

J Sainsbury plc

Questions and Answers

These questions and answers are aimed particularly at our individual shareholders. They set out some commonly asked questions and provide brief responses. **Please read both them and the circular carefully.** If you still have any questions, you may call our Shareholder helpline on **0870 702 0106** (from within the UK) or **+44 870 702 0106** (from outside the UK). Your call will be charged at national or standard international rates, as appropriate.

The helpline cannot provide advice on the merits of the Return of Capital or give any financial advice. For financial and taxation advice you will need to consult your own financial and/or tax adviser.

1 What is being proposed?

We intend to return 35 pence in cash to shareholders for each Sainsbury's share that they hold at the close of business on 16 July 2004. This is known as the "**return of capital**".

2 Why are we returning this cash?

On 30 April 2004 we announced that we had completed the sale of Shaw's, our US supermarkets business, to Albertson's, Inc. for US\$2,475 million. We now intend to return some of the proceeds (around £680 million) to shareholders. The remainder of the money will be reinvested in growing Sainsbury's UK business.

3 How are we doing it?

We have chosen a method of returning the cash which enables shareholders to receive it in a tax efficient manner known as a "**B Share scheme**". Full details are set out in the circular.

For every Sainsbury's share that you own at the close of business on 16 July 2004, you will receive one **B Share**. Each B Share entitles you to receive 35 pence in cash.

4 What happens to my Sainsbury's shares?

In addition to the return of capital, there will also be a consolidation of Sainsbury's shares and this will reduce the number of shares that all shareholders hold. If we were to do nothing more than the repayment of cash, Sainsbury's share price would probably fall by about 35 pence per share because we would no longer own Shaw's or have the cash which is being returned to shareholders. Therefore, to help ensure that the share price stays about the same immediately before and after the Return of Capital (apart from normal market movements), we intend to reduce the total number of shares owned by all shareholders. This is known as the "**share consolidation**".

As a result of the share consolidation, for every 8 Sainsbury's shares that you own at the close of business on 16 July 2004, you will receive 7 New Shares.

5 What does all of this mean to me?

- You will continue to own the same proportion of Sainsbury's immediately after the share consolidation as you did just before, subject to fractional entitlements (see question 6 below).
- The total value of your new ordinary shareholding in Sainsbury's immediately following the share consolidation, plus the 35 pence for every B Share that you hold, plus the value of any fractional entitlements should be equal to the value of your original

holding immediately before the share consolidation (subject to normal market movements). Please see the examples at question 8 below.

6 What happens to any fractions of my Sainsbury's shares?

If, immediately before the share consolidation, your holding of Sainsbury's shares does not divide exactly by 8, you will be left with a fractional entitlement to a New Share. So, for example, a Shareholder with 100 Sainsbury's shares would, after the share consolidation, be entitled to 87 New Shares and a fractional entitlement to 0.5 of a New Share. We will combine all fractions and arrange to have them sold in the market. You will be sent a cheque for your proportion of the sale proceeds on 26 July 2004.

7 What choices do I have for my B Shares?

We are giving you the opportunity to choose the most tax efficient way of receiving your cash. You can **choose to receive a dividend (which will be treated as an income payment for tax purposes) or to have your B Shares repurchased by Sainsbury's (which will be treated as a capital payment for tax purposes).**

If you choose to have your B Shares repurchased, you can also decide when you want to receive your cash, by holding on to some or all of your B Shares and electing to have them repurchased in the future. Your choice is likely to depend on your tax circumstances. We have set out some general guidance below (see question 12) to assist you.

You have three alternative choices for your B Shares:

Alternative 1: Initial B Share Dividend (taxed as income)

You can elect to receive a single dividend of 35 pence per B Share. If you choose to do this, it is expected that you will be sent a cheque for your dividend on 26 July 2004; or

Alternative 2: Initial Redemption (repurchase) (taxed as capital)

You can elect to have some or all of your B Shares repurchased by Sainsbury's on the First Redemption Date (expected to be 20 July 2004) for 35 pence per B Share, free of expenses. If you make this choice, it is expected that you will be sent a cheque for the proceeds on 26 July 2004; or

Alternative 3: Future Redemption (repurchase) (taxed as capital)

You can elect to retain some or all of your B Shares and have them repurchased in the future on two set dates in each calendar year until 18 July 2007 when Sainsbury's will repurchase all outstanding B shares. The next opportunity to have your B Shares repurchased will be 18 January 2005.

If you retain some B Shares you will also receive a variable interest payment (taxed as dividend income) twice per year on your outstanding B Shares, with the first payment being made on 18 January 2005. On 4 June 2004, the relevant interest rate was 3.7%. Please see paragraph 5 of Part I of the circular for further details.

If you fail to fill in your Election Form correctly, do not sign it or do not return it to Sainsbury's registrars to arrive by 5:00 p.m. on 16 July 2004, you will be deemed to have elected for Alternative 3: Future Redemption.

Please note that the circular refers to the "redemption" of your B Shares, but for the purposes of these questions and answers we have used the word "repurchase".

8 Examples

The examples below illustrate the three alternatives:

Alternative 1: Initial B Share Dividend

Number of Sainsbury's shares owned on 16 July 2004	Number of B Shares you will receive	Number of New Shares you will receive ⁽¹⁾	Cash payment you will be sent by 26 July 2004
100	100	87	£35
300	300	262	£105
500	500	437	£175
1,000	1,000	875	£350

Alternative 2: Initial Redemption (repurchase)

Number of Sainsbury's shares owned on 16 July 2004	Number of B Shares you will receive	Number of New Shares you will receive ⁽¹⁾	Repurchase proceeds you will receive by 26 July 2004
100	100	87	£35
300	300	262	£105
500	500	437	£175
1,000	1,000	875	£350

Alternative 3: Future Redemption (repurchase)

Number of Sainsbury's shares owned on 16 July 2004	Number of B Shares you will receive	Number of New Shares you will receive ⁽¹⁾	Illustrative six-monthly interest payment ⁽²⁾	Repurchase proceeds you will receive in the future
100	100	87	£0.64	£35
300	300	262	£1.94	£105
500	500	437	£3.23	£175
1,000	1,000	875	£6.47	£350

Note:

- (1) In addition, you may also receive the proceeds of sale of any fraction of a New Share to which you would be entitled following the share consolidation.
- (2) The Illustrative interest payment is based on an assumed rate of approximately 3.7 per cent., as at 4 June 2004, and is rounded down to the nearest whole penny. The first payment will be made on 18 January 2005. This is a variable rate which could go up or down. The payment you actually receive may be more or less than is shown above.

9 How do I make my choice?

You make your choice by completing and signing the Election Form sent to you with this document and sending it back to Sainsbury's registrars, Computershare Investor Services PLC, at **The Pavilions, Bridgwater Road, Bristol BS13 8ZZ** so that it is received by no later than **5:00 p.m. on 16 July 2004**.

10 What happens if I do not get my Election Form back in time?

If you do not complete and return your Election Form by 5:00 p.m. on Friday 16 July 2004, you will be treated as having chosen to accept Alternative 3: Future Redemption. This will also happen if you fill in the form incorrectly, or fail to sign it.

11 Do I need to vote?

Yes. The Return of Capital needs Shareholder approval before it can take place. In order for the Return of Capital to become effective you should vote at the EGM, by completing and signing your form of proxy and returning it to Sainsbury's registrars to arrive as soon as possible and, in any event, no later than 12:30 p.m. on 10 July 2004.

12 What is my tax position?

If you are a UK resident individual shareholder then, depending on your circumstances, if you elect for:

Alternative 1: Initial B Share Dividend

the dividend will generally be treated as income for tax purposes; or

Alternative 2: Initial Redemption (repurchase)

the proceeds of repurchase will generally be treated as a capital disposal for tax purposes; or

Alternative 3: Future Redemption (repurchase)

the proceeds of a repurchase of your B Shares in the future will generally be treated as a capital disposal for tax purposes. The interest payment will generally be treated as dividend income for tax purposes.

Broadly:

- **if you are a basic rate tax payer, you should have no further tax to pay if you choose Alternative 1; or**
- **if you are a basic rate or a higher rate tax payer and you do not expect to pay capital gains tax this year or in future years, you should have no further tax to pay if you choose Alternative 2. The majority of UK resident individuals do not pay capital gains tax.**

Generally, you will be a basic rate tax payer if your total income is less than £36,145 in this tax year.

You will be liable to pay capital gains tax if your net capital gains for this tax year exceed £8,200. When we say "capital gains" we mean net capital gains for the year **including** any gain which would arise if you disposed of your B shares under Alternative 2 or 3*.

If you do expect to pay capital gains tax this year, or if you expect to make significant capital gains in future years, you may be better off electing for Alternative 1 or Alternative 3. In that case you should seek professional advice.

The above is only a basic guide. We have set out a general guide to UK taxation in Part VI of the circular and you should read it carefully. If you have a complicated tax position, or are otherwise in any doubt about your tax circumstances, or if you are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

13 How can I use the cash to buy more Sainsbury's shares?

Sainsbury's offers a low cost dealing service for Sainsbury's shares through The Share Centre Limited, P.O. Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB (telephone: 01296 414141).

Shareholder helpline: 0870 702 0106
(+44 870 702 0106 from outside the UK)

* If you want to calculate the capital gains made on your B Shares, you can make a cautious estimate by assuming that the 35 pence repurchase proceeds per B Share will all be gain. If that gives you gains under £8,200 for this tax year (the year ending 5 April 2006) and you have no other gains for this tax year then you should be able safely to assume that you will not be expected to pay capital gains tax.