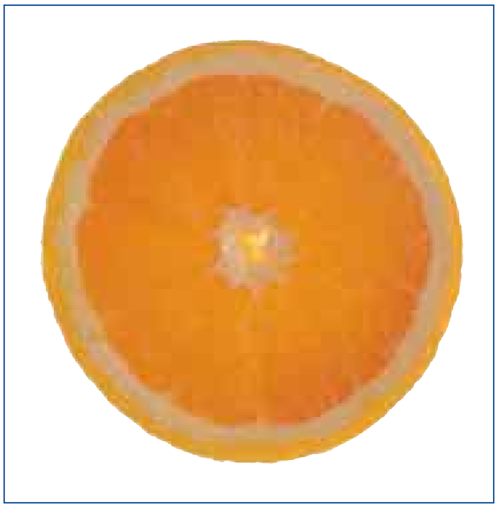




J Sainsbury plc

Annual report and accounts 1999



Our objectives

To provide shareholders with good financial returns by focusing on customers' needs, adding value through our expertise and innovation, and investing for future growth.

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

To provide a working environment where there is a concern for the welfare of each member of staff, where all have opportunities to develop their abilities and where each is well rewarded for their contribution to the success of the business.

To fulfil our responsibilities by acting with integrity maintaining high environmental standards, and contributing to the quality of life of the community.

J Sainsbury plc is one of the world's leading retailers, playing a part in the lives of 15 million customers a week. From the freshest food to the widest choice of products for the home to the best service and value in banking.

Sainsbury's

Sainsbury's Supermarkets was established in 1869 by John James and Mary Ann Sainsbury and is Britain's longest standing major food retailing chain. The founders' principles and values guide us as strongly today as they did at the outset – to be the customer's first choice for food shopping by providing high quality products, value for money, excellent service and attention to detail.

Our people

Sainsbury's Supermarkets employs over 129,600 people. Of these, 69 per cent are part-time and 31 per cent full-time. 65 per cent of employees are women.

Our products

A large Sainsbury's supermarket offers over 23,000 products – 40 per cent of these are Sainsbury's own brand. In addition to a wide range of quality food and grocery products, many stores offer bread baked on the premises, delicatessen, meat and fish counters, pharmacies, coffee shops, restaurants and petrol stations.

Our stores

We serve over nine million customers a week at 405 stores throughout the UK. Of these stores, 12 are in Scotland, eight in Wales and six in Northern Ireland. Nearly 60 per cent of our stores are in town-centre or edge-of-centre locations, many of these built on previously derelict sites.

New store openings 1998/99

Armagh, NI; Arnold, Nottingham; Attleborough; Brighouse; Buchanan Galleries, Glasgow; Chesham; Chipping Ongar; Clitheroe; Darwen; Exeter; Fallowfield, Manchester; Headcorn; Leeds; Leven; Liphook; London: Finchley Road and Fulham Palace Road; Meadowbank, Edinburgh; Newry, NI; and Sherbourne.
New stores' sales area: 458,000 sq ft.

Extensions 1998/99

We undertook 27 store extensions and refurbishments and added 239,000 sq ft of sales area.

Planned store openings 1999/2000 include:

Bourne; Braehead, Glasgow; Dartford; Huntingdon; Isle of Wight; Linlithgow; London: Greenwich, Holborn, Paddington Station, Tooting, Tottenham Court Road and Victoria; Londonderry, NI; Stirling; and Wallington.
Planned stores' sales area: 386,000 sq ft.

Planned extensions 1999/2000

We have 22 extensions planned which will add 245,000 sq ft of sales area.

Sainsbury's SavaCentre

Savacentre was founded in 1975 as a joint enterprise between Sainsbury's and BhS to sell food, clothing and electrical items. In 1989, Sainsbury's acquired BhS' share and Savacentre became wholly-owned by Sainsbury's.

There are 13 Savacentres. In 1998 the Calcot, Reading store was remodelled to offer a greater emphasis on food.

This year the Board decided to integrate Savacentre within Sainsbury's Supermarkets, as Sainsbury's largest store format. The Savacentre head office in Wokingham will close to avoid duplication of activities.

Sainsbury's Homebase House and Garden Centre

Homebase was founded in 1979 and opened its first store in 1981. In 1995 the company bought Texas Homecare and the acquired stores have now all been converted to the Homebase format.

Homebase serves over one million customers a week at 288 stores throughout the UK, employing 18,200 staff, of which 12,200 are part-time.

A Homebase store has on average 25,000 DIY, home enhancement and gardening products available. There is a growing emphasis on lifestyle, design and decorative goods. The Homebase own brand represents over 22 per cent of the range and has a reputation for quality and value for money – it accounts for 32 per cent of sales.

New store openings 1998/99

Cardiff; East Grinstead; Irvine; Leeds; London: Finchley Road, Seven Kings and North Finchley.
New stores' sales area: 291,000 sq ft.

Planned store openings 1999/2000

Dundee; East Filton, Bristol; Frome; Hamilton; London: Greenwich; Sittingbourne; and Wrexham.
Planned stores' sales area: 450,000 sq ft.

Shaw's

Shaw's Supermarkets Inc. has been fully-owned by Sainsbury's since 1987 and prior to that was part-owned from 1983. Shaw's serves over two million customers a week at 127 stores in the New England states of the USA.

Like Sainsbury's Supermarkets, Shaw's places an emphasis on high quality food at value for money prices, and is constantly improving its range of fresh foods. The Company offers 50,000 different lines, up to 35,000 per store at any one time. Some 5,700 popular own label products account for 39 per cent of sales. Shaw's employs over 20,000 associates.

New store openings 1998/99

Bridgeport CT; Hamden CT; New Haven CT; Orange CT; Shrewsbury MA; Tilton NH; Wallingford CT; Waterbury CT; and Webster MA.
New stores' sales area: 367,000 sq ft.

Planned store openings 1999/2000

Barrington RI; Gorham NH; and North Conway NH.
Planned stores' sales area: 113,000 sq ft.

Sainsbury's Bank

Sainsbury's Bank opened in February 1997, and was the first bank to be opened by a British supermarket company. It is owned 55 per cent by J Sainsbury plc and 45 per cent by Bank of Scotland, and offers telephone banking 24 hours a day.

The Bank attracts customers via Bank Information Points which have been established in most branches of Sainsbury's Supermarkets. Customers can also call for information free on 0500 405060. To date it has attracted over one million customers with deposits totalling £1.7 billion.

Sainsbury's Bank continues to research and launch new products; its current product portfolio includes: instant access savings accounts; Christmas saver accounts; personal loans; flexible options mortgages; 100 per cent fixed rate mortgages; three Visa credit cards (Classic, Gold and Merit); home and contents insurance; and pet insurance.

J Sainsbury plc at a glance 1999

	Sales (incl. taxes) 52 weeks £m	Operating profit 52 weeks £m*	Number of stores**	Sales area 000 sq ft**	Employees 000**
J Sainsbury plc	**16,269**	**867.3**	**833**	**27,805**	**178**
Sainsbury's Supermarkets	**12,097**	**714.1**	**405**	**11,425**	**130**
Savacentre	**875**	**28.3**	**13**	**1,119**	**10**
Homebase	**1,270**	**66.6**	**288**	**10,851**	**18**
Shaw's	**$3,047m**	**$85.1m**	**127**	**4,410**	**20**

* Before Year 2000 costs, exceptional costs and profit sharing.

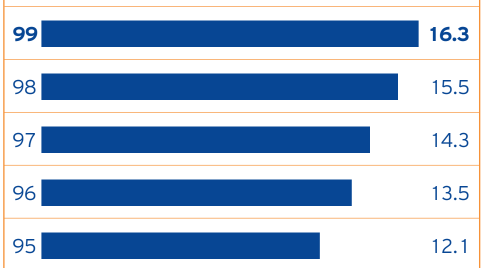
** As at 3 April 1999.

The figures for sales and operating profit have been extracted from the unaudited Interim Accounts for the 52 weeks ended 6 March 1999 (see page 29). These accounts have been subject to an interim review by our auditors, PricewaterhouseCoopers.

The audited statutory accounts are for the 56 weeks ended 3 April 1999. For the purpose of comparability we have also prepared Interim Accounts for the 52 weeks ended 6 March 1999 which have been subject to an interim review by our auditors, PricewaterhouseCoopers. These 52 week results are the focus of our review unless otherwise stated.

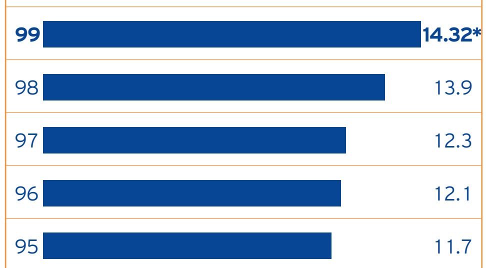
Financial highlights

Group sales £ billion



Group profit £ million

Dividend per share pence



* Excludes a one-off 1p per share payment to cover the extra four weeks in this financial year.

	1999 52 weeks £m	1998* 52 weeks £m	% change
Group sales (incl. taxes)	**16,269**	15,496	5.0
Group operating profit before Year 2000 costs, exceptional costs and profit sharing	**867**	854	1.6
Year 2000 costs	**(28)**	(20)	
Associated Undertakings – share of profit	**12**	16	
Profit sharing	**(42)**	(44)	
Net interest payable	**(53)**	(78)	
Group profit before tax, exceptional costs, property and investments profits	**756**	728	3.8
Exceptional integration costs – Texas Homecare	**(21)**	(28)	
Property profits	**13**	3	
Profit/(loss) on sale of associate/subsidiary	**84**	(12)	
Group profit before tax	**832**	691	20.4
Tax	**(273)**	(226)	
Group profit after tax	**559**	465	
Earnings per share	**29.4p**	25.1p	17.1
Earnings per share before exceptional costs, property and investments profits	**27.2p**	26.6p	2.3
Diluted earnings per share before exceptional costs, property and investments profits	**26.9p**	26.6p	1.1
Dividend per share for 52 week period	**14.32p**	13.9p	3.0
Dividend per share to cover extra 4 week period	**1.00p**		
Dividend per share for 56 week period	**15.32p**		
of which final	**11.30p**	10.15p	

* Restated for new accounting standards.

The 52 week information for 1999 is extracted from the unaudited Interim Accounts which have been subject to an interim review by our auditors, PricewaterhouseCoopers.

Chairman's statement

This has been a challenging year in a challenging market. It has also been a year in which we have initiated the changes necessary to grow all the businesses within the Sainsbury's Group and deliver the value shareholders expect.

A year of change

Two years ago the Board indicated that recovery in each of our businesses would take three years to achieve. I am pleased to say that at Homebase and Shaw's we are ahead of schedule, and Sainsbury's Bank is outperforming all expectations. However, the financial results from Sainsbury's Supermarkets are not satisfactory.

Naturally, in my first annual report as Chairman of the Group, I would like to announce better results. But retailing is a challenging market, especially for those companies committed to providing the highest quality products and service. We recognise that we cannot sustain a leadership position in this market without some real changes to the way our UK supermarkets business operates. The initiatives outlined in this year's review are therefore vital to our success.

Group sales increased by 5 per cent to £16.3 billion and Group operating profit by 1.6 per cent to £867 million. Earnings per share before exceptional costs, property items and investments profits increased by 1.1 per cent. We propose to increase the total dividend per share for the year to 15.32p (including a one-off 1p per share payment to cover the extra four weeks in this financial year).

My job is to create the climate in which management can deliver the changes needed to evolve the business. To this end I have spent much of my time visiting different parts of the Group – I have been to over 75 stores in the UK, 20 in the USA and 40 individual departments within head office functions. I have found a business full of excellent people eager to do a fine job, and I see it as my role to help create a culture in which people have the desire and the framework to generate outstanding value for shareholders and customers.

I have become Chairman of a Board which has a superlative knowledge of retailing, especially within the UK. We will be adding to this wealth of expertise with knowledge and experience from other fields, shaping the Board not only to develop and grow our UK businesses, but to use its skills to look for future growth outside the UK. Driving this growth will be the need to create value for shareholders. Our decision not to buy Giant, and our firm intention to acquire Star Markets in the USA demonstrates how precise we are about where we focus our efforts.

My predecessor as Chairman, David Sainsbury, has retired to pursue a career in politics. We all have immense respect for David's contribution over the last 35 years. He oversaw the change from Sainsbury's being a family business to a large, global plc. I am tremendously impressed by the strength of the heritage he has left.

Two other Group Board Directors left Sainsbury's this year. Bob Cooper retired after 23 years, and David Clapham after 35 years, both long periods of valuable service. In July, Rosemary Thorne will also be leaving after seven years as Group Finance Director. I thank them all for their contribution.

After 25 years on the Board, Sir Timothy Sainsbury will retire in July. He has made a unique and significant contribution to the success of the Company. His departure marks a historic moment for the Company because for the first time in 130 years there will not be a member of the Sainsbury family on the Board.

Sainsbury's is a company acknowledged as the original leader; it is and remains the 'brand' thought of as 'the best in the business'. An outstanding name that is associated with finding, creating and offering the best. I have joined the business at a time when we need to rediscover this heritage, execute and deliver our offer and ensure that the Sainsbury's Group recognises how customers' needs and values continue to change.

During my visits to stores and central departments, I have been genuinely impressed by the tremendous loyalty of all my colleagues to the Sainsbury's Group, and the strength of purpose and will to win in the market place. The changes we are making throughout the Group will release the true potential of these colleagues, providing a great source of energy to help us deliver the value shareholders and customers expect from Sainsbury's.

Sir George Bull
1 June 1999

Group Chief Executive's review

We seek to generate superior value for shareholders and customers on a sustainable basis and we are now aligning our strategy, management processes and performance measures to this purpose.

A common theme runs through our Group. The commitment to offering high quality, value for money products that meet our customers' needs, in a way that is friendly, responsive and convenient. In keeping with this commitment, each business has a clear strategy and determination to broaden its appeal, increase efficiency and substantiate its offer.

Strong profit growth at Homebase and Shaw's has contributed to an overall increase in Group profit. We recognise the key to future profitability is to increase sales and cost effectiveness in our UK food business.

Our objective is to be a leading international food retailer, with a successful UK DIY, horticulture and home enhancement business. The initial success of the Bank demonstrates the potential that exists in applying the Sainsbury brand to other consumer product offers.

The emergence of Homebase and Shaw's as formidable competitors within their markets is evidence of the Group's ability to transfer its considerable retail skills across both market and international boundaries. Their recent successes are a robust testament to the Group's ability to tackle and resolve problems. But undoubtedly, confidence in the Group is closely linked to the performance of its largest component.

It is, therefore, vital that our UK food business has a solid platform for sustainable growth.

I have been active this year in honing the economics of our businesses, investing in activities which add value, and positioning each of our businesses to compete successfully in tough markets. It is clear that in order to maximise the Group's profit potential we must take decisive action to cut costs out of our businesses permanently. We must create a leaner and fitter corporate structure, and sharpen our corporate culture and working practices. We have already taken significant steps to achieving this.

We will also create value for shareholders by expanding our business outside the UK. Our proposed acquisition of Star Markets, New England's fifth largest food retailer, forms a natural addition to Shaw's in terms of geographical locations and core competencies. Taking control of Giant Food Inc. was not essential to our strategy and during the year we sold our holding for over $600 million, representing a profit of £84 million.

Success in the USA is not the limit of our international ambitions and our firmly established world-class retailing skills will drive expansion into other regions. To date we have taken a 25 per cent share in Edge, a chain of 80 small stores in Egypt.

Performance of the Group businesses

Sales at Sainsbury's Supermarkets increased by 4.6 per cent to £12.1 billion with like-for-like growth a disappointing 2.2 per cent. Naturally this shortfall affects our performance against most key financial targets. Operating profit was adversely affected and was £714 million. This caused us to miss the net margin and return on net assets targets set at the start of the year.

It is clear to me that we need to change customers' perception of value, choice and service at Sainsbury's. Changing the value perception will take time and money – we will continue to invest gross margin in promotions and lower prices, while still strengthening our lead in quality. Our cultural change programme and the restructuring of our cost base will also help to improve the customer service elements of our value offer. Better management of space and a major five year investment plan for store extensions and refurbishments will further improve service for customers, and widen the choice of products available in our stores.

Improving our operating efficiency and effectiveness is now a way of life at Sainsbury's and we have increased the scope and pace of our cost reduction programme, reorganising store, regional and London office management structure, as well as identifying many improvements we can make in our procurement processes. This improved efficiency will allow us greater flexibility to meet competitive pressures.

This year's operating review describes Sainsbury's Supermarkets' commitment to the quality of food we offer, our product innovation and our development of new store formats. Everything we do is about providing choice and access for our customers, enabling us to compete successfully. We will provide the best value for our customers by changing our offer to face up to the intense competition in our industry.

We strongly believe that the Competition Commission will confirm the intensely competitive nature of UK food retailing. Indeed, we were somewhat surprised that a referral to the Commission was felt to be necessary.

Savacentre experienced sales difficulties similar to Sainsbury's Supermarkets – growing 1.3 per cent to £875 million. The business is now being integrated into Sainsbury's Supermarkets. It is no longer necessary to run two separate head offices and the Savacentre head office at Wokingham will close. With this integration we are able to eliminate some duplication of roles, and realise economies of scale. Savacentre becomes Sainsbury's largest store format, and in time, some large Sainsbury's stores will be extended to this new format.

At Homebase sales were up 2.8 per cent to £1.3 billion representing strong growth and an excellent performance and the business met all targets. Operating profit increased to £67 million and return on net assets increased from 12.3 per cent to 15.1 per cent. A powerful promotions programme, a strong value message in marketing communications, and a successful start to the process of broadening our appeal, have all contributed to this strong performance.

Our strategy is to further differentiate Homebase from the rest of the DIY sector, adding more decorative and horticulture lines to expand our share of the £24 billion home enhancement market. We need larger stores to accommodate this expanded offer, which we intend to be the widest in the sector. As well as opening larger formats, we will undertake a programme of extensions to existing stores. We have recently agreed to pioneer two stores with Meyer International plc, which owns the Jewson brand, developing a store format of over 100,000 sq ft to combine the complementary strengths of both companies.

A comprehensive range of product options and promotions reflects our priority of focusing on value for our customers. Having reduced the working capital by £20 million during the year, we are now targeting the structural economics of the business by taking at least £30 million of cost out of the business over the next three years.

Shaw's has also made excellent progress this year, with sales up 8.5 per cent to $3.0 billion. Like-for-like sales increased 4.1 per cent. Operating profit was $85.1 million, a 37.7 per cent increase. A key factor driving this success is our focus on managing our existing assets effectively with greater emphasis on capital investment, management development and management accountability.

Next year we are targeting another 30 per cent profit increase by continuing both our programme of innovating promotions and our successful reversal of performance in Connecticut, as well as by reducing costs. We plan to reduce our cost base by at least $40 million over the next two years without affecting quality or service, principally through supply chain improvements and store operating procedures.

In November we sought to acquire Star Markets for a consideration of $490 million. We expect Federal Trade Commission approval for our proposed acquisition in late June. On completion, this acquisition will position us as the clear number two in New England with a combined sales base of approximately $4 billion.

After just two years, Sainsbury's Bank continues to represent a major success, with over one million customers enjoying some of the most competitive rates in the market. The cost of acquiring these customer accounts contributed to a loss of £5.6 million, but we anticipate moving into profitability this year.

This year we have continued our commitment to the community and the environment, increasing our support for educational projects, volunteer schemes, waste recycling and use of environmentally responsible products. Our latest Environmental Report is available on our Group internet site: *www.j-sainsbury.co.uk*

Our people

I would like to thank and congratulate all colleagues for their hard work and loyalty this year – theirs has been an outstanding contribution. However, great culture changes are running through our Group. We must all raise our game to compete. I know the people of the Sainsbury's Group will respond positively to these changes, and I can guarantee they will be encouraged to use their many talents and initiatives in the workplace to try and forge shareholder value.

Our objective

Our objective remains the same – to be a leading international retailer producing sustainable growth in shareholder value by providing the best possible quality, value and choice for our customers. We are confident we have the strategies, the organisation and the people to achieve this goal. We know we have the enthusiasm. We recognise the issues that are facing us, and those we will face in the future, and we are dealing with them. This is the key to our long-term success.

Dino Adriano
1 June 1999

Right: As customer tastes become more adventurous Sainsbury's has searched the world to introduce a wide range of *Special Selection* products, including Normandy Cider Vinegar.

Above right: As part of our commitment to animal welfare and food safety, *Farm Assured Milk* is available in all stores. Our Dairy Welfare Policy is one of Europe's most stringent codes on good farm practice. And thanks to our award-winning design, customers now enjoy easier, drip-free pouring from the four and six pint milk bottles.

Above: Responding to more exotic tastes, we launched a range of cooking sauces which draw inspiration from Thailand. All 12 sauces and pastes are made to traditional recipes and packed with authentic ingredients such as lemon grass and galangal, tamarind and kaffir lime.

Responding to customers' needs

Having doubled our range of organic foods to over 400 lines, we now have the best selection available from any British supermarket. Additions to the range include ice-cream, sausages and ready-to-eat salads all clearly identified in store.

Above: We enhanced *Spend & Save* this year with a range of even higher points rewards for regular Homebase customers. 10 million card holders can now earn up to 10 per cent savings, and research shows this is a strong incentive to visit.

Above: Our unique easy-grip squash bottle is more comfortable to use for adults and children, yet no more expensive. Pouring is now far easier from both one litre and two litre sizes.

Above: With everyone already looking towards Millennium celebrations, we are offering our own cuvées of Champagne and Cava chosen especially for the big occasion.

Left: Sainsbury's has introduced four premium condiments to complement the traditional range. The Tomato, Basil and Mustard Sauce, for instance, is not only delicious on the side of a plate, but can also be used for topping bruschetta or flavouring a dip.

Above: Our Prawn Laksa, a spicy coconut dish of noodles and prawns, won the top award at this year's SuperMarketing Quality Food & Drink Awards. It was selected for its fresh ingredients and flavour, and simple and effective packaging.

Above: Our milk bath range adds a touch of luxury and indulgence to any bath. In stylish packaging, they use natural extracts to soothe the skin. The four cream varieties in the range are scented with honey, almond, aloe and juniper.

Above: *Eat and Keep Bananas* are a specially developed mix of ripe and unripe fruit, with ripening instructions. They are for customers who would like a banana for today, and other bananas that will keep at home to be in perfect condition when required.

A passion for quality

Above: With Sainsbury's *Lifestyle* coffees, customers can enjoy a choice of different blends of freshly ground coffee to suit different tastes. Wakey Wakey, All Day Long, After Dinner and Espresso are each designed for different times of the day.

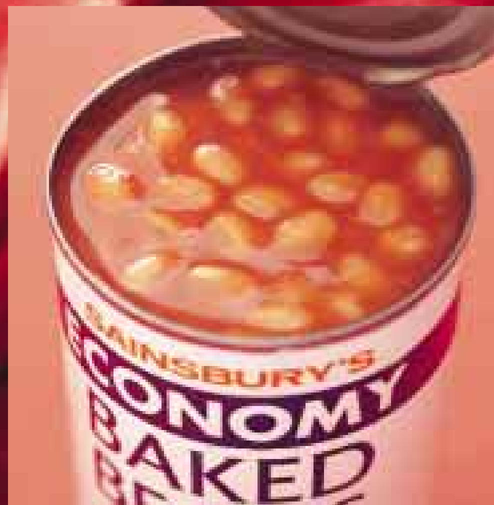
Above: Customers can enjoy the subtle varieties of taste in Sainsbury's three oak-matured, malt whiskies. These are made exclusively for Sainsbury's by traditional producers from three of Scotland's famous malt producing regions: Highland, Speyside and Islay.

Sainsbury's reputation for excellent cheeses continues to improve with the introduction of 17 distinctive, new choices to complement the 106 previously available at the delicatessen. Whether a continental favourite or a slice of Stilton, there is something to tempt everyone's taste buds.

Customer research has repeatedly told us that there is demand for increased variety in our pepper range. The Ramiro pepper is a new, exceptionally sweet member of the capsicum family. By virtue of its distinctive shape and taste, the Ramiro offers a talking point for the pepper connoisseur or simply a departure from the norm for culinary fans.

Greater choice, greater value

Left: Sainsbury's buyers search the world to find new vegetable varieties and recipe ideas that can be passed on to customers. Examples of sweet potatoes include the red-fleshed variety from North America and a yellow variety from the West Indies.



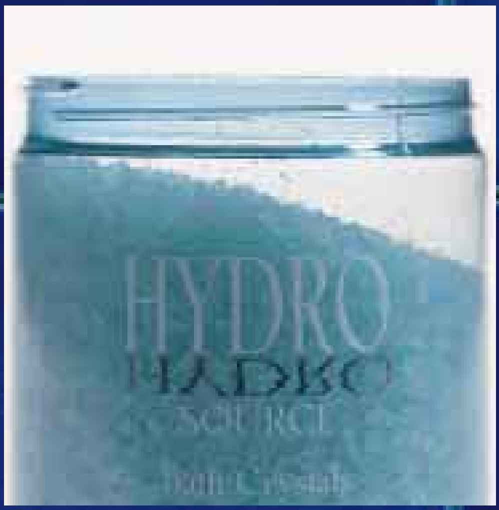
Above: Our *Economy* range offers good value and a greater choice across 140 different everyday essentials.

Below: Sainsbury's *World of Honey* is a celebration of this versatile ingredient. We offer a range of natural flavours from all over the world. Flavours are graded according to strength, so customers can choose to suit their own taste. We also offer accompanying recipe cards to encourage customers to cook with honey.

Above: Shaw's four new 100 per cent juices blend cranberry with apple, grape, raspberry and strawberry. These offer not only more cranberry juice than the national brands but have been developed in response to the sharper palate of New Englanders. The juices are available in all Shaw's stores.

Above: In keeping with pasta's ever-growing popularity, Sainsbury's has introduced a new range of four regional varieties. Pastas of all shapes and sizes from different Italian regions are produced in the age-old way using traditional durum wheat flour. Recipes on the packs enable customers to create the authentic accompanying sauce of each region.

Below: Homebase's *Value Basics* range of everyday DIY and garden essentials – tools, accessories, plants and materials – cuts the cost of home improvement. Practical and functional, *Value Basics* is at extremely low prices.



Above: Sainsbury's *Hydro Source* is a refreshing new idea for relaxing in the bathroom – a moisturising hydrotherapy spa range of four natural, fragrant bath oils, crystals and shower gels.

Below: Sainsbury's is Britain's largest fishmonger, now offering amongst its range, fresh red snapper from Western Australia and line-caught swordfish from the Maldives. Seven tonnes of fresh mackerel finds its way onto our customers' plates each week.

Below: Sainsbury's range of five canned lagers offers strengths from Green label at 3 per cent, through Blue label at standard strength to super strength at 8.5 per cent. Independent research placed Premier Gold as tastier than the brand leader.

Above: Britons now buy more coloured paint than white, and Homebase has responded with a range of 16 bold, new fashion colours aimed at the younger generation. *Colour Zones* will transform any teenager's bedroom with just one coat.

Above: This winter we introduced the first ever microwaveable salad. Exclusive to Sainsbury's, *Fresh 'n' Ready* Warm Eating Salad combines a fresh dressing and onion pieces with four types of crunchy leaves. It is available in more than 200 stores.

Above: Our *Fresh Creations* range offers busy customers 12 restaurant-quality meals, each costing less than £5. The gourmet meals, which include meat, fish and vegetarian dishes, contain the finest ingredients. All of them can be created at home in under 10 minutes.

Left: Customers can now buy fresh sauces to enhance their choice of fish from Sainsbury's increasing selection. Launched in six authentic, international recipes, all can be heated in seconds or served cold, saving time without ever compromising taste and quality.

New products, new ideas

Last autumn Homebase undertook a major review of its tiles offer. As a result, the range is being expanded and enhanced to better reflect market trends. New ranges will include an extensive choice of ceramic floor tiles and exclusive premium collections to order. Current best sellers are smaller, contemporary coloured tiles in green, blue, terracotta and yellow.

Operating review

Sainsbury's Supermarkets analysis

	1999	1998
Sales (incl. taxes)	**£12,096.9m**	£11,563.8m
Operating profit	**£714.1m**	£734.6m
Number of stores	**405**	391
Sales area (000 sq ft)	**11,425**	10,860
Full-time employees	**39,890**	38,416
Part-time employees	**89,798**	88,155

'estate' trolley

Below: This year we trialled a new model to add to our range of 15 trolleys. Designed to comfortably seat two children aged up to eight at the back, the 'estate' trolley can also seat a baby at the front.

Sainsbury's Local

Above: Our Fulham Palace Road, London, and Headcorn *Sainsbury's Local* stores are each about the size of a tennis court and fill a gap in the convenience market for fresh, value-for-money food. The stores recruit from, and are very much part of, the local communities they serve.

new style uniform

Left: Sainsbury's new uniforms are smart, modern and comfortable. They were designed by Paul Costelloe based on feedback from over 6,000 colleagues in 300 stores. Among the options available are polo and rugby shirts that feature colourful motifs such as chillies, leeks, strawberries and oranges.

SAINSBURY'S SUPERMARKETS – making life taste better

This year Sainsbury's Supermarkets confronted the key issues facing the business and began to deal with them positively and decisively. We embarked upon a huge programme of customer research, the largest we have ever undertaken, and have learnt considerably more about what customers value and how we measure up against their expectations.

With this we set ourselves a fresh objective without, of course, losing sight of what we are here to do – sell high quality, good value products profitably to as many people as possible. We recognise that food is at the heart of people's lives, however basic any individual item may be, and this led us to establish Sainsbury's Supermarkets' purpose – Making Life Taste Better.

Making Life Taste Better is more than a campaign or a slogan. It is about real culture change. It runs through everything we do. We launched it in February at a convention for senior managers from all parts of the business. We have high ambitions. They cannot be achieved in a matter of weeks, naturally, so what follows is an account of how we will achieve them.

Putting people first

Last year we discovered that while we have tens of thousands of talented, enthusiastic colleagues, their principal focus is on their duties rather than on customers. We decided to change the way we work and have developed a set of principles to help us work together more effectively, and release the talents and energies of our staff.

The programme for culture change started with the Board members, who helped trial initiatives at five stores. Sales increased on average three per cent above the rest of the business and the response from colleagues was and continues to be extremely positive.

Our Way We Work principles are being adopted throughout Sainsbury's Supermarkets. They embody a set of standards and values that will provide the framework for a culture of continuous improvement.

Cutting costs

As detailed in the Group Chief Executive's review, we have made it a priority this year to find ways to reduce costs, based on the simple principle that if it does not add value for our customers, we will not do it.

We have identified many activities which can be removed or simplified without affecting quality, choice or customer service. We are restructuring our store and regional management, reviewing the supply chain, and streamlining our head office operations to make our organisation leaner, yet more responsive to stores and customers.

Market-leading innovation

Our heritage is a passion for quality food and we intend to be the best. Last year we introduced over 1,300 new own brand lines, such as *Fresh Creations,* a range of 12 gourmet meals (illustrated on page 13). We also reviewed a further 3,000 products and as a result, some 1,500 are being improved to reflect changes in customer tastes and needs.

We launched *Food to Go*, offering hot chicken and a curry bar, and will include the service in more stores, adding pies and roast meats. Building on our experience in the US, we increased the number of our new style salad bars and now have them at 41 of our larger stores, where they have proved very popular with customers. Our constant innovation applies also to packaging – a simple move to see-through salad pots helped contribute to a 70 per cent sales increase.

In response to customer concern about fat intake, we developed the *Be Good To Yourself* range; 200 products which prove that lower fat does not mean inferior flavour. We expanded our ranges of fresh produce and meat, as well as increasing the types of fish we sell to become Britain's biggest fishmonger.

During the last year we have piloted and enhanced our category management process, developing plans with suppliers for over 50 per cent of our business. We recognise that this process alone will not contribute to a step change in our business and have taken steps to redesign our organisation to bring more customer focus to our activities, streamline our work processes and further develop the skills of our people.

We have already announced the first phase of this work with the formation of the new commercial division. This is made up of four cross-functional business units and a strategy group which provides clear direction, best practice and support to the re-focused category teams.

Offering customers real choice

The desire to provide quality and choice drives our innovation, but equally we recognise the importance to our customers of the sources and safety of the food we sell, and the information we provide.

Of foodstuffs that can be grown in this country, we source 90 per cent from Britain – customers can choose British meat at all times – and we continue to provide strong support to British farmers. To help the farming community plan ahead and invest in commercially viable production, we work alongside over 16,000 farmers and growers, sharing data and supporting initiatives, including the transition to organic status.

Demand for organic foods is greater than ever and sales are over £1.5 million every week – from soft fruits and fresh soups to garlic baguettes and frozen chips. Our guarantee of a market for organic milk for at least five years gives farmers the confidence they need to invest in and expand their businesses. It is just one example of our continuing support for Britain's organic producers.

We are always keen to ensure that our offer reflects the wishes of our customers. We support the responsible use of genetic modification (GM) providing it is legal, safe, environmentally responsible and has clear consumer benefit. However, in response to overwhelming customer concern, we have introduced a policy of eliminating GM ingredients from all our own brand products. To enable us to do this, we set up a unique international consortium of food retailers to establish and validate crop sources of non-GM food.

We have worked with other businesses and development agencies to help form the Ethical Trading Initiative which works to secure specified labour standards worldwide. Our code of practice for Socially Responsible Trading has been commended by Christian Aid, and we are now working with our own label suppliers to gain their commitment to this code.

Making Sainsbury's available to more customers

Our simple aim is to make the Sainsbury's brand accessible to as many customers as possible, and so maximise its value and achieve a competitive advantage. Our approach to store development is driven by a combination of the desire to improve our geographical spread, respond to changing lifestyles, and abide by Government restrictions, so we have introduced a variety of formats to meet different customer needs.

We have three larger formats – *Savacentres*, our largest store format, *Superstores* and *Supermarkets*. Extending and refurbishing these stores is an increasingly successful and important way of expanding our business. This year we improved 27 stores, adding 239,000 sq ft of profitable new selling space. We also opened nine larger format stores.

In addition we have three smaller formats. This year we opened eight *Country Town* stores, typically in smaller towns like Attleborough and Chipping Ongar. The successful opening of the Buchanan Galleries in Glasgow saw the arrival of our first *Sainsbury's Central* store. We plan to open 30 Centrals over the next few years in major cities throughout the country – this year in London in Tottenham Court Road and Holborn.

Sainsbury's Supermarkets Directors

Dino Adriano *Chairman*	
John Adshead	Ian Coull
Hamish Elvidge	Kevin McCarten
Robin Whitbread	Martin White
Bill Williams	

bakery

Below: Sainsbury's bakery training has won a prestigious National Training Award and could become the blueprint for the bakery industry. Our programme is designed to keep bakery skills alive and to maintain the quality of the 2.4 million loaves our customers enjoy weekly.

radio **headsets**

Above: This year we have trialled a whole range of initiatives to speed things up for customers including mobile checkouts and radio headsets. Also on trial are team checkouts where teams of staff work together. This allows role swapping plus the flexibility to go and check an item or take a short break easily.

city petrol

Below: Sainsbury's customers can choose more environmentally friendly fuel which helps reduce emissions and keeps catalytic converters clean. We are one of the UK's leading retailers of cleaner fuels, and this year added ultra low sulphur City Petrol to complement our City Diesel.

Savacentre analysis

	1999	1998
Sales (incl. taxes)	**£874.8m**	£863.5m
Operating profit	**£28.3m**	£30.5m
Number of stores	**13**	13
Sales area (000 sq ft)	**1,119**	1,119
Full-time employees	**2,993**	3,006
Part-time employees	**6,529**	7,119

Sainsbury's **Central**

Below: *Sainsbury's Central* stores are designed to help city centre customers shop quickly. The design and product range have been matched to customer needs through intensive research.

Sainsbury's Bookstart

books for **babies**

Above: As one of our Millennium projects and in partnership with the educational charity Book Trust, we are investing £6 million in developing an on-going national 'Bookstart' programme, to give every baby a bag of high quality books at their eight month healthcheck. Research shows early contact with books can radically improve literacy in later life.

wine tasting

Below: Savacentre customers enjoy the opportunity to taste as many as four different wines each week. Qualified staff offer information and samples of wines featured in the week's promotions.

The initial pilots of *Sainsbury's Local*, our convenience store format, have exceeded all expectations. The pilot continues this year with up to seven new sites including Paddington Station in London. If this is successful, the ultimate aim is for more Locals and a significant share of the country's £15 billion convenience store market.

We have two other schemes to complement our six formats. *SAVE (Sainsbury's Assisting Village Enterprises)* is a trial aiming to support the village shop, and *Orderline* is our home shopping trial. Following an extensive pilot of *Orderline* last year, we are now focusing on home shopping inside the M25. Early in the new year we will open the largest food retail picking centre in the UK to support this.

Promoting value

Last year, an AC Neilsen shoppers' survey rated us number one for choice, quality, service and well-stocked shelves, but not price. People believed there must be a premium on quality, even though our prices were competitive. We designed our *Agenda for Value* campaign to address this issue. Much reporting of the campaign was based on criticism of the television advertising. It is true it did not achieve its overall sales targets, but it did bring many more people into our stores, and evidence shows that it achieved its main objective of closing the value perception gap.

The World Cup and Red Nose Day promotions were both successful in bringing millions of people into our stores – and we raised a record £4.5 million for Red Nose Day. Our *Reward Card*, with 14 million customer accounts, is regarded by shoppers as the best in the market, and continues to provide a powerful incentive to visit. We have enhanced its value by extending the many ways in which customers can redeem their vouchers.

Things are changing at Sainsbury's and it shows. The culture of change running through our business has been captured in a new identity, elements of which you will see in this review. This look represents our progress and supports our promise – that we are Making Life Taste Better.

SAVACENTRE – the best foodstore in Britain

This year the Group Board decided to integrate Savacentre within the main supermarket business as Sainsbury's largest store format. We also redesigned the Savacentre at Calcot, Reading, to create the best refurbished food store in Britain.

After 20 weeks of improvements, during which the store continued trading, Calcot relaunched in August 1998 to enthusiastic customer response. We presented more prominent fresh food sections and more convenience foods, a more open store design and, importantly, many new customer service concepts. The ratio of food to non-food changed from 60:40 to 80:20, with the non-food offer focused in four sections: *Celebration* – for party ideas; *Indulgence* – for beauty products; *Baby and Toddler*; and *Cookshop*.

The integration of Savacentre complements our store format development programme. It is a planned move away from a hypermarket style outlet, to a very large Sainsbury's – with its welcoming promise of friendly service and a focus on food, but with other selected offers to enhance the weekly shop.

HOMEBASE – major improvements in the home enhancement market

We had a successful year in which we met our targets and completed the conversion of the remaining 60 Texas stores. We grew our share in the DIY market and established ourselves as a leading name in the much larger 'home enhancement' market, which covers DIY goods through to soft furnishings and gardening.

This market is growing fast – the profusion of magazines and TV shows bears witness to people's burgeoning interest in their living environment. Our new store at Finchley Road, London, one of seven opened last year, is an example of our approach to this market, with a design studio to assist with colour scheming, and our largest textile department to date. The broader range on offer requires larger stores, hence our plans to extend many. Our new stores in Dundee and Greenwich will be our largest yet averaging over 100,000 sq ft each.

Maintaining quality and choice

In common with all Group businesses, Homebase has a reputation for quality which is a vital factor in the home enhancement market. The quality of our offer has been reflected in our marketing campaigns throughout the year. *World of Colour* focused on spring colours, *Outdoor Living* on summer gardens and outdoor furniture, and in autumn we launched *Editors' Choice* (illustrated below). We also looked closely at all our ranges of products, particularly in DIY, to make sure we offer something to suit all budgets and all needs.

Focusing on value

We have been working hard to get across a simple message – quality and choice need not mean expensive. Our new *Value Basics* range offers functional products at competitive prices and complements our standard own brand range which offers premium products at affordable prices.

We have introduced *Price Track* on hundreds of key lines – if a customer finds them cheaper elsewhere we will refund the difference. Thousands of prices are checked regularly against competitors' and our new slogan You're Better Off At Homebase relates to quality, service, choice and value.

Promotions, such as an offer on paintbrushes if you buy paint, add to both the value proposition and sales, as does our loyalty card *Spend & Save*. This loyalty scheme, unique within the DIY market, offers regular customers the opportunity to save up to 10 per cent and is a strong incentive to shop frequently.

We have further supported instore promotions with our Christmas, January Sale and Easter 1999 TV campaigns which have proved how well TV advertising works for us.

The successful Easter TV campaign focused on value-for-money. It featured Neil Morrissey and Leslie Ash to appeal equally to men and women, based on the fact that nearly half of all couples shop for DIY and home enhancement products together.

As a TV first, we also sponsored *Better Homes* which attracted over 10 million viewers a week.

Moving employee communications forward

Building on *Touchbase*, our staff magazine, we have been working to improve our internal communications and our understanding of what motivates and drives our staff and makes them want to work for Homebase.

We launched *HBTV*, a TV network showing training videos, business news reports and features on new products and promotions. The first meetings of *News and Views* – Homebase's staff council – took place in December and in February staff took part in *Hometruths*, a staff feedback questionnaire. We are linking the results of these initiatives with customer research so that changes implemented enhance staff satisfaction levels whilst improving the business.

In a challenging operating environment, Homebase has met all its targets. We are now concentrating on differentiating our offer to take advantage of the large and growing home enhancement market, and on making sure customers see us as the ideal choice for both quality and value.

Homebase Directors

David Bremner *Chairman*	
Ian Baldwin	Steve Bradbury
Ian Coull*	Judith Evans
Peter Guildford	Mike Powell
Kathryn Swann	

* Non-Executive

value

Below: *Value Basics* is an own brand range of 400 essential everyday DIY and garden products which will not be beaten on price. It is key to getting across the simple message that quality and choice need not mean expensive.

editors' choice

Above: Editors from seven major home and garden magazines endorsed selected Homebase products on the basis of value, style and innovation featuring them in their magazines. Homebase provided accompanying information leaflets to enable customers to get the most from the products.

Homebase analysis

	1999	1998
Sales (incl. taxes)	**£1,269.7m**	£1,234.8m
Operating profit	**£66.6m**	£55.5m
Number of stores	**288**	298
Sales area (000 sq ft)	**10,851**	11,201
Full-time employees	**6,006**	5,809
Part-time employees	**12,219**	11,162

design centre

Below: The new Finchley Road, London, store offers an innovative design studio where customers can receive advice on colours, mix and match paints and coverings, and view their selection as a computer generated image before buying the products. The design studio is now also available at the refurbished Bath store.

Shaw's Directors

David Bremner *Chairman*	
Ross McLaren *President and Chief Executive Officer*	
Harry Beckner*	Ruth Bramson
Steve DuBrul*	Paul Gannon
Peter Gunderson	Brian Pijanowski
Verne Powell	Scott Ramsay
Robin Whitbread*	

* Non-Executive

worldwide **apples**

Below: As well as offering domestically grown produce, Shaw's looks all over the world to satisfy customers' tastes. Some of the 23 varieties of apple come from as far away as New Zealand, Chile and South Africa.

training **schemes**

Above: Shaw's associates receive computer-based training to improve their specialist knowledge and help them respond better to customer requests for information.

Shaw's analysis

	1999	1998
Sales (incl. taxes)	**$3.05bn**	$2.81bn
Operating profit	**$85.1m**	$61.8m
Number of supermarkets	**127**	121
Sales area (000 sq ft)	**4,410**	4,119
Full-time associates	**7,675**	7,077
Part-time associates	**12,796**	13,031

Sainsbury's Bank Directors

Dino Adriano *Chairman**†	
Rodger McArthur *Chief Executive*	
Richard Chadwick *Deputy Chief Executive*†	
David Bremner*†	Peter Burt*
Leslie Knox*	Gavin Masterton*
Kevin McCarten*†	George Mitchell*
Sir David Scholey*†	

* Non-Executive
† Directors appointed on behalf of J Sainsbury plc

fixed rate mortgage

Below: Our fixed rate mortgage is proving particularly popular with first-time buyers as it provides finance for up to 100 per cent of the property value, as well as for valuation and legal fees.

SHAW'S – making the best use of skills and locations

We have delivered profits up 38 per cent on the previous year, exceeding challenging targets. We are aiming for the same success this year. Last year a stronger management team focused on maintaining growth in existing locations rather than increasing our geographical spread. Substantial improvements to turnover can still be made by extending existing stores and opening 'in-fill' stores in our established trading areas. This will be the continuing focus of our expansion programme. The proposed acquisition of Star Markets will enhance this geographical consolidation as well as delivering economies in central procedures.

Changes for success

The first three of 20 planned extensions re-balanced our offer in favour of fresh products, and all showed strong fourth quarter sales increases. The remodelling of our Dover, NH, store, combined with a promotional campaign and the emphasis on fresh food, gave increased sales of 23 per cent. We also ran a summer 'fresh produce' campaign throughout all stores. Following favourable customer response, this campaign will be renewed this summer.

Other keys to success have been aggressive promotional activity throughout the year, and the continued development of our highly regarded own brand range. This currently stands at 5,700 lines and accounts for 39 per cent of sales. Notable additions to the range include new cereal flavours, healthy snack items, juice blends, nutritional drinks, health supplements, reduced fat and free range chicken, and high quality kitchen equipment.

Progress in Connecticut

The improvement at the stores in Connecticut was central to the year's success and due in part to a clearer understanding of customers' needs. Even allowing for the closure of three stores, overall sales were up 18 per cent and market share in the state rose from 7.2 per cent to 8.5 per cent. Two of the closed stores have now been replaced, and the third replacement store will open this year.

This year's focus on our core competencies of own label management and remodelling to proven formats, has enabled us to progress towards our objective – which is to stand in the top quartile of US food retailers.

SAINSBURY'S BANK – proof of the demand for easy access to high quality, branded financial services

The first two years represent an excellent start. We have attracted over one million customers and have £1.7 billion on deposit and £1 billion of lending and commitments.

Selling through the supermarket network affords us a distinct competitive advantage. Bank Information Points, with literature on all products and a free phone service to our call centres, are in most supermarkets.

We continue to research and launch new products in response to demand:

- A 100 per cent fixed rate mortgage – one of the most competitive for first-time buyers;
- The Merit Visa card, offering low cost borrowing; and
- PetCare™ insurance.

We also revised our flexible options mortgage, introducing a free remortgage service, making it even more attractive for customers to switch to us. We also cut our personal loan rates to market-leading levels.

People are daunted by traditional financial services. But people trust Sainsbury's – our name and our reputation for delivering what they want. We recognise this as a huge opportunity to extend our brand proposition.

Financial review

Group operating profit £ million

Accounting periods

To avoid operational difficulties from progressive shortening of the time between the Christmas trading period and the new financial year, the Directors have restored the financial year-end to a position in early April. Accordingly the 1999 financial year covers a period of 56 weeks to 3 April 1999. To facilitate annual comparisons, much of the commentary set out below relates to the 52 weeks to 6 March 1999. Unless otherwise stated references to profit and loss items including earnings per share information relate to the 52 week accounting period ended 6 March whereas references to balance sheet and cash flow items relate to the 56 week accounting period ended 3 April 1999.

Analysis of operating results

Group operating profit before Year 2000 costs, exceptional costs and profit sharing increased by 1.6 per cent to £867 million on sales up by 5.0 per cent to £16.3 billion. Reduced profitability in Sainsbury's Supermarkets and Savacentre was more than offset by higher profits at Homebase and Shaw's along with reduced losses at Sainsbury's Bank. The Group's return on average net assets declined from 15.9 per cent in the previous year to 15.1 per cent.

Sales in Sainsbury's Supermarkets increased by 4.6 per cent to £12.1 billion including growth in like-for-like stores of 2.2 per cent. After a promising first half, like-for-like sales growth slowed during the second half due to softening market conditions and a tough competitive environment. Operating margin before Year 2000 costs reduced to 5.90 per cent of sales from 6.35 per cent the previous year due partly to an aggressive promotional campaign which achieved its objective of improving customers' perceptions of value but which failed to meet sales targets. Operating profit declined by 2.8 per cent to £714 million.

Savacentre's sales increased by 1.3 per cent to £875 million. Savacentre was affected by similar trends as Sainsbury's Supermarkets and operating profit declined by 7.2 per cent to £28 million. The return on average net assets in the UK food retailing sector was 16.1 per cent.

Homebase's sales increased by 2.8 per cent to £1,270 million with like-for-like sales growing strongly by 4.2 per cent. Operating profit before Year 2000 costs increased by 20.0 per cent to £67 million. The return on net assets increased to 15.1 per cent from 12.3 per cent in the previous year.

Shaw's sales increased by 8.5 per cent to \$3.0 billion (£1.8 billion) including solid growth of 4.1 per cent in existing stores. Operating profit increased by 37.7 per cent to \$85.1 million (£51 million). This impressive increase was due to a reduction in losses from stores in the Connecticut trading area, a strong sales performance across the entire chain, and the depressing impact of strike costs on last year's comparative profit performance.

Sainsbury's Bank incurred a loss of £5.6 million. Losses reduced from a first half loss of £4.4 million to £1.2 million in the second half. The Bank performed well against the aggressive entry of major new players into the direct banking market.

Analysis of operating results (52 weeks)	Sales £m	Sales % change	Operating profit* £m	Operating profit* % change	Return on average net assets %***
Sainsbury's Supermarkets	12,097	4.6	714	(2.8)	16.1
Savacentre	875	1.3	28	(7.2)	
Homebase	1,270	2.8	67	20.0	15.1
Shaw's	1,838	8.5**	51	37.7**	9.8**
Sainsbury's Bank	146	-	(6)	-	-
Other	43	-	13	-	-
Group total	16,269	5.0	867	1.6	15.1

* Operating profit before Year 2000 costs, profit sharing and exceptional costs.
** In dollar terms.
*** Return on net assets based on average net operating assets excluding interest bearing assets and liabilities, taxation and dividends.

Group profit before tax

The major elements of Group profit before tax are summarised below:

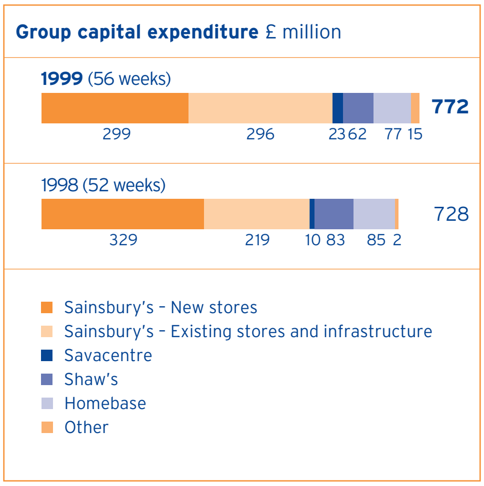
52 weeks	1999 £m	1998 £m	% change
Group operating profit	**867**	854	1.6
Year 2000 costs	**(28)**	(20)	
Associated Undertakings – share of profit	**12**	16	
Profit sharing	**(42)**	(44)	
Net interest payable	**(53)**	(78)	
Group profit before tax, exceptional costs, property and investments profits	**756**	728	3.8
Property profits	**13**	3	
Profit/(loss) on sale of associate/subsidiary	**84**	(12)	
Exceptional integration costs – Texas Homecare	**(21)**	(28)	
Group profit before tax	**832**	691	20.4

Group profit before tax increased by 20.4 per cent mainly due to the profit of £84 million on the disposal of the Group's interest in Giant.

Net interest payable reduced significantly from £78 million to £53 million due mainly to the cash inflow of £345 million from the disposal of the stake in Giant on 28 October 1998. However, the disposal reduced the contribution from associates from £16 million to £12 million. Profit sharing reduced marginally as a result of lower UK profitability.

Taxation

The Group tax charge of £273 million for the year results in an effective underlying tax rate of 31.7 per cent (1998: 32.4 per cent). The effective rate for the Group exceeds the nominal rate of UK corporation tax due to the higher rate of tax incurred on US profits and the lack of tax relief on depreciation of UK retail properties.



Earnings per share, dividends and shareholder returns

Earnings per share before exceptional costs, property and investments profits increased by 2.3 per cent to 27.2 pence. Diluted earnings per share before exceptional costs, property and investments profits increased by 1.1 per cent to 26.9 pence.

Our policy is to increase dividends as a function of underlying earnings and the cash requirements of the business. A final dividend of 11.30 pence per share is proposed which results in a total dividend for the year of 15.32 pence per share. This includes a one-off 1 pence per share payment to cover the extra four weeks in this financial year which will not be included in the base for determining future dividends. The full year dividend is covered 1.9 times by earnings over the 56 week period.

Managing for value

The Group is adopting value based management principles to provide a rigorous framework for managing the business. The governing objective is to maximise shareholder value on a sustainable basis. The soon to be installed 'Managing For Value' programme will seek to align key management processes and performance measures with the governing objective. The programme will have a significant impact on key processes such as strategic planning, resource allocation, performance management and prioritising management activity.

Share price

The share price declined from 467.5 pence at the start of the financial year to 384.75 pence at 3 April 1999 and the range was 344.25 pence to 580.0 pence. The Company's market capitalisation on 3 April 1999 was £7.38 billion.

Cash flow

Free cash flow increased substantially due to £348 million proceeds from the disposal of the stake in Giant Food Inc. and other businesses. The main elements of the Group's cash flow before financing are shown below. The figures for 1999 relate to 56 weeks.

Summary of cash flows	**1999 56 weeks £m**	1998 52 weeks £m
Operating cash flows	**1,322**	1,149
Tax paid	**(287)**	(177)
Payments for fixed assets	**(803)**	(672)
Sale of fixed assets	**107**	96
Sale of businesses	**348**	13
Other items	**2**	37
Free cash flow	**689**	446
Dividends paid	**(249)**	(221)
Net interest paid	**(83)**	(75)
Net cash flow before financing	**357**	150

On an annualised basis, operating cash flow remained well in excess of £1 billion despite an increase in stocks which largely related to purchases of land held for development.

Tax paid of £287 million included £40 million payable on the disposal of our stake in Giant Food Inc.. Payments for fixed assets increased from £672 million to £803 million due in part to capital expenditure on extensions of Sainsbury's Supermarkets' stores rising from £68 million to £160 million.

Capital structure and finance

Total Group shareholders' funds as at 3 April 1999 amounted to £4,644 million (1998: £4,127 million). The principal movements for the year were retained profits of £304 million and the adding back of goodwill of £148 million previously written-off to reserves and now charged to the profit and loss account in association with the disposal of our stake in Giant Food Inc..
Group net debt at the year-end amounted to £704 million (1998: £1,077 million) giving a balance sheet gearing (net debt to equity) of 15 per cent (1998: 26 per cent). Group policy is for a target maximum for gearing of 50 per cent.

Year 2000 compliance

The Group has been taking action since 1995 to address the Year 2000 issue with a cumulative expensed revenue cost of £50 million to 3 April 1999 and a capital cost of £6 million.

In each of the Group's businesses, project teams have been set up to look at the three elements of the millennium problem; IT systems, infrastructure (embedded chips) and the supply chain. The project teams report monthly to a steering group chaired by the Group Board sponsor for Year 2000, Ian Coull. Each element of the programme is overseen by an external expert and is regularly subject to review by Group Internal Audit.

Most of the Group programmes are nearing completion and the project teams are now concentrating on event planning and business continuity initiatives. These initiatives will ensure that predefined management procedures are available to respond to any Year 2000 related failures leading up to and over the millennium weekend.

The majority of our systems are now compliant and roll-out into stores will be completed by the end of June 1999.

All equipment containing 'embedded chips' such as weighing scales, refrigeration systems and fire alarms have been tested and all business critical non-compliant items will be replaced, or will have in place a programme to be replaced, by July 1999.

In common with all companies, the Group cannot fully address the risks involved in suppliers' systems and their infrastructure. Every supplier of goods, consumables, equipment and services has been required to provide evidence that they are addressing the Year 2000 problem with subsequent follow-up if the Group is not reassured by their response.

The Board has agreed trading hours over the millennium and all areas of the business will have created staffing and contingency plans by September 1999.

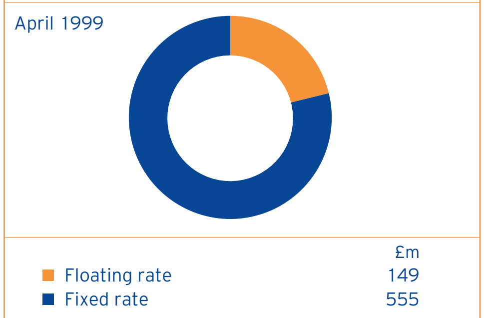
Euro

The Group continues its work in making preparations for the possibility of the UK joining EMU. Following the impact analysis carried out last year a number of working groups have been established in different parts of the business to progress the issues identified.

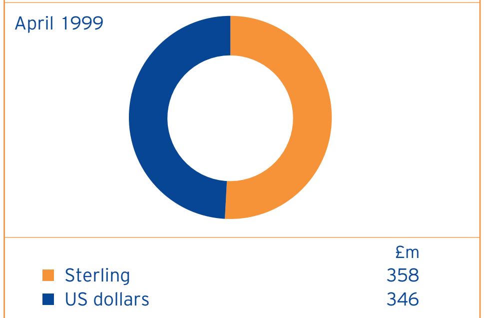
Treasury management

Treasury policy and significant treasury transactions are reviewed and approved by the Board and the Finance Management Sub-committee of the Board is responsible

Net debt fixed/Floating interest £ million



Net debt currency composition £ million



for monitoring treasury activity and performance.

The Group's major treasury activities, with the exception of the operations of Sainsbury's Bank, are centralised in the Group Treasury function.

Group Treasury operates as a cost centre with Group wide responsibilities for cash management, funding and interest rate and currency risk management. In this context Group policy permits the use of derivative instruments but they may only be used to reduce exposures arising from underlying business activities and not for speculative purposes.

Financial instruments

The Group holds or issues financial instruments to finance its operations and to manage the interest rate and currency risks arising from its sources of finance. In addition, various financial instruments eg. trade debtors, trade creditors, accruals and prepayments arise directly from the Group's operations.

The Group finances its operations by a combination of cash generated by operating companies, bank loans, commercial paper, capital market debt issues, leases and issued share capital. The Group's long-term borrowings are raised centrally by the parent company and on-lent to operating companies on commercial terms. The Group borrows in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired currency and interest rate profile. The derivatives used for this purpose are principally interest rate swaps and options, cross currency swaps and forward foreign currency contracts.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, exchange rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they have remained unchanged since 7 March 1998.

Interest rate risk

The Group's exposure to interest rate fluctuations is managed by using interest rate swaps and options. The Group's objective is to provide a degree of protection against interest rate volatility by holding a proportion of the Group's net debt portfolio at fixed rates of interest. Depending on market conditions and the scale of underlying interest rate exposures, Group policy allows the proportion of net debt subject to fixed rates of interest to vary between 20 per cent and 80 per cent. As at the year-end and after taking account of interest rate swaps, the proportion of the Group's net debt at fixed rates was 79 per cent. The average period for which the fixed rate financial liabilities, including finance leases, are fixed as at 3 April 1999 was 6.3 years.

Liquidity risk

The Group's exposure to liquidity risk is managed by promoting a diversity of funding sources and a spread of debt maturities.

The Group's principal debt raising operations are arranged through the Group's £500 million Euro Commercial Paper programme and £1 billion Euro Medium Term Note programme. In addition the Group maintains a portfolio of undrawn committed bank facilities which amounted to £815 million as at 3 April 1999. Of this total facility, £595 million expire within one year, £45 million in more than one year but under two years and £175 million in more than two years. The facilities act as a store of liquidity as well as providing support for the Group's commercial paper programme and other short term borrowing activity. The Group aims to structure debt issues so that not more than 25 per cent of borrowings mature in any one financial year. The weighted average maturity of the Group's borrowings was 3.1 years as at 3 April 1999.

Currency risk

The Group has one significant overseas subsidiary, Shaw's Supermarkets Inc., which operates in the USA and whose revenues and expenses are denominated exclusively in US dollars. The Group's policy is to limit the effects of exchange rate translation on Group shareholder funds by matching overseas investments with liabilities of the same currency. Exchange movements on foreign currency liabilities created for this purpose are taken directly to reserves. The Group does not actively hedge exchange rate movements on the translation of overseas profits except where those profits are matched by foreign currency interest costs.

The Group incurs transactional foreign currency exposures arising from overseas purchases made predominantly in currencies other than the operating companies' functional currency. Forward contracts and currency options are used to hedge selected future overseas purchases, which may be either contracted or uncontracted. Gains and losses on these contracts are deferred until recognition of the purchase, which is normally within one year.

Credit risk

Group policy requires that credit exposures may only be taken on a limited basis with banks or financial institutions that maintain a first class credit rating. Counterparty positions are monitored on a regular basis. The Group controls its dealing activity by providing dealing mandates to, and operating standard settlement instructions with, its banking counterparties.

Sainsbury's Bank

The Bank has a conservative approach to Treasury Management. It does not undertake any trading activities and only uses derivative instruments to hedge risk. Credit limits have been established for all counterparties and these are reviewed and approved by the Bank's Board and the Risk Management Committee, a sub-committee of the Board.

Rosemary Thorne

Rosemary Thorne
1 June 1999

Board of Directors

Sir George Bull
Non-Executive Chairman
Appointed to the Board April 1998, succeeded David Sainsbury as Chairman in July 1998. Chairman of the Nomination Committee and member of the Audit and Remuneration Committees. Non-Executive Director of Diageo plc. Previously Group Chief Executive and then Chairman of Grand Metropolitan PLC. President of the Advertising Association and Director of the Marketing Council. Age 62.

Sir Clive Thompson
Non-Executive Director
Appointed to the Board 1995. Member of the Audit and Nomination Committees and Chairman of the Remuneration Committee. President of the CBI. Chief Executive of Rentokil Initial plc. Director of Farepak PLC. Vice President of the Chartered Institute of Marketing. Deputy Chairman of the Financial Reporting Council. Age 56.

Dino Adriano
Group Chief Executive
Chairman and Chief Executive, Sainsbury's Supermarkets Ltd and Non-Executive Chairman, Sainsbury's Bank plc. Member of the Nomination Committee. Joined Sainsbury's 1964. Moved to Homebase in 1981 where he became Managing Director in 1989 and was Chairman from 1991–96. Appointed to the Board of J Sainsbury plc 1990. Trustee of Oxfam. Age 56.

Sir Terence Heiser GCB
Non-Executive Director
Appointed to the Board 1992. Chairman of the Audit Committee and member of the Remuneration and Nomination Committees. Director, J Sainsbury Pension Trustees. Non-Executive Director, Abbey National plc. Board member, PIA. Trustee of the Victoria and Albert Museum. Trustee of the Prince of Wales Phoenix Trust. Member of the Executive Council of the National Trust. Governor of Birkbeck College, University of London. Freeman of the City of London. Permanent Secretary, Department of the Environment 1985–92. Age 67.

David Bremner
Deputy Group Chief Executive
Chairman and Chief Executive, Homebase Group Ltd, Executive Chairman, Shaw's Supermarkets Inc. and Non-Executive Director, Sainsbury's Bank plc. Was with Sainsbury's between 1978 and 1989 in various posts, latterly as Logistics Director, Homebase. Rejoined Sainsbury's and appointed to the Board 1996 with responsibility for Homebase and US businesses and more recently, International Business Development. Logistics Director of B&Q in 1989. Joined Watson and Philip plc as Chief Executive in 1992. Age 41.

Robin Whitbread
Director
Group Commercial and International Buying Director. Director, Sainsbury's Supermarkets Ltd, responsible for commercial strategy. Non-Executive Director, Shaw's Supermarkets Inc.. Joined Sainsbury's 1969. Appointed to the Board 1990. Age 48.

The Rt Hon Sir Timothy Sainsbury
Non-Executive Director
Appointed to the Board 1995. Member of the Audit and Nomination Committees. Chairman, Somerset House Trust. Was Director, J Sainsbury, 1962–83. Member of Parliament for Hove 1973–97. Minister of State for Trade 1990–92 and Minister of State for Industry 1992–94. Appointed Privy Counsellor 1992. Will be retiring from the Board in July 1999. Age 66.

Ian Coull
Director
Group Property, Corporate Communications and Environmental Affairs Director. Director, Sainsbury's Supermarkets Ltd with responsibility for property. Chairman, Savacentre Ltd and Non-Executive Director, Homebase Group Ltd. Director, J Sainsbury Pension Trustees. Joined Sainsbury's and appointed to the Board 1988. Fellow of the Royal Institution of Chartered Surveyors. Member of the Scottish Valuation and Rating Council. Member of the Government's Property Industry Forum. Chairman, the South Bank Employers' Group. Age 48.

Kevin McCarten
Director
Group Marketing and Brand Development Director. Director, Sainsbury's Supermarkets Ltd responsible for marketing. Non-Executive Director, Sainsbury's Bank plc. Joined Sainsbury's and appointed to the Board 1995. Previously worked in various marketing roles for Procter & Gamble before joining Kingfisher plc where he was Director of Superdrug and Woolworths. Age 41.

John Adshead CBE
Director
Group Human Resources and Information Systems Director. Director, Sainsbury's Supermarkets Ltd responsible for information systems and human resources. Chairman, J Sainsbury Pension Trustees. Joined Sainsbury's and appointed to the Board 1989. Member of the Training and Enterprise Councils' Assessors Committee. Non-Executive Director of the Tablet Publishing Company. Age 54.

Rosemary Thorne
Director
Group Finance Director. Director, J Sainsbury Pension Trustees. Joined Sainsbury's and appointed to the Board 1992. Fellow of the Chartered Institute of Management Accountants and the Association of Corporate Treasurers. Non-Executive Director of The Post Office. Member of the Financial Reporting Council and Financial Reporting Review Panel. Member of The Hundred Group of Finance Directors Main Committee and Chairman of the Technical Committee. Board member of The Prince's Youth Business Trust. Will be leaving the Company at the end of July 1999. Age 47.

Sir David Scholey CBE
Non-Executive Director
Appointed to the Board 1996. Member of the Audit, Remuneration and Nomination Committees. Non-Executive Director, Sainsbury's Bank plc. Senior Adviser to Warburg Dillon Read and the International Finance Corporation. Director, The Chubb Corporation and Vodafone Group plc. Governor of the BBC. Age 63.

Joint Presidents
Sir Robert Sainsbury
Lord Sainsbury of Preston Candover KG

Report of the Directors

for the 56 weeks to 3 April 1999

J Sainsbury plc

An outline of the Group's principal activities and the performance of the main operating companies during the period is contained in the Chairman's statement, the Group Chief Executive's Review and the Operating and Financial Reviews on pages 3 to 21.

The financial year is for 56 weeks to 3 April 1999 compared to 52 weeks to 7 March 1998. The accounting reference date has been changed accordingly.

The profit on the ordinary activities of the Group before tax amounted to £888 million (1998: £691 million restated). The Directors are proposing the payment of a final dividend of 11.30p per share on 18 August 1999 to shareholders on the Register at the close of business on 18 June 1999; together with the interim dividend paid of 4.02p per share, this makes a total dividend for the year of 15.32p (1998: 13.9p) per share. This includes a one off 1.00p per share payment to cover the extra four weeks in the financial year which will not be included in the base for determining future dividends.

The following developments took place in the Group's investments in the USA during the year.

Giant Food Inc.

The Company's 20 per cent stake in Giant Food Inc. was sold to Koninklijke Ahold N.V. in October 1998 and resulted in a profit on disposal of £84 million (see note 3 page 41).

Star Markets Inc.

In November 1998 the Company agreed to acquire Star Markets Inc., the fifth largest food retailer in New England with 53 supermarkets. Federal Trade Commission approval of this agreement is expected in late June. The total consideration offered was $490 million.

Corporate governance and internal structure

The Company has complied throughout the period under review with all the provisions of the Combined Code of good practice in corporate governance as laid down in the Listing Rules of the London Stock Exchange except in relation to the issuing of Annual General Meeting (AGM) papers as explained on page 25.

This section of the Report together with the Report of the Remuneration Committee explains how the Company has applied the governance principles set out in Section 1 of the Combined Code. In addition there are matters relating to the AGM which are covered in the Notice of the Meeting and the Chairman's letter to shareholders which accompany this Report.

There is a well established framework for dealing with matters of a corporate governance nature. There are clear structures and accountabilities supported by well understood policies and procedures to guide the activities of the Directors within the Group, and its operating companies, both in their day-to-day business and in the areas associated with internal control.

The Company and its subsidiaries have clear terms of reference to guide the operations of the various boards in their decision making processes and in maintaining appropriate corporate governance standards.

The Board

The Board is responsible to the shareholders for the strategic development of the Company, the management of the Company's assets in a way that maximises performance, and the control of the operation of the business.

The regular meetings of the Board, together with the list of matters reserved exclusively for their consideration, concentrate on these specific aspects of the management of the Company. The Board approves the strategic plans and annual budgets that the operating companies and their management utilise, within their defined structure and delegated authority, for the day-to-day effective and efficient operation of the businesses. The Group Board reviews performance of the operating companies against budgets on a monthly basis.

On 30 July 1998, following his appointment as a Government Minister, Lord Sainsbury of Turville retired as a Director and Chairman of the Company and was succeeded as Chairman by Sir George Bull.

Bob Cooper and David Clapham retired from the Group Board on 20 November 1998 and 14 May 1999 respectively.

Details of the Board of Directors, together with short biographies of the individuals and their membership of Board Committees, are set out on pages 22 and 23.

Sir George Bull, Sir Terence Heiser, Sir David Scholey and Sir Clive Thompson are considered to be independent, within the definition contained in the Combined Code, and constitute a majority of the Non-Executives appointed to the Board. Sir Terence Heiser is the nominated senior Non-Executive Director on the Board.

Board committees

The Remuneration, Audit and Nomination Committees have written terms of reference which define their authorities and duties, as well as detailing composition and membership of each committee.

The Remuneration Committee is comprised solely of independent Non-Executive Directors and is responsible for making recommendations on the framework of executive remuneration policy within a total cost determined by the Board. The Committee also determines the remuneration packages for individual Executive Directors. The report of the Committee is set out on pages 27 to 32.

The Nomination Committee, whose membership includes a majority of Non-Executive Directors, advises the Board on the appointment of Directors.

The Audit Committee is comprised solely of Non-Executive Directors. It is responsible *inter alia* for making recommendations on the accounting and reporting policies of the Company and on defining and monitoring internal financial control. The Committee receives regular reports from the operating companies' internal audit departments and the external auditors. It also reviews the interim and annual financial statements before they are considered by the Board.

In addition, each half year the Audit Committee reviews the results of a risk self-assessment process which has been established for several years within the Group, and in each of the operating companies. This process defines the significant business risks and the controls in place to manage them. New areas are introduced for assessment as the business risk profile changes. The controls are monitored by each business via the risk self-assessment process, internal audit coverage and routine management review. Action is taken to address areas of non-compliance or to improve the effectiveness of controls.

Internal financial control

There is a well established control framework comprising clear structures and accountabilities, well understood policies and procedures and budgeting and review processes.

The Board has reviewed the systems of internal financial control using the risk self-assessment process. The Directors believe that proper accounting records are maintained and that financial information used within the business and for external publication is reliable. Nevertheless the system of internal financial control can only provide reasonable and not absolute assurance against material misstatement and loss.

Going concern

The Directors confirm that they are satisfied that the Company 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.

Share capital matters

Principal changes in share capital

The principal changes in share capital were:

- 11.4 million shares were allotted under the Company's share schemes for employees; and
- 4.3 million shares were allotted under the terms of the share dividend alternative to shareholders in respect of the final dividend paid in July 1998.

The Share Dividend Alternative Scheme expired following the dividend payment made in July 1998 and a new scheme is being introduced to enable shareholders to reinvest their dividends in shares of the Company. This Dividend Reinvestment Plan will operate for the first time in conjunction with the final dividend to be paid on 18 August 1999. For those shareholders who participate their cash dividends will be used to purchase shares on the stock market. No new shares will be allotted under this scheme.

Substantial interests

The substantial interests in shares notified to the Company, all of which include duplications, are as follows:

Judith Portrait is a trustee of various settlements, including charitable trusts and a Blind Trust for Lord Sainsbury of Turville. As at 29 May 1999 the total holding of these trusts amounted to 29 per cent.

Christopher Stone, Andrew Cahn and John Rosenheim are trustees of various settlements, including charitable settlements. As at 29 May 1999 the total holdings of the trusts of which the above are trustees amounted to 5 per cent, 5 per cent and 3 per cent respectively.

As at 29 May 1999 the interests, beneficially and as trustees of charitable and other trusts, of Lord Sainsbury of Preston Candover KG, the Hon Simon Sainsbury and the Rt Hon Sir Timothy Sainsbury were 4 per cent, 3 per cent and 3 per cent respectively.

Directors' interests

No Director had, during or at the end of the financial 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 pages 31 and 32.

Market value of properties

The Directors believe that the aggregate open market value of Group properties exceeds the net book value of £5 billion by a considerable margin.

Annual General Meeting

The 1999 Annual General Meeting of shareholders will take place at 12 noon on Wednesday 21 July 1999 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Meeting and proxy card accompany these Annual Accounts.

As the venue arrangements for this year's AGM had been made before the publication of the Combined Code it has not been possible to observe provision C.2.4 in the Combined Code requiring documents to be issued to shareholders 20 working days ahead of the Meeting. This situation is not expected to arise in the future.

At the AGM resolutions will be proposed to renew the general authority of the Directors to issue shares together with the authority to issue shares without applying the statutory pre-emption rights, to enable the Company to make market purchases of its own shares up to a maximum of 191 million shares, to approve the revised incentive arrangements and to appoint PricewaterhouseCoopers as Auditors.

In accordance with the Articles of Association, Dino Adriano, John Adshead, Kevin McCarten and Robin Whitbread will retire

Annual General Meeting continued

by rotation and will seek re-appointment. The Directors seeking re-appointment all have service contracts on a rolling 12 month basis. Sir Timothy Sainsbury and Rosemary Thorne will also retire at the AGM and are not seeking re-appointment.

Auditors

Following the merger of Coopers & Lybrand and Price Waterhouse on 1 July 1998, Coopers & Lybrand resigned as Auditors in favour of the new firm, PricewaterhouseCoopers, and the Directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. A resolution to appoint PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to agree their remuneration will be put to the Annual General Meeting.

Staff, social responsibility and the environment

Employment policies

The Company remains committed to achieving its business objectives through the motivation and development of its people. In the belief that 'how we manage is how we serve', there is continued commitment to provide all colleagues with:

- the information they need in order to perform effectively;
- a regular opportunity to review performance with their manager; and
- a personal training and development plan.

As a direct result, 48 supermarkets and parts of the head office complex have now achieved the Investors in People standard. It is planned that Sainsbury's Supermarkets Ltd will achieve this standard for the whole of its operation by the end of the year 2000.

This year Sainsbury's Supermarkets Ltd won the National Training Award in conjunction with Campden & Chorleywood Food Research Association, Tameside College (Manchester) and Brooklands College (Weybridge) for the Bakery Manager Focus Programme.

Full roll-out has begun of the Sainsbury's GUILD programme which will progressively equip store colleagues with the skills to offer outstanding customer service through improved product knowledge and other skills.

The Company is committed to providing fair and equal treatment for all employees and recognises the importance of diversity within the organisation. As part of that commitment to equality and diversity, the Company believes that, given the chance, people with a disability have at least as much to offer as anyone else. During 1998, Sainsbury's Supermarkets won two 'Ease' awards from the Queen Elizabeth's Foundation for Disabled People as the Best Employer of People with Disabilities and the Best Supermarket for Customers with Disabilities. These awards reflect our continuing work to ensure the social inclusion of people with disabilities.

The Company continues to place great emphasis on the value of open communication both through an ever more effective network of local and central staff councils and through the annual attitude surveys which are demonstrating increasing levels of satisfaction and commitment.

Staff are offered a full range of employee share schemes and about one third of all shareholders are employees or former employees.

Policy on payment of suppliers

The policy of the Company and its principal operating companies is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms based on the timely submission of satisfactory invoices. The Company subscribes to the CBI Code of Good Practice (which can be obtained from the CBI, Centrepoint, 103 New Oxford Street, London, WC1A 1DU) on the prompt payment of suppliers. The performance of the operating companies in respect of payment to suppliers is contained in their accounts.

Donations

Donations to charitable organisations and local community projects amounted to £3.8 million, which included contributions of money and time 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 Technical Division employs 200 people and has an annual expenditure of £8.5 million. It works in close co-operation with suppliers to achieve the highest standards of product quality, integrity, hygiene and safety and to maintain these throughout the Group's distribution chains 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. The Company Environment Report is produced by the Division. This document sets out the primary environmental policies adhered to by the Company as well as detailing the objectives set to improve our care for the environment.

By order of the Board

Nigel Matthews
Secretary
1 June 1999

Report of the Remuneration Committee

The following is a report by the Remuneration Committee which has been approved by the Board for submission to shareholders.

Composition and terms of reference

The Remuneration Committee's composition and terms of reference are in line with the Combined Code of the London Stock Exchange's Listing Rules. The Company complies fully with Section B of the Combined Code provisions on Directors' remuneration and Schedule B to the code in respect of the Remuneration Report content. The Committee is chaired by Sir Clive Thompson and other members are Sir George Bull, Sir Terence Heiser and Sir David Scholey.

Policy on remuneration of Executive Directors

Total level of remuneration

The Remuneration Committee recommends to the Board a remuneration framework for Executive Directors and determines the remuneration arrangements for individual Directors.

The Committee aims to maintain a remuneration policy consistent with the Company's business objectives which:

- attracts, retains and motivates high calibre Directors;
- is responsive to both personal and Company performance;
- aligns the interests of Directors with those of the shareholders by linking share and cash incentive payments to performance; and
- is based on information from independent remuneration sources and from within the retail sector as well as other large companies of a comparable size and complexity.

The main components of Executive Directors' remuneration are:

i) Basic salary

Basic salary for each Director is determined taking into account assessments of the Director's performance, experience and responsibility, together with market factors.

ii) Incentive arrangements

In addition to basic salary, the Company maintains incentive arrangements which combine an annual bonus plan with a long-term incentive plan. Payments under this scheme were made in respect of 1997/98. No bonus was paid in respect of 1998/99. Directors and senior employees also receive share options under the Company's executive share option schemes.

The Remuneration Committee has reviewed the incentive arrangements and has recommended proposals to be put to shareholders at the Annual General Meeting. If approved, the new incentive arrangements will apply in respect of the financial year which commenced on 4 April 1999.

The new arrangements are designed to place greater emphasis on rewarding the personal performance of Directors and senior employees and to separate more clearly the annual and long-term elements of the incentive arrangements.

The Committee believes that these changes more clearly reflect the need to align the rewards of Directors and other senior staff with the Company's immediate business priorities, shareholder interests and the long-term performance of the Company. Share ownership by Directors strengthens the link between their personal interests and those of all shareholders whilst motivating personal performance.

Full particulars of the proposals for a long-term incentive plan (the Performance Share Plan) and changes in the executive share option schemes are contained in the letter from the Chairman to shareholders which accompanies the Notice of Meeting.

The proposals may be summarised as follows:

Annual Bonus Scheme – a cash bonus will be payable subject to the achievement of both business and individual targets which are key to the businesses' performance. The bonus will be a percentage of salary (up to a maximum of 50 per cent for Executive Directors with lower maxima for other senior staff) calculated according to performance against achievement of profit before tax targets and individual business targets.

Policy on remuneration of Executive Directors continued

Performance Share Plan – this long-term incentive plan will allow shares to be allocated to individuals but not released to them unless future performance criteria are met. The number of shares allocated will depend on the Company's long-term performance compared with a sample of comparator companies. The measure that will be used to compare the Company's relative performance is Total Shareholder Return, being the increase in the value of a share, including reinvested dividends, over a three year period. Initial share allocation will be based on a percentage of salary (up to 50 per cent for Executive Directors). After three years has elapsed and subject to the Company's position in the comparator group, some or all of the initial allocation may be released to the individual. No shares will be allocated if the Company's performance is below the median of the comparator group.

Executive Share Option Scheme – it is proposed that, subject to shareholder approval of amendments to the Unapproved Executive Share Option Scheme, grants will be made annually. Grants have previously only been made every 18 months. However, more rigorous performance conditions will be attached to the exercise of options. This will mean Directors will only be able to exercise options if an average of three per cent per annum real growth in earnings per share (EPS) is achieved over three years. If the criterion is not achieved on the first measurement, a further measure will be carried out by adding the fourth year to the first three years. If three per cent average real EPS growth per annum is not achieved over the four year period, the option will lapse. The cap, limiting the maximum number of outstanding share options that can be held at any one time to four times the value of remuneration, will be removed. Where the four times remuneration limit is exceeded, additional and more stringent performance criteria will be determined by the Remuneration Committee.

iii) Other share options

Directors may hold options under the Savings-Related Share Option Scheme.

iv) Employee profit sharing

Directors participate in the Company's Employee Profit Sharing Scheme in the same way as all other employees. Although profit sharing is accounted for on an accruals basis, payments are not finally calculated and paid until after the Annual General Meeting. Accordingly, Directors' profit sharing is included on a paid basis in the table of Directors' Emoluments on page 29, based on the profitability of the Group in the previous year.

Profit sharing in respect of the 56 week period ended 3 April 1999 will be paid in August 1999 and is expected to amount to approximately 4.4 per cent of 56 week qualifying pay (1998: 5.2 per cent of 52 week qualifying pay).

v) Benefits

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

Contracts of service for Directors

Non-Executive Directors including the Chairman, do not have service contracts. The Company last year agreed that, in future, all new contracts would be on a 12 month rolling basis. It has now been agreed that once the new proposals are in place all existing contracts will change from 24 month to 12 month rolling contracts. In the event of early termination by the Company without cause, the agreements will provide for predetermined compensation to be paid, equivalent to 12 months' basic salary for the notice period and nine months' in respect of all benefits.

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, Directors are entitled after a minimum of 20 years of pensionable service 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. 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 17 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 £404,000 has been made in respect of the 56 week period ended 3 April 1999 (1998: £328,000).

Directors' emoluments

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

	1999 £000	1998 £000
Executive Directors		
Basic salary	2,882	3,134
Long-term incentive scheme/performance related bonus	-	2,213
Profit sharing	138	109
Benefits	147	167
Compensation for loss of office	231	-
	3,398	5,623
Non-Executive Directors		
Fees	293	100
	3,691	5,723

The emoluments set out above cover a 56 week period in 1999 compared to a 52 week period in 1998. The basic salary received by Executive Directors in the 52 weeks ended 6 March 1999 amounted to £2,703,000 and total Directors' emoluments in the 52 weeks ended 6 March 1999 amounted to £3,478,000.

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

	Note	Basic salary £000	Profit sharing £000	Benefits £000	Compensation for loss of office £000	Total 1999 £000	Total 1998 £000
Dino Adriano		538	21	20	-	579	728
David Bremner		386	16	22	-	424	548
Ian Coull		307	14	12	-	333	484
John Adshead CBE		291	13	17	-	321	455
Robin Whitbread		264	11	11	-	286	410
Kevin McCarten		264	11	19	-	294	409
Rosemary Thorne		248	12	16	-	276	426
David Clapham	1	215	10	9	-	234	340
David Sainsbury	2	156	16	10	-	182	471
Bob Cooper	3	213	14	11	231	469	493
Tom Vyner CBE		-	-	-	-	-	832
Colin Harvey		-	-	-	-	-	27
		2,882	138	147	231	3,398	5,623

As noted above the figures for 1999 are for a 56 week period. The 1998 figures are for a 52 week period. No amounts were receivable by the Directors in respect of the Company's Long Term Incentive Scheme for the 56 week period ended 3 April 1999.

Notes

1. Retired as a Director in May 1999.
2. Highest paid Director. In addition to the emoluments above, gains on options exercised in the year amounted to £431,000. Retired as a Director on 30 July 1998. Chairman until date of retirement.
3. Following his retirement as a Director on 20 November 1998, Bob Cooper continued to be employed by the Company until 5 March 1999 during which time he received a salary of £87,000.

Directors' emoluments continued

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

	Note	Fees 1999 £000	1998 £000
Sir George Bull	1	**185**	-
Sir Terence Heiser GCB		**30**	24
Rt Hon Sir Timothy Sainsbury		**24**	22
Sir Clive Thompson	2	**24**	22
Sir David Scholey CBE		**30**	25
Dr John Ashworth		**-**	7
		293	100

Notes

1. Appointed as a Director on 20 April 1998. Appointed Chairman on 30 July 1998.
2. The fees of Sir Clive Thompson are remitted to Rentokil Initial plc.

Directors' pension entitlements

The pension entitlements of the Directors who served during the 56 week period ended 3 April 1999 were as follows:

	Age at 3 April 1999	Length of service	Additional pension earned in the year £000	Transfer value of increase £000	**Accrued entitlements at year-end £000**
Dino Adriano	56	35	60	950	**297**
David Bremner	41	3	12	86	**27**
Ian Coull	48	12	11	129	**95**
John Adshead CBE	53	10	18	260	**114**
Robin Whitbread	48	30	12	131	**118**
Kevin McCarten	41	4	10	74	**26**
Rosemary Thorne	47	7	7	68	**54**
David Clapham	52	35	9	118	**114**
David Sainsbury*	58	35	-	-	**173**
Bob Cooper*	50	23	29	356	**87**

* At date of retirement.

The transfer value represents the capital sum that would be necessary to acquire the incremental annual pension earned in the year which would be payable each year from normal retirement age and therefore cannot be meaningfully added to annual remuneration. The accrued pension entitlement shown is the amount that would be paid each year following retirement based on retirement at age 60 (or at the date of retirement for Directors who have retired during the year). The increase in the additional pension earned during the year excludes any increase for inflation. Members of the scheme have the option of paying Additional Voluntary Contributions. Neither these contributions nor the resulting benefits are shown in the above table.

Directors' interests

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

	Ordinary shares**		Long Term Incentive Plan shares†
	3 April 1999	7 March 1998	
Dino Adriano	**44,966**	41,786	28,957
David Bremner	**4,085**	2,534	21,718
Ian Coull	**25,218**	23,674	19,184
John Adshead CBE	**45,914**	42,533	17,736
Robin Whitbread	**43,163**	39,883	15,926
Kevin McCarten	**4,177**	2,604	15,926
Rosemary Thorne	**17,209**	12,519	16,650
David Clapham	**51,871**	27,001	13,392
Sir George Bull	**10,000**	–*	
Sir Terence Heiser GCB	**1,000**	1,000	
Rt Hon Sir Timothy Sainsbury	**13,184,850**	13,181,900	
Sir Clive Thompson	**881**	881	
Sir David Scholey CBE	**15,000**	15,000	

* As at date of appointment.

** These ordinary shares above are beneficial holdings which 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. They include also the beneficial interest in shares which are held in trust under the J Sainsbury Profit Sharing Scheme.

† Shares held in Trust represent shares awarded to Directors under the Long Term Incentive Plan. Half of the bonus award made to Directors under the Plan in respect of the year ended 7 March 1998 was used to purchase shares at a price of 518 pence on 29 May 1998. Subject to the rules of the Plan these shares will vest with the Director on the third anniversary of the award.

In addition the Rt Hon Sir Timothy Sainsbury has a non-beneficial interest in holdings of 61,052,537 shares (1998: 62,366,069 shares).

There were no changes to the Directors' interests in ordinary shares shown above between 3 April 1999 and 29 May 1999.

Options over Ordinary Shares

Directors' options under the Company's Executive Share Option Scheme (a) and Savings-Related Share Option Scheme (b) are set out below:

	Total 8 March 1998	Number granted	Number exercised	Date exercised	Option price pence	Market price on exercise pence	Gains on options exercised £	Total 3 April 1999
Dino Adriano	304,201	92,732	1,558(b)	3.2.99	301.0	428.5	**1,986**	**395,375**
David Bremner	156,743	63,968	-				**-**	**220,711**
Ian Coull	241,540	52,293	-				**-**	**293,833**
John Adshead CBE	242,695	49,950	779(b)	3.2.99	301.0	428.5	**993**	**291,866**
Robin Whitbread	227,991	45,586	779(b)	3.2.99	301.0	428.5	**993**	**272,798**
Kevin McCarten	136,206	45,781	-				**-**	**181,987**
Rosemary Thorne	185,591	43,197	2,842(b)	3.2.99	301.0	428.5	**3,624**	**225,946**
David Clapham	193,259	39,359	58,495(a)	15.9.98	359.0	567.0	**121,670**	
			1,329(b)	3.2.99	301.0	428.5	**1,694**	**172,794**
David Sainsbury*	312,247	-	112,813(a)	29.7.98	359.0	524.0	**186,141**	
			62,085(a)	29.7.98	322.1	524.0	**125,357**	
			47,666(a)	29.7.98	272.7	524.0	**119,790**	
			89,683**					**-**
Bob Cooper*	276,627	55,045	20,207(a)	7.9.98	322.1	542.5	**44,538**	
			81,648(a)	7.9.98	359.0	542.5	**149,824**	
			69,351(a)	17.9.98	447.0	525.5	**54,441**	**160,466****
							811,051	

* From 8 March 1998 to date of retirement.

** Options held by David Sainsbury at retirement have lapsed. No other options for Executive Directors lapsed during the period. Bob Cooper will be permitted to exercise his options outstanding until May 2002.

Gains on options exercised have been calculated using the differences between the share option price and the market price on the date of the exercise. Where shares have been retained by the individual, rather than sold, the gain shown is the notional gain at the date of exercise.

The Company's Register of Directors' Interests contains full details of Directors' shareholdings and options to subscribe.

Options outstanding above and below the market price of 384.75p on 3 April 1999 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
Dino Adriano	**395,375**	**184,821**	**363.2**	**210,554**	**497.8**
David Bremner	**220,711**	**156,743**	**367.0**	**63,968**	**541.8**
Ian Coull	**293,833**	**71,525**	**362.0**	**222,308**	**483.5**
John Adshead CBE	**291,866**	**108,812**	**360.5**	**183,054**	**488.7**
Robin Whitbread	**272,798**	**171,641**	**348.8**	**101,157**	**505.3**
Kevin McCarten	**181,987**	**59,945**	**367.0**	**122,042**	**498.8**
Rosemary Thorne	**225,946**	**32,240**	**365.1**	**193,706**	**482.1**
David Clapham	**172,794**	**53,026**	**364.9**	**119,768**	**489.3**

The options outstanding are exercisable at prices between 272.7p and 545.0p. In the period from 8 March 1998 to 3 April 1999 the highest middle market price was 580.0p and the lowest middle market price was 344.25p.

Approved by the Board on 1 June 1999

Sir Clive Thompson
Chairman of the Remuneration Committee

Statement of Directors' responsibilities in respect of the accounts

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; and
- 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 the safeguarding of the assets of the Company and for taking reasonable steps for the prevention of fraud and other irregularities.

Auditors' report to the members of J Sainsbury plc

We have audited the accounts on pages 34 to 57.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described above. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on page 24 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 3 April 1999 and of the profit and cash flows of the Group for the 56 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

London
1 June 1999

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

A number of new accounting standards have been issued which have been adopted for the accounts for the 56 week period ended 3 April 1999. These new standards have required the Group to change its accounting policies and in certain circumstances to provide a greater level of disclosure in the accounts.

In accordance with FRS 12, Provisions, Contingent Liabilities and Contingent Assets, the Group has changed its accounting policy for provisions. Specifically, the exceptional provisions relating to Texas Homecare integration costs which were provided in the year ended 9 March 1996 (£48 million) and in the year ended 8 March 1997 (£50 million) have been reversed as these amounts cannot be treated as provisions under the new standard. Having reversed these provisions, the current period and prior year Profit and Loss Accounts include the actual costs incurred in the respective periods for the integration of Texas Homecare. These costs are separately identified on the face of the Profit and Loss Account. An analysis of the effect of this change in accounting policy is set out in note 23.

FRS 10, Goodwill and Intangible Assets, has been adopted resulting in a change to the Group's accounting policy for goodwill as detailed further below.

FRS 13, Derivatives and Other Financial Instruments: Disclosures, has been adopted and requires a greater level of disclosure in relation to the Group's financial instruments. This disclosure is set out in note 21 of the accounts and also on page 21 in the Financial Review.

FRS 14, Earnings Per Share, has been adopted in the period. This standard requires a change in the basis of the calculation of diluted earnings per share, as set out further in note 10.

FRS 15, Tangible Fixed Assets, has been adopted during the year. Under this accounting standard interest capitalised on borrowings for financing property developments is required to be capitalised gross of tax relief. In previous years the Group has capitalised interest net of tax relief. Prior year amounts capitalised net of tax relief have not been restated due to immateriality.

All the key activities of the Group are continuing businesses. The Group disposed of its investment in Giant Food Inc. on 28 October 1998. The Group's share of operating profit from Giant Food Inc. in the 56 week period ended 3 April 1999 is not sufficiently material to warrant separate disclosure of those amounts as discontinued operations on the face of the Group's Profit and Loss Account.

Consolidation
The results of subsidiaries and Associated Undertakings are included in the Group Profit and Loss Account from the date of acquisition, or in the case of disposals, up to the effective date at which the investment is sold.

Goodwill arising in connection with the acquisition of shares in subsidiaries and Associated Undertakings is calculated as the excess of the purchase price over the fair value of the net tangible assets acquired. In prior years goodwill has been deducted from reserves in the period of acquisition. FRS 10 is applicable in the current financial year, and in accordance with the standard acquired goodwill is now shown as an asset on the Group's Balance Sheet. As permitted by FRS 10, goodwill written off to reserves in prior periods has not been restated as an asset.

Goodwill is treated as having an indefinite economic life where it is considered that the acquired business has strong customer loyalty built up over a long period of time, based on advantageous store locations and a commitment to maintain the marketing advantage of the retail brand. The carrying value of the goodwill will be reviewed annually for impairment and adjusted to its recoverable amount if required. Where goodwill is considered to have a finite life, amortisation will be applied over that period.

The Companies Act 1985 requires companies to amortise capitalised goodwill over a finite period. However, the Act allows companies to depart from these requirements to the extent necessary to provide a true and fair view. In respect of goodwill which is treated as having an indefinite economic life, the Directors consider that the policy adopted is appropriate in order to provide a true and fair view of the final position of the Group, for the reasons given above. For amounts stated as goodwill which are considered to have an indefinite life, no amortisation is charged to the Profit and Loss Account.

Sales
Sales consist of sales through retail outlets, sales of development properties and, in the case of Sainsbury's Bank plc, interest receivable, fees and commissions. Rental and other income is included in cost of sales.

Cost of sales
Cost of sales consists of all costs to the point of sale including warehouse and transportation costs, all the costs of operating retail outlets and, in the case of Sainsbury's Bank plc, interest payable.

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

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

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
Following the implementation of FRS 15, interest incurred on borrowings financing specific property developments is capitalised gross of tax relief. In prior years, interest has been capitalised net of tax relief. Prior year figures have not been adjusted to reflect this accounting policy change as the amounts are not material.

Capitalisation of software
Software is written off as incurred unless it forms an integral part of a purchased tangible asset.

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 direct to the Profit and Loss Account.

Research and development
Research and development expenditure is written off as incurred.

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.

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

Foreign currencies
On consolidation, assets and liabilities of foreign undertakings are translated into sterling at year-end exchange rates. The results of foreign undertakings are translated into sterling at average rates of exchange for the year.

Exchange differences arising from the retranslation at year-end exchange rates of the net investment in foreign undertakings, less exchange differences on foreign currency borrowings or forward contracts which finance or hedge those undertakings, are taken to reserves and are reported in the statement of total recognised gains and losses.

Financial instruments
The derivative financial instruments used by the Group to manage its interest rate and currency risks are interest rate swaps and swap options, cross currency swaps, forward rate contracts and currency options.

Interest payments or receipts arising from derivative instruments are recognised within net interest payable. Any premia or discounts arising are amortised over the life of the instrument.

Termination payments made or received in respect of derivatives are spread over the life of the underlying exposure in cases where the underlying exposure continues to exist and taken to the Profit and Loss Account where the underlying exposure ceases to exist.

Group profit and loss account

for the 56 weeks to 3 April 1999

	Note	1999 56 weeks £m	1998* 52 weeks £m
Group sales including VAT and sales taxes		**17,587**	15,496
VAT and sales taxes		**1,154**	996
Group sales excluding VAT and sales taxes	1	**16,433**	14,500
Cost of sales	1	**15,095**	13,289
Exceptional cost of sales – Texas Homecare integration costs	23	**21**	28
Gross profit		**1,317**	1,183
Administrative expenses	1	**406**	357
Year 2000 costs	1	**30**	20
Group operating profit before profit sharing	1	**881**	806
Profit sharing	2	**45**	44
Group operating profit		**836**	762
Associated Undertakings – share of profit		**12**	16
Profit on sale of properties		**11**	3
Profit/(loss) on disposal of an associate/subsidiary	3	**84**	(12)
Profit on ordinary activities before interest		**943**	769
Net interest payable	4	**55**	78
Profit on ordinary activities before tax	5	**888**	691
Tax on profit on ordinary activities	8	**292**	226
Profit on ordinary activities after tax		**596**	465
Minority equity interest		**2**	4
Profit for the financial year		**598**	469
Equity dividends	9	**294**	264
Retained profit	26	**304**	205
Earnings per share	10	**31.4p**	25.1p
Exceptional cost of sales		**0.7p**	1.0p
(Profit)/loss on sale of properties and disposal of an associate/subsidiary		**(2.9p)**	0.5p
Earnings per share before exceptional cost of sales, profit/loss on sale of properties and disposal of an associate/subsidiary	10	**29.2p**	26.6p
Diluted earnings per share	10	**31.1p**	25.1p
Diluted earnings per share before exceptional cost of sales, profit/loss on sale of properties and disposal of an associate/subsidiary	10	**29.0p**	26.6p

* Restated for new accounting standards (see notes 10 and 23).

Balance sheets

3 April 1999 and 7 March 1998

	Note	Group 1999 £m	Group 1998* £m	Company 1999 £m	Company 1998 £m
Fixed assets					
Tangible assets	11	**6,409**	6,133	**226**	228
Investments	12	**41**	151	**5,726**	5,023
		6,450	6,284	**5,952**	5,251
Current assets					
Stocks	15	**843**	743	**-**	-
Debtors	16	**249**	229	**72**	67
Investments	17	**17**	14	**-**	-
Sainsbury's Bank	18	**1,766**	1,584	**-**	-
Cash at bank and in hand		**725**	270	**1**	-
		3,600	2,840	**73**	67
Creditors: due within one year					
Sainsbury's Bank	18	**(1,669)**	(1,502)	**-**	-
Other	19	**(2,880)**	(2,499)	**(835)**	(518)
		(4,549)	(4,001)	**(835)**	(518)
Net current liabilities		**(949)**	(1,161)	**(762)**	(451)
Total assets less current liabilities		**5,501**	5,123	**5,190**	4,800
Creditors: due after one year	19	**(804)**	(949)	**(767)**	(926)
Provisions for liabilities and charges	23	**(8)**	(9)	**-**	-
Total net assets		**4,689**	4,165	**4,423**	3,874
Capital and reserves					
Called up share capital	24	**480**	476	**480**	476
Share premium account	24	**1,359**	1,295	**1,359**	1,295
Revaluation reserve	25	**38**	38	**-**	-
Profit and loss account	26	**2,767**	2,318	**2,584**	2,103
Equity shareholders' funds		**4,644**	4,127	**4,423**	3,874
Minority equity interest		**45**	38	**-**	-
Total capital employed		**4,689**	4,165	**4,423**	3,874

* Restated for new accounting standard (see note 23).

Notes to the accounts are on pages 40 to 57.

The Accounts on pages 34 to 57 were approved by the Board of Directors on 1 June 1999, and are signed on its behalf by

Sir George Bull Chairman

Dino Adriano Group Chief Executive

Group cash flow statement

for the 56 weeks to 3 April 1999

	Note	1999 56 weeks £m	1998 52 weeks £m
Net cash inflow from operating activities	27	**1,322**	1,149
Dividends received from Associated Undertakings		**3**	6
Returns on investments and servicing of finance			
Interest received		**46**	22
Interest paid		**(113)**	(83)
Interest element of finance lease rental payments		**(16)**	(14)
Net cash outflow from returns on investments and servicing of finance		**(83)**	(75)
Tax paid		**(287)**	(177)
Capital expenditure and financial investment			
Payments for tangible fixed assets		**(803)**	(672)
Receipts from sale of tangible fixed assets		**107**	96
Purchase of investments		**(2)**	(7)
Net cash outflow from capital expenditure and financial investment		**(698)**	(583)
Acquisitions and disposals			
Investment in Sainsbury's Bank by minority shareholder		**9**	38
Investment in Egyptian Distribution Group SAE		**(11)**	-
Proceeds from disposal of Giant Food Inc.		**345**	-
Proceeds from disposal of other fixed asset investments		**3**	13
Net cash inflow from acquisitions and disposals		**346**	51
Equity dividends paid		**(249)**	(221)
Management of liquid resources		**3**	-
Financing			
Issue of ordinary share capital		**38**	41
Debt due within a year			
Increase/(decrease) in short-term borrowings		**188**	(629)
Debts due beyond a year			
(Decrease)/increase in long-term borrowing		**(9)**	343
Capital element of finance lease rental payments		**(6)**	(7)
Net cash inflow/(outflow) from financing		**211**	(252)
Increase/(decrease) in cash in the period		**568**	(102)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the period		**568**	(102)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing		**(173)**	293
New finance leases		**(17)**	(13)
Currency translation difference		**(5)**	11
8.5% Capital Bonds conversion		**-**	156
Movement in net debt in the period	22	**373**	345
Net debt at the beginning of the period	22	**(1,077)**	(1,436)
Prior year reclassification	22	**-**	14
Net debt at the end of the period	22	**(704)**	(1,077)

Group statement of total recognised gains and losses

for the 56 weeks to 3 April 1999

	1999 56 weeks £m	1998* 52 weeks £m
Profit for the financial year	**598**	469
Currency translation differences on foreign currency net investments	**5**	(1)
Total recognised gains and losses relating to the financial year	**603**	468

* Restated for new accounting standard.

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

Reconciliation of movements in equity shareholders' funds

	Group		Company	
	1999 56 weeks £m	1998* 52 weeks £m	1999 56 weeks £m	1998 52 weeks £m
Profit for the financial year	**598**	469	**779**	52
Equity dividends	**(294)**	(264)	**(294)**	(264)
	304	205	**485**	(212)
Currency translation differences	**5**	(1)	**2**	-
Goodwill on disposals charged to profit for the financial year	**148**	3	**-**	-
New share capital subscribed for less expenses of capital issues	**68**	214	**68**	214
Amounts deducted from the profit and loss account for shares issued to the QUEST	**(6)**	-	**(6)**	-
Other	**(2)**	2	**-**	3
Net movement in equity shareholders' funds	**517**	423	**549**	5
Prior year adjustment (note 23)	**-**	33	**-**	-
Opening equity shareholders' funds	**4,127**	3,671	**3,874**	3,869
Closing equity shareholders' funds	**4,644**	4,127	**4,423**	3,874

* Restated for new accounting standard.

Notes to the accounts

at 3 April 1999

1 Segmental analysis of turnover, profit and net assets

	1999 56 weeks			1998 52 weeks		
	Turnover excluding taxes £m	**Profit £m**	**Net assets £m**	Turnover excluding taxes £m	Profit* £m	Net** assets £m
Food retailing – UK	**13,074**	**793**	**4,595**	11,629	765	4,413
Food retailing – US	**1,970**	**56**	**505**	1,697	38	505
DIY retailing – UK	**1,187**	**76**	**452**	1,053	56	426
Banking – UK	**158**	**(5)**	**100**	66	(15)	83
Property development – UK	**32**	**9**	**130**	36	6	32
Other – UK	**12**	**3**	**10**	19	4	33
	16,433	**932**	**5,792**	14,500	854	5,492
Exceptional cost of sales – Texas Homecare integration costs		**(21)**			(28)	
Year 2000 costs		**(30)**			(20)	
Profit sharing		**(45)**			(44)	
Group operating profit		**836**			762	
Associated Undertakings		**12**	**38**		16	151
Profit on sale of properties		**11**			3	
Profit/(loss) on disposal of associate/subsidiary		**84**			(12)	
Net interest payable		**(55)**			(78)	
Group profit before tax		**888**			691	
Non-operating assets and liabilities***			**(437)**			(401)
Net borrowings****			**(704)**			(1,077)
Total net assets			**4,689**			4,165

* Restated for new accounting standard.
** Restated for new accounting standard and separate disclosure of non-operating assets and liabilities.
*** Non-operating assets and liabilities principally represents accruals for tax, dividends and profit sharing.
**** Net borrowings include cash and current asset investments, excluding those of Banking.

Intra-group sales between the Group's business segments are not material. Total administrative expenses amounted to £481 million (1998: £421 million) including Year 2000 costs and profit sharing. Total cost of sales amounted to £15,116 million (1998 – restated: £13,317 million) including exceptional cost of sales.

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

	Group	
	1999	1998
Net margin on tax exclusive sales:*		
UK	**6.06%**	6.37%
US	**2.84%**	2.24%
Group	**5.67%**	5.89%

* Based on operating profit before profit sharing, Year 2000 costs and exceptional cost of sales.

2 Profit sharing

The amount provided for profit sharing for the 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 £806 million (1998: £755 million). £42 million (1998: £41 million) has been provided for the profit fund and £3 million (1998: £3 million) for Employers' National Insurance payable thereon.

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 56 week period ended 3 April 1999, 120,700 employees are eligible. A distribution rate is calculated 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 1999 is expected to be approximately 4.4 per cent of 56 week qualifying pay (1998: 5.2 per cent of 52 week qualifying pay).

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 1998 is set out in note 24.

At 3 April 1999, the Trustees of the J Sainsbury Profit Sharing Scheme Share Trust held 9.9 million shares (1998: 11.1 million) on behalf of 52,105 participants (1998: 45,396) in the Scheme.

3 Profit on disposal of an associate

The Company's investment in Giant Food Inc. was sold to Koninklijke Ahold N.V. on 28 October 1998. The profit on disposal of £84 million is after deducting £148 million of goodwill which was written off to reserves at the time of acquisition and after deducting £16 million in relation to the unwinding of debt instruments which were funding the Group's investments in Giant (see note 21). Taxation arising on the disposal of Giant Food Inc. of £40 million is disclosed in note 8. The Company also disposed of its investment in Breckland Farms Ltd on 24 April 1998.

4 Net interest payable

	Group	
	1999 56 weeks £m	1998 52 weeks £m
Interest receivable	**45**	26
Interest payable:		
Bank loans and overdrafts	**17**	20
Other loans	**82**	84
Finance leases	**16**	14
	115	118
Interest capitalised	**(15)**	(14)
	100	104
Net interest payable	**55**	78

Including interest receivable attributable to Sainsbury's Bank plc of £139 million (1998: £61 million), included in sales, and interest payable attributable to Sainsbury's Bank plc of £108 million (1998: £49 million), included in cost of sales, total interest receivable for the 56 weeks ended 3 April 1999 amounted to £184 million and total interest payable amounted to £223 million. Of the interest capitalised figure, £12 million (1998: £12 million) has been capitalised into fixed assets (see note 11) and £3 million (1998: £2 million) has been capitalised into stocks during the financial year.

5 Profit on ordinary activities before tax

	Group	
	1999 56 weeks £m	1998 52 weeks £m
This has been arrived at after charging/(crediting):		
Depreciation		
– owned assets	**380**	337
– finance leases	**8**	8
Pension costs	**70**	52
Auditors' remuneration		
– audit fee (Company £0.1 million (1998: £0.1 million))	**0.6**	0.6
– other services (see below)	**2.9**	2.4
Operating lease rentals		
– plant and equipment	**12**	12
– other	**249**	222
– receivable	**(19)**	(21)

Non-audit fees paid to PricewaterhouseCoopers and its associates (being the predecessor partnerships of Price Waterhouse and Coopers & Lybrand) during the period were £2.9 million of which £0.6 million related to work by Coopers & Lybrand, the previous auditors, and its associates. (Non-audit fees in 1998 comprise solely amounts paid to Coopers & Lybrand). These fees were charged to the Company and its UK subsidiaries for services which include taxation advice, advice on business effectiveness and information system programme implementation.

6 Employees

	Group	
	1999 56 weeks £m	1998 52 weeks £m
Employees' remuneration and related costs during the period amounted to:		
Wages and salaries	**1,696**	1,479
Social security costs	**108**	92
Other pension costs	**70**	52
	1,874	1,623
Profit sharing	**45**	44
	1,919	1,667

	Group	
	1999 Number	1998 Number
The average number of employees during the period was:		
Full-time	**55,956**	55,332
Part-time	**123,002**	120,219
	178,958	175,551
Full-time equivalent	**109,245**	107,266

7 Advances to directors and connected persons

As at 3 April 1999, authorisations, arrangements and agreements entered into by Directors, Officers and Connected Persons in the normal course of business with Sainsbury's Bank plc amounted to £52,132 (number of persons – 10).

The details of Directors' emoluments and interests are set out in the Report of the Remuneration Committee on pages 27 to 32.

8 Tax on profit on ordinary activities

	Group	
	1999 56 weeks £m	1998* 52 weeks £m
The tax charge based on the profit for the period is:		
UK Corporation tax at 31% (1998: 31%)	**232**	215
Over provision in prior periods	**(8)**	-
Deferred tax*	**9**	-
Overseas tax – current	**19**	7
Overseas tax – deferred	**(4)**	(2)
Taxation on the disposal of associate/subsidiary	**40**	-
Share of Associated Undertakings' tax	**4**	6
	292	226

* Restated for new accounting standard (see note 23).

9 Equity dividends

	Company	
	1999 £m	1998 £m
Interim	**77**	71
Proposed final	**217**	193
	294	264

10 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 1,909.4 million (1998: 1,869.3 million).

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has only one category of dilutive potential ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

	1999 Number million	1998 Number million
Weighted average number of shares in issue	**1,909.4**	1,869.3
Weighted average number of dilutive share options	**17.0**	16.8
Total number of shares for calculating diluted earnings per share	**1,926.4**	1,886.1

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, the profit or loss on the sale of properties and any profits or losses on the disposal of Associated Undertakings or subsidiaries and take account of the anticipated future dilution of earnings per share.

11 Tangible fixed assets

	Group			Company	
	Properties £m	Fixtures, equipment & vehicles £m	Total £m	Properties £m	Total £m
Cost or valuation					
At 8 March 1998	5,552	2,974	8,526	229	229
Additions (see below)	391	381	772	–	–
Disposals	(124)	(53)	(177)	–	–
Exchange adjustments	12	4	16	–	–
At 3 April 1999	**5,831**	**3,306**	**9,137**	**229**	**229**
Depreciation					
At 8 March 1998	752	1,641	2,393	1	1
Provided in the period	90	298	388	2	2
Disposals	(16)	(44)	(60)	–	–
Exchange adjustments	4	3	7	–	–
At 3 April 1999	**830**	**1,898**	**2,728**	**3**	**3**
Net book value					
At 3 April 1999	**5,001**	**1,408**	**6,409**	**226**	**226**
At 7 March 1998	4,800	1,333	6,133	228	228
Capital work-in-progress included above					
At 3 April 1999	**76**	**61**	**137**	**–**	**–**
At 7 March 1998	103	44	147	–	–

The new accounting standard FRS 15, Tangible Fixed Assets, has been adopted for the accounts for the 56 weeks ended 3 April 1999. Interest has been capitalised during the period on a gross basis. In previous years, interest has been capitalised after deducting tax relief. Prior year amounts capitalised have not been restated.

The amount included in the additions of £772 million in respect of interest capitalised during the period ended 3 April 1999 amounted to £12 million. Accumulated interest capitalised included in the cost or valuation total above amounts to £242 million (1998: £230 million) for the Group and £nil (1998: £nil) for the Company.

Analysis of finance leases – Group

	1999			1998		
	Properties £m	Fixtures, equipment & vehicles £m	Total £m	Properties £m	Fixtures, equipment & vehicles £m	Total £m
Cost	**116**	**25**	**141**	117	25	142
Depreciation	**31**	**23**	**54**	32	22	54
Net book value	**85**	**2**	**87**	85	3	88

11 Tangible fixed assets continued

Analysis of properties

At 3 April 1999	Group Cost £m	Group Valuation £m	Company Cost £m	Company Valuation £m
Freehold				
Cost	**4,357**		**-**	
1973 valuation		**3**		**-**
1992 valuation		**63**		**-**
Long leasehold				
Cost	**763**		**229**	
1973 valuation		**3**		**-**
1992 valuation		**22**		**-**
Short leasehold				
Cost	**620**			
	5,740	**91**	**229**	**-**

If the properties included at valuation had been included at cost, the cost and accumulated depreciation figures at 3 April 1999 would have been:

	Group Cost £m	Group Depreciation £m	Company Cost £m	Company Depreciation £m
Freehold	**4,385**	**510**		
Long leasehold	**779**	**147**	**229**	**3**
Short leasehold	**620**	**164**		
	5,784	**821**	**229**	**3**

12 Fixed asset investments

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Subsidiaries (note 13)			**5,698**	5,003
Associated Undertakings (note 14)				
Listed on a UK stock exchange	**3**	3	**-**	-
Listed on a US stock exchange	**-**	120	**-**	-
Other	**35**	27	**28**	20
	38	150	**28**	20
Purchase of own shares (at cost)*	**2**	-	**-**	-
Other investments	**1**	1	**-**	-
	41	151	**5,726**	5,023

* The Group owned 398,783 ordinary 25p J Sainsbury plc shares at 3 April 1999. The shares are held in an Employee Share Ownership Trust (ESOT) on behalf of certain Directors and senior employees under the Group's Long Term Incentive Scheme in respect of an award dated 29 May 1998. It is a condition of the Scheme that the shares are held by the Trust for a period of three years from the date of the award. On the third anniversary of the award, beneficial ownership of the shares will transfer to those Directors and senior employees who remain in the Company's employment or, who have left for certain permitted reasons. Any administrative costs in relation to the ESOT are charged to the Group Profit and Loss Account. The shares had a market value of £1.5 million at 3 April 1999.

13 Investment in subsidiaries

The Company's principal subsidiaries are:

	Share of ordinary allotted capital and voting rights	Country of registration or incorporation
Sainsbury's Supermarkets Ltd (Food retailing)	100%	England
Savacentre Limited* (Food retailing)	100%	England
Homebase Limited* (DIY retailing)	100%	England
Shaw's Supermarkets, Inc.* (Food retailing)	100%	USA
Sainsbury's Bank plc (Banking)	55%	England

* Shares are held by other subsidiaries.

All subsidiaries operate in the countries of their registration or incorporation. Sainsbury's Bank plc's audited accounts are drawn up to 28 February 1999 to conform with the Bank of Scotland (the 45 per cent shareholder). Management accounts have been used to include Sainsbury's Bank plc's results up to 31 March 1999. All other principal subsidiaries have been included up to 3 April 1999.

Summary of movements – Company

	Shares £m	Long-term capital advances £m	Total net investment £m
At 8 March 1998	3,734	1,269	5,003
Net movement	579	116	695
At 3 April 1999	**4,313**	**1,385**	**5,698**

On 22 February 1999 the Company transferred all the shares in its subsidiary J Sainsbury (USA) Inc. to a wholly-owned subsidiary, JS USA Holdings Inc., for a consideration of £745 million satisfied by the issue of shares by JS USA Holdings Inc..

14 Investment in Associated Undertakings

The Company's principal Associated Undertakings are:

	Year-end	Share of ordinary allotted capital	Country of registration or incorporation
Associates			
Hampden Group PLC (DIY retailing – UK and Eire)			
Ordinary shares	2 January	29.2%	England
Egyptian Distribution Group SAE (Food retailing – Egypt)			
Ordinary shares	31 December	25.1%	Egypt
Joint venture			
Hedge End Park Limited (Property investment – UK)			
Ordinary shares (other shareholder Marks & Spencer p.l.c.)	3 April	50%	England

The Company's share of the gross assets of its joint venture amounted to £25 million at 3 April 1999 (1998: £27 million) and its share of the gross liabilities of its joint venture amounted to £11 million at 3 April 1999 (1998: £14 million). The investments in Hedge End Park Limited and Egyptian Distribution Group SAE are held directly by the Company. The investment in Hampden Group PLC is held by a subsidiary.

14 Investment in Associated Undertakings continued

Summary of movements

	Shares £m	Group share of post acquisition reserves £m	Long-term capital advances £m	Total £m
Group				
As at 8 March 1998	110	27	13	150
Share of retained profit	-	8	-	8
Additions	11	-	-	11
Disposals	(107)	(27)	(2)	(136)
Exchange adjustments	5	-	-	5
As at 3 April 1999	**19**	**8**	**11**	**38**
Company				
As at 8 March 1998	7	-	13	20
Additions	11	-	-	11
Disposals	(1)	-	(2)	(3)
As at 3 April 1999	**17**	**-**	**11**	**28**

On 28 October 1998, the Company sold its investment in Giant Food Inc. to Koninklijke Ahold N.V. and the Company disposed of its investment in Breckland Farms Limited on 24 April 1998 (see note 3).

On 11 March 1999, the Company acquired 25.1 per cent of the ordinary share capital of Egyptian Distribution Group SAE for £11 million of which £8 million relates to goodwill arising on the acquisition. The goodwill is assumed to have an indefinite life.

At 3 April 1999 the market value of shares listed on a recognised UK stock exchange was £2 million (1998: £4 million).

15 Stocks

	Group	
	1999 £m	1998 £m
Goods for resale	**702**	675
Land held for development	**141**	68
	843	743

16 Debtors

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Trade debtors	**54**	50	**-**	-
Amounts owed by subsidiaries			**62**	4
Other debtors due in less than one year	**96**	68	**10**	10
Advance Corporation Tax recoverable in more than one year	**-**	49	**-**	49
Other debtors due in more than one year	**17**	23	**-**	2
Prepayments	**82**	39	**-**	2
	249	229	**72**	67

17 Current asset investments

	Group 1999 £m	Group 1998 £m
Investments listed on a recognised stock exchange at cost (equivalent to market value)	**2**	1
Other unlisted investments	**15**	13
	17	14

18 Current assets and creditors of Sainsbury's Bank

	Group 1999 £m	Group 1998 £m
Current assets		
Treasury bills and other eligible bills	**83**	111
Loans and advances to banks	**1,212**	1,302
Loans and advances to customers*	**398**	164
Debt securities	**48**	-
Prepayments and accrued income	**25**	7
	1,766	1,584
Creditors: due within one year		
Customer accounts	**1,653**	1,492
Accruals and deferred income	**16**	10
	1,669	1,502

* Loans and advances to customers include £100 million (1998: £63 million) of loans and advances repayable in more than one year (see note 21).

In addition to the above assets, Sainsbury's Bank plc had other assets of £4 million at 3 April 1999.

19 Creditors

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Due within one year:				
Borrowings:				
Bank loans and overdrafts	**293**	268	**174**	57
Short-term notes	**368**	162	**368**	162
Current portion of long-term indebtedness including obligations under finance leases	**4**	6	**-**	-
Total short-term borrowings	**665**	436	**542**	219
Trade creditors	**1,084**	902	**-**	-
Amounts due to subsidiaries			**33**	33
Corporation tax	**185**	239	**8**	19
Social security and other taxes	**89**	64	**-**	-
Other creditors	**469**	504	**13**	17
Accruals	**171**	161	**22**	37
Proposed dividend	**217**	193	**217**	193
	2,880	2,499	**835**	518

19 Creditors continued

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Due after one year:				
Bank loans	**43**	55	**-**	-
Secured loans	**-**	1	**-**	-
Medium-term notes	**132**	159	**132**	159
US$ 200 million 6.25% Notes March 2002	**125**	122	**125**	122
US$ 200 million 6.625% Notes Dec 1999	**-**	122	**-**	122
7.25% Bond – June 2002	**200**	200	**200**	200
8.25% Bond – Dec 2000	**150**	150	**150**	150
8% Irredeemable Unsecured Loan Stock	**3**	3	**3**	3
Obligations under finance leases	**128**	113	**-**	-
Amounts due to subsidiaries			**127**	127
Other creditors	**23**	24	**30**	43
	804	949	**767**	926

20 Summary of borrowings

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Due within one year:				
Bank and other loans	**661**	430	**542**	219
Obligations under finance leases	**4**	6	**-**	-
Due after one and within two years:				
Bank and other loans	**199**	123	**187**	122
Obligations under finance leases	**3**	5	**-**	-
Due after two and within five years:				
Bank and other loans	**384**	583	**353**	656
Obligations under finance leases	**13**	12	**-**	-
Due after five years:				
Bank and other loans	**70**	106	**70**	106
Obligations under finance leases	**112**	96	**-**	-
	1,446	1,361	**1,152**	1,103

Obligations under finance leases due after five years at 3 April 1999 are repayable by instalment. Bank and other loans due after five years are not repayable by instalment.

21 Financial instruments

This note contains disclosures as required under FRS 13, Derivatives and Other Financial Instruments: Disclosures. The financial assets and financial liabilities analysed below include fixed rate financial assets of £7 million, financial assets on which no interest is paid (ie. debtors receivable in more than one year) of £10 million and financial liabilities on which no interest is paid of £35 million which are not included in Group net debt, as analysed in note 22. Debtors receivable and creditors payable in less than one year, and the current assets and current liabilities of Sainsbury's Bank are excluded from the analysis. The Group's policies and procedures in relation to its treasury management, including management of interest rate and currency risk, are set out on pages 20 and 21 of the Financial Review.

Analysis of interest rate profile and currency of financial assets and financial liabilities

Financial assets

After taking into account various interest rate swaps and forward currency contracts the interest rate profile of the Group's financial assets at 3 April 1999 was:

Currency	Total £m	Floating rate financial assets £m	Fixed rate financial assets £m	Financial assets on which no interest is paid £m
Sterling	453	437	7	9
US dollar	444	443	–	1
Euro	2	2	–	–
	899	**882**	**7**	**10**

The US dollar financial assets were held at 3 April 1999, in part in anticipation of the acquisition of Star Markets Inc. (see note 32). Floating rate financial assets comprise bank balances linked to bank Base Rate, and Money Market fund balances and commercial paper investments bearing interest rates linked to LIBOR. The fixed rate financial asset has an interest rate of 7.75 per cent fixed for 6.2 years. The financial assets on which no interest is paid have a weighted average period until maturity of 3.0 years.

21 **Financial instruments** continued

Financial liabilities

After taking into account various interest rate swaps and forward foreign currency contracts, the interest rate profile of the Group's financial liabilities as at 3 April 1999 was:

Currency	Total £m	Financial liabilities on which no interest is paid £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Fixed rate debt: Weighted average interest rate %	Fixed rate debt: Average time for which rate is fixed years
Sterling	821	25	591	205	7.3	3.8
US dollar	799	10	440	349	8.7	7.8
	1,620	**35**	**1,031**	**554**	**8.2**	**6.3**

Floating rate financial liabilities comprise bank borrowings, linked to bank Base Rate and LIBOR, and commercial paper, floating rate notes and fixed rate long-term debt issues swapped into floating rates, all bearing interest rates linked to LIBOR. Financial liabilities on which no interest is paid do not have predetermined dates of payment and therefore a weighted average period of maturity cannot be calculated.

The above analysis includes three interest rate swaps which convert nominal fixed rate financial liabilities of $150 million at 6.625 per cent, £200 million at 8.25 per cent and £40 million at 7.36 per cent into floating rates based on US dollar and sterling LIBOR, respectively, and one interest rate swap which converts nominal floating rate LIBOR linked debt of $150 million into fixed rate financial liabilities at 6.95 per cent.

The above analysis excludes two swap options with an aggregate amount of $200 million which if exercised by the bank, would require the Group to enter into a swap under which it would receive fixed rate interest at 6.40 per cent and pay floating rate LIBOR on a nominal amount of $200 million for a period to November 2002. The options may be exercised by the bank on quarterly dates through to August 2002.

The above analysis of financial liabilities includes finance leases with a capitalised value of £132 million. These leases primarily finance stores in the Group's US operations and it is not practicable to estimate the fair value of these loans as no appropriate external benchmark is available. Excluding these leases, the fair value of the Group's financial liabilities exceeds book value by £20 million. Interest rate swaps and forward foreign currency contracts had a book value of £nil and a fair value of £6 million favourable and £2 million unfavourable, respectively, at 3 April 1999. Market values have been used to determine the fair value of public debt issues and the fair values of all other items have been calculated by discounting expected future cash flows at LIBOR equivalent interest rates prevailing at 3 April 1999.

During the year the Group recognised costs of £16 million in crystallising interest rate swap instruments which had been used to hedge borrowings financing the Group's investment in Giant Food Inc. (see note 3). There were no other material recognised or unrecognised gains or losses on interest rate hedging instruments or forward foreign currency contracts at the beginning, end or during the 56 week period ended 3 April 1999 other than the interest rate swap and forward foreign currency contracts disclosed above.

Financial instruments – Sainsbury's Bank

The financial assets and financial liabilities of Sainsbury's Bank are shown separately as current assets and current liabilities in the Group accounts (see note 18). The management of the Bank's treasury operations is separate from that of the Group, as described on page 21 of the Financial Review.

The Bank's exposure to movements in interest rates is shown in the following table which discloses the interest rate repricing profile of assets and liabilities as at 3 April 1999. Any asset (or positive) gap position reflects the fact that the Bank's financial assets reprice more quickly, or in greater proportion than liabilities in a given time period, and will tend to benefit interest rate income in a rising interest rate environment. A liability (or negative) gap exists when liabilities reprice more quickly or in greater proportion than assets during a given period and tends to benefit net interest income in a declining rate environment. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

21 Financial instruments continued

Interest rate sensitivity table of Sainsbury's Bank as at 3 April 1999

	Not more than 3 months £m	Over 3 months but not over 6 months £m	Over 6 months but not over 1 year £m	Over 1 year but not over 3 years £m	Over 3 years but not over 5 years £m	Non-interest bearing £m	Total £m
Assets:							
Treasury bills and other eligible bills	83	-	-	-	-	-	83
Loans and advances to banks	1,033	179	-	-	-	-	1,212
Loans and advances to customers	294	1	3	47	53	-	398
Debt securities	48	-	-	-	-	-	48
Other assets	6	1	-	-	-	22	29
Total assets	1,464	181	3	47	53	22	1,770
Liabilities:							
Customer accounts	1,653	-	-	-	-	-	1,653
Other liabilities	-	-	-	-	-	16	16
Shareholders' funds	-	-	-	-	-	101	101
Total liabilities	1,653	-	-	-	-	117	1,770
Interest rate sensitivity gap	(189)	181	3	47	53	(95)	-
Cumulative gap	(189)	(8)	(5)	42	95	-	-

22 Analysis of net debt

	At 8 March 1998* £m	Cash flow £m	Other non-cash movements £m	Exchange movements £m	At 3 April 1999 £m
Cash and liquid funds	284	448		10	**742**
Overdrafts	(249)	120		1	**(128)**
		568			
Debt due within 1 year	(181)	(188)	(155)	(8)	**(532)**
Debt due after 1 year	(812)	9	155	(5)	**(653)**
Finance leases	(119)	6	(17)	(3)	**(133)**
		(173)			
Total	(1,077)	395	(17)	(5)	**(704)**

* Current asset investments (see note 17) have been treated as cash. Consequently, brought forward net debt has been restated and reduced by £14 million.

23 Provisions for liabilities and charges

	Group		
	Total £m	Other £m	Deferred tax £m
At 8 March 1998	24	39	(15)
Prior year adjustment (see below)	(15)	(21)	6
	9	18	(9)
Profit and loss account			
Deferred tax – UK	9		9
Deferred tax – US	(4)		(4)
New provisions	3	3	
Utilised	(5)	(5)	
Released	(4)	(4)	
At 3 April 1999	**8**	**12**	**(4)**

The total of other provisions of £12 million consists of a new provision of £2 million relating to provisions for onerous leases on properties, £3 million relating to unutilised provisions made in 1994 for losses on realisation of surplus land and stores due for closure, £5 million representing the balance of the provision for store closure costs of Texas Homecare and £2 million relating to unfunded pension liabilities.

In accordance with FRS 12, Provisions, Contingent Liabilities and Contingent Assets, the Group's accounting policy for provisions has been changed. FRS 12 prohibits certain provisions including those made on the acquisition of a business that relate to the estimated cost of integrating the business with a company's existing operations. The Texas Homecare provision, which was established in the year ended 9 March 1996 (£48 million) and in the year ended 8 March 1997 (£50 million), is such a provision. Under the new accounting standard the current and prior year accounts have been adjusted by reversing the original provision and instead charging the Profit and Loss Account with the actual costs incurred in the respective periods. The adjustments following adoption of the new accounting standard are set out below:

	Reversal of original provision £m	Amount to be charged under FRS 12 £m
Year ended:		
9 March 1996	48	(5)
8 March 1997	50	(44)
7 March 1998	–	(28)
56 weeks ended		
3 April 1999	–	(21)
Total	98	(98)

Accordingly, profit before tax in the year ended 7 March 1998 has been restated and is reduced by £28 million (profit after tax – £18 million). Retained profit reserves brought forward at 8 March 1998 have increased by £15 million, being a reduction of brought forward provisions of £21 million less the related deferred tax asset of £6 million. Retained profit reserves brought forward at 9 March 1997 have increased by £33 million.

The provided and unprovided liabilities for deferred tax are as follows:

	Group			
	Provided 1999 £m	**Unprovided 1999 £m**	Provided* 1998 £m	Unprovided 1998 £m
Timing differences between depreciation and capital allowances	**12**	**172**	11	169
Other timing differences	**(16)**	**4**	(20)	5
	(4)	**176**	(9)	174

* Restated for FRS 12

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.

24 Called up share capital and share premium account

	Allotted fully paid shares Number million	Aggregate nominal value £m	Share premium £m	Consideration £m
Ordinary Shares of 25p each authorised – 2,000 million shares		500		
At 8 March 1998	1,902.5	476	1,295	
Shares allotted:				
Profit Sharing Scheme	0.6	–	3	3
Savings-Related Share Option Scheme	5.8	2	23	25
Executive Share Option Scheme	5.0	1	18	19
Share dividend alternative	4.3	1	20	21
At 3 April 1999	**1,918.2**	**480**	**1,359**	

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. At 3 April 1999 employees held 80,325 five-year savings contracts in respect of options over 32.7 million shares and 37,688 three-year savings contracts in respect of options over 9.0 million shares.

The Company also operates an Inland Revenue Approved Discretionary Share Option Scheme and an Unapproved Discretionary Share Option Scheme for Executive Directors and senior employees. Under the Discretionary Share Option Scheme, options are normally exercisable between three and ten years of the date of the grant of an option. Options remain exercisable under the 1984 Executive Share Option Scheme until September 2005. At 3 April 1999, 1,955 employees had options outstanding over 30.6 million shares.

Details of these options at 3 April 1999 are set out below:

(a) Savings-Related Share Option Scheme

		Options outstanding at the end of the period	
Date of grant	Price pence	**1999 million**	1998 million
4 December 1992	393.0	**–**	1.4
6 December 1993	301.0	**1.0**	6.2
16 December 1994	331.0	**6.3**	6.8
20 December 1995	313.0	**7.3**	8.0
11 December 1996 (3 year period)	292.0	**2.4**	2.7
11 December 1996 (5 year period)	292.0	**5.8**	6.3
10 December 1997 (3 year period)	398.0	**2.8**	3.1
10 December 1997 (5 year period)	398.0	**6.1**	6.6
10 December 1998 (3 year period)	416.0	**3.8**	–
10 December 1998 (5 year period)	416.0	**6.2**	–
		41.7	41.1

24 Called up share capital and share premium account continued

(b) Executive Share Option Scheme

Date of grant	Price pence	Options outstanding at the end of the period 1999 million	1998 million
31 July 1989	272.7	**0.2**	0.5
28 February 1991	322.1	**0.9**	1.6
28 August 1992	447.0	**3.6**	4.7
12 March 1994	359.0	**3.3**	5.4
8 September 1995	475.0	**5.6**	6.7
1 December 1995	386.0	**0.1**	0.1
20 May 1997	367.0	**8.1**	8.3
11 November 1997	489.0	**0.5**	0.5
10 November 1998	545.0	**8.3**	-
		30.6	27.8

Figures for all prices and options outstanding are adjusted as necessary for the rights issue in July 1991.

During the period, the J Sainsbury plc Qualifying Employee Share Ownership Trust (the QUEST) was established under a deed of trust dated 11 December 1998. The purpose of the QUEST is to acquire shares for employees, including Directors, in satisfaction of their options under the Savings-Related Share Option Scheme.

Of the 5.8 million ordinary shares allotted in relation to the Savings-Related Share Option Scheme, 5.0 million ordinary shares were subscribed for by the QUEST at a market value of £21 million. These shares were allocated to employees, including Directors, in satisfaction of options exercised under the Scheme. The Company provided £6 million to the QUEST for this purpose. The cost of this contribution has been transferred by the Company directly to the Profit and Loss Account reserve (see note 26).

25 Revaluation reserve

	Group £m
At 3 April and 8 March 1998	**38**

26 Profit and loss account

	Group £m	Company £m
At 8 March 1998	2,303	2,103
Adjustment for Texas Homecare provision (note 23)	15	-
	2,318	2,103
Profit retained for the period	304	485
Goodwill on disposals charged to profit for the financial year	148	-
Currency movements	5	2
Amounts deducted in respect of shares issued to the QUEST	(6)	(6)
Other	(2)	-
At 3 April 1999	**2,767**	**2,584**

The cumulative goodwill deducted from the reserves of the Group at 3 April 1999 amounted to £290 million (1998: £438 million).
The profit for the financial year dealt with by the Company is £779 million (1998: £52 million).

27 Reconciliation of operating profit to net cash inflow from operating activities

	Group	
	1999 56 weeks £m	1998 52 weeks £m
Operating profit before profit sharing	**881**	806
Profit sharing	**(45)**	(44)
Depreciation	**388**	345
Loss on sale of equipment, fixtures and vehicles	**6**	11
Increase in stocks	**(75)**	(4)
(Increase)/decrease in debtors	**(73)**	13
Increase in creditors	**261**	101
Increase in Sainsbury's Bank current assets	**(182)**	(1,567)
Increase in Sainsbury's Bank creditors	**166**	1,495
	1,327	1,156
Payment against provisions	**(5)**	(7)
	1,322	1,149

The payment against provisions relates to the provision raised in 1996 for store closure costs of Texas Homecare (£4 million) and to the provision raised in 1994 for losses on realisation of surplus land and stores due for closure (£1 million).

28 Future capital expenditure

	Group	
	1999 £m	1998 £m
Contracted for but not provided for in the accounts	**184**	192

29 Contingent liabilities and financial commitments

The Company had no guarantees for the borrowings of subsidiaries at 3 April 1999 (1998: £1 million).

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

	Group £m	**Company £m**
Land and buildings:		
Leases which expire within 1 year	**2**	**-**
Leases which expire between 1 and 5 years	**5**	**-**
Leases which expire after 5 years	**259**	**-**
Other leases:		
Leases which expire within 1 year	**1**	**-**
Leases which expire between 1 and 5 years	**12**	**-**
Leases which expire after 5 years	**13**	**13**

30 Pension costs

The pension costs for the UK relate to two funded defined benefit pension schemes, the J Sainsbury Pension and Death Benefit Scheme (JSPDBS) and the J Sainsbury Executive Pension Scheme (JSEPS). The assets of these schemes are held by trustee companies which are separate from the Company. The Group revised its pension arrangements during the year and introduced a defined contribution Group Personal Pension Plan to meet the requirements of a modern work force and in order to manage pension costs for the Group in the future. The cost of the new plan was minimal in the year. New employees will be eligible to join only the Group Personal Pension Plan but may join the JSPDBS after five years' service. New Directors and senior employees will continue to join the JSEPS.

The 1998/99 pension cost is based on the results of a triennial valuation carried out by Watson Wyatt, the Group's independent actuaries as of 8 March 1997, on the projected unit basis.

The principal actuarial assumptions used in the actuarial valuations are:

	%
Long-term rate of return on investments	8.5
Annual increase in dividends	4.75
Average annual increase in total pensionable salary (excluding promotional increments)	5.5
Average annual increase in present and future payments	4.0
Average rate of inflation	4.0

The only change on the assumptions above is that it is now assumed that the average rate of dividend growth will be 4.75 per cent per annum compared to 4.5 per cent assumed in 1994. As at March 1997, the market value of the UK schemes was £1,999 million (1994: £1,435 million). The actuarial value was sufficient to cover 109 per cent (1994: 122 per cent) of the liabilities of the JSPDBS, a surplus of £111 million (1994: £181 million) and 115 per cent (1994: 120 per cent) of the JSEPS, a surplus of £44 million (1994: £44 million).

Total pension contribution costs for the Group were £70 million for the 56 week period ended 3 April 1999 (1998: £52 million) of which the pension contribution costs of the UK Schemes amounted to £61 million (1998: £44 million). There is a variation from the regular cost because of scheme surpluses. These surpluses are being amortised over a period using a method which reduces the amount of variation from the regular cost until 2005 for the JSPDBS and 2011 for the JSEPS. Total costs for 1999 are after taking account of an amortisation of scheme surpluses of £26 million in the 56 week period (1998: £32 million). The Group's UK pension cost is expected to increase by £4 million per annum until the results of the next triennial valuation (in April 2000) are known.

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 of £9 million (1998: £8 million) has been calculated in accordance with US accounting principles but would not have been materially different had UK accounting principles been applied.

31 Related party transactions

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

32 Post balance sheet events

On 25 November 1998, the Group conditionally agreed to purchase Star Markets Inc. from Investcorp for a total consideration of $490 million. The transaction is expected to be completed in late June 1999. Any goodwill arising on the acquisition will be assumed to have an indefinite life.

On 12 April 1999, the Group announced that certain of the operations of Savacentre Limited would be integrated with those of Sainsbury's Supermarkets Ltd; resulting in the closure of the Savacentre head office at Wokingham. Also, on 16 April 1999, the Group announced plans to reduce the number of positions at its head office in Stamford Street, London as well as reorganising the store management structure of Sainsbury's Supermarkets Ltd. The costs of these actions will be incurred in the current financial year, and are estimated to be in the region of £30 million.

Interim accounts

52 weeks ended 6 March 1999

Set out below are the unaudited Interim Accounts for the 52 weeks ended 6 March 1999. The accounts have been subject to an interim review by our auditors, PricewaterhouseCoopers (see page 59). The financial information presented herein does not amount to full accounts under the meaning of section 240 of the Companies Act 1985 (as amended).

Group profit and loss account

	1999 £m	1998[1] £m
Group sales including VAT and sales taxes	16,269	15,496
VAT and sales taxes	1,073	996
Group sales excluding VAT and sales taxes	15,196	14,500
Cost of sales and administrative expenses	14,329	13,646
Group operating profit before exceptional cost of sales, Year 2000 costs and profit sharing	867	854
Exceptional cost of sales – Texas Homecare integration costs (see note 1)	21	28
Year 2000 costs	28	20
Profit sharing	42	44
Group operating profit	776	762
Associated Undertakings – share of profit	12	16
Profit on sale of properties	13	3
Profit/(loss) on disposal of associate/subsidiary	84	(12)
Profit on ordinary activities before interest	885	769
Net interest payable	53	78
Profit on ordinary activities before tax	832	691
Tax on profit on ordinary activities	273	226
Profit on ordinary activities after tax	559	465
Minority equity interest	2	4
Profit for the period	561	469
Equity dividends	275	264
Retained profit	286	205

Earnings per share	29.4p	25.1p
Earnings per share before exceptional cost of sales, profit/loss on sale of properties and disposal of an associate/subsidiary	27.2p	26.6p
Diluted earnings per share	29.2p	25.1p
Diluted earnings per share before exceptional cost of sales, profit/loss on sale of properties and disposal of an associate/subsidiary	26.9p	26.6p

Note

1 Restated for new accounting standards (see note 23 on page 53).

Group balance sheets

at 6 March 1999 and 7 March 1998

	1999 £m	1998[1] £m
Fixed assets	**6,439**	6,284
Current assets	**3,478**	2,840
Creditors due within one year	**(4,411)**	(4,001)
Net current liabilities	**(933)**	(1,161)
Total assets less current liabilities	**5,506**	5,123
Creditors due after one year	**(835)**	(949)
Provisions for liabilities and charges	**(8)**	(9)
Total net assets	**4,663**	4,165
Minority equity interest	**(45)**	(38)
Equity shareholders' funds	**4,618**	4,127

Note

1 Restated for new accounting standards (see note 23 on page 53).

Segmental financial information

	Turnover excluding taxes		Operating profit before exceptional costs, Year 2000 costs and profit sharing		Net assets*	
	1999 £m	1998 £m	1999 £m	1998 £m	1999 £m	1998 £m
Food retailing – UK	**12,103**	11,629	**742**	765	**4,807**	4,413
Food retailing – US	**1,822**	1,697	**51**	38	**551**	505
DIY retailing – UK	**1,082**	1,053	**67**	56	**455**	426
Banking – UK	**146**	66	**(6)**	(15)	**99**	83
Property development – UK	**32**	36	**9**	6	**79**	32
Other	**11**	19	**4**	4	**12**	33
	15,196	14,500	**867**	854	**6,003**	5,492

* Net assets exclude net borrowings of £833 million (1998: £1,077 million), non-operating assets and liabilities of £529 million (1998: £401 million) and assets of Associated Undertakings of £22 million (1998: £151 million). Net assets have been restated for a new accounting standard (see note 23 on page 53) and separate disclosure of non-operating assets and liabilities.

Review report by the Auditors to the shareholders of J Sainsbury plc on the interim accounts

We have reviewed the Interim Accounts for the 52 weeks ended 6 March 1999 set out on pages 58 to 59 which are the responsibility of and have been approved by the Directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin 'Review of interim financial information', issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the Interim Accounts.

On the basis of our review:

- In our opinion the Interim Accounts have been prepared using accounting policies consistent with those adopted by J Sainsbury plc in its financial statements for the 52 week period ended 7 March 1998 except for the change in accounting policy referred to in note 1 on page 58; and
- We are not aware of any material modifications that should be made to the Interim Accounts as presented.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors

London
1 June 1999

Ten year financial record

	1990	1991	1992†	1993	1994††	1995	1996†††	1997††††	1998†††††	**1999††††††**
Results (£ million)										
Group sales (including VAT and sales taxes)	7,257	8,201	9,202	10,270	11,224	12,065	13,499	14,312	15,496	**16,269**
Increase on previous year	22.7%	13.0%	12.2%	11.6%	9.3%	7.5%	11.9%	6.0%	8.3%	**5.0%**
Group operating profit (before Year 2000 costs and profit sharing)										
Sainsbury's Supermarkets	409	516	604	716	697	784	744	662	735	**714**
Savacentre	17	23	28	36	38	41	34	30	31	**28**
Homebase	11	13	15	18	23	31	26	16	55	**67**
Shaw's	34	30	21	19	31	40	51	41	38	**51**
Sainsbury's Bank	-	-	-	-	-	-	-	(6)	(15)	**(6)**
Other operating activities	-	3	(2)	(4)	7	3	(1)	2	10	**13**
	471	585	666	785	796	899	854	745	854	**867**
Year 2000 costs	-	-	-	-	-	-	-	-	(20)	**(28)**
Profit sharing	(34)	(44)	(49)	(59)	(56)	(61)	(50)	(37)	(44)	**(42)**
Associated Undertakings	1	-	1	-	-	6	19	19	16	**12**
Interest receivable/(payable)	(18)	(36)	13	9	(9)	(36)	(59)	(76)	(78)	**(53)**
Group profit before tax, exceptional costs, property and investments profits	420	505	631	735	731	808	764	651	728	**756**
Increase/(decrease) on previous year	19.3%	20.2%	25.0%	16.5%	(0.5)%	10.5%	(5.4)%	(14.8)%	11.8%	**3.8%**
Earnings per share*										
Basic	20.57p	23.11p	25.69p	28.47p	28.0p	29.8p	26.8p	22.0p	25.1p	**29.4p**
Increase/(decrease) on previous year	24.1%	12.4%	11.2%	10.8%	(1.6)%	6.3%	(10.1)%	(17.9)%	14.1%	**17.1%**
Diluted (before exceptional costs, property and investments profits)	18.15p	21.74p	25.34p	28.07p	27.0p	29.0p	27.8p	23.1p	26.6p	**26.9p**
Increase/(decrease) on previous year	25.7%	19.7%	16.6%	10.8%	(3.7)%	7.4%	(4.1)%	(16.9)%	15.2%	**1.1%**
Dividend per share*	6.03p	7.27p	8.75p	10.0p	10.6p	11.7p	12.1p	12.3p	13.9p	**14.32p****

* Adjusted in respect of the rights issue in 1991.

** Excludes a 1p per share payment to cover the extra four weeks in 1999.

† 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 diluted earnings per share are stated before exceptional costs of £48 million (£5 million as restated under FRS 12).

†††† 1997 figures for profits and diluted earnings per share are stated before exceptional costs of £50 million (£44 million as restated under FRS 12).

††††† 1998 figures for profits, basic earnings per share and diluted earnings per share are restated to comply with FRS 12 and FRS 14 and are before exceptional costs of £28 million and a loss of £12 million on the disposal of a subsidiary.

†††††† 1999 figures for profits and diluted earnings per share are for the 52 week period to 6 March 1999 and are stated before exceptional costs of £21 million and a profit of £84 million on the sale of an interest in an associate.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	**1999†**
Retail statistics										
Number of outlets at financial year-end										
Sainsbury's Supermarkets – over 40,000 sq ft sales area	7	8	12	12	12	14	16	21	26	**29**
25,000 – 40,000 sq ft sales area	109	128	147	165	181	194	211	223	229	**233**
15,000 – 25,000 sq ft sales area	106	102	98	99	99	98	87	87	93	**98**
under 15,000 sq ft sales area	69	61	56	52	49	49	49	47	43	**45**
Sainsbury's Supermarkets	291	299	313	328	341	355	363	378	391	**405‡**
Savacentre	8	9	9	9	10	10	12	12	13	**13**
Homebase	55	61	64	70	76	83	310	297	298	**288**
Shaw's	66	70	73	79	87	87	96	115	121	**127**
Total number of stores	**420**	**439**	**459**	**486**	**514**	**535**	**781**	**802**	**823**	**833**
Sales area (000 sq ft)										
Sainsbury's Supermarkets	6,434	6,951	7,632	8,303	8,827	9,338	9,767	10,387	10,860	**11,425‡**
Savacentre	665	798	798	798	864	864	1,034	1,034	1,119	**1,119**
Homebase (approx. 80% covered sales area)	2,107	2,317	2,406	2,609	2,810	3,082	11,632	11,246▲	11,201	**10,851**
Shaw's	1,928	2,107	2,229	2,448	2,740	2,762	3,137	3,822	4,119	**4,410**
Group total	**11,134**	**12,173**	**13,065**	**14,158**	**15,241**	**16,046**	**25,570§**	**26,489▲**	**27,299**	**27,805**
Net increase on previous year:										
Sainsbury's Supermarkets	7.9%	8.0%	9.8%	8.8%	6.3%	5.8%	4.6%	6.3%	4.6%	**5.2%**
Group	10.4%	9.3%	7.3%	8.4%	7.6%	5.3%	59.1%	3.6%	3.1%	**1.9%**
New Sainsbury's Supermarkets openings	22	20	21	23	23	20	10	18	19	**20‡**
Sainsbury's Supermarkets' sales intensity (including VAT)**										
Per square foot (£ per week)	17.26	18.17	18.51	18.84	18.60	18.53	18.59	18.69	18.87	**18.61**
Share of national trade in predominantly food stores and pharmaceutical, medical, cosmetic and toilet goods outlets***	**10.5%**	**11.1%**	**11.4%**	**12.1%**	**12.1%**	**12.3%**	**12.2%**	**12.3%**	**12.5%**	**12.3%**

▲ Restated to exclude concession areas.
** Excluding petrol.
*** Based on Central Statistical Office/Office for National Statistics (Re-based during 1999) and Sainsbury's Supermarkets and Savacentre sales, excluding petrol.
§ Excluding Texas – Group total = 17,408,000 sq ft. Net increase 1,362,000 sq ft; increase of 8.5 per cent.
† Number of outlets and sales area are as at 3 April 1999.
‡ Including two *Sainsbury's Local* stores with a total sales area of 6,000 sq ft.

Investor information

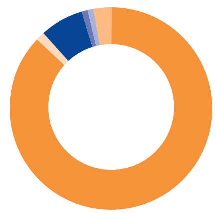
Shareholders' interests at 3 April 1999

Number of shareholders: **113,403**
(1998: 108,050)

Number of shares in issue: **1,918,215,654**
(1998: 1,902,453,905)

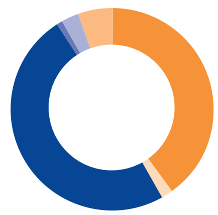
	Shareholders %		Shares %	
Range of shareholdings	**1999**	1998	**1999**	1998
500 and under	**49.45**	47.36	**0.50**	0.46
501 to 1,000	**18.67**	18.43	**0.83**	0.78
1,001 to 10,000	**29.23**	31.32	**4.39**	4.55
10,001 to 100,000	**1.93**	2.05	**3.09**	3.18
100,001 to 1,000,000	**0.52**	0.62	**10.07**	11.54
over 1,000,000	**0.20**	0.22	**81.12**	79.49
	100.00	100.00	**100.00**	100.00

1999 Shareholders %



Individual and other shareholders	91.44
Insurance companies	0.02
Banks and nominees	7.33
Investment trusts	0.34
Pension funds	0.03
Other corporate bodies	0.84
	100.00

1999 Shares %



Individual and other shareholders	43.27
Insurance companies	0.70
Banks and nominees	53.20
Investment trusts	0.08
Pension funds	0.81
Other corporate bodies	1.94
	100.00

At the year-end, the Trustees of the J Sainsbury Profit Sharing Scheme Trust held 9.9 million shares (1998: 11.1 million) on behalf of 52,105 participants (1998: 45,396). The Trustees' holding is included in "Individual and other shareholders".

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Wednesday 21 July 1999 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 Report.

American Depository Receipts (ADRs)

In the US, the Company's ordinary shares are traded 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

Low cost 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 Dillon Read. Dealing commission on both purchases and sales of J Sainsbury plc ordinary shares is one per cent. Purchases are subject to a minimum charge of £5.

For further information contact The Share Centre. Details are shown in "Useful Contacts" section on the next page.

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.

Individual Savings Plan (ISA)

On the Company's behalf, a corporate ISA is being operated by Sainsbury's Bank in association with Bank of Scotland. The plans being offered are a Maxi ISA to include shares and cash and a Mini shares ISA. The contact address and telephone number are included in the "Useful Contacts" section on the next page.

Tax information - Capital Gains Tax

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

Dividend Reinvestment Plan

The Company introduced a dividend reinvestment plan for the forthcoming and future dividends. This will allow shareholders to reinvest their cash dividend in shares bought on the London Stock Exchange through a specially arranged sharedealing service. An explanation of how the plan operates and the charges, together with a mandate for shareholders to complete if they wish to join the plan, accompanies this Annual Report. Alternatively, details are available from our Registrar, Computershare Services PLC. See the "Useful Contacts" section on this page for their address.

Plan booklet and mandates issued	28 June 1999
Last date for return of plan mandates	28 July 1999
Plan shares purchased for shareholders	18 August 1999
Plan share certificates issued	8 September 1999

Share Dividend Alternative

The Share Dividend Alternative facility was operated for the last time in conjunction with the final dividend paid in July 1998 and the details are included below. The authority to operate this scheme expired at the AGM in 1998.

Dividend	Cash equivalent	Gross income for UK tax purposes*
Final 1997/8 paid 24 July 1998	499.4p	624.25p

* Cash equivalent grossed up for tax at 20 per cent.

Useful contacts

For information about the AGM, shareholding, dividends and changes to personal details all shareholders should contact:
Computershare Services PLC
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH
Telephone: 0117 930 6600

Institutional investors may wish to contact Investor Relations: 0171 695 6215/6227

For information about low cost dealing facilities contact:
The Share Centre
PO Box 1000
Tring
Hertfordshire HP23 4JR
Telephone: 01442 890844

Information about ISAs can be obtained from:
Sainsbury's Corporate ISA
Bank of Scotland
101 George Street
Edinburgh EH2 3JH
Telephone: 0131 243 8053

An audio tape of the Annual Review and Summary Financial Statement can be obtained by calling: 01435 862737

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

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

For any other enquiries please contact our Customer Services: 0800 636262

Information about the Group may be found on the Internet at:
www.j-sainsbury.co.uk

Financial calendar, registered office and advisers

Financial calendar 1999/2000

Dividend and interest payments

Ordinary dividend:

Final payable	18 August 1999
Interim payable	January 2000
8% Irredeemable Unsecured Loan Stock	1 March/1 September
£150m 8.25% Notes 2000	22 December
$200m 6.625% Notes 1999	31 December
$200m 6.25% Notes 2002	27 March
£200m 7.25% Notes 2002	7 June

Other dates

Quarter 2 Trading results announced	October 1999
Interim results announced	November 1999
Interim report circulated	November 1999
Quarter 3 Trading results announced	January 2000
Quarter 4 Trading results announced	April 2000
Results for the year announced	May 2000
Report and accounts circulated	June 2000
Annual General Meeting and Quarter 1 Trading results announced	July 2000

Registered office

J Sainsbury plc
Stamford House
Stamford Street
London SE1 9LL

Registered number 185647

Registrars

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PO Box 82
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London EC2M 2PP

Hoare Govett Ltd
4 Broadgate
London EC2M 7LE

Designed and produced by CGI · Printed by Royle Print Ltd · UK
Printed on Zanders Mega-Matt paper made from chlorine-free bleached pulp and awarded the Nordic Swan environmental label.

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