

Registered number: 3261722

Sainsbury's Supermarkets Ltd
Annual Report and Financial Statements

For the 52 weeks ended 25 March 2006

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Sainsbury's Supermarkets Ltd
Report of the Directors
For the 52 weeks ended 25 March 2006

The Directors present their report and the audited financial statements of the Company for the 52 weeks ended 25 March 2006.

Principal activity

The principal activity of the Company during the year was grocery and related retailing.

Review of business and future developments

A full review of the business and future developments can be found in the Annual Report and Financial Statements of J Sainsbury plc, the ultimate parent undertaking on the following website, www.j-sainsbury.co.uk or from the Company Secretary, 33 Holborn, London, EC1N 2HT.

Sales increased by 4.99 per cent to £15,220 million (2004/05: £14,496 million) with significant contributions from like-for-like growth, new space and petrol. Underlying profit before tax increased to £122 million (2004/05: £73 million loss).

On 24 March 2006 J Sainsbury plc, the Company's parent, repurchased all its outstanding unsecured bonds totalling £1.7 billion with the proceeds from an issue of £2.1 billion of secured debt. The long-term financing arrangement has been secured over 127 freehold and leasehold supermarkets and is repayable over 12 and 25 year terms. As part of this transaction the company transferred £2,411 million of properties to other group companies for a total consideration of £3,407 million. A profit on the disposal of £996 million was realized.

On 29 April 2005, the Company redeemed £945 million of preference shares in Stores Funding Limited at par for consideration of £945 million. No gain or loss on disposal arose as a result of this transaction.

Results

The profit on ordinary activities before tax of the Company is £1,072 million (2004/05: £473 million loss). The profit for the year of £1,031 million (2004/05: £352 million loss) has been transferred to reserves.

Dividend

A final dividend of £250 million has been paid in the period to the ordinary shareholders (2004/05: £312 million).

Policy on payment of suppliers

The policy of the Company 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 has its own Code of Practice governing payment of suppliers. The Code incorporates the Office of Fair Trading Code.

Trade creditor days, as defined by the United Kingdom Companies Act 1985 (Directors Report) (Statement of Payment Practice) Regulations 1997, amounted to 42 days (2004/05: 42 days) at 25 March 2006.

As the Company has a 52 week financial period, the year end date is not fixed and the trade creditor total at the year end is subject to significant variations unrelated to changes in payment terms. The Directors therefore do not consider this measure to be particularly meaningful.

Sainsbury's Supermarkets Ltd
Report of the Directors (continued)
For the 52 weeks ended 25 March 2006

Market value of properties

The Directors believe that the aggregate open market value of Company properties significantly exceeds the net book value of £2,750 million (2005: £5,018 million) due to an upturn in the property market. As noted in the "Review of business and future developments" the reduction in the net book value of properties in the year reflects a transfer to other group companies.

Donations

During the year, donations to UK charitable organisations and local community projects amounted to £6 million (2005: £7 million). In addition the Company's Active Kids scheme donated £13 million (at cost) to schools and the Company made significant contributions to other community related initiatives. There were no political donations.

Employment policies

The Company's employment policies and practices support its overall business objectives by motivating and developing employees to be responsive to the needs of its customers.

The Company is committed to providing fair and equal treatment for all employees and recognises the importance of diversity within the organisation. Full and fair consideration is given to the employment and opportunities for training and development of people with disabilities according to their skills and capacity. The services of any existing employee who becomes disabled are retained wherever possible and the appropriate training arranged.

Consultation with employees or their representatives has continued, with the aim of ensuring that employee views are taken into account when decisions are made that are likely to effect their interests and that all employees are aware of the financial and economic performance of their business units and the Company as a whole.

The Company offers a full range of employee share schemes, details of which are set out in the annual report and financial statements of J Sainsbury plc.

Social responsibility

We have developed a wide variety of projects and policies to meet the needs of stakeholders under the heading Corporate Social Responsibility. Our website (www.j-sainsbury.co.uk/cr) tells a fuller story.

Directors and their interests

The Directors of Sainsbury's Supermarkets Ltd who held office during the period are shown below:

| | | |
|----------------------|-----------|----------------|
| Justin King | | |
| Roger Burnley | Appointed | 3 January 2006 |
| Gwyn Burr | Appointed | 6 June 2005 |
| Lawrence Christensen | Resigned | 23 March 2006 |
| Mike Coupe | | |
| Hamish Elvidge | Resigned | 1 June 2006 |
| Roger Matthews | Resigned | 24 June 2005 |
| Jim McCarthy | Resigned | 1 June 2006 |
| Kennedy McMeikan | | |
| Stephen Nelson | Resigned | 1 July 2005 |
| Tim Pile | Resigned | 21 March 2006 |
| Darren Shapland | Appointed | 1 August 2005 |

Sainsbury's Supermarkets Ltd
Report of the Directors (continued)
For the 52 weeks ended 25 March 2006

The Directors do not have any interests in the share capital of the Company, or any of its subsidiaries.

The interests of Justin King and Darren Shapland in the shares of J Sainsbury plc are disclosed in the published financial statements of J Sainsbury plc available from the Company Secretary.

The number of 28⁴/₇ pence ordinary shares (2005: 28⁴/₇ pence per ordinary share) and options over 28⁴/₇ pence ordinary shares (2005: 28⁴/₇ pence per ordinary shares) of J Sainsbury plc held by Directors who were not also Directors of the ultimate parent company, and their immediate families, were:

| | Ordinary shares | |
|------------------|------------------|-------------------------------|
| | 25 March 2006 | 26 March 2005 ¹ |
| Roger Burnley | 31,094 | - |
| Gwyn Burr | 62,237 | - |
| Mike Coupe | 74,246 | - |
| Hamish Elvidge | 61,854 | 25,927 |
| Jim McCarthy | 50,187 | - |
| Kennedy McMeikan | 52,779 | - |
| Imelda Walsh | 44,178 | 49 |

| | Share options | | | | |
|------------------|-------------------------------|-----------------------------|-------------------------------|----------------------------|------------------|
| | 26 March 2005 ¹ | Granted during period | Exercised during period | Lapsed during period | 25 March 2006 |
| Roger Burnley | - | 540,724 | - | - | 540,724 |
| Gwyn Burr | - | 724,902 | - | - | 724,902 |
| Mike Coupe | 329,735 | 886,741 | - | (329,735) | 886,741 |
| Hamish Elvidge | 900,787 | 575,386 | - | (574,145) | 902,028 |
| Jim McCarthy | 218,380 | 637,398 | - | (218,380) | 637,398 |
| Kennedy McMeikan | - | 640,320 | - | - | 640,320 |
| Imelda Walsh | 539,882 | 527,792 | - | (484,356) | 583,318 |

¹ or date of appointment

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By Order of the Board



Tim Fallowfield

Secretary

18/1/2007

Sainsbury's Supermarkets Ltd

Statement of Directors' responsibilities in respect of the financial statements

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company at the end of the period and of the profit or loss of the Company for that period. In preparing financial statements, 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 the financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors confirm they have complied with the above requirements in preparing the financial statements.

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 financial statements comply with the Companies Act 1985. They are also responsible for ensuring the operation of systems of internal control and for taking responsible steps to safeguard the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Sainsbury's Supermarkets Ltd

We have audited the financial statements of Sainsbury's Supermarkets Ltd for the 52 weeks ended 25 March 2006 which comprise the income statement, the statement of recognised income and expense, the balance sheet, the cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors' is not consistent with the financial statements, 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 regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 25 March 2006 and of its profit and cash flows for the 52 weeks then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

Sainsbury's Supermarkets Ltd
Income statement
for the 52 weeks to 25 March 2006

| | Note | 2006 £m | 2005 £m |
|--|------|-----------------|------------|
| Continuing operations | | | |
| Revenue | 3 | 15,220 | 14,496 |
| Cost of sales | | (14,612) | (14,201) |
| Gross profit | | 608 | 295 |
| Administrative expenses | | (634) | (679) |
| Other income | | 1,005 | 7 |
| Operating profit/(loss) | 4 | 979 | (377) |
| Finance income | 5 | 189 | 66 |
| Finance costs | 5 | (96) | (162) |
| Profit/(loss) before taxation | | 1,072 | (473) |
| Analysed as: | | | |
| Underlying profit/(loss) before tax (1) | | 122 | (73) |
| Business Review and Transformation operating costs | 7 | (51) | (407) |
| IT insourcing costs | 8 | (4) | - |
| Profit on sale of properties | 4 | 1,005 | 7 |
| | | 1,072 | (473) |
| Income tax (expense)/credit | 9 | (41) | 121 |
| Profit/(loss) for the financial year | | 1,031 | (352) |
| Attributable to: | | | |
| Equity holders | | 1,031 | (352) |

- (1) Profit before tax from continuing operations before any gain or loss on the sale of properties, financing fair value movements and one off items that are material and infrequent in nature. In the current financial year, these one off items were the Business Review costs and IT insourcing costs. In the prior financial year, these one off items were the Business Review and Transformation costs.

Sainsbury's Supermarkets Ltd
Statement of recognised
income and expense
for the 52 weeks to 25 March 2006

| | Note | 2006 £m | 2005 £m |
|---|------|--------------|--------------|
| Actuarial (losses)/gains on defined benefit pension schemes | | (255) | 128 |
| Cash flow hedges | | | |
| effective portion of fair value movements | | 1 | - |
| transferred to income statement | | (1) | - |
| Share-based payment tax deduction | 9 | 5 | - |
| Tax on items recognised directly in equity | 9 | 77 | (38) |
| Net (loss)/income recognised directly in equity | | (173) | 90 |
| Profit/(loss) for the financial year | | 1,031 | (352) |
| Total recognised income and expense for the financial year | | 858 | (262) |
| | | | |
| Effect of changes in accounting policy on adoption of IAS 32 and IAS 39: | 37 | - | - |

Sainsbury's Supermarkets Ltd
Balance sheet
at 25 March 2006 and 26 March 2005

| | Note | 2006 £m | 2005 £m |
|-----------------------------------|------|----------------|----------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 3,909 | 6,331 |
| Intangible assets | 12 | 55 | 62 |
| Investments | 13 | 4 | 952 |
| Other receivables | 15 | 782 | - |
| Deferred income tax asset | 19 | 49 | - |
| | | 4,799 | 7,345 |
| Current assets | | | |
| Inventories | 14 | 557 | 533 |
| Trade and other receivables | 15 | 1,599 | 255 |
| Cash and cash equivalents | 25b | 229 | 235 |
| | | 2,385 | 1,023 |
| Non-current assets held for sale | 16 | 100 | 87 |
| | | 2,485 | 1,110 |
| Total assets | | 7,284 | 8,455 |
| Current liabilities | | | |
| Trade and other payables | 17 | (2,257) | (3,491) |
| Short-term borrowings | 18 | (21) | (21) |
| Taxes payable | | (603) | (16) |
| Provisions | 20 | (38) | (55) |
| | | (2,919) | (3,583) |
| Net current liabilities | | (434) | (2,473) |
| Non-current liabilities | | | |
| Other payables | 17 | (30) | (27) |
| Long-term borrowings | 18 | (52) | (1,317) |
| Deferred income tax liability | 19 | - | (1) |
| Provisions | 20 | (58) | (55) |
| Retirement benefit obligations | 28 | (658) | (536) |
| | | (798) | (1,936) |
| Net assets | | 3,567 | 2,936 |
| Equity | | | |
| Called up share capital | 21 | 2,900 | 2,900 |
| Other reserves | 22 | (88) | 90 |
| Retained earnings | 23 | 755 | (54) |
| Equity shareholders' funds | 24 | 3,567 | 2,936 |

The financial statements were approved by the Board of Directors on 18 January 2007, and are signed on its behalf by:



Darren Shapland

Sainsbury's Supermarkets Ltd
Cash flow statement
for the 52 weeks to 25 March 2006

| | | 2006 | 2005 |
|--|------|----------------|--------------|
| | Note | £m | £m |
| Cash flows from operating activities | | | |
| Cash generated from operations | 25a | 960 | 1,032 |
| Interest paid | | (11) | (76) |
| Corporation tax (paid)/received | | (14) | 19 |
| Net cash from operating activities | | 935 | 975 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (529) | (756) |
| Purchase of intangible assets | | (5) | (12) |
| Proceeds from disposal of property, plant and equipment | | 3,574 | 219 |
| Proceeds from disposal of operations, net of cash disposed | | 948 | - |
| Advances and loans (to)/from other parties | | (3,486) | 55 |
| Interest received | | 7 | 55 |
| Dividends received | | 159 | - |
| Net cash from investing activities | | 668 | (439) |
| Cash flows from financing activities | | | |
| Repayment of capital element of obligations under finance lease borrowings | | (1,265) | (120) |
| Interest elements of obligations under finance lease payments | | (94) | (91) |
| Dividends paid | 10 | (250) | (312) |
| Net cash from financing activities | | (1,609) | (523) |
| Net increase in cash and cash equivalents | | (6) | 13 |
| Opening cash and cash equivalents | | 214 | 201 |
| Closing cash and cash equivalents | 25b | 208 | 214 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements
for the 52 weeks ended 25 March 2006

1 General information

Sainsbury's Supermarkets Ltd is a private limited company ('Company') incorporated in the United Kingdom. The Company is domiciled in the United Kingdom and its registered address is 33 Holborn, London EC1N 2HT, United Kingdom.

The financial year represents the 52 weeks to 25 March 2006 (prior financial year 52 weeks to 26 March 2005).

2 Accounting policies

(a) Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

These are the Company's first financial statements prepared under IFRS and therefore, IFRS 1 'First-time Adoption of International Financial Reporting Standards' has been applied. The last financial statements under UK Generally Accepted Accounting Principles ("UK GAAP") were for the 52 weeks to 26 March 2005. An explanation of the transition to IFRS is provided in note 36.

(b) Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million (£m) unless otherwise stated. They have been prepared under the historical cost convention, except for derivative financial instruments that have been measured at fair value for the 52 weeks to 25 March 2006.

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2c.

Early adoption of standard

The Amendment to IAS 19 'Employee Benefits' is effective for annual periods beginning 1 January 2006 i.e. financial year beginning 26 March 2006 for the Company. However, the Company has elected to early adopt this amendment and has applied the requirements of the amendment to the Company financial statements for the 52 weeks to 25 March 2006.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's future accounting periods but which the Company has not early adopted. These are set out below:

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Effective for the Company for the financial year beginning 26 March 2006:

- Amendment to IAS 39 'Cash Flow Hedge Accounting of Forecast Intragroup Transactions'
- Amendment to IAS 39 'The Fair Value Option'
- Amendments to IAS 39 and IFRS 4 'Financial Guarantee Contracts'
- IFRS 6 'Exploration of and Evaluation of Mineral Resources'
- IFRIC 4 'Determining whether an Arrangement contains a Lease'
- IFRIC 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'
- IFRIC 6 'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'

Effective for the Company for the financial year beginning 25 March 2007:

- Amendment to IAS 1 'Presentation of Financial Statements – Capital Disclosures'
- IFRS 7 'Financial Instruments: Disclosure'

The Company has considered the above standards, interpretations and amendments and concluded that they are either not relevant to the company or that they would not have a significant impact on the Company's financial statements.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements and in preparing the opening IFRS balance sheet at 28 March 2004 for the purposes of the transition to IFRS.

Consolidation

The Company has taken advantage of the exemption in IAS 27 'Consolidated and Separate Financial Statements' and has not prepared consolidated financial statements. These financial statements relate only to the Sainsbury's Supermarkets Ltd entity. The results of the Company have been consolidated as part of the J Sainsbury plc group which is incorporated in the United Kingdom and listed on the London Stock Exchange. The consolidated financial statements of J Sainsbury plc are available for public use, and can be requested from the company secretary at its registered address, 33 Holborn, London EC1N 2HT.

Revenue

Revenue consists of sales through retail outlets and commission income.

Revenue is recognised when the significant risks and rewards of products and services have been passed to the buyer and can be measured reliably.

Sales through retail outlets are shown net of the cost of Nectar reward points issued and redeemed, staff discounts, vouchers and sales made on an agency basis. Commission income is recognised in revenue based on the terms of the contract.

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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Deferred taxation

Deferred tax is accounted for on the basis of temporary differences arising from differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all taxable temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Pharmacy licences

Pharmacy licences are carried at cost less accumulated amortisation and any impairment loss and are amortised on a straight-line basis over their useful economic life of 15 years.

Computer software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three to five years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria are met. When the software is available for its intended use, these costs are amortised over the estimated useful life of the software.

Property, plant and equipment

Land and buildings

Land and buildings are stated at cost less accumulated depreciation and any recognised impairment loss. Properties in the course of construction are held at cost less any recognised impairment loss. Cost includes any directly attributable costs and borrowing costs capitalised in accordance with the Company's accounting policy.

Fixtures, equipment and vehicles

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised impairment loss.

Depreciation

Depreciation is calculated to write down the cost of the assets to their residual values, using a straight-line method on the following bases:

- Freehold buildings and leasehold properties – 50 years, or the lease term if shorter
- Fixtures, equipment and vehicles – 3 to 15 years
- Freehold land is not depreciated

Land and buildings under construction and non-current assets held for sale are not depreciated.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Impairment of non-financial assets

At each full year balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For tangible and intangible assets, the CGU is deemed to be each trading store.

Any impairment charge is recognised in the income statement in the year in which it occurs. Where an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

Capitalisation of interest

Interest costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised to the cost of the asset, gross of tax relief.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Company. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Finance leases

Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement.

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement.

Lease incentives

Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

Leases with predetermined fixed rental increases

The Company has a number of leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the period of the lease term.

Operating lease income

Operating lease income consists of rentals from properties held for disposal or sub-tenant agreements and is recognised as earned.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Employee benefits

Pensions

The Company operates various defined benefit and defined contribution pension schemes for its employees. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension plan under which the Company pays fixed contributions into a separate entity.

In respect of defined benefit pension schemes, the pension scheme surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method. Plan assets are recorded at fair value.

The income statement charge is split between an operating service cost and a financing charge, which is the net of interest costs on pension scheme liabilities and the expected return on plan assets. Actuarial gains and losses are recognised in full in the period, in the statement of recognised income and expense.

Payments to defined contribution pension schemes are charged as an expense as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual as at that date. The Company has no further payment obligations once the contributions have been paid.

Long service awards

The costs of long service awards are accrued over the period the service is provided by the employee.

Share-based payment

The Company provides benefits to employees (including Directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions.

All share options are valued using an option-pricing model (Black-Scholes or Monte Carlo). This fair value is charged to the income statement over the vesting period of the share-based payment scheme, with the corresponding increase in equity.

The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustment made in equity.

Inventories

Inventories are valued at the lower of cost and net realisable value. Inventories at warehouses are valued on a first-in, first-out basis. Those at retail outlets are valued at calculated average cost prices. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of the carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Foreign currencies

Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated.

Onerous leases

Provisions for onerous leases, measured net of expected rentals, are recognised when the property leased becomes vacant and is no longer used in the operations of the business.

Restructuring

Provisions for restructuring costs are recognised when the Company has a detailed formal plan for the restructuring that has been communicated to affected parties.

Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial statements were acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company has no intention of trading these loans and receivables. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Impairment of financial assets

An assessment of whether there is objective evidence of impairment is carried out for all financial assets or groups of financial assets at the balance sheet date. This assessment may be of individual assets ('individual impairment') or of a portfolio of assets ('collective impairment'). A financial asset or a group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For individual impairment the principal loss event is one or more missed payments, although other loss events can also be taken into account, including arrangements in place to pay less than the contractual payments, fraud and bankruptcy or other financial difficulty indicators. An assessment of collective impairment will be made of financial assets with similar risk characteristics. For these assets, portfolio loss experience is used to provide objective evidence of impairment.

Where there is objective evidence that an impairment loss exists on loans and receivables or held-to-maturity investments, impairment provisions are made to reduce the carrying value of financial assets to the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at amortised cost, the charge to the income statement reflects the movement in the level of provisions made, together with amounts written off net of recoveries in the year.

Impairment losses recognised in the income statement on equity instruments are not reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Interest will continue to accrue on all financial assets, based on the written down balance. Interest is calculated using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. To the extent that a provision may be increased or decreased in subsequent periods, the recognition of interest will be based on the latest balance net of provision.

Financial liabilities

Interest-bearing bank loans and overdrafts are recorded initially at fair value, which is generally the proceeds received, net of direct issue costs. Subsequently, these liabilities are held at amortised cost using the effective interest method.

Finance charges, including premiums payable on settlement or redemption and direct issue costs are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed in note 26.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Derivative financial instruments and hedge accounting

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Company principally uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Company's treasury policies, as approved by the Board. The Company does not use derivative financial instruments for speculative purposes.

All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates.

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the currency risk of future highly probable inventory purchases. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of a financial asset or liability due to foreign currency risk and/or interest rate risk. The changes in fair value of the hedging instrument are recognised in the income statement. The hedged item is also adjusted for changes in fair value attributable to the hedged risk, with the corresponding adjustment made in the income statement.

To qualify for hedge accounting, the Company documents at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Company also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will be highly effective on an ongoing basis.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as finance income/costs as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Financial instruments (prior financial year comparatives)

The Company has taken the exemption available in IFRS 1 not to restate comparatives for IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'. As such, financial instruments were accounted for and presented in accordance with UK GAAP for the comparatives (52 weeks to 26 March 2005).

The Company's accounting policy for financial instruments under UK GAAP is set out below:

The derivative financial instruments used by the Company 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 over the period of the contract. Any premium or discount arising is amortised over the life of the instruments.

Forward currency contracts entered into with respect to trading transactions are accounted for as hedges, with the instruments' impact on profit not recognised until the underlying transaction is recognised in the profit and loss account.

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.

(c) Judgements and estimates

The Company makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events. The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

Impairment of assets

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

Post employment benefits

The Company operates various defined benefit schemes for its employees. The present value of the schemes liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the schemes. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 28.

Provisions

Provisions have been estimated for onerous leases and restructuring costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

2 Accounting policies (continued)

Income taxes

The Company recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made.

3 Segment reporting

The Company's activities consist solely of sales through retail outlets in the United Kingdom.

4 Operating profit/(loss)

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Operating profit/(loss) is stated after charging/(crediting) the following items: | | |
| Employee costs (note 6) | 1,752 | 1,687 |
| Depreciation expense | 341 | 549 |
| Amortisation expense (included within cost of sales) | 12 | 16 |
| Profit on sale of properties | (1,005) | (7) |
| Operating lease rentals - land and buildings | 258 | 268 |
| - other leases | 30 | 21 |
| - sublease payments received | (24) | (32) |

Operating profit/(loss) above includes £51 million (2004/05: £407 million) of Business Review and Transformation operating costs (note 7) and £4 million of IT insourcing costs (note 8).

| | 2006 £m | 2005 £m |
|-------------------------------|------------|------------|
| Auditors' remuneration | | |
| Audit services | | |
| statutory audit | 0.6 | 0.4 |
| Further assurance services | 0.3 | 0.3 |
| Taxation advisory services | 0.3 | - |
| | 1.2 | 0.7 |

5 Finance income and finance costs

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Interest on bank deposits | 2 | 2 |
| Dividend income from investments | 159 | - |
| Amounts due from Group entities | 5 | 53 |
| Net return on pension schemes (note 28) | 23 | 11 |
| Finance income | 189 | 66 |
| Borrowing costs | | |
| Amounts due to Group entities | (8) | (74) |
| Other loans | (3) | (2) |
| Obligations under finance leases | | |
| - Amounts due to Group entities | (91) | (85) |
| - Other | (3) | (6) |
| Provisions – amortisation of discount (note 20) | (1) | - |
| | (106) | (167) |
| Amounts included in the cost of qualifying assets | | |
| Interest capitalised - qualifying assets | 10 | 5 |
| Finance costs | (96) | (162) |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

6 Employee costs

| | 2006 £m | 2005 £m |
|--|--------------|--------------|
| Employee costs for the Company during the year amounted to: | | |
| Wages and salaries, including bonus and termination benefits | 1,526 | 1,484 |
| Social security costs | 99 | 91 |
| Pension costs – defined contribution schemes | 23 | 19 |
| Pension costs – defined benefit schemes (note 28) | 81 | 85 |
| Share-based payments expense (note 29) | 23 | 8 |
| | 1,752 | 1,687 |

| | Number 000's | Number 000's |
|---|-----------------|-----------------|
| The average number of employees during the year were: | | |
| Full-time | 47.7 | 47.5 |
| Part-time | 101.3 | 100.9 |
| | 149.0 | 148.4 |
| Full-time equivalent | 93.4 | 93.0 |

The average number of employees (full-time equivalent) were employed in the following countries:

| | | |
|----------------|------|------|
| United Kingdom | 93.4 | 93.0 |
|----------------|------|------|

7 Business Review and Transformation operating costs

The Business Transformation Programme concluded in the year ended 26 March 2005, with no further costs recognised in the current financial year. Business Review costs in the current financial year are primarily employee and pension related costs, as set out below:

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Business Transformation operating costs | - | 22 |
| IT systems | - | 55 |
| Employee and pension related | 47 | 41 |
| Inventories | - | 90 |
| Supply chain | - | 119 |
| Property | - | 65 |
| Other | 4 | 15 |
| Business Review operating costs | 51 | 385 |
| Total Business Review and Transformation operating costs | 51 | 407 |

8 IT insourcing costs

On 27 October 2005, the J Sainsbury plc group announced that the IT services previously provided by Accenture would be migrated back to the group, together with a number of Accenture employees. The costs associated with the transition process are £63 million, of which £4 million were borne by the Company. The remaining costs were borne by other companies in the J Sainsbury plc group. These costs incurred by the Company are held within provisions (note 20).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

9 Income tax expense

| | 2006 £m | 2005 £m |
|--|------------|--------------|
| Current tax expense | | |
| Current year | - | (14) |
| Under provision in prior years | 9 | 2 |
| UK group relief receipts – current year | - | (63) |
| UK group relief receipts – prior year | - | 1 |
| | 9 | (74) |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 36 | (47) |
| Over provision in prior years | (4) | - |
| | 32 | (47) |
| Total income tax expense/(credit) in income statement | 41 | (121) |
| Tax expense on underlying profit | | |
| Tax on underlying profit from continuing operations (1) | 57 | (1) |
| Tax on Business Review and Transformation operating costs | (15) | (120) |
| Tax on IT insourcing costs | (1) | - |
| Tax on financing fair value movements | - | - |
| Tax on debt restructuring costs | - | - |
| | 41 | (121) |

(1) Tax charge attributable to underlying profit before tax from continuing operations.

The effective tax rate of 4 per cent (2005: 26 per cent) is lower than the standard rate of corporation tax in the UK. The differences are explained below:

| | 2006 £m | 2005 £m |
|--|------------|--------------|
| Profit/(loss) before taxation | 1,072 | (473) |
| Income tax at UK corporation tax rate of 30% (2005: 30%) | 322 | (142) |
| Effects of: | | |
| Disallowed depreciation on UK properties | 20 | 18 |
| Non-deductible expenses | 1 | 3 |
| Non-taxable profit on disposal of property | (301) | (4) |
| Non-taxable dividend income | (48) | (16) |
| Group relief surrendered for nil consideration | 42 | 9 |
| Other (inc DTR) | - | 4 |
| Over provision in prior years | 5 | 7 |
| Total income tax expense/(credit) in income statement | 41 | (121) |

The deferred income tax charged or credited to equity during the year is as follows:

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Tax on items recognised directly in equity | | |
| Actuarial gains and losses on defined benefit pension schemes | (77) | 38 |
| | (77) | 38 |
| Share-based payment tax deduction | (5) | - |
| | (82) | 38 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

10 Equity dividends

| | 2006 pence per share | 2005 pence per share | 2006 £m | 2005 £m |
|--|----------------------------|----------------------------|------------|------------|
| Amounts recognised as distributions to equity holders in the year: | | | | |
| Final dividend of prior financial year | 862 | 1,076 | 250 | 312 |
| | 862 | 1,076 | 250 | 312 |

No dividends have been paid or proposed by the Directors since the balance sheet date.

11 Property, plant and equipment

| | Land and buildings £m | Fixtures and equipment £m | Total £m |
|------------------------------------|-----------------------------|---------------------------------|--------------|
| Cost | | | |
| At 27 March 2005 | 5,806 | 3,543 | 9,349 |
| Additions | 282 | 212 | 494 |
| Disposals | (2,747) | (397) | (3,144) |
| Transfer to assets held for resale | (100) | (7) | (107) |
| At 25 March 2006 | 3,241 | 3,351 | 6,592 |

Accumulated depreciation and impairment

| | | | |
|------------------------------------|------------|--------------|--------------|
| At 27 March 2005 | 788 | 2,230 | 3,018 |
| Depreciation expense for the year | 74 | 267 | 341 |
| Disposals | (367) | (302) | (669) |
| Transfer to assets held for resale | (4) | (3) | (7) |
| At 25 March 2006 | 491 | 2,192 | 2,683 |

| | | | |
|--|--------------|--------------|--------------|
| Net book value at 25 March 2006 | 2,750 | 1,159 | 3,909 |
|--|--------------|--------------|--------------|

| | | | |
|--|------------|-----------|------------|
| Capital work-in-progress included above | 309 | 44 | 353 |
|--|------------|-----------|------------|

| | Land and buildings £m | Fixtures and equipment £m | Total £m |
|----------------------------------|-----------------------------|---------------------------------|--------------|
| Cost | | | |
| At 28 March 2004 | 5,556 | 3,369 | 8,925 |
| Additions | 511 | 313 | 824 |
| Disposals | (160) | (139) | (299) |
| Transfer to assets held for sale | (101) | - | (101) |
| At 26 March 2005 | 5,806 | 3,543 | 9,349 |

Accumulated depreciation and impairment

| | | | |
|-----------------------------------|------------|--------------|--------------|
| At 28 March 2004 | 687 | 1,884 | 2,571 |
| Depreciation expense for the year | 125 | 424 | 549 |
| Disposals | (10) | (78) | (88) |
| Transfer to assets held for sale | (14) | - | (14) |
| At 26 March 2005 | 788 | 2,230 | 3,018 |

| | | | |
|--|--------------|--------------|--------------|
| Net book value at 26 March 2005 | 5,018 | 1,313 | 6,331 |
|--|--------------|--------------|--------------|

| | | | |
|--|------------|-----------|------------|
| Capital work-in-progress included above | 306 | 63 | 369 |
|--|------------|-----------|------------|

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

11 Property, plant and equipment (continued)

| | 2006 £m | 2005 £m |
|---|--------------|--------------|
| The net book value of land and buildings comprised: | | |
| Freehold land and building | 1,658 | 3,887 |
| Long leasehold | 631 | 773 |
| Short leasehold | 461 | 358 |
| | 2,750 | 5,018 |

Interest capitalised

Interest capitalised included in additions amounted to £10 million (2005: £5 million). Accumulated interest capitalised included in the cost total above amounted to £85 million (2005: £88 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.3 per cent (2005: 5.2 per cent).

Analysis of assets held under finance leases

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Land and buildings | | |
| Cost | 55 | 1,265 |
| Accumulated depreciation and impairment | (21) | (195) |
| Net book value | 34 | 1,070 |
| | £m | £m |
| Fixtures and equipment | | |
| Cost | - | 121 |
| Accumulated depreciation and impairment | - | (89) |
| Net book value | - | 32 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

12 Intangible assets

| | Pharmacy licences £m | Software £m | Total £m |
|--|----------------------------|----------------|-------------|
| Cost | | | |
| At 27 March 2005 | 35 | 57 | 92 |
| Additions | 1 | 4 | 5 |
| At 25 March 2006 | 36 | 61 | 97 |
| Accumulated amortisation and impairment | | | |
| At 27 March 2005 | 11 | 19 | 30 |
| Amortisation expense for the year | 2 | 10 | 12 |
| At 25 March 2006 | 13 | 29 | 42 |
| Net book value at 25 March 2006 | 23 | 32 | 55 |
| Cost | | | |
| At 28 March 2004 | 31 | 49 | 80 |
| Additions | 4 | 8 | 12 |
| At 26 March 2005 | 35 | 57 | 92 |
| Accumulated amortisation and impairment | | | |
| At 28 March 2004 | 8 | 6 | 14 |
| Amortisation expense for the year | 3 | 13 | 16 |
| At 26 March 2005 | 11 | 19 | 30 |
| Net book value at 26 March 2005 | 24 | 38 | 62 |

13 Investments

| | 2006 £m | 2005 £m |
|----------------------------|------------|------------|
| Investment in subsidiaries | 4 | 952 |

The lists of principal operating subsidiaries are given in note 30.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

14 Inventories

| | 2006 | 2005 |
|-----------------------|------|------|
| | £m | £m |
| Goods held for resale | 557 | 533 |

15 Receivables

Trade and other receivables

| | 2006 | 2005 |
|----------------------------------|-------|------|
| | £m | £m |
| Non-current | | |
| Amounts due from parent company | 782 | - |
| Current | | |
| Trade receivables | 31 | 25 |
| Amount due from parent company | 1,379 | - |
| Amounts due from group companies | 14 | 18 |
| Other receivables | 50 | 101 |
| | 1,474 | 144 |
| Prepayments and accrued income | 125 | 111 |
| | 1,599 | 255 |

Trade receivables are non-interest bearing and are on commercial terms. Other receivables are generally non-interest bearing.

Concentrations of credit risk with respect to trade and other receivables are limited due to the Company's customer base being large and unrelated.

The non-current amount due from the parent company is at an interest rate of 4.97% and is re-payable in 2018.

Amounts due from the parent company of £1,379 million are at floating rates of interest on a commercial basis and are re-payable on demand.

The remaining current amounts due from group companies are non-interest bearing and are re-payable on demand.

16 Non-current assets held for sale

Assets held for sale of £100 million (2005: £87 million) consist of retail properties. Sale of these assets is expected to occur in the next financial year beginning 26 March 2006.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

17 Payables

| | 2006 £m | 2005 £m |
|--------------------------------|--------------|--------------|
| Current | | |
| Trade payables | 1,381 | 1,348 |
| Amounts due to parent company | - | 1,325 |
| Amounts due to Group companies | 412 | 350 |
| Other payables | 327 | 348 |
| Accruals and deferred income | 137 | 120 |
| | 2,257 | 3,491 |
| Non-current | | |
| Other payables | - | 27 |
| Accruals and deferred income | 30 | - |
| | 30 | 27 |

Deferred income relates to the accounting for leases with fixed rental increases and lease incentives on a straight-line basis over the term of the lease.

Amounts due to group companies are non-interest bearing and are re-payable on demand.

18 Borrowings

| | 2006 £m | 2005 £m |
|--|------------|--------------|
| Short-term borrowings | | |
| Bank overdrafts | 21 | 21 |
| Long-term borrowings | | |
| Obligations under finance leases | 52 | 53 |
| Obligations under finance leases due to parent company | - | 1,264 |
| | 52 | 1,317 |
| Total borrowings | 73 | 1,338 |

Bank overdrafts and bank loans

Bank overdrafts are repayable on demand and carry floating rates of interest.

Obligations under external finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---------------------------------------|------------------------|------------|---|------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Amounts payable under finance leases: | | | | |
| Within 1 year | 3 | 3 | - | - |
| Within 2 to 5 years inclusive | 13 | 13 | 1 | 1 |
| After 5 years | 211 | 215 | 51 | 52 |
| | 227 | 231 | 52 | 53 |
| Less: future finance charges | (175) | (178) | | |
| Present value of lease obligations | 52 | 53 | | |

Disclosed as:

| | | |
|-------------|-----------|-----------|
| Current | - | - |
| Non-current | 52 | 53 |
| | 52 | 53 |

External finance leases have effective interest rates of 4.30 per cent to 9.00 per cent. The average

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

18 Borrowings (continued)

Obligations under inter-group finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|------------------------|--------------|---|------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Amounts payable under finance leases: | | | | |
| Within 1 year | - | - | - | - |
| Within 2 to 5 years inclusive | - | - | - | - |
| After 5 years | - | 4,053 | - | 1,264 |
| | - | 4,053 | - | 1,264 |
| Less: future finance charges | - | (2,789) | | |
| Present value of lease obligations | - | 1,264 | | |
| Disclosed as: | | | | |
| Current | - | - | | |
| Non-current | - | 1,264 | | |
| | - | 1,264 | | |

Inter-group finance leases had an effective interest rate of 7% per cent.

19 Deferred taxation

The movements in deferred income tax assets and liabilities during the financial year, prior to the offsetting of the balances within the same tax jurisdiction, are shown below.

| | Accelerated tax depreciation £m | Other £m | Total £m |
|--|--|-------------|--------------|
| Deferred income tax liabilities | | | |
| At 27 March 2005 | (157) | (25) | (182) |
| Charged to income statement | (3) | (4) | (7) |
| Charged to equity | - | - | - |
| At 25 March 2006 | (160) | (29) | (189) |

| | Retirement benefit obligations £m | Share-based payment £m | Other £m | Total £m |
|-----------------------------------|--|------------------------------|-------------|-------------|
| Deferred income tax assets | | | | |
| At 27 March 2005 | 161 | - | 20 | 181 |
| Charged to income statement | (15) | 7 | (17) | (25) |
| Charged to equity | 77 | 5 | - | 82 |
| At 25 March 2006 | 223 | 12 | 3 | 238 |

Net deferred income tax asset/(liability)

| | |
|-------------------------|-----------|
| At 25 March 2006 | 49 |
| At 26 March 2005 | (1) |

Deferred income tax assets have been recognised in respect of all income tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances on a net basis.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

20 Provisions

| | Onerous leases £m | Restructuring provisions £m | Long service awards £m | Total £m |
|----------------------------|-------------------------|-----------------------------------|---------------------------------|-------------|
| At 27 March 2005 | 72 | 31 | 7 | 110 |
| Charge to income statement | | | | |
| - Additional provisions | 5 | 43 | - | 48 |
| - Unused amounts reversed | (8) | - | - | (8) |
| Utilisation of provision | (22) | (33) | - | (55) |
| Amortisation of discount | 1 | - | - | 1 |
| At 25 March 2006 | 48 | 41 | 7 | 96 |

| | 2006 £m | 2005 £m |
|---------------|------------|------------|
| Disclosed as: | | |
| Current | 38 | 55 |
| Non-current | 58 | 55 |
| | 96 | 110 |

The onerous lease provision covers residual lease commitments of up to 28 years, after allowance for existing or anticipated sublet rental income.

The restructuring provisions of £41 million include employee and pension related costs of £37 million as part of the Business Review (note 7) and IT insourcing costs of £4 million (note 8).

Long service awards are accrued over the period the service is provided by the employee.

21 Called up share capital

| | 2006 million | 2005 million | 2006 £m | 2005 £m |
|---|-----------------|-----------------|------------|------------|
| Authorised share capital | | | | |
| Ordinary shares of £100 each (2005: £100) | 40 | 40 | 4,000 | 4,000 |

Called up share capital

| | | | | |
|-------------------------|----|----|-------|-------|
| Allotted and fully paid | | | | |
| Ordinary shares | 29 | 29 | 2,900 | 2,900 |

22 Other reserves

| | Actuarial gains/ (losses) £m | Cash flow hedge reserve £m | Total other reserves £m |
|---|---------------------------------------|-------------------------------------|-------------------------------|
| At 27 March 2005 | 90 | - | 90 |
| Actuarial losses on defined benefit pension schemes | (178) | - | (178) |
| Cash flow hedges | | | |
| effective portion of fair value movements | - | 1 | 1 |
| transferred to income statement | - | (1) | (1) |
| At 25 March 2006 | (88) | - | (88) |
| At 28 March 2004 | - | - | - |
| Actuarial gains on defined benefit pension schemes | 90 | - | 90 |
| At 26 March 2005 | 90 | - | 90 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

23 Retained earnings

| | £m |
|-------------------------|------------|
| At 27 March 2005 | (54) |
| Profit for the year | 1,031 |
| Dividends paid | (250) |
| Share-based payment | 28 |
| At 25 March 2006 | 755 |
| At 28 March 2004 | 602 |
| Profit for the year | (352) |
| Dividends paid | (312) |
| Share-based payment | 8 |
| At 26 March 2005 | (54) |

24 Reconciliation of movements in equity

| | Called up share capital £m | Other reserves £m | Retained earnings £m | Equity shareholders' funds £m |
|---|-------------------------------------|-------------------------|----------------------------|--|
| At 27 March 2005 | 2,900 | 90 | (54) | 2,936 |
| Profit for the year | - | - | 1,031 | 1,031 |
| Dividends paid | - | - | (250) | (250) |
| Share-based payment | - | - | 28 | 28 |
| Actuarial losses on defined benefit pension schemes | - | (178) | - | (178) |
| Cash flow hedges | | | | |
| effective portion of fair value movements | - | 1 | - | 1 |
| transferred to income statement | - | (1) | - | (1) |
| At 25 March 2006 | 2,900 | (88) | 755 | 3,567 |
| At 28 March 2004 | 2,900 | - | 602 | 3,502 |
| Profit for the year | - | - | (352) | (352) |
| Dividends paid | - | - | (312) | (312) |
| Share-based payment | - | - | 8 | 8 |
| Actuarial gains on defined benefit pension schemes | - | 90 | - | 90 |
| At 26 March 2005 | 2,900 | 90 | (54) | 2,936 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

25 Notes to the cash flow statements

(a) Reconciliation of operating profit/(loss) to cash generated from operations

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Operating profit/(loss) | 979 | (377) |
| Adjustments for: | | |
| Depreciation expense | 341 | 549 |
| Amortisation expense | 12 | 16 |
| Profit on sale of properties | (1,005) | (7) |
| Share-based payments expense | 23 | 8 |
| Operating cash flows before changes in working capital | 350 | 189 |
| Changes in working capital | | |
| (Increase)/decrease in inventories | (24) | 53 |
| (Increase)/decrease in trade and other receivables | 24 | 32 |
| (Decrease)/increase in trade and other payables | 735 | 682 |
| (Decrease)/increase in provisions and other liabilities ⁽¹⁾ | (125) | 76 |
| Cash generated from operations | 960 | 1,032 |

(1) Includes £110 million of cash paid into the defined benefit pension schemes (note 28).

(b) Cash and cash equivalents

For the purposes of the cash flow statements, cash and cash equivalents comprise the following:

| | 2006 £m | 2005 £m |
|---------------------------|------------|------------|
| Cash and cash equivalents | 229 | 235 |
| Bank overdrafts (note 18) | (21) | (21) |
| | 208 | 214 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

26 Financial risk management

Treasury management

Treasury policies are reviewed and approved by the parent company's Board. The Chief Executive and Chief Financial Officer have joint delegated authority from the Parent Company's Board to approve finance transactions up to £300 million.

The J Sainsbury plc Group operates a central treasury function is responsible for managing the Company's liquid resources, funding requirements and interest rate and currency exposures. J Sainsbury plc Group policy permits the use of derivative instruments but only for reducing exposures arising from underlying business activity and not for speculative purposes.

Financial instruments

The Company holds or issues financial instruments to finance its operations and to manage the interest rate and currency risks associated with its sources of finance. Various other financial instruments e.g. trade receivables and payables also arise out of the Company's commercial operations.

The Company finances its operations by a combination of financing from the parent company, share capital and cash generated by operations.

Interest rate risk

The Company's exposure to interest rate fluctuations are limited to amounts receivable and payable to Group companies.

Currency risk

The Company incurs currency exposure in respect of overseas trade purchases made in currencies other than sterling. The Company uses a programme of rolling forward contracts to reduce the exchange rate risk associated with these purchases, which may be either contracted or not contracted. Gains and losses on these contracts are deferred in equity when the transaction qualifies for hedge accounting in accordance with IAS 39 'Financial instruments: Recognition and Measurement'.

Liquidity risk

The Company's exposure to liquidity risk is managed by funding cash flow requirements from the parent company.

Credit risk

The Company's exposure to credit risk is limited to amounts receivable and payable to Group companies. Concentrations of credit risk with respect to trade and other receivables are limited due to the customer base being large and unrelated.

Fair value estimation

The fair values of receivables, overdrafts, payables and loans of a maturity of less than one year are approximate their book values.

The fair values of amounts due from Group companies are discounted using current market rates of interest.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

27 Financial instruments

The Company has adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 27 March 2005. The Company has taken the exemption available in IFRS 1 'First-time Adoption of International Financial Reporting Standards' not to restate comparatives for both IAS 32 and IAS 39.

Foreign exchange forward contracts – cash flow hedges

At 25 March 2006, the Company held a portfolio of foreign exchange forward contracts with a fair value of £0.2 million to hedge its exposure to foreign exchange rate risk on its future highly probable trade purchases. The Company has purchased €136 million and sold sterling at rates ranging from 0.69 to 0.70 with maturities from April to November 2006 and purchased US\$48 million and sold sterling at rates ranging from 1.72 to 1.79 with maturities from April to November 2006.

At 25 March 2006, an unrealised gain of £0.2 million is included in equity in respect of these contracts. These gains will be transferred to the income statement over the next eight months from balance sheet date.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

| | Less than one year £m | One to two years £m | Two to five years £m | More than five years £m | 2006 Total £m |
|---------------------------------|-----------------------------|---------------------------|----------------------------|----------------------------------|---------------------|
| Floating rate | | | | | |
| Cash and cash equivalents | 229 | - | - | - | 229 |
| Amounts due from Group entities | 1,379 | - | - | - | 1,379 |
| Bank overdrafts | (21) | - | - | - | (21) |
| Fixed rate | | | | | |
| Amounts due from Group entities | - | - | - | 782 | 782 |
| Finance lease obligations | - | - | (1) | (51) | (52) |

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Foreign currency risk

After taking into account forward contracts the Company had net euro denominated monetary assets of £nil, US dollar denominated monetary assets of £nil and Australian dollar monetary assets of £nil. The Company has net euro denominated trade creditors of £5 million and US dollar denominated trade creditors of £4 million.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

27 Financial instruments (continued)

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all financial instruments that are carried in the financial statements at other than fair values.

The fair values of short-term deposits, receivables, overdrafts, payables and loans of a maturity of less than one year are assumed to approximate to their book values, and are excluded from the analysis below.

| | Carrying amount £m | Fair value £m |
|----------------------------------|--------------------------|------------------|
| Financial assets | | |
| Amounts due from Group companies | 782 | 782 |
| Financial liabilities | | |
| Obligations under finance leases | (52) | (52) |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

28 Retirement benefit obligations

Retirement benefit obligations relate to two funded defined benefit schemes, the J Sainsbury Pension and Death Benefit Scheme ("JSPDBS") and the J Sainsbury Executive Pension Scheme ("JSEPS") and an unfunded pension liability relating to senior employees. The defined benefit schemes were closed to new employees on 31 January 2002. The assets of these schemes are held separately from the Company's assets.

The defined benefit schemes were subject to a triennial valuation carried out by Watson Wyatt, the schemes' independent actuaries, at March 2003, on the projected unit basis. The results of this valuation have been used to determine the current employer and employee contribution rates respectively.

The unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Company payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one off cash payment.

In the current financial year, the Company utilised funds obtained from its parent's new long-term financing. The one off contribution of £350 million is divided into two tranches – £110 million paid in cash on 24 March 2006 and the remaining £240 million to be paid in cash on 19 May 2006.

The amounts recognised in the balance sheet are as follows:

| | 2006 £m | 2005 £m |
|---------------------------------------|------------|------------|
| Present value of funded obligations | (4,361) | (3,503) |
| Fair value of plan assets | 3,710 | 2,976 |
| | (651) | (527) |
| Present value of unfunded obligations | (7) | (9) |
| Retirement benefit obligations | (658) | (536) |
| Deferred income tax asset | 223 | 161 |
| Net retirement benefit obligations | (435) | (375) |

The retirement benefit obligations and the associated deferred income tax asset are shown within different line items on the face of the balance sheet.

The amounts recognised in the income statement are as follows:

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Current service cost – funded schemes | (68) | (75) |
| Current service cost – unfunded scheme | (1) | (3) |
| Past service cost | (12) | (7) |
| Total included in employee costs (note 6) | (81) | (85) |
| Interest cost on pension scheme liabilities | (190) | (180) |
| Expected return on plan assets | 213 | 191 |
| Total included in finance income (note 5) | 23 | 11 |
| Total income statement expense | (58) | (74) |

Of the expense recognised in operating profit, £65 million (2005: £68 million) is included in cost of sales and £16 million (2005: £17 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was £644 million (2005: £325 million).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

28 Retirement benefit obligations (continued)

The amounts recognised in the statement of recognised income and expense are as follows:

| | 2006 | 2005 |
|---|-------|------|
| | £m | £m |
| Net actuarial (losses)/gains recognised during the year | (255) | 128 |
| Cumulative actuarial (losses)/gains recognised | (127) | 128 |

The movements in the funded retirement benefit obligations are as follows:

| | 2006 | 2005 |
|------------------------------------|---------|---------|
| | £m | £m |
| Beginning of year | (3,503) | (3,329) |
| Current service cost | (68) | (75) |
| Past service cost | (12) | (7) |
| Interest cost | (190) | (180) |
| Contributions by plan participants | (8) | (8) |
| Actuarial losses | (683) | (6) |
| Benefits paid | 103 | 102 |
| End of year | (4,361) | (3,503) |

The movements in the fair value of plan assets are as follows:

| | 2006 | 2005 |
|------------------------------------|-------|-------|
| | £m | £m |
| Beginning of year | 2,976 | 2,664 |
| Expected return on plan assets | 213 | 191 |
| Actuarial gains | 428 | 134 |
| Contributions by employer | 188 | 81 |
| Contributions by plan participants | 8 | 8 |
| Benefits paid | (103) | (102) |
| End of year | 3,710 | 2,976 |

The principal actuarial assumptions used at the balance sheet date are as follows:

| | 2006 | 2005 |
|--------------------------------|------|------|
| | % | % |
| Discount rate | 4.9 | 5.5 |
| Expected return on plan assets | 6.6 | 7.1 |
| Future salary increases | 2.85 | 2.75 |
| Future pension increases | 2.85 | 2.75 |

The life expectancy at the balance sheet date for a pensioner at normal retirement age is as follows:

| | 2006 | 2005 |
|------------------|-------|-------|
| | years | years |
| Male pensioner | 20.9 | 20.9 |
| Female pensioner | 23.2 | 23.2 |

The major categories of plan assets as a percentage of total plan assets are as follows:

| | 2006 | 2005 |
|----------|------|------|
| | % | % |
| Equities | 62 | 66 |
| Bonds | 33 | 29 |
| Property | 4 | 4 |
| Other | 1 | 1 |
| | 100 | 100 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

28 Retirement benefit obligations (continued)

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking view of the financial markets (as suggested by the yield available) and the views of investment organisations.

The history of experience adjustments on the plans for the current and previous financial years is as follows:

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Present value of retirement benefit obligations | (4,368) | (3,512) |
| Fair value of plan assets | 3,710 | 2,976 |
| Deficit | (658) | (536) |
| Experience loss on plan liabilities | (27) | (6) |
| Experience gain on plan assets | 428 | 134 |

The expected contributions to defined benefit schemes for the next financial year beginning 26 March 2006 are £324 million including the one off contribution of £240 million paid on 19 May 2006.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

29 Share-based payments

The Company recognised £23 million (2005: £8 million) of employee costs (note 6) related to share-based payment transactions made during the financial year. J Sainsbury plc (parent company) operates various share-based payment schemes as set out below:

(a) Savings Related Share Option Scheme ("SAYE")

J Sainsbury plc operates a Savings Related Share Option Scheme, which is open to all UK employees with more than six months continuous service. This is an approved Inland Revenue Scheme and was established in 1980. Under the SAYE scheme, participants remaining in the Company's employment at the end of the three-year or five-year savings period are entitled to use their savings to purchase shares of the Company's parent at a stated exercise price. Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

At 25 March 2006, UK employees held 24,033 five-year savings contracts (2005: 25,625) in respect of options over 21.6 million shares (2005: 20.1 million) and 23,265 three-year savings contracts (2005: 24,985) in respect of options over 13.8 million shares (2005: 13.1 million).

A reconciliation of option movements is shown below:

| | 2006 | | 2005 | |
|----------------------------------|---------------------------------|--|---------------------------------|--|
| | Number of options million | Weighted average exercise price pence | Number of options million | Weighted average exercise price pence |
| Outstanding at beginning of year | 33.2 | 248 | 34.8 | 276 |
| Granted | 13.2 | 231 | 10.8 | 217 |
| Forfeited | (4.4) | 239 | (5.9) | 259 |
| Exercised | (3.6) | 264 | (1.4) | 253 |
| Expired | (3.0) | 288 | (5.1) | 363 |
| Outstanding at end of year | 35.4 | 237 | 33.2 | 248 |
| Exercisable at end of year | 1.7 | 278 | 3.3 | 285 |

The weighted average share price during the period for options exercised over the year was 317 pence (2005: 290 pence).

Details of options at 25 March 2006 are set out below:

| Date of grant | Date of expiry | Exercise price pence | Options outstanding | |
|----------------------------------|----------------|-------------------------|---------------------|-----------------|
| | | | 2006 million | 2005 million |
| 7 January 2000 (5 year period) | 31 August 2005 | 253 | - | 1.1 |
| 28 November 2000 (5 year period) | 31 August 2006 | 299 | 1.1 | 2.8 |
| 20 December 2001 (3 year period) | 31 August 2005 | 302 | - | 2.2 |
| 20 December 2001 (5 year period) | 31 August 2007 | 302 | 2.6 | 3.0 |
| 3 January 2003 (3 year period) | 31 August 2006 | 239 | 0.6 | 2.7 |
| 3 January 2003 (5 year period) | 31 August 2008 | 239 | 3.3 | 3.8 |
| 17 December 2003 (3 year period) | 31 August 2007 | 241 | 2.6 | 3.1 |
| 17 December 2003 (5 year period) | 31 August 2009 | 241 | 3.3 | 3.9 |
| 15 December 2004 (3 year period) | 31 August 2008 | 217 | 4.1 | 5.1 |
| 15 December 2004 (5 year period) | 31 August 2010 | 217 | 4.8 | 5.5 |
| 15 December 2005 (3 year period) | 31 August 2009 | 231 | 6.6 | - |
| 15 December 2005 (5 year period) | 31 August 2011 | 231 | 6.4 | - |
| | | | 35.4 | 33.2 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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29 Share-based payments (continued)

Options granted during the year were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

| | 2006 | 2005 |
|--|------|------|
| Share price at grant date (pence) | 306 | 267 |
| Exercise price (pence) | 231 | 217 |
| Expected volatility - 3 year period (%) | 23.9 | 30.6 |
| - 5 year period (%) | 27.3 | 33.6 |
| Option life - 3 year period (years) | 3.2 | 3.2 |
| - 5 year period (years) | 5.2 | 5.2 |
| Expected dividends (expressed as dividend yield %) | 2.7 | 2.9 |
| Risk-free interest rate - 3 year period (%) | 4.2 | 4.6 |
| - 5 year period (%) | 4.2 | 4.7 |
| Fair value per option - 3 year period (pence) | 91 | 79 |
| - 5 year period (pence) | 103 | 94 |

The expected volatility is based on the standard deviation of J Sainsbury plc's share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

(b) Executive Share Option Plan ("ESOP")

Under the Executive Share Option Plan, participants were granted options to purchase shares in J Sainsbury plc at a stated exercise price. The maximum annual option award is two times basic salary and the actual grants were agreed by the Company's parent Remuneration Committee according to the assessed performance and potential of participants.

The exercise of options is conditional upon a performance target based on the growth in J Sainsbury plc's underlying earnings per share ("EPS") relative to inflation over a three-year period. The Committee reviews the performance condition prior to the annual award of options to ensure that it is set at appropriately challenging levels. EPS is measured against a fixed starting point over the performance period beginning with the year in which the option was granted.

For the ESOP grants made in the prior financial year, the performance conditions provided that no options will vest for average annual real growth of less than three per cent per annum over the three-year performance period, 50 per cent of the option will vest if average real growth of three per cent per annum is achieved and for average real growth of five per cent per annum, the option is exercisable in full, with a pro rating between three and five per cent. To the extent that the condition is not satisfied in full after three years, it will be retested on a fixed point basis over four and then five financial years. To the extent the condition is not met after five financial years, the option will lapse.

Once the options vest, participants remaining in the Company's employment or leaving for certain reasons, are entitled to exercise the options between vesting date (normally at the end of the three-year performance period) and the option expiry date, which is ten years from date of grant. It is intended that there will be no further options granted under this plan.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

29 Share-based payments (continued)

A reconciliation of option movements is shown below:

| | 2006 | | 2005 | |
|----------------------------------|---------------------------------|--|---------------------------------|--|
| | Number of options million | Weighted average exercise price pence | Number of options million | Weighted average exercise price pence |
| Outstanding at beginning of year | 93.9 | 313 | 92.8 | 323 |
| Granted | - | - | 23.1 | 274 |
| Forfeited | (50.2) | 278 | (21.6) | 316 |
| Exercised | (4.9) | 265 | (0.4) | 272 |
| Expired | (2.0) | 475 | - | - |
| Outstanding at end of year | 36.8 | 358 | 93.9 | 313 |
| Exercisable at end of year | 26.0 | 393 | 35.3 | 381 |

The weighted average share price during the period for options exercised over the year was 296 pence (2005: 286 pence).

Details of options at 25 March 2006 are set out below:

| Date of grant | Date of expiry | Exercise price pence | Options outstanding | |
|------------------|-------------------|-------------------------|---------------------|-----------------|
| | | | 2006 million | 2005 million |
| 8 September 1995 | 7 September 2005 | 475 | - | 2.1 |
| 20 May 1997 | 19 May 2007 | 367 | 2.2 | 2.5 |
| 11 November 1997 | 10 November 2007 | 489 | 0.1 | 0.1 |
| 10 November 1998 | 9 November 2008 | 545 | 2.9 | 3.2 |
| 2 August 1999 | 1 August 2009 | 378 | 4.2 | 4.6 |
| 24 November 1999 | 23 November 2009 | 320 | 0.1 | 0.1 |
| 1 March 2000 | 28 February 2010 | 261 | - | 3.0 |
| 2 June 2000 | 1 June 2010 | 272 | 5.0 | 7.0 |
| 7 June 2001 | 6 June 2011 | 427 | 5.5 | 6.1 |
| 26 July 2001 | 25 July 2011 | 407 | 6.1 | 6.6 |
| 25 July 2002 | 24 July 2012 | 287 | 5.3 | 18.4 |
| 22 May 2003 | 21 May 2013 | 257 | 4.0 | 20.0 |
| 27 March 2004 | 26 March 2014 | 262 | - | 0.5 |
| 20 May 2004 | 19 May 2014 | 275 | 1.4 | 19.4 |
| 1 October 2004 | 30 September 2014 | 255 | - | 0.3 |
| | | | 36.8 | 93.9 |

(c) Colleague Share Option Plan ("CSOP")

The Colleague Share Option Plan operates under the rules of the Inland Revenue Approved Discretionary Share Option Scheme. Under the CSOP, participants are granted options to purchase shares of J Sainsbury plc at a stated exercise price. The exercise of options is conditional upon participants remaining in the employment of the Company for a three-year period after date of grant. Colleagues leaving employment for certain reasons have six months from their leaving date to exercise their options.

At 25 March 2006, a total of 54,817 UK employees (2005: 62,679) participated in the plan and hold options over 18.6 million shares (2005: 21.9 million). Options have been exercised in respect of 32,058 ordinary shares (2005: 3,053) during the year. Options are exercisable between three and ten years from the date of the grant of option. It is intended that there will be no further options granted under this plan.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

29 Share-based payments (continued)

A reconciliation of option movements is shown below:

| | 2006 | | 2005 | |
|----------------------------------|---------------------------------|--|---------------------------------|--|
| | Number of options million | Weighted average exercise price pence | Number of options million | Weighted average exercise price pence |
| Outstanding at beginning of year | 21.9 | 366 | 23.3 | 365 |
| Forfeited | (3.3) | 365 | (1.4) | 355 |
| Outstanding at end of year | 18.6 | 366 | 21.9 | 366 |
| Exercisable at end of year | 18.6 | 366 | 21.9 | 366 |

Details of options at 25 March 2006 are set out below:

| Date of grant | Date of expiry | Exercise price pence | Options outstanding | |
|---------------|----------------|-------------------------|---------------------|-----------------|
| | | | 2006 million | 2005 million |
| 2 August 1999 | 1 August 2009 | 378 | 16.6 | 19.5 |
| 2 June 2000 | 1 June 2010 | 272 | 2.0 | 2.4 |
| | | | 18.6 | 21.9 |

(d) Performance Share Plan ("PSP")

The Performance Share Plan is a long-term incentive scheme through which shares are awarded to senior managers on a conditional basis. Under the PSP, participants remaining in the Company's employment or leaving for certain reasons, are entitled to receive a grant of options after a performance period of three years to purchase the shares awarded to them for the sum of £1, at any time during the ten years following the date of grant.

The participant's entitlement to receive the grant depends on the Company's Total Shareholder Return ("TSR") – being the increase in the value of the Company's parent's share, including reinvested dividends, compared with a peer Company of 12 companies (namely Ahold, Boots, Carrefour, Casino, Dixons, GUS, Kingfisher, Loblaws, Marks & Spencer, Morrisons, Next and Tesco), over the three-year performance period.

If the median performance of the TSR against the comparator group is not achieved at the end of the three-year performance period, the entitlement to receive the grant of options will lapse. At median level, shares to the value of 30 per cent of salary will be released and the award will be pro rated at every position between the median and first position in the comparator group. The maximum allocation for Directors is a conditional grant of shares equal to 75 per cent of salary. No further allocations will be made under this plan.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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29 Share-based payments (continued)

A reconciliation of the number of shares conditionally allocated is shown below:

| | Number of shares | |
|----------------------------------|------------------|---------|
| | 2006 | 2005 |
| | million | million |
| Outstanding at beginning of year | 3.7 | 3.1 |
| Conditionally allocated | - | 2.0 |
| Forfeited | (1.5) | (1.4) |
| Outstanding at end of year | 2.2 | 3.7 |

Details of shares conditionally allocated at 25 March 2006 are set out below:

| | Shares conditionally awarded | |
|--------------------------------|------------------------------|---------|
| | 2006 | 2005 |
| | million | million |
| Date of conditional allocation | | |
| 30 May 2002 | - | 0.9 |
| 22 May 2003 | 1.1 | 1.3 |
| 20 May 2004 | 1.1 | 1.5 |
| | 2.2 | 3.7 |

Conditional awards of shares that have fulfilled all conditions at the end of the performance period are represented by options granted to participants to purchase the shares awarded to them for the total sum of £1. Details of the options outstanding at year end are set out below:

| | | 2006 | | 2005 | |
|-----------------|----------------|--------------------------------|---------|---------|--------------------------------------|
| Date of grant | Date of expiry | Exercise price of option pence | Options | Options | Shares in respect of options granted |
| 29 May 2002 (1) | 28 May 2012 | 100 | 1 | 2 | 27,705 |

(1) Options granted in respect of shares conditionally allocated on 26 July 1999.

(e) J Sainsbury plc Share Plan 2005

A long-term incentive plan was introduced in March 2005 as a one off, self funded incentive arrangement focused on rewarding those responsible for leading and implementing the Group's recovery plan. The underlying principle of the plan is to reward delivery of strong growth in sales and profitability, covering a four-year period.

Under the plan, shares were awarded to participants on the conditional basis that the performance targets are achieved within the four-year performance period. The levels of awards are scaled according to seniority and there is an opportunity for Executive Directors of the Company's parent and eligible Operating Board members to make a personal investment of up to 50 per cent of salary in the plan.

Performance is measured over a four-year period from the financial year beginning 27 March 2005 until the financial year ending March 2009. The awards will vest if stretching sales and earnings per share ("EPS") targets are achieved, as shown in table 1 below. The relevant performance multiplier, which is on a sliding scale up to a maximum of five times, will be calculated and applied to the core award of shares, as well as the personal investment of shares i.e. shares acquired by the Parent Company's Executive Directors and eligible Operating Board members. The total award released will include the personal investment shares acquired by the participant.

The maximum award will be targeted towards sales growth of £2.5 billion within the Group the company is a member of, and requires compound annual growth in EPS of the Company's Parent of at least 21 per cent over the four years. Sales (inc VAT) exclude Sainsbury's Bank and petrol sales.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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29 Share-based payments (continued)

Further, there is an opportunity for partial vesting of up to half the award, if the accelerated performance targets have been met at the end of year three (i.e. financial year ending March 2008) (see table 2). No awards will vest unless threshold levels of growth in both sales and EPS are achieved.

Once performance targets have been achieved, options over the shares of the Company's Parent will be granted to participants remaining in the Company's employment or leaving for certain reasons to acquire the shares awarded to them, at nil cost. These options will expire within a year after the end of the four-year performance period, i.e. in March 2010.

Dividends will accrue on any shares which vest and will be released to participants in the form of additional shares at the point of vesting.

Table 1 – Maturity vesting (multiplier applied to the shares)

| Sales growth of the Group in £ billion | 4 year EPS growth of the Company's Parent (compound annual) | | | | | |
|--|---|-----|-----|-----|-----|-----|
| | <5% | 5% | 10% | 14% | 17% | 21% |
| 2.50 | 0.0 | 1.0 | 2.0 | 3.0 | 4.5 | 5.0 |
| 2.25 | 0.0 | 1.0 | 1.5 | 2.5 | 4.0 | 5.0 |
| 2.00 | 0.0 | 0.0 | 1.5 | 2.0 | 3.0 | 4.5 |
| 1.75 | 0.0 | 0.0 | 1.5 | 2.0 | 2.5 | 4.0 |
| 1.50 | 0.0 | 0.0 | 1.0 | 1.5 | 2.0 | 3.0 |
| 1.25 | 0.0 | 0.0 | 0.0 | 1.0 | 1.5 | 2.5 |
| 1.00 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 2.0 |

Table 2 – Interim vesting (multiplier applied to 50% of the shares)

| Sales growth of the Group in £ billion | 3 year EPS growth of the Company's Parent (compound annual) | | | | | |
|--|---|-----|-----|-----|-----|-----|
| | <5% | 5% | 10% | 15% | 20% | 25% |
| 2.50 | 0.0 | 1.0 | 2.0 | 3.0 | 4.5 | 5.0 |
| 2.25 | 0.0 | 1.0 | 1.5 | 2.5 | 4.0 | 5.0 |
| 2.00 | 0.0 | 0.0 | 1.5 | 2.0 | 3.0 | 4.5 |
| 1.75 | 0.0 | 0.0 | 1.5 | 2.0 | 2.5 | 4.0 |
| 1.50 | 0.0 | 0.0 | 1.0 | 1.5 | 2.0 | 3.0 |
| 1.25 | 0.0 | 0.0 | 0.0 | 1.0 | 1.5 | 2.5 |
| 1.00 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 | 2.0 |

In order to participate in the plan, participants agreed to surrender options granted to them under the J Sainsbury plc Executive Share Option Plan in 2002, 2003 and 2004. On 24 March 2005, the Remuneration Committee made conditional awards over 32.5 million shares (assuming maximum performance multiplier) to over 1,000 participants in the plan, subject to shareholder approval at the Annual General Meeting. The J Sainsbury plc Share Plan was approved by shareholders on 13 July 2005.

Details of shares conditionally awarded at 25 March 2006 are set out below:

| Date of conditional award | Shares conditionally awarded million |
|---------------------------|--------------------------------------|
| 13 July 2005 | 7.0 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

29 Share-based payments (continued)

Options to purchase the conditional award of shares were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

| | 2006 |
|--|------|
| Share price at grant date (pence) | 286 |
| Exercise price (pence) | - |
| Expected volatility (%) | 29.0 |
| Option life (years) | 4.1 |
| Expected dividends (expressed as dividend yield %) | - |
| Risk-free interest rate (%) | 4.3 |
| Fair value per option (pence) | 286 |

The expected volatility is based on the standard deviation of the J Sainsbury plc share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

(f) All-Employee Share Ownership Plan

In June 2003, under the All-Employee Share Ownership Plan, free shares in the Company's Parent were awarded to UK employees with more than 12 months' continuous service. The free shares are being held in a trust on behalf of participants and will be forfeited if participants cease to remain in the Company's employment for a period of three years. Shares are released to participants within the first three years for certain reasons. After the three-year period, the shares continue to be held by the trust for a further holding period of two years, unless they are released to participants upon cessation of employment with the Company.

A reconciliation of shares held in the trust is shown below:

| | No of shares awarded | |
|----------------------------------|----------------------|-----------------|
| | 2006 million | 2005 million |
| Outstanding at beginning of year | 1.9 | 2.6 |
| Forfeited | (0.2) | (0.3) |
| Share consolidation | - | (0.4) |
| Outstanding at end of year | 1.7 | 1.9 |

30 Shares in subsidiaries

At 25 March 2006, the company held the following investments in the shares of subsidiary companies.

| | Share of ordinary allotted capital and voting rights | Country of registration or incorporation |
|---------------------------------------|--|--|
| Nash Court (Kenton) Limited | 100% | England |
| Stamford Properties (Dorking) Limited | 100% | England |
| Sainsbury's Card Services Limited | 100% | England |

| | Shares at cost £m |
|-----------------------------|----------------------|
| Summary of movements | |
| At 27 March 2005 | 952 |
| Disposals | (948) |
| At 25 March 2006 | 4 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

31 Related party transactions

(a) Key management personnel

The key management personnel of the Company comprise members of the Company's Board.

The key management personnel compensations are as follows:

| | 2006 £m | 2005 £m |
|-----------------------------------|------------|------------|
| Short-term employee benefits | 7 | 7 |
| Post-employment employee benefits | 1 | 1 |
| Termination benefits | - | 1 |
| Share-based payments | 6 | 1 |
| | 14 | 10 |

Number of directors entitled to pensions under the defined benefit and defined contribution schemes

| | 2006 | 2005 |
|------------------------------|----------|----------|
| Defined contribution schemes | 7 | 5 |
| Defined benefit schemes | 2 | 4 |
| | 9 | 9 |

(b) Transactions with parent company

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Advances given to parent company | | |
| Advances given to parent company | 2,161 | 86 |
| Advances received from parent company | | |
| Advances repaid to parent company | 2,590 | - |
| Dividend paid | (250) | (312) |
| Interest expense payable in respect of interest bearing loans | - | (74) |
| Interest expense paid in respect of interest bearing loans | (91) | - |
| Year end balances arising from transactions with parent company | | |
| Receivables | | |
| Advances due from parent company | 2,161 | - |
| Payables | | |
| Advances due to parent company | - | (2,590) |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

31 Related party transactions (continued)

(c) Transactions with Subsidiaries

| | 2006 £m | 2005 £m |
|--|------------|------------|
| Advances given to subsidiaries | | |
| Advances repaid by subsidiaries | (5) | (1) |
| Advances received from subsidiary | | |
| Advances received from subsidiaries | (207) | (79) |
| Interest expense paid | (3) | (32) |
| Dividend income receivable | 159 | - |
| Year end balances arising from transactions with subsidiaries | | |
| Receivables | | |
| Advances due from subsidiaries | 8 | 13 |
| Payables | | |
| Advances due to subsidiaries | (355) | (307) |

(d) Transactions with group companies

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Advances given to group companies | | |
| Advances given to group companies | 5 | - |
| Advances repaid by group companies | (3) | (40) |
| Advances received from group companies | | |
| Advances received from group companies | (18) | (38) |
| Advances repaid to group companies | 3 | 9 |
| Year end balances arising from transactions with group companies | | |
| Receivables | | |
| Advances due from group companies | 6 | 4 |
| Payables | | |
| Advances due to group companies | (57) | (42) |

32 Operating lease commitments

The Company leases various retail stores, offices, depots and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

| | Land and buildings | | Other leases | |
|--|--------------------|------------|--------------|------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Commitments under non-cancellable operating leases payable as follows: | | | | |
| Within 1 year | 461 | 275 | 29 | 23 |
| Within 2 to 5 years inclusive | 1,853 | 1,083 | 62 | 56 |
| After 5 years | 10,714 | 5,001 | - | 1 |
| | 13,028 | 6,359 | 91 | 80 |

The Company sublets certain leased properties and the total future minimum sublease payments to be received under non-cancellable subleases at 25 March 2006 are £267 million (2005: £187 million).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

33 Capital commitments

During the current financial year, the Company entered into contracts of £473 million (2005: £383 million) for future capital expenditure not provided for in the financial statements.

34 Contingent liabilities and financial commitments

Contingent liabilities

Operating lease commitments (note 32) include payments in respect of 26 supermarket properties sold (16 supermarket properties sold in March 2000 for £325 million and ten supermarket properties sold in July 2000 for £226 million) and leased back to the Company for a period of 23 years. Under the arrangement, the Company has provided a residual value guarantee of £170 million for the 16 supermarket properties and £39 million for the ten supermarket properties at the end of the lease period.

In view of the relatively low amount of the guarantees when compared to the present market value of the freehold interests, the Directors believe that the likelihood of the guarantees being invoked is remote, therefore no provision has been recognised in these financial statements.

Financial commitments

The Company made the second tranche payment of £240 million in relation to the additional one off contribution to the defined benefit pension schemes on 19 May 2006 (note 28).

35 Subsequent events

There were no subsequent events.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

36 Explanation of transition to IFRS

This is the first year that the Company has presented their financial statements under IFRS. The last financial statements under UK GAAP were for the 52 weeks to 26 March 2005 and the date of transition to IFRS was 28 March 2004.

Reconciliations between UK GAAP and IFRS

Set out below are the UK GAAP to IFRS equity reconciliations for the Company at 28 March 2004 (date of transition) and 26 March 2005 (last financial statements under UK GAAP) and profit reconciliation for the 52 weeks to 26 March 2005.

Reconciliation of equity at 28 March 2004 (date of transition)

| | Note | UK GAAP £m | Adjustments £m | IFRS £m |
|-----------------------------------|---------------|----------------|-------------------|----------------|
| Non-current assets | | | | |
| Property, plant and equipment | (a), (g), (h) | 6,411 | (57) | 6,354 |
| Intangible assets | (g) | 23 | 43 | 66 |
| Investments | | 953 | - | 953 |
| | | 7,387 | (14) | 7,373 |
| Current assets | | | | |
| Inventories | | 586 | - | 586 |
| Trade and other receivables | | 268 | - | 268 |
| Cash and cash equivalents | | 201 | - | 201 |
| | | 1,055 | - | 1,055 |
| Non-current assets held for sale | | - | - | - |
| | | 1,055 | - | 1,055 |
| Total assets | | 8,442 | (14) | 8,428 |
| Current liabilities | | | | |
| Trade and other payables | (i) | (3,003) | 312 | (2,691) |
| Short-term borrowings | | (36) | - | (36) |
| Taxes payable | | (61) | - | (61) |
| Provisions | | (13) | - | (13) |
| | | (3,113) | 312 | (2,801) |
| Net current liabilities | | (2,058) | 312 | (1,746) |
| Non-current liabilities | | | | |
| Other payables | (b), (c) | (1,264) | (21) | (1,285) |
| Long-term borrowings | (a) | (84) | (53) | (137) |
| Deferred income tax liability | | (227) | 220 | (7) |
| Provisions | (d), (e) | (24) | - | (24) |
| Retirement benefit obligations | (d) | - | (672) | (672) |
| | | (1,599) | (526) | (2,125) |
| Net assets | | 3,730 | (228) | 3,502 |
| Equity | | | | |
| Called up share capital | | 2,900 | - | 2,900 |
| Retained earnings | | 830 | (228) | 602 |
| Equity shareholders' funds | | 3,730 | (228) | 3,502 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

36 Explanation of transition to IFRS (continued)

Reconciliation of profit for the 52 weeks to 26 March 2005

| | Note | UK GAAP £m | Adjustments £m | IFRS £m |
|--|--------------------|---------------|-------------------|------------|
| Continuing operations | | | | |
| Revenue | | 14,496 | - | 14,496 |
| Cost of sales | (c), (d), (f) | (14,190) | (11) | (14,201) |
| Gross profit | | 306 | (11) | 295 |
| Administrative expenses | (a), (b), (f), (h) | (687) | 8 | (679) |
| Dividend income | (j) | 159 | (159) | - |
| Other income | | 7 | - | 7 |
| Operating loss | | (215) | (162) | (377) |
| Finance income | (d) | 55 | 11 | 66 |
| Finance costs | (a) | (159) | (3) | (162) |
| Loss before taxation | | (319) | (154) | (473) |
| Analysed as: | | | | |
| Underlying profit before tax (1) | | 91 | (164) | (73) |
| Business Review and Transformation operating costs | (h) | (417) | 10 | (407) |
| Profit on sale of properties | | 7 | - | 7 |
| | | (319) | (154) | (473) |
| Income tax credit | | 123 | (2) | 121 |
| Loss for the financial year | | (196) | (156) | (352) |
| Attributable to: | | | | |
| Equity holders | | (196) | (156) | (352) |

(1) Profit before tax from continuing operations before any gain or loss on the sale of properties, financing fair value movements and one off items that are material and infrequent in nature. In this financial year, these one off items were the Business Review and Transformation costs.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

36 Explanation of transition to IFRS (continued)
Reconciliation of equity at 26 March 2005

| | Note | UK GAAP £m | Adjustments £m | IFRS £m |
|-----------------------------------|---------------|----------------|-------------------|----------------|
| Non-current assets | | | | |
| Property, plant and equipment | (a), (g), (h) | 6,373 | (42) | 6,331 |
| Intangible assets | (g) | 24 | 38 | 62 |
| Investments | | 952 | - | 952 |
| | | 7,349 | (4) | 7,345 |
| Inventories | | 533 | - | 533 |
| Trade and other receivables | | 255 | - | 255 |
| Cash and cash equivalents | (k) | 214 | 21 | 235 |
| | | 1,002 | 21 | 1,023 |
| Non-current assets held for sale | | 87 | - | 87 |
| | | 1,089 | 21 | 1,110 |
| Total assets | | 8,438 | 17 | 8,455 |
| Current liabilities | | | | |
| Trade and other payables | (i) | (3,582) | 91 | (3,491) |
| Short-term borrowings | (k) | - | (21) | (21) |
| Taxes payable | | (16) | - | (16) |
| Provisions | | (55) | - | (55) |
| | | (3,653) | 70 | (3,583) |
| Net current liabilities | | (2,564) | 91 | (2,473) |
| Non-current liabilities | | | | |
| Other payables | (b), (c) | - | (27) | (27) |
| Long-term borrowings | (a) | (1,264) | (53) | (1,317) |
| Deferred income tax liability | | (180) | 179 | (1) |
| Provisions | (d), (e) | (57) | 2 | (55) |
| Retirement benefit obligations | (d) | - | (536) | (536) |
| | | (1,501) | (435) | (1,936) |
| Net assets | | 3,284 | (348) | 2,936 |
| Equity | | | | |
| Called up share capital | | 2,900 | - | 2,900 |
| Other reserves | (d) | - | 90 | 90 |
| Retained earnings | | 384 | (438) | (54) |
| Equity shareholders' funds | | 3,284 | (348) | 2,936 |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

36 Explanation of transition to IFRS (continued)

First-time adoption of IFRS

IFRS 1 'First-time Adoption of International Financial Reporting Standards' allows companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition (i.e. the 52 weeks to 26 March 2005).

The Company has elected to take the following key exemptions:

(i) IAS 19 – Employee benefits - actuarial gains and losses

The Company has elected to recognise all cumulative actuarial gains and losses at the date of transition.

(ii) IAS 32 and IAS 39 – Financial instruments

The Company has taken the option to defer the implementation of IAS 32 and IAS 39 to the financial year beginning 27 March 2005. Therefore, financial instruments continue to be accounted for and presented in accordance with UK GAAP for the 52 weeks to 26 March 2005.

(iii) IAS 16 – Valuation of properties

The Company has elected to treat the revalued amount of properties at 28 March 2004 as deemed cost as at that date and will not revalue properties for accounting purposes in the future.

(iv) IFRS 2 – Share-based payment

IFRS 1 provides an exemption which allows entities to only apply IFRS 2 'Share-based Payment' to share-based payment awards granted after 7 November 2002. The Company has not taken this exemption but has elected to apply IFRS 2 to share options granted before 7 November 2002. The fair value of those options has been published on our website www.j-sainsbury.co.uk on 26 April 2005.

Explanation of reconciling items between UK GAAP and IFRS

(a) Capitalisation of building leases

Under UK GAAP, the Company recognised finance leases under the recognition criteria set out in SSAP 21. Although the accounting treatment of finance leases remains largely the same under IFRS, the application of IAS 17 'Leases' results in the building element of a number of property leases being classified as finance leases. The impact on the Company's financial statements is set out below:

- The Company's IFRS opening balance sheet at 28 March 2004 includes additional property, plant and equipment of £37 million and additional finance lease obligations of £53 million resulting in a reduction in net assets of £11 million after deferred tax of £5 million.
- The main impact on the income statement is that the operating lease payment charged to operating profit under UK GAAP is replaced with a depreciation charge on the finance lease asset and a financing charge on the obligation. The pre-tax impact on the income statement for the 52 weeks to 26 March 2005 is a reduction in administrative expenses of £2 million and an increase in finance costs of £3 million. This results in a net charge of £1 million (£1 million after deferred tax).
- The Company's IFRS balance sheet at 26 March 2005 includes additional property, plant and equipment of £36 million and additional finance lease obligations of £53 million resulting in a reduction in net assets of £12 million after deferred tax of £5 million.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

36 Explanation of transition to IFRS (continued)

(b) Lease incentives

Under UK GAAP, rent-free periods were recognised over the period to the first market rent review. Under IAS 17, these are amortised over the term of the lease. The impact on the Company's financial statements is set out below:

- The Company's IFRS opening balance sheet at 28 March 2004 includes additional deferred income of £4 million, resulting in a reduction in net assets of £3 million after deferred tax.
- The pre-tax impact on the income statement for the 52 weeks to 26 March 2005 is an increase in administrative expenses of £2 million (£1 million after deferred tax).
- The Company's IFRS balance sheet at 26 March 2005 includes additional deferred income of £6 million, resulting in a reduction in net assets of £4 million after deferred tax.

(c) Leases with predetermined fixed rental increases

Comments by IFRIC have indicated that under IFRS it is necessary to account for leases with predetermined fixed rental increases on a straight-line basis over the life of the lease. Under UK GAAP, the Company accounted for these rental increases in the year they arose.

The impact on the Company's financial statements is set out below:

- The impact of this change at the date of transition 28 March 2004 is an addition of deferred income of £17 million, resulting in a reduction in net assets of £12 million after deferred tax.
- The pre-tax impact on the income statement for the 52 weeks to 26 March 2005 is an increase in cost of sales of £4 million (£3 million after deferred tax).
- The Company's IFRS balance sheet at 26 March 2005 includes additional deferred income of £21 million, resulting in a reduction in net assets of £15 million after deferred tax.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

36 Explanation of transition to IFRS (continued)

(d) Pensions

The Company applied the provisions of SSAP 24 under UK GAAP and provided detailed disclosure under FRS 17 in accounting for pensions. Under IFRS, the Company's balance sheet reflects the assets and liabilities of the Company's defined benefit schemes. As allowed in the amendment to IAS 19, the Company has elected to recognise all cumulative actuarial gains and losses through the statement of recognised income and expense.

The impact on the Company's financial statements is set out below:

- The Company's opening balance sheet at 28 March 2004 reflects the liabilities of the UK defined benefit pension schemes, with a total gross deficit of £665 million.

The gross deficit relating to the UK defined benefit pension schemes of £665 million is shown together with £7 million of unfunded pension liabilities, previously recorded within provisions under UK GAAP. The associated deferred income tax asset of £202 million is shown within deferred income tax liability on the transition balance sheet.

- The income statement adjustment for the 52 weeks to 26 March 2005 is a small increase in cost of sales of £2 million and a reduction in finance costs of £11 million, resulting in a net credit of £9 million (£6 million after deferred tax). The annual charge through the income statement is lower under IAS 19 than under SSAP 24 because the SSAP 24 charge included additional contributions to amortise the £161 million actuarial deficit identified in March 2003. The calculation of the IAS 19 income statement charge does not include these contributions.
- The Company's IFRS balance sheet at 26 March 2005 reflects the gross deficit of £527 million relating to the UK defined benefit pension schemes and £9 million of unfunded pension liabilities, previously recorded within provisions under UK GAAP. The associated deferred income tax asset of £161 million is shown separately within deferred income tax liability.

The gross actuarial gain of £128 million and its associated deferred tax impact of £38 million (net actuarial gain of £90 million) has been recognised in the statement of recognised income and expense for the 52 weeks to 26 March 2005.

The following table summarises the movement in the pension deficit described above:

| | £m |
|--|-------|
| Gross defined benefit pension deficit at 28 March 2004 | (665) |
| Unfunded pension liability previously recorded within provisions | (7) |
| Total gross pension deficit at 28 March 2004 | (672) |
| Current service cost | (77) |
| Past service cost | (8) |
| Gain due to curtailments | 1 |
| Total service costs and curtailments | (84) |
| Finance income | 11 |
| Contributions | 81 |
| Gross actuarial gains | 128 |
| Total gross pension deficit at 26 March 2005 | (536) |
| Deferred income tax asset | 161 |
| Net pension deficit at 26 March 2005 | (375) |

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

36 Explanation of transition to IFRS (continued)

(e) Other employee benefits

Under UK GAAP no provision was made for long service awards. Under IAS 19, the costs of long service awards are accrued over the period the service is provided by the employee.

The impact on the Company's financial statements is set out below:

- A provision for long service awards is included in the opening IFRS balance sheet at 28 March 2004 to the value of £7 million (£5 million after deferred tax).
- There is no income statement charge in respect of this provision for the 52 weeks to 26 March 2005 and the provision for long service awards remains at £7 million (£5 million after deferred tax) in the Company's IFRS balance sheet at 26 March 2005.

(f) Share-based payment

IFRS 2 'Share-based Payment' requires that an expense for share-based payments, including SAYE schemes, be recognised in the financial statements based on their fair value at the date of grant. The expense is recognised over the vesting period of the scheme.

The additional pre-tax charge arising from the adoption of IFRS 2 on the Company's income statement for the 52 weeks to 26 March 2005 is £8 million (cost of sales: £5 million; administrative expenses: £3 million), resulting in a net charge of £7 million after deferred tax. The adjustment is comparatively low because the executive share options granted since 2002 are unlikely to vest and as a result there is no charge relating to these awards.

(g) Software capitalisation

Under UK GAAP, software was included within tangible fixed assets. Under IFRS, software is reclassified from tangible fixed assets and recorded within intangible assets.

The balance sheet reclassification amounts to £43 million at date of transition 28 March 2004 and £38 million at 26 March 2005. There is no income statement impact.

(h) Impairment of non-financial assets

Under IFRS, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. For tangible and intangible assets, the CGU is deemed to be each trading store.

The impact on the Company's financial statements is set out below:

- As at the opening balance sheet date, 28 March 2004, 27 stores were deemed to be impaired, resulting in an impairment loss of £51 million (£44 million after deferred tax) for property, plant and equipment. This total includes the 13 stores that the Company announced would be closed as part of the Business Review.
- A similar impairment review was performed for the 52 weeks to 26 March 2005 and no further impairment was deemed necessary. However, as a result of the above IFRS impairment adjustment at transition date, £11 million (£9 million after deferred tax) of UK GAAP depreciation charges and write-down costs relating to those impaired stores is reversed for the 52 weeks to 26 March 2005.
- The impact on the Company's IFRS balance sheet at 26 March 2005 is an impairment loss of £40 million (£35 million after deferred tax) for property, plant and equipment.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 25 March 2006

36 Explanation of transition to IFRS (continued)

The following table summarises the adjustments made to the opening impairment value:

| | £m |
|---|------|
| IFRS impairment at 28 March 2004 | (51) |
| Reversal of UK GAAP depreciation and additions on impaired stores | 1 |
| Reversal of the October 2004 Business Review costs relating to the write-down of those stores impaired under IFRS. These costs were treated as exceptional items under UK GAAP. | 10 |
| | 11 |
| IFRS impairment at 26 March 2005 | (40) |
| Deferred tax | 5 |
| Reduction in net assets at 26 March 2005 | (35) |

(i) Dividends

IFRS requires that dividends be recognised as a liability when they are declared (i.e. approved by shareholders or, in the case of interim dividends, when paid). Accordingly, the accrued final dividends of £312 million and £250 million are reversed in the balance sheets at 28 March 2004 and 26 March 2005 respectively. The final dividend of £312 million is recognised directly as an appropriation of retained earnings in the balance sheet at 26 March 2005.

(j) Dividend income

Under IFRS, the Company recognises dividend income from its subsidiaries only when the dividend has been declared. Accordingly, dividend receivable of £159 million in the balance sheet at 26 March 2005 has been reversed. The impact on the income statement is a decrease in profit of £159m.

(k) Cash and cash equivalents

Under IFRS bank overdrafts are classified as part of short-term borrowings. The impact on the balance sheet is an increase in cash and cash equivalents of £21m and an increase in short-term borrowings of £21m.

Explanation of material adjustments to the Company cash flow statement

Income taxes and interest paid are classified as part of operating cash flows under IFRS, but were included in separate categories under UK GAAP. Equity dividends paid are classified as part of financing cash flows under IFRS, but were shown as a separate line item under UK GAAP. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

37 First-time adoption of IAS 32 and IAS 39

The Company has adopted IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 27 March 2005. The Company has taken the exemption available in IFRS 1 'First-time Adoption of International Financial Reporting Standards' not to restate comparatives for both IAS 32 and IAS 39.

At 27 March 2005 the Company held a portfolio of foreign exchange forward contracts with a fair value of £0.4 million to hedge its exposure to foreign exchange rate risk on its future highly probable trade purchases. At 27 March 2005, an unrealised gain of £0.4m is included within the cash flow hedge reserve.

Under IAS 39 all of the Company's derivative financial instruments are measured at fair value and recognised on the balance sheet. Where the instruments are part of a qualifying hedge relationship the carrying amount of the hedged item is adjusted by the change in fair value that reflects the designated hedged risk.