) in the Scheme.

Note 18 Net Interest Payable

	Group	
	1997 £m	1996 £m
Interest receivable	18	9
Interest payable:		
Bank loans and overdrafts	19	8
Other loans	73	65
Finance leases	12	9
	104	82
Interest capitalised	(10)	(14)
	94	68
Net Interest Payable	76	59

Note 19 Profit on Ordinary Activities before Tax

	Group	
	1997 £m	1996 £m
This has been arrived at after charging/(crediting):		
Depreciation – owned assets	291	270
– finance leases	8	8
Pension costs	48	42
Auditors' remuneration – audit fee (Company £0.2 million (1996: £0.2 million))	0.5	0.5
– other services (see below)	0.8	0.6
Operating lease rentals – plant and equipment	11	11
– other	210	194
– receivable	(21)	(19)

The Auditors' remuneration for other services relates to taxation and VAT advice (£0.4 million), together with other general consultancy and advisory work (£0.4 million). In addition to the amounts shown above, fees of £0.5 million have been paid during the period to the Company's Auditors, Coopers & Lybrand, in connection with the expert determination resulting from the acquisition of Texas Homecare. This has been added to the cost of the investment.

Note 20 Directors' Emoluments and Interests

The details of Directors' emoluments and interests are set out in the Report of the Remuneration Committee on pages 5 to 8.

Note 21 Employees

	Group	
	1997 **£m**	1996 £m
Employees' remuneration and related costs during the period amounted to:		
Wages and salaries	**1,374**	1,236
Social security costs	**85**	77
Other pension costs	**48**	42
	1,507	1,355
Profit sharing	**37**	50
	1,544	1,405

	1997 **Number**	1996 Number
The average number of employees during the period was:		
Full-time	**53,304**	49,764
Part-time	**112,688**	104,897
	165,992	154,661
Full-time equivalent	**102,544**	95,519

Note 22 Tax on Profit on Ordinary Activities

	Group	
	1997 **£m**	1996 £m
The tax charge based on the profit for the period is:		
Corporation tax at 33% (1996: 33%)	**177**	211
Deferred tax	**14**	3
Overseas tax – current	**9**	12
Share of Associated Undertakings' tax	**8**	8
	208	234

Note 23 Dividends

	Company	
	1997 **£m**	1996 £m
Interim	**64**	62
Proposed final	**162**	160
	226	222

The interim dividend of 3.5p per share paid on 15th January 1997, together with the related tax credit, is equal to 4.375p and the proposed final dividend of 8.8p per share, together with the related tax credit, is equal to 11.0p.

Note 24 Earnings Per Share

The calculation of earnings per share is based on profit after tax and minority interest, divided by the weighted average number of ordinary shares in issue during the period of 1,835,190,739 (1996: 1,817,446,080).

The calculation of fully diluted earnings per ordinary share is based on the profit after tax and minority interest and adjustments which assume:

i) the full conversion of Convertible Capital Bonds on the first day of the financial year; and

ii) the full exercise of all ordinary share options granted under the Company's own schemes on the first day of the financial year, or the date granted if later.

The adjusted weighted average number of ordinary shares arising from these calculations totalled 1,945,233,840 (1996: 1,933,046,030).

The alternative measures of earnings per share provided reflect the Group's underlying trading performance by excluding the effect of the exceptional cost of sales and the profit or loss on the sale of fixed assets and taking account of anticipated future dilution of earnings per share.

Note 25 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	Group	
	1997	1996
	£m	£m
Operating profit before profit sharing	695	806
Profit sharing	(37)	(50)
Provision for exceptional cost of sales	50	48
Depreciation	299	270
Loss on sales of fixtures, equipment and vehicles	–	3
Release of provision	(2)	(3)
Decrease/(increase) in stocks	8	(103)
Increase/(decrease) in debtors	(23)	24
Increase in creditors	156	38
Net cash inflow from operating activities before payment against provisions	1,146	1,033
Payment against exceptional provisions (see below)	(61)	(21)
Net cash inflow from operating activities	1,085	1,012

The payment against exceptional provisions consists of £3 million relating to the provision raised in 1994 for losses on realisation of surplus land and stores due for closure, £14 million relating to the provision for store closure costs made prior to the acquisition of Texas Homecare in 1996, £43 million relating to the provision for integration costs of Texas Homecare made in 1996 and £1 million relating to the additional provision for integrating Texas Homecare made during 1997.

Note 26 Analysis of Net Debt

	At 10th March 1996 £m	Cash flow £m	Other non-cash movements £m	Exchange movements £m	**At 8th March 1997 £m**
Cash in hand, at bank	209	35		(3)	241
Overdrafts	(240)	114		4	(122)
		149			
Debt due within 1 year	(561)	(124)	(143)	18	(810)
Debt due after 1 year	(516)	(260)	143	3	(630)
Finance leases	(109)	3	(13)	4	(115)
		(381)			
	(1,217)	(232)	(13)	26	(1,436)

Note 27 Future Capital Expenditure

	Group		Company	
	1997	1996	**1997**	1996
	£m	£m	**£m**	£m
Contracted for but not provided for in the accounts	245	247	214	236

Note 28 Contingent Liabilities and Financial Commitments

The Company has guaranteed borrowing facilities for Associated Undertakings to the extent of £1 million (1996: £1 million).

The Company has guaranteed the borrowings of Subsidiaries which, at 8th March 1997, amounted to £156 million (1996: £156 million).

Commitments to make operating lease payments during the next financial year are as follows:

	Group	Company
	£m	£m
Land and Buildings		
Leases which expire between 1 and 5 years	3	1
Leases which expire after 5 years	211	99
Other Leases		
Leases which expire between 1 and 5 years	11	7

Note 29 Pension Commitments

The Group operates final salary pension schemes in the UK. The costs are assessed on the advice of independent qualified actuaries.

Of the total pension costs of the Group, £40 million (1996: £35 million) relates to the UK Schemes, namely the J Sainsbury Pension and Death Benefit Scheme (JSPDBS) and the J Sainsbury Executive Pension Scheme (JSEPS). The assets of the UK Schemes are held by trustee companies which are separate from the Company.

The latest actuarial valuation of the UK Schemes was carried out by the actuaries as at 12th March 1994, using the projected unit method. The significant actuarial valuation assumptions used were that future investment returns would be 8½% per annum, long-term future salary and wage increases would average 5½% per annum and pensions would increase at 4% per annum.

At the date of the latest valuation the market value of the assets of the UK Scheme was £1,435 million and the actuarial value of the assets was sufficient to cover 122% of the JSPDBS and 120% of the JSEPS benefits that had accrued to members, allowing for expected future increases in earnings.

The ongoing pension cost in respect of the UK Schemes, incorporating the amortisation of the surplus from the last valuation in 1991, has been adjusted to reflect the revised surplus arising from the March 1994 valuation and the net reduced surplus is being amortised by a method which causes the Company's funding rate to rise from the current, abated level up to the full regular cost on a sliding scale over a period of 14 years for JSPDBS and 12 years for JSEPS.

Triennial valuations of the schemes are currently being undertaken as at 8th March 1997 and the results will be known in the next financial year.

The Group also operates a final salary pension scheme in the US. The pension cost relating to the US benefit scheme has been determined with the advice of independent actuaries. The charge to the Profit and Loss Account is calculated in accordance with US accounting principles but would not have been materially different had UK accounting principles been applied.

Note 30 Related Party Transactions

There were no material transactions by the Company or the Group with related parties.

Note 31 Post Balance Sheet Event

Immediately after the year end the Company transferred net assets amounting to £3,935 million to a new Subsidiary, Sainsbury's Supermarkets Ltd, in exchange for shares and loans.