

Registered number: 3261722

Sainsbury's Supermarkets Ltd

Annual Report and Financial Statements

For the 52 weeks ended 24 March 2007



Sainsbury's Supermarkets Ltd
Report of the Directors
For the 52 weeks ended 24 March 2007

The Directors present their report and the audited financial statements of Sainsbury's Supermarkets Ltd ("the Company") for the 52 weeks ended 24 March 2007

Principal Activity

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

Business Review

The Company operates a chain of approximately 490 supermarkets and 120 convenience stores

Sales increased to £16,604 million for the year (2006 £15,220 million) with significant contributions from like-for-like growth, new space and petrol. Underlying profit before tax decreased to £118 million (2006 £122 million profit)

The Company is the UK's longest standing major food retailing chain and the Sainsbury's brand is built upon the heritage of providing customers with healthy, safe, fresh and tasty food. Today the Company differentiates itself by offering a broad range of great products at fair prices with particular emphasis on fresh food. Products are improved and developed continually to ensure the Company leads in terms of the ingredients used and the integrity of sourcing.

Principal Risks and Uncertainties

In the future, the Company's growth will be affected by general market issues such as the impact of regulatory and planning regimes on store development and economic factors such as the level of household disposable income. However, the Company's strategy is aligned with factors such as customers' preference for the products they buy. The Company is well positioned to anticipate and meet the increasing consumer focus on fresh, healthy, quality foods. The development of our complementary non-food offer addresses our customers' desire to buy a greater range of non-food products along with their weekly grocery shop and the continued growth of our convenience stores also takes account of the faster pace of people's lifestyles and the trend towards more frequent top-up shopping trips.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of J Sainsbury plc, which include those of the Company, are discussed on page 27 of the J Sainsbury plc annual report and financial statements 2007, which does not form part of this report.

A full review of the business, the market, and principal risks and uncertainties 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.

Key Performance Indicators ("KPIs")

The directors of J Sainsbury plc manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Sainsbury's Supermarkets Ltd. The development, performance and position of the retail division of J Sainsbury plc, which includes the Company, is discussed on pages 4-5 of the J Sainsbury plc annual report and financial statements 2007, which does not form part of this report.

Sainsbury's Supermarkets Ltd
Report of the Directors (continued)
For the 52 weeks ended 24 March 2007

Results

The profit on ordinary activities before tax of the Company is £187 million (2006 £1,148 million profit - restated) The profit for the year of £124 million (2006 £1,107 million profit - restated) has been transferred to reserves

Dividend

A final dividend of £250 million has been paid in the period to the ordinary shareholders (2006 £250 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 47 days (2006 42 days) at 24 March 2007

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

Market value of properties

The Directors believe that the aggregate open market value of Company properties significantly exceeds the net book value of £3,067 million (2006 £2,826 million)

Donations

During the year, donations to UK charitable organisations and local community projects amounted to £7 million (2006 £6 million) In addition the Company's Active Kids scheme donated £17 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

Sainsbury's Supermarkets Ltd
Report of the Directors (continued)
For the 52 weeks ended 24 March 2007

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. Further details can be found at the following web address (www.j-sainsbury.co.uk/cr/)

Directors and their interests

The Directors of Sainsbury's Supermarkets Ltd who held office during the period, and up to the signing of this report, are shown below

Justin King		
Roger Burnley		
Gwyn Burr		
Mike Coupe		
Hamish Elvidge	Resigned	1 June 2006
Jim McCarthy	Resigned	1 June 2006
Ken McMeikan		
Darren Shapland		
Imelda Walsh		

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

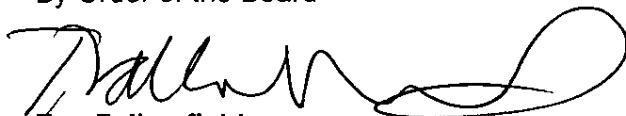
Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office

Disclosure of information to auditors

Each of the directors confirms that, so far as he/she is aware, there is no relevant audit information of which the auditors are unaware. Each Director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

By Order of the Board


Tim Fallowfield
Secretary

Sainsbury's Supermarkets Ltd

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company 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 comply with IFRS as adopted by the European Union, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 that 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 safeguarding 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 24 March 2007 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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

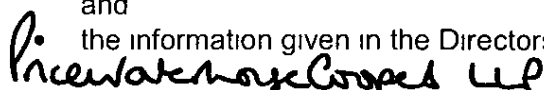
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 IFRS as adopted by the European Union, of the state of the Company's affairs as at 24 March 2007 and of its profit and cash flows for the 52 weeks then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the financial statements.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

11 January 2008

Sainsbury's Supermarkets Ltd
Income statement
for the 52 weeks to 24 March 2007

		2007	Restated (Note 4) 2006
	Note	£m	£m
Continuing operations			
Revenue	3	16,604	15,220
Cost of sales		(15,819)	(14,612)
Gross profit		785	608
Administrative expenses		(721)	(634)
Other (expense)/income		(3)	1,081
Operating profit	4	61	1,055
Finance income	5	126	189
Finance costs	5	-	(96)
Profit before taxation		187	1,148
Analysed as			
Underlying profit before tax (1)		118	122
One-off items	7	72	(55)
Profit on sale of properties	4	(3)	1,081
		187	1,148
Income tax expense	8	(63)	(41)
Profit for the financial year		124	1,107
Attributable to			
Equity holders		124	1,107

(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 this one off item relates to the past service gains on defined benefit schemes. In the prior financial year these one off items related to the Business Review costs and IT insourcing costs.

Sainsbury's Supermarkets Ltd
Statement of recognised
income and expense
for the 52 weeks to 24 March 2007

		2007	Restated (Note 4) 2006
	Note	£m	£m
Actuarial gains/(losses) on defined benefit pension schemes		179	(255)
Cash flow hedges			
effective portion of fair value movements		-	1
transferred to income statement		-	(1)
Share-based payment tax deduction	8	15	5
Tax on items recognised directly in equity	8	(54)	77
Net income/(loss) recognised directly in equity		140	(173)
Profit for the financial year	4	124	1,107
Total recognised income and expense for the financial year		264	934

Sainsbury's Supermarkets Ltd
Balance sheet
at 24 March 2007 and 25 March 2006

			Restated (Note 4)
		2007	2006
	Note	£m	£m
Non-current assets			
Property, plant and equipment	10	4,266	3,985
Intangible assets	11	60	55
Investments	12	13	4
Other receivables	14	782	782
Deferred income tax asset	18	-	49
		5,121	4,875
Current assets			
Inventories	13	576	557
Trade and other receivables	14	819	1,599
Cash and cash equivalents	24b	260	229
		1,655	2,385
Non-current assets held for sale	15	25	100
		1,680	2,485
Total assets		6,801	7,360
Current liabilities			
Trade and other payables	16	(2,650)	(2,257)
Short-term borrowings	17	(105)	(21)
Taxes payable		(15)	(603)
Provisions	19	(12)	(38)
		(2,782)	(2,919)
Net current liabilities		(1,102)	(434)
Non-current liabilities			
Other payables	16	(78)	(30)
Long-term borrowings	17	(51)	(52)
Deferred income tax liability	18	(53)	-
Provisions	19	(38)	(58)
Retirement benefit obligations	27	(103)	(658)
		(323)	(798)
Net assets		3,696	3,643
Equity			
Called up share capital	20	2,900	2,900
Other reserves	21	37	(88)
Retained earnings - restated	22	759	831
Equity shareholders' funds	23	3,696	3,643

The financial statements on pages 7 to 47 were approved by the Board of Directors on 10 January 2008, and are signed on its behalf by



Darren Shapland
Director

Sainsbury's Supermarkets Ltd
Cash flow statement
for the 52 weeks to 24 March 2007

			Restated (Note 4)
		2007	2006
	Note	£m	£m
Cash flows from operating activities			
Cash generated from operations	24a	739	960
Interest paid		(3)	(11)
Corporation tax received/(paid)		7	(14)
Net cash from operating activities		743	935
Cash flows from investing activities			
Purchase of property, plant and equipment		(729)	(529)
Purchase of intangible assets		(3)	(5)
Proceeds from disposal of property, plant and equipment		157	3,574
Proceeds from disposal of operations, net of cash disposed		-	948
Acquisition of and investment in subs		(53)	-
Advances and loans to other parties		-	(3,486)
Interest received		41	7
Dividends received		44	159
Net cash from investing activities		(543)	668
Cash flows from financing activities			
Repayment of capital element of obligations under finance lease borrowings		-	(1,265)
Interest elements of obligations under finance lease payments		(3)	(94)
Dividends paid	9	(250)	(250)
Net cash from financing activities		(253)	(1,609)
Net increase in cash and cash equivalents		(53)	(6)
Opening cash and cash equivalents	24b	208	214
Closing cash and cash equivalents	24b	155	208

Sainsbury's Supermarkets Ltd
Notes to the financial statements
for the 52 weeks ended 24 March 2007

1 General information

Sainsbury's Supermarkets Ltd (the "Company") is a private limited 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 24 March 2007 (prior financial year 52 weeks to 25 March 2006).

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.

(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.

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.

New standards, interpretations and amendments to published standards

Effective for the Company in these financial statements

- 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'

The above new standards, interpretations and amendments to published standards have had no material impact on the results or the financial position of the Company for the 52 weeks to 24 March 2007.

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'
- IFRIC 8 'Scope of IFRS 2'
- IFRIC 9 'Re-assessment of embedded derivatives'
- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

2 Accounting policies (continued)

Effective for the Company for future financial years

- Amendment to IAS 23 'Borrowing Costs'
- IFRS 8 'Operating Segments'
- IFRIC 10 'Interim Financial Reporting and Impairment'
- IFRIC 12 'Service Concession Arrangements'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The Company has considered the above new standards, interpretations and amendments to published standards that are not yet effective 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, apart from additional disclosures

The accounting policies set out below have been applied consistently to all periods presented in the financial statements and have been applied consistently by the Company

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.

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.

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.

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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

2 Accounting policies (continued)

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

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.

Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is recognised as an asset on the Company's balance sheet in the year in which it arises. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less accumulated impairment losses.

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 excluding goodwill, the CGU is deemed to be each trading store. For goodwill, the CGU is deemed to be each retail chain of stores acquired.

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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

2 Accounting policies (continued)

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

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.

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.

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.

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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

2 Accounting policies (continued)

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. It is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

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.

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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

2 Accounting policies (continued)

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') in J Sainsbury plc

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

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

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

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

2 Accounting policies (continued)

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

Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed in note 25

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

2 Accounting policies (continued)

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.

(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.

Goodwill impairment

The Company is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of its CGUs. The recoverable amounts of the CGUs have been determined based on the value in use calculations and these calculations require the use of estimate in relation to future cash flows suitable discount rates as disclosed in note 11. Actual outcomes could vary from these estimates.

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 27.

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.

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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

4 Operating Profit

	2007 £m	Restated 2006 £m
Operating profit is stated after charging/(crediting) the following items		
Employee costs (note 6)	1,718	1,752
Depreciation expense (note 10)	319	341
Amortisation expense (included within cost of sales)	11	12
Loss/(profit) on sale of properties (see below)	3	(1,081)
Impairment of investments/financial assets	44	-
Operating lease rentals - land and buildings	519	258
- other leases	45	30
- sublease payments received	(29)	(24)
Foreign exchange differences	6	-

Operating profit above includes £72 million of past service gains on defined benefit schemes (note 7)
Operating profit for the prior financial year included £51 million of Business Review costs and £4 million of IT insourcing costs

	2007 £m	2006 £m
Auditors' remuneration		
Audit services		
statutory audit	0 7	0 6
Non-audit services		
Taxation advisory services	0 3	0 3
Further assurance services	0 2	0 3
	1.2	1 2

Prior year adjustment

During the 52 weeks ended 24 March 2007, it was identified that the profit on sale of properties for the 52 weeks ended 25 March 2006 had been understated by £76 million, and the net book value of property, plant and equipment had been understated by £76 million

As required by IAS 8 'Accounting Policies, changes in accounting estimates and errors', the financial statements and the related notes for the year ended 25 March 2006 have been restated

The impact of the prior year adjustment is as follows

Property, plant and equipment

	Land and buildings £m	Fixtures and equipment £m	2006 Total £m
Cost			
At March 2006	3,241	3,351	6,592
Prior period adjustment - additions	81	-	81
At March 2006 - restated	3,322	3,351	6,673
	Land and buildings £m	Fixtures and equipment £m	2006 Total £m
Accumulated depreciation and impairment			
At March 2006	(491)	(2,192)	(2,683)
Prior period adjustment - accumulated depreciation	(5)	-	(5)
At March 2006 - restated	(496)	(2,192)	(2,688)

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

4 Operating Profit (continued)

Retained Earnings	2006 £m
At 25 March 2006	755
Prior period adjustment	76
Restated At 25 March 2006	831

Income Statement

	2006 £m
Profit on sale of properties	(1,005)
Prior period adjustment	(76)
Profit on sale of properties - restated	(1,081)

	2006 £m
Profit for the financial year	(1,031)
Prior period adjustment	(76)
Profit for the financial year - restated	(1,107)

5 Finance income and finance costs

	2007 £m	2006 £m
Interest on bank deposits	2	2
Dividend income from investments	44	159
Amounts due from Group entities	39	5
Net return on pension schemes (note 27)	41	23
Finance income	126	189

	2007 £m	2006 £m
Borrowing costs		
Amounts due to Group entities	-	(8)
Other loans	(2)	(3)
Obligations under finance leases		
- Amounts due to Group entities	-	(91)
- Other	(3)	(3)
Provisions – amortisation of discount (note 19)	(1)	(1)
	(6)	(106)
Amounts included in the cost of qualifying assets		
Interest capitalised - qualifying assets	6	10
Finance costs	-	(96)

6 Employee costs

	2007 £m	2006 £m
Employee costs for the Company during the year amounted to		
Wages and salaries, including bonus and termination benefits	1,523	1,526
Social security costs	117	99
Pension costs – defined contribution schemes	25	23
Pension costs – defined benefit schemes (note 27)	87	81
Pension costs – past service gains on defined benefit schemes (note 27)	(72)	-
Share-based payments expense (note 28)	38	23
	1,718	1,752

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

6 Employee costs (continued)

	Number 000's	Number 000's
The average number of employees, including directors, during the year were		
Full-time	47.4	47.7
Part-time	95.5	101.3
	142.9	149.0
Full-time equivalent	92.8	93.4

All employees were employed in the United Kingdom for the periods presented

7 One-off items

	2007 £m	2006 £m
One-off items for the financial year comprised		
Business Review operating costs	-	51
IT insourcing costs	-	4
Past service gains on defined benefit schemes (note 27)	(72)	-
	(72)	55

Past service gains on defined benefit schemes

Following changes introduced by the Finance Act effective from 6 April 2006, the defined benefit schemes have implemented revised terms to provide members with the option to surrender a greater proportion of their pension for a tax-free cash lump sum payment. Accordingly, the Company revised its assumptions used in calculating the retirement benefit obligations in respect of this and certain minor changes in scheme rules and has recognised £72 million of past service gains in the Company income statement.

8 Income tax expense

	2007 £m	Restated 2006 £m
Current tax expense		
Current year	-	-
Under provision in prior years	-	9
	-	9
Deferred tax expense		
Origination and reversal of temporary differences	110	36
Over provision in prior years	(47)	(4)
	63	32
Total income tax expense in income statement	63	41
Tax expense on underlying profit		
Tax on underlying profit from continuing operations (1)	45	57
Tax on Sale of Properties	(4)	-
Tax on Business Review and Transformation operating costs	-	(15)
Tax on IT insourcing costs	-	(1)
Tax on Past service gains on defined benefit schemes	22	-
	63	41

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

8 Income tax expense (continued)

The effective tax rate of 34 per cent (2006 4 per cent) is higher than the standard rate of corporation tax in the UK. The differences are explained below

	2007 £m	Restated 2006 £m
Profit before taxation	187	1,148
Income tax at UK corporation tax rate of 30% (2006 30%)	56	344
Effects of		
Disallowed depreciation on UK properties	12	20
Non-deductible expenses	15	1
Non-taxable profit on disposal of property	(4)	(323)
Non-taxable dividend income	(13)	(48)
Transfer pricing adjustment	(6)	-
Group relief surrendered for nil consideration	50	42
Over provision in prior years	(47)	5
Total income tax expense/(credit) in income statement	63	41

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

	2007 £m	2006 £m
Share-based payment tax deductions recognised directly in equity		
Deferred tax asset	(7)	(5)
Deferred tax losses associated with share-based payment tax deduction	(8)	-
	(15)	(5)
Deferred tax on items recognised directly in equity		
Actuarial gains and (losses) on defined benefit pension schemes	54	(77)
	54	(77)
	39	(82)

On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK Corporation tax will reduce from 30 per cent to 28 per cent (note 18)

9 Equity dividends

	2007 pence per share	2006 pence per share	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the year				
Final dividend of prior financial year	8.62	8.62	250	250

It was resolved that a final dividend of 8.62 pence per share (2006 8.62 pence per share) would be paid to shareholders on 22 March 2007 at a total cost of £250 million (2006 £250 million)

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

10 Property, plant and equipment

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
Restated at 26 March 2006 (note 4)	3,322	3,351	6,673
Additions	371	315	686
Disposals	(65)	(134)	(199)
Transfer to assets held for resale	(9)	(1)	(10)
At 24 March 2007	3,619	3,531	7,150
Accumulated depreciation and impairment			
Restated at 26 March 2006 (note 4)	496	2,192	2,688
Depreciation expense for the year	58	261	319
Disposals	(2)	(121)	(123)
At 24 March 2007	552	2,332	2,884
Net book value at 24 March 2007	3,067	1,199	4,266
Capital work-in-progress included above	343	89	432

	Land and buildings £m	Fixtures and equipment £m	Restated Total £m
Cost			
At 27 March 2005	5,806	3,543	9,349
Additions - restated	363	212	575
Disposals	(2,747)	(397)	(3,144)
Transfer to assets held for sale	(100)	(7)	(107)
Restated At 25 March 2006	3,322	3,351	6,673
Accumulated depreciation and impairment			
At 27 March 2005	788	2,230	3,018
Depreciation expense for the year	74	267	341
Disposals -restated	(362)	(302)	(664)
Transfer to assets held for sale	(4)	(3)	(7)
Restated At 25 March 2006	496	2,192	2,688
Restated Net book value at 25 March 2006	2,826	1,159	3,985
Capital work-in-progress included above	309	44	353

	2007 £m	Restated 2006 £m
The net book value of land and buildings comprised		
Freehold land and buildings - restated	1,936	1,734
Long leasehold	703	631
Short leasehold	428	461
	3,067	2,826

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

10 Property, plant and equipment (continued)

Interest capitalised

Interest capitalised included in additions amounted to £6 million (2006 £10 million) Accumulated interest capitalised included in the cost total above amounted to £94 million (2006 £85 million) The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.3 per cent (2006 5.3 per cent)

Analysis of assets held under finance leases

	2007 £m	2006 £m
Land and buildings		
Cost	53	55
Accumulated depreciation and impairment	(21)	(21)
Net book value	32	34

11 Intangible assets

	Goodwill £m	Pharmacy licences £m	Software £m	Total £m
Cost				
At 26 March 2006	-	36	61	97
Additions	13	-	3	16
At 24 March 2007	13	36	64	113
Accumulated amortisation				
At 26 March 2006	-	13	29	42
Amortisation expense for the year	-	2	9	11
At 24 March 2007	-	15	38	53
Net book value at 24 March 2007	13	21	26	60
Cost				
At 27 March 2005	-	35	57	92
Additions	-	1	4	5
At 25 March 2006	-	36	61	97
Accumulated amortisation				
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

The goodwill additions balance above (£13m) relates to the acquisition of stores by the Company at greater than book value from Culcheth Provision Stores Limited, J B Beaumont Limited, and SL Shaw Limited The value of goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU to the carrying value of its goodwill

To calculate the CGU's value in use, the J Sainsbury plc Board approved cash flows for the following financial year are assumed to inflate at the long-term average growth rate for the UK food retail sector and are discounted at ten per cent (2006 ten per cent) Based on the operating performance of the respective CGUs, no impairment loss was deemed necessary in the current financial year (2006 £nil)

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

12 Investments in subsidiaries

	2007 £m	2006 £m
Shares in Subsidiaries		
At 25 March 2006	4	952
Additions	53	-
Disposals	-	(948)
Impairment of investment	(44)	-
At 24 March 2007	13	4

At 24 March 2007, 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
Sainsbury's Holborn Property	100%	England

On 26 October 2006, the Company acquired 100 per cent of the shares in Sainsbury's Holborn Property for a total consideration of £53 million. On 9 November 2006, Sainsbury's Holborn Property paid a dividend of £44 million to the Company to be satisfied by way of a distribution of property resulting in an impairment of the Company's holding in Sainsbury's Holborn Property.

13 Inventories

	2007 £m	2006 £m
Goods held for resale	576	557

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 24 March 2007 was £12,595 million (2006 £11,683 million).

14 Receivables

Trade and other receivables

	2007 £m	2006 £m
Non-current		
Amounts due from parent company	782	782
Current		
Trade receivables	28	31
Amount due from parent company	612	1,379
Amounts due from group companies	25	14
Other receivables	59	50
	724	1,474
Prepayments and accrued income	95	125
	819	1,599

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

14 Receivables (continued)

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% (2006 4.97%) and is re-payable in 2018

Amounts due from the parent company of £654 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

15 Non-current assets held for sale

Assets held for sale of £25 million (2006 £100 million) consist of retail properties. Sale of these assets is expected to occur in the next financial year beginning 25 March 2007

16 Trade and Other Payables

	2007 £m	2006 £m
Current		
Trade payables	1,699	1,381
Amounts due to Group companies	504	412
Other payables	278	327
Accruals and deferred income	169	137
	2,650	2,257
Non-current		
Amounts due to Group companies	45	-
Accruals and deferred income	33	30
	78	30

The Company's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms on the timely submission of satisfactory invoices

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

Current amounts due to group companies are non-interest bearing and are re-payable on demand

17 Borrowings

	2007 £m	2006 £m
Short-term borrowings		
Bank overdrafts	105	21
	105	21
Long-term borrowings		
Obligations under finance leases	51	52
	51	52
Total borrowings	156	73

Bank overdrafts and bank loans

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

17 Borrowings (continued)

Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2007 £m	2006 £m	2007 £m	2006 £m
Amounts payable under finance leases				
Within 1 year	3	3	-	-
Within 2 to 5 years inclusive	13	13	1	1
After 5 years	198	211	50	51
	214	227	51	52
Less future finance charges	(163)	(175)		
Present value of lease obligations	51	52		
Disclosed as				
Current	-	-		
Non-current	51	52		
	51	52		

Finance leases have effective interest rates of 4.30 per cent to 8.50 per cent (2006 4.30 per cent to 9.00 per cent). The average remaining lease term is 78 years (2006 99 years).

18 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 26 March 2006	(160)	(29)	(189)
Credit to income statement	41	6	47
Reclassification from deferred income tax assets	-	3	3
At 24 March 2007	(119)	(20)	(139)
At 27 March 2005	(157)	(25)	(182)
(Charge) to income statement	(3)	(4)	(7)
At 26 March 2006	(160)	(29)	(189)

	Provisions £m	Retirement benefit obligations £m	Share-based payment £m	Tax losses £m	Total £m
Deferred income tax assets					
At 26 March 2006	3	223	12	-	238
(Charge)/credit to income statement	-	(121)	11	-	(110)
(Charge)/credit to equity	-	(54)	7	8	(39)
Reclassification to deferred income tax liabilities	(3)	-	-	-	(3)
At 24 March 2007	-	48	30	8	86
At 27 March 2005	20	161	-	-	181
(Charge)/credit to income statement	(17)	(15)	7	-	(25)
Credit to equity	-	77	5	-	82
At 26 March 2006	3	223	12	-	238

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

18 Deferred taxation (continued)

Net deferred income tax (liability)/asset

At 24 March 2007	(53)
At 25 March 2006	49

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.

On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK Corporation tax will reduce from 30 per cent to 28 per cent. Based on the reduced Corporation tax rate of 28 per cent, the Company deferred tax liability at 24 March 2007 would reduce by less than £5 million.

19 Provisions

	Onerous leases £m	Restructuring provisions £m	Long service awards £m	Total £m
At 26 March 2006	48	41	7	96
Charge to income statement				
- Additional provisions	8	-	-	8
- Unused amounts reversed	(5)	-	-	(5)
Utilisation of provision	(14)	(23)	-	(37)
Transfer to retirement benefit obligations (note 27)	-	(13)	-	(13)
Amortisation of discount (note 5)	1	-	-	1
At 24 March 2007	38	5	7	50

	2007 £m	2006 £m
Disclosed as		
Current	12	38
Non-current	38	58
	50	96

The onerous lease provision covers residual lease commitments of up to 27 years (2006: 28 years), after allowance for existing or anticipated sublet rental income.

The restructuring provisions of £5 million (2006: £41 million) relate to the Business Review and IT insourcing costs and are expected to be utilised in the financial year beginning 25 March 2007.

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

20 Called up share capital

	2007 million	2006 million	2007 £m	2006 £m
Authorised share capital				
Ordinary shares of £100 each	40	40	4,000	4,000
Called up share capital				
Allotted and fully paid				
Ordinary shares	29	29	2,900	2,900

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

21 Other reserves

	Actuarial gains/ (losses) £m	Cash flow hedge reserve £m	Total other reserves £m
At 26 March 2006	(88)	-	(88)
Actuarial gains on defined benefit pension schemes	125	-	125
At 24 March 2007	37	-	37
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)

22 Retained earnings

	Restated £m
Restated at 26 March 2006 (note 4)	831
Profit for the year	124
Dividends paid	(250)
Share-based payment	54
At 24 March 2007	759
At 27 March 2005	(54)
Restated profit for the year (note 4)	1,107
Dividends paid	(250)
Share-based payment	28
Restated At 25 March 2006	831

23 Reconciliation of movements in equity

	Called up share capital £m	Other reserves £m	Restated Retained earnings £m	Restated Equity shareholders' funds £m
At 26 March 2006	2,900	(88)	831	3,643
Profit for the year	-	-	124	124
Dividends paid	-	-	(250)	(250)
Share-based payment	-	-	54	54
Actuarial gains on defined benefit pension schemes	-	125	-	125
At 24 March 2007	2,900	37	759	3,696
At 27 March 2005	2,900	90	(54)	2,936
Profit for the year (as previously reported in note 4)	-	-	1,107	1,107
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)	831	3,643

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

24 Notes to the cash flow statements

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

	2007	Restated 2006
	£m	£m
Operating profit restated (note 4)	61	1,055
Adjustments for		
Depreciation expense	319	341
Amortisation expense	11	12
Loss/(profit) on sale of properties (note 4)	3	(1,081)
Impairment of investment	44	-
Foreign exchange differences	6	-
Share-based payments expense	38	23
Operating cash flows before changes in working capital	482	350
Changes in working capital		
(Increase)/decrease in inventories	(19)	(24)
(Increase)/decrease in trade and other receivables	778	24
(Decrease)/increase in trade and other payables	(123)	735
(Decrease)/increase in provisions and other liabilities (1)	(379)	(125)
Cash generated from operations	739	960

(1) Includes £240 million of cash paid into the defined benefit pension schemes (note 27)

(b) Cash and cash equivalents

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

	2007	2006
	£m	£m
Cash and cash equivalents	260	229
Bank overdrafts (note 17)	(105)	(21)
	155	208

25 Financial risk management

Treasury management

Treasury policies are reviewed and approved by the parent company's board. The Chief Executive Officer and Chief Financial Officer of J Sainsbury plc 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 which 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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

25 Financial risk management (continued)

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.

26 Financial instruments

Foreign exchange forward contracts – cash flow hedges

At 24 March 2007, the Company held a portfolio of foreign exchange forward contracts with a fair value of £(0.4) million (2006: £0.2 million) to hedge its exposure to foreign exchange rate risk on its future highly probable trade purchases. The Company has purchased €110 million (2006: €136 million) and sold sterling at rates ranging from 0.68 to 0.71 (2006: 0.69 to 0.70) with maturities from April 2007 to January 2008 (2006: April to November 2006) and purchased US\$66 million (2006: US\$48 million) and sold sterling at rates ranging from 1.79 to 1.98 (2006: 1.72 to 1.79) with maturities from April 2007 to February 2008 (2006: April to November 2006).

At 24 March 2007, an unrealised loss of £0.1 million (2006: gain of £0.2 million) is included in equity in respect of these contracts. These losses will be transferred to the income statement over the next 11 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	2007 Total £m
2007					
Floating rate					
Cash and cash equivalents	260	-	-	-	260
Amounts due from Group entities	612	-	-	-	612
Bank overdrafts	(105)	-	-	-	(105)
Fixed rate					
Amounts due from Group entities	-	-	-	740	740
Finance lease obligations	-	-	(1)	(50)	(51)

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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26 Financial instruments (continued)

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	2006 Total £m
2006					
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

The Company has net euro denominated trade creditors of £12 million (2006 £5 million) and US dollar denominated trade creditors of £5 million (2006 £4 million)

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
2007		
Financial assets		
Amounts due from Group companies	782	782
Financial liabilities		
Obligations under finance leases	(51)	(51)

	Carrying amount £m	Fair value £m
2006		
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)
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27 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 2006 on the projected unit basis. The results of this valuation are expected to be approved by the schemes' trustees in June 2007. The retirement benefit obligations at 24 March 2007 have been calculated, where appropriate, on a basis consistent with this draft valuation.

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.

As part of the £350 million one-off contribution to the defined benefit schemes, the Company made the second tranche payment of £240 million on 19 May 2006 (2006: £110 million paid on 24 March 2006).

The amounts recognised in the balance sheet are as follows:

	2007 £m	2006 £m
Present value of funded obligations	(4,395)	(4,361)
Fair value of plan assets	4,298	3,710
	(97)	(651)
Present value of unfunded obligations	(6)	(7)
Retirement benefit obligations	(103)	(658)
Deferred income tax asset	48	223
Net retirement benefit obligations	(55)	(435)

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:

	2007 £m	2006 £m
Current service cost – funded schemes	(76)	(68)
Current service cost – unfunded scheme	-	(1)
Past service cost	(11)	(12)
Total included in employee costs (note 6)	(87)	(81)
Past service gains on defined benefit schemes (note 6)	72	-
	(15)	(81)
Interest cost on pension scheme liabilities	(212)	(190)
Expected return on plan assets	253	213
Total included in finance income (note 5)	41	23
Total income statement expense	26	(58)

Of the expense recognised in operating profit, £11 million (2006: £65 million) is included in cost of sales and £4 million (2006: £16 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was £342 million (2006: £644 million).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

27 Retirement benefit obligations (continued)

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

	2007 £m	2006 £m
Net actuarial gains/(losses) recognised during the year	179	(255)
Cumulative actuarial gains/(losses) recognised	52	(127)

The movements in the funded retirement benefit obligations are as follows

	2007 £m	2006 £m
Beginning of year	(4,361)	(3,503)
Current service cost	(76)	(68)
Past service cost	(11)	(12)
Past service gains (note 7)	72	-
Interest cost	(212)	(190)
Contributions by plan participants	(11)	(8)
Actuarial losses	90	(683)
Benefits paid	127	103
Transfer from provision (note 19)	(13)	-
End of year	(4,395)	(4,361)

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

	2007 £m	2006 £m
Beginning of year	3,710	2,976
Expected return on plan assets	253	213
Actuarial gains	89	428
Contributions by employer	362	188
Contributions by plan participants	11	8
Benefits paid	(127)	(103)
End of year	4,298	3,710

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

	2007 %	2006 %
Discount rate	5.3	4.9
Expected return on plan assets	6.6	6.6
Future salary increases	3.00	2.85
Future pension increases	2.35-3.00	2.50-2.85

A movement of 0.5 per cent in the discount rate would increase or decrease the retirement benefit obligations by £500 million

The combined life expectancy for both schemes operated at the balance sheet date for a pensioner at normal retirement age is as follows

	2007 years	2006 years
Male pensioner	21.4	19.3
Female pensioner	22.9	21.7

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Notes to the financial statements (continued)
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27 Retirement benefit obligations (continued)

In line with the scheme's experience and the generally observed trend amongst the population, a greater allowance for future longevity has been adopted in respect of the current mortality of pensioners. The effect of this change is to assume that a typical pensioner will live a further 0.9 years from normal retirement age. This allowance has had the impact of increasing the retirement benefit obligations by £196 million compared to using the previous mortality assumptions.

The profile of members and the salary and pension increase assumptions have been updated from the last triennial valuation. The impact of these changes is to reduce the retirement benefit obligations by £59 million. Movements in financial assumptions have resulted in a reduction in retirement benefit obligations of £108 million with a further actuarial gain on plan assets of £89 million.

Based on past experience, the Company has made the assumption that 80 per cent of the schemes' members will elect to surrender one quarter of their pension for a cash lump sum payment. The impact of this commutation assumption is to reduce the retirement benefit obligations by £119 million.

These items have been recognised in the Company statement of recognised income and expense.

In addition, following changes introduced by the Finance Act effective from 6 April 2006, the defined benefit schemes have implemented revised terms to provide members with the option to surrender a greater proportion of their pension for a tax-free cash lump sum payment. The impact of this change and other minor changes to scheme rules has been to reduce retirement benefit obligations by £72 million. This change has resulted in past service gains of £72 million being recognised in the income statement (note 7).

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

	2007	2006
	%	%
Equities	52	62
Bonds	37	33
Property	4	4
Other	7	1
	100	100

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:

	2007	2006
	£m	£m
Present value of retirement benefit obligations	(4,401)	(4,368)
Fair value of plan assets	4,298	3,710
Deficit	(103)	(658)
Experience loss on plan liabilities	(236)	(27)
Experience gain on plan assets	89	428

The expected contributions to defined benefit schemes for the next financial year beginning 25 March 2007 are £105 million.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

28 Share-based payments

The Company recognised £38 million (2006 £23 million) of employee costs (note 6) related to share-based payment transactions made during the financial year

National insurance contributions are payable in respect of certain share-based payments transactions and are treated as cash-settled transactions. At 24 March 2007, the carrying amount of national insurance contributions payable was £14 million (2006 £4 million) of which £2 million (2006 £1 million) was in respect of vested grants

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 three months continuous service. This is an approved HMRC 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 24 March 2007, UK employees held 21,833 five-year savings contracts (2006 24,033) in respect of options over 20.5 million shares (2006 21.6 million) and 24,919 three-year savings contracts (2006 23,265) in respect of options over 14.1 million shares (2006 13.8 million).

A reconciliation of option movements is shown below

	2007		2006	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	35.4	237	33.2	248
Granted	9.1	328	13.2	231
Forfeited	(4.3)	236	(4.4)	239
Exercised	(4.4)	272	(3.6)	264
Expired	(1.3)	278	(3.0)	288
Outstanding at end of year	34.5	256	35.4	237
Exercisable at end of year	3.4	247	1.7	278

The weighted average share price during the period for options exercised over the year was 510 pence (2006 317 pence)

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks ended 24 March 2007

28 Share-based payments (continued)

Details of options at 24 March 2007 are set out below

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2007 million	2006 million
28 November 2000 (5 year period)	31 August 2006	299	-	1.1
20 December 2001 (5 year period)	31 August 2007	302	0.4	2.6
3 January 2003 (3 year period)	31 August 2006	239	-	0.6
3 January 2003 (5 year period)	31 August 2008	239	3.0	3.3
17 December 2003 (3 year period)	31 August 2007	241	0.4	2.6
17 December 2003 (5 year period)	31 August 2009	241	3.0	3.3
15 December 2004 (3 year period)	31 August 2008	217	3.5	4.1
15 December 2004 (5 year period)	31 August 2010	217	4.3	4.8
15 December 2005 (3 year period)	31 August 2009	231	5.3	6.6
15 December 2005 (5 year period)	31 August 2011	231	5.6	6.4
15 December 2006 (3 year period)	31 August 2010	328	4.8	-
15 December 2006 (5 year period)	31 August 2012	328	4.2	-
			34.5	35.4

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:

	2007	2006
Share price at grant date (pence)	409	306
Exercise price (pence)	328	231
Expected volatility - 3 year period (%)	18.0	23.9
Expected volatility - 5 year period (%)	25.5	27.3
Option life - 3 year period (years)	3.2	3.2
Option life - 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	2.3	2.7
Risk-free interest rate - 3 year period (%)	4.2	4.2
Risk-free interest rate - 5 year period (%)	4.2	4.2
Fair value per option - 3 year period (pence)	105	91
Fair value per option - 5 year period (pence)	132	103

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 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. EPS is measured against a fixed starting point over the performance period beginning with the year in which the option was granted. 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.

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

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.

A reconciliation of option movements is shown below

	2007		2006	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	36.8	358	93.9	313
Forfeited	(0.5)	400	(50.2)	278
Exercised	(11.5)	356	(4.9)	265
Expired	(4.4)	343	(2.0)	475
Outstanding at end of year	20.4	362	36.8	358
Exercisable at end of year	12.2	420	26.0	393

The weighted average share price during the period for options exercised over the year was 460 pence (2006: 296 pence).

Details of options at 24 March 2007 are set out below

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2007 million	2006 million
20 May 1997	19 May 2007	367	0.7	2.2
11 November 1997	10 November 2007	489	0.1	0.1
10 November 1998	9 November 2008	545	2.4	2.9
2 August 1999	1 August 2009	378	1.8	4.2
24 November 1999	23 November 2009	320	-	0.1
2 June 2000	1 June 2010	272	1.1	5.0
7 June 2001	6 June 2011	427	2.9	5.5
26 July 2001	25 July 2011	407	3.2	6.1
25 July 2002	24 July 2012	287	3.7	5.3
22 May 2003	21 May 2013	257	3.1	4.0
20 May 2004	19 May 2014	275	1.4	1.4
			20.4	36.8

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

The Colleague Share Option Plan operates under the rules of the HMRC 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 24 March 2007, a total of 17,793 UK employees (2006: 54,817) participated in the plan and hold options over 5.7 million shares (2006: 18.6 million). Options have been exercised in respect of 7.9 million ordinary shares (2006: 32,058) 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 24 March 2007

28 Share-based payments (continued)

A reconciliation of option movements is shown below

	2007		2006	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	18.6	366	21.9	366
Forfeited	(4.8)	363	(3.3)	365
Exercised	(7.9)	369	-	-
Expired	(0.2)	371	-	-
Outstanding at end of year	5.7	365	18.6	366
Exercisable at end of year	5.7	365	18.6	366

The weighted average share price during the period for options exercised over the year was 500 pence (2006 310 pence)

Details of options at 24 March 2007 are set out below

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2007 million	2006 million
2 August 1999	1 August 2009	378	5.0	16.6
2 June 2000	1 June 2010	272	0.7	2.0
			5.7	18.6

(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, 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, Alliance Boots, Carrefour, Casino, DSG International, 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.

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

	Number of shares	
	2007 million	2006 million
Outstanding at beginning of year	2.2	3.7
Forfeited	(0.2)	(1.5)
Released to participants	(0.6)	-
Lapsed	(0.5)	-
Outstanding at end of year	0.9	2.2

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28 Share-based payments (continued)

Details of shares conditionally allocated at 24 March 2007 are set out below

Date of conditional allocation	Shares conditionally awarded	
	2007 million	2006 million
22 May 2003	-	1.1
20 May 2004	0.9	1.1
	0.9	2.2

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. Details of the options outstanding at year-end are set out below

Date of grant	Date of expiry	Exercise price of option pence	2007		2006	
			Options	Shares in respect of options granted	Options	Shares in respect of options granted
29 May 2002 ⁽¹⁾	28 May 2012	100	-	-	1	15,857
217 May 2006 ⁽²⁾	16 May 2016	-	1	13,187	-	-
			1	13,187	1	15,857

- (1) Options granted in respect of shares conditionally allocated on 26 July 1999
(2) Options granted in respect of shares conditionally allocated on 22 May 2003

(e) 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	
	2007 million	2006 million
Outstanding at beginning of year	1.7	1.9
Forfeited	(0.1)	(0.2)
Released to participants	(0.1)	-
Outstanding at end of year	1.5	1.7

(f) J Sainsbury plc Share Plan 2005

Under the J Sainsbury plc Share Plan 2005, shares were awarded to participants on the conditional basis that the performance targets are achieved within the four-year performance period, from the financial year beginning 27 March 2005 until the financial year ending March 2009. The levels of awards are scaled according to seniority and there is an opportunity for Executive Directors and eligible Operating Board members to make a personal investment of up to 50 per cent of salary in the plan.

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

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 Parent company's Executive Directors and eligible Operating Board members. 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) as shown in 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 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. The options will expire within a year after the end of the four-year performance period. Dividends will accrue on the shares that vest in the form of additional shares.

In order to participate in the plan, participants agreed to surrender options granted to them under the Company's Executive Share Option Plan in 2002, 2003 and 2004.

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

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

	Number of shares	
	2007 million	2006 million
Outstanding at beginning of year	7.0	-
Conditionally allocated	-	7.0
Forfeited	(0.5)	-
Outstanding at end of year	6.5	7.0

Details of shares conditionally allocated at 24 March 2007 are set out below:

Date of conditional award	Shares conditionally allocated	
	2007 million	2006 million
13 July 2005	6.5	7.0

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

Options to acquire 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:

	2007	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.

(g) Long-Term Incentive Plan 2006

Under the Long-Term Incentive Plan 2006, shares were conditionally awarded to the top 1,000 managers in the parent company, from the Chief Executive to the supermarket store managers. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

The awards will vest if the threshold levels of two co-dependent performance conditions – Return on Capital Employed ("ROCE") and growth in cash flow per share, are achieved over the three-year performance period. As set out in table 3 below, the core award can grow by up to four times, dependent on the level of performance. Straight-line vesting will apply if performance falls between two points.

Performance will be measured at the end of the three-year performance period. If the required level of performance has been reached, the awards vest and 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will be released on the fourth anniversary of the date of award. Options granted to acquire the award of shares will expire two years from vesting date. Dividends will accrue on the shares that vest in the form of additional shares.

Table 3 – Level of awards

	3 year cash flow per share (compound annual)				
ROCE	6%	9%	12%	15%	>18%
>=14%	1.5	2.5	3.0	3.5	4.0
13%	1.0	1.5	2.0	3.0	3.5
12%	0.5	1.0	1.5	2.0	3.0
11%	0.0	0.5	1.0	1.5	2.5
10%	0.0	0.0	0.5	1.0	1.5

Details of shares conditionally awarded at 24 March 2007 are set out below:

	Shares conditionally awarded million
Date of conditional award	
13 July 2006	2.5

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28 Share-based payments (continued)

Options to acquire the 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:

	2007
Share price at grant date (pence)	335
Exercise price (pence)	-
Expected volatility (%)	29.0
Option life (years)	4.1
Expected dividends (expressed as dividend yield %)	-
Risk-free interest rate (%)	4.7
Fair value per option (pence)	335

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.

29 Related party transactions

The immediate and ultimate parent company and controlling party of the Company is J Sainsbury plc, which is registered in England and Wales, and forms the only group into which the financial statements of the Company are consolidated. Copies of the parent company's financial statements may be obtained from the Company Secretary, J Sainsbury plc, 33 Holborn, London EC1N 2HT.

(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:

	2007 £m	2006 £m
Short-term employee benefits	7	7
Post-employment employee benefits	1	1
Termination benefits	-	-
Share-based payments	7	6
	15	14

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

	2007	2006
Defined contribution schemes	6	7
Defined benefit schemes	1	2
	7	9

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29 Related party transactions (continued)

Details of transactions, in the normal course of business, with the key management personnel are provided below. For this purpose, key management personnel include members of the Company's Board and members of their close family.

	Credit card balances		Saving deposit accounts	
	Number of key management personnel	£000	Number of key management personnel	£000
At 26 March 2006	4	9	2	(1)
Amounts advanced/(received) (1)	4	115	1	(769)
Interest earned/(paid)	1	-	2	(3)
Amounts (repaid)/withdrawn (2)	4	(116)	1	486
At 24 March 2007	4	8	2	(287)
At 27 March 2005	5	11	4	(487)
Amounts advanced/(received) (1)	6	249	3	(97)
Interest earned/(paid)	3	1	4	(18)
Amounts (repaid)/withdrawn (2)	6	(252)	3	601
At 25 March 2006	4	9	2	(1)

(1) Includes existing balances of new appointments

(2) Includes existing balances of resignations

(b) Transactions with parent company

	2007 £m	2006 £m
Advances given to parent company		
Advances given (repaid from) /to parent company	(767)	2,161
Interest income received in respect of interest bearing loans	39	-
Advances received from parent company		
Advances repaid to parent company	-	2,590
Dividend paid	(250)	(250)
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	1,394	2,161

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29 Related party transactions (continued)

(c) Transactions with Subsidiaries

	2007 £m	2006 £m
Advances given to subsidiaries		
Advances repaid by subsidiaries	(1)	(5)
Advances received from subsidiary		
Advances received from subsidiaries	(8)	(207)
Interest expense paid	-	(3)
Dividend income received	44	159
Year end balances arising from transactions with subsidiaries		
Receivables		
Advances due from subsidiaries	7	8
Payables		
Advances due to subsidiaries	(363)	(355)

(d) Transactions with group companies

	2007 £m	2006 £m
Advances given to group companies		
Advances given to group companies	16	5
Advances repaid by group companies	(4)	(3)
Advances received from group companies		
Advances received from group companies	(130)	(18)
Advances repaid to group companies	1	3
Year end balances arising from transactions with group companies		
Receivables		
Advances due from group companies	18	6
Payables		
Advances due to group companies	(186)	(57)

During the year, £69 million of assets were sold to group companies for £68 million. In the prior year, £2,398 million of assets were sold to group companies for £3,407 million.

(e) Other Related Parties

Transactions with other related parties

The parent company of Sainsbury's Supermarkets Ltd, J Sainsbury plc, owns 50% of Sainsbury's Bank PLC and Boutique Sainsbury SARL.

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29 Related party transactions (continued)

For the 52 weeks to 24 March 2007, the Company entered into various transactions with these related parties as set out below

	2007 £m	2006 £m
Services and loans provided to other related parties		
Sales of inventories	4	3
Management services provided	3	-
Services and loans provided by other related parties		
Management services received	-	(1)

Year-end balances arising from transactions with other related parties

	2007 £m	2006 £m
Receivables		
Other receivables	3	1
Payables	-	-

30 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	
	2007 £m	2006 £m	2007 £m	2006 £m
Commitments under non-cancellable operating leases payable as follows				
Within 1 year	474	461	42	29
Within 2 to 5 years inclusive	1,897	1,853	82	62
After 5 years	10,550	10,714	7	-
	12,921	13,028	131	91

The Company sublets certain leased properties and the total future minimum sublease payments to be received under non-cancellable subleases at 24 March 2007 are £262 million (2006: £267 million).

31 Capital commitments

During the current financial year, the Company entered into contracts of £302 million (2006: £473 million) for future capital expenditure not provided for in the financial statements.

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32 Contingent liabilities and financial commitments

Contingent liabilities

Operating lease commitments (note 30) 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 does not have any financial commitments (2006 £240 million)

33 Subsequent events

On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK Corporation tax will reduce from 30 per cent to 28 per cent (note 18).

Other than those noted above, there were no subsequent events.