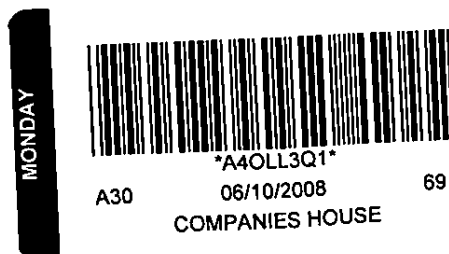


Sainsbury's Supermarkets Ltd
Annual Report and Financial Statements

For the 52 weeks to 22 March 2008



Sainsbury's Supermarkets Ltd

Directors' Report

for the 52 weeks to 22 March 2008

The Directors present their report and the audited financial statements of Sainsbury's Supermarkets Ltd ("the Company") for the 52 weeks to 22 March 2008

Principal activity

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

Business review

The Company operates a chain of 504 supermarkets and 319 convenience stores

Trade and net assets were transferred from Bells Stores Limited, Jacksons Stores Limited and Jacksons Stores 2002 Limited to the Company on 27 January 2008. Included in this transfer were 174 convenience stores

Sales increased to £17,619 million for the year (2007 £16,604 million) with significant contributions from like-for-like growth, new space and petrol. Underlying profit before tax⁽¹⁾ increased to £343 million (2007 £118 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, and 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 J Sainsbury plc ("the Group") and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on page 17 of the J Sainsbury plc Annual Report and Financial Statements 2008, 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 2008 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 2008, which does not form part of this report.

(1) Profit before tax from continuing operations before any gain or loss on the sale of properties and one off items that are material and infrequent in nature. In the current financial year these one-off items relate to the costs from the approach from Della Two and costs associated with the OFT dairy enquiry. In the prior financial year, this one off item related to the past service gains on defined benefit schemes.

**Sainsbury's Supermarkets Ltd
Directors' Report (continued)
for the 52 weeks to 22 March 2008**

Results

The profit on ordinary activities before tax of the Company is £333 million (2007 £187 million) The profit for the year of £288 million (2007 £124 million) has been transferred to reserves

Dividend

A final dividend of £250 million was paid in the period to the ordinary shareholders (2007 £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 43 days (2007 47 days) at 22 March 2008

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

Directors' indemnities

The Directors are entitled to be indemnified by the parent company to the extent permitted by law and the Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities The parent company has executed deeds of indemnity for the benefit of each Director in respect to liabilities which may attach to them in their capacity as Directors The parent company purchased and maintained Directors' and Officers' liability insurance throughout 2007, which was renewed for 2008/09 Neither the indemnities nor insurance provide cover in the event that the Director is proved to have acted fraudulently

Market value of properties

The Directors believe that the aggregate open market value of Company properties significantly exceeds the net book value of £3,396 million (2007 £3,067 million)

Donations

During the year, donations to UK charitable organisations and local community projects amounted to £7.6 million (2007 £6.6 million) Our colleagues, customers and suppliers raised £5.4 million (2007 £12.4 million which included Comic Relief) for charities through events supported by the Company Activities focus on areas that matter most to colleagues and customers such as food, family, health and children

The Active Kids programme is a great example of this where customers earn vouchers against spend in-store and online which can then be redeemed by schools, Scout and Guide groups against activity and cookery equipment Since the launch in 2006, £52 million of sports equipment, kit and coaching have been donated to over 26,000 UK children's groups and nearly 40,000 registrations have been received for the 2008 scheme New to this year's scheme is the opportunity for British children to donate vouchers to schools in developing countries

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

Sainsbury's Supermarkets Ltd
Directors' Report (continued)
for the 52 weeks to 22 March 2008

and opportunities for training and development of people with disabilities according to their skills and capacity. The services of any existing employee who becomes disabled are retained wherever possible and the appropriate training arranged.

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

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

Social responsibility

We have developed a wide variety of projects and policies to meet the needs of stakeholders under the heading Corporate Social Responsibility. Further details can be found at the following web address www.j-sainsbury.co.uk/cr/

Financial risk management

The financial risk management and policies of the Company are disclosed in note 26 of the financial statements.

Directors

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				
Ken McMeikan	Resigned	25 January 2008		
Darren Shapland				
Imelda Walsh				
Lawrence Christensen	Appointed	28 March 2008	Resigned	18 April 2008
Diana Harding	Appointed	30 March 2008		
Luke Jensen	Appointed	15 June 2008		
Angela Morrison	Appointed	15 June 2008		
John Rogers	Appointed	15 June 2008		
Neil Sachdev	Appointed	15 June 2008		
Tim Fallowfield	Appointed	15 June 2008		

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The Company has dispensed with the need to re-appoint auditors annually.

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.

By order of the Board



Tim Fallowfield

Director and Company Secretary

Date 2 October 2008

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 those 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 that the financial statements comply with IFRSs 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, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that 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.

Sainsbury's Supermarkets Ltd

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 to 22 March 2008, 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

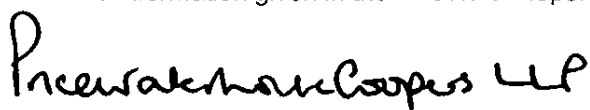
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 22 March 2008 and of its profit and cash flows for the period 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
Date 2 October 2008

Sainsbury's Supermarkets Ltd
Income statement
for the 52 weeks to 22 March 2008

	Note	2008 £m	2007 £m
Continuing operations			
Revenue	3	17,619	16,604
Cost of sales		(16,831)	(15,819)
Gross profit		788	785
Administrative expenses		(573)	(721)
Other income/(expense)		24	(3)
Operating profit	4	239	61
Finance income	5	109	126
Finance costs	5	(15)	-
Profit before taxation		333	187
Analysed as			
Underlying profit before tax (1)		343	118
Profit/(loss) on sale of properties	4,7	24	(3)
One-off items	7	(34)	72
		333	187
Income tax expense	8	(45)	(63)
Profit for the financial year		288	124
Attributable to:			
Equity holders of the parent		288	124

- (1) Profit before tax from continuing operations before any gain or loss on the sale of properties and one off items that are material and infrequent in nature. In the current financial year, these one-off items relate to the costs from the approach from Delta Two and costs associated with the OFT dairy enquiry. In the prior financial year, this one off item related to the past service gains on defined benefit schemes.

Sainsbury's Supermarkets Ltd
Statement of recognised income and expense
for the 52 weeks to 22 March 2008

		2008	2007
	Note	£m	£m
Actuarial gains on defined benefit pension schemes	28	542	179
Cash flow hedges effective portion of fair value movements		3	-
Share-based payment tax recognised directly in equity	8	(10)	15
Deferred tax on items recognised directly in equity	8	(151)	(54)
Net income recognised directly in equity		384	140
Profit for the financial year		288	124
Total recognised income for the financial year		672	264

Sainsbury's Supermarkets Ltd
Balance sheet
at 22 March 2008 and 24 March 2007

	Note	2008 £m	2007 £m
Non-current assets			
Property, plant and equipment	10	4,670	4,266
Intangible assets	11	166	60
Investments in subsidiaries	12	13	13
Investments in joint ventures	13	63	-
Other receivables	15	782	782
Retirement benefit asset	28	495	-
		6,189	5,121
Current assets			
Inventories	14	679	576
Trade and other receivables	15	730	819
Derivative financial instruments	27	4	-
Cash and cash equivalents	25b	243	260
		1,656	1,655
Non-current assets held for sale	16	94	25
		1,750	1,680
Total assets		7,939	6,801
Current liabilities			
Trade and other payables	17	(3,191)	(2,650)
Short-term borrowings	18	(30)	(105)
Taxes payable		(93)	(15)
Provisions	20	(8)	(12)
		(3,322)	(2,782)
Net current liabilities		(1,572)	(1,102)
Non-current liabilities			
Trade and other payables	17	(131)	(78)
Long-term borrowings	18	(49)	(51)
Deferred income tax liability	19	(232)	(53)
Provisions	20	(36)	(38)
Retirement benefit obligations	28	-	(103)
		(448)	(323)
Net assets		4,169	3,696
Equity			
Called up share capital	21	2,900	2,900
Other reserves	22	430	37
Retained earnings	23	839	759
Total equity	24	4,169	3,696

The financial statements on pages 7 to 53 were approved by the Board of Directors on 2 October 2008, and are signed on its behalf by



Darren Shapland
Director

Sainsbury's Supermarkets Ltd
Cash flow statement
for the 52 weeks to 22 March 2008

	Note	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	25a	1,083	739
Interest paid		(4)	(3)
Corporation tax received		19	7
Net cash from operating activities		1,098	743
Cash flows from investing activities			
Purchase of property, plant and equipment		(969)	(729)
Purchase of intangible assets		(7)	(3)
Proceeds from disposal of property, plant and equipment and other assets		173	157
Acquisition of and investment in subsidiaries and businesses, net of cash acquired	11	(3)	(53)
Investment in joint ventures		(16)	-
Interest received		35	41
Dividends received		-	44
Net cash from investing activities		(787)	(543)
Cash flows from financing activities			
Interest elements of obligations under finance lease payments		(3)	(3)
Dividends paid	9	(250)	(250)
Net cash from financing activities		(253)	(253)
Net increase/(decrease) in cash and cash equivalents		58	(53)
Opening cash and cash equivalents		155	208
Closing cash and cash equivalents	25b	213	155

Sainsbury's Supermarkets Ltd
Notes to the financial statements
for the 52 weeks to 22 March 2008

1 General information

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

The financial year represents the 52 weeks to 22 March 2008 (prior financial year 52 weeks to 24 March 2007).

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 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 – Company and Treasury Share Transactions'

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 22 March 2008.

Effective for the Company for the financial year beginning 23 March 2008

- IFRIC 12 'Service Concession Arrangements'
- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

Effective for the Company for future financial years

- Revised IAS 1 'Presentation of financial statements'
- Revised IAS 23 'Borrowing Costs'
- Amendment to IAS 32 'Financial instruments Presentation'
- Amendment to IFRS 2 'Share-based payment'
- Revised IFRS 3 'Business Combinations'
- IFRIC 13 'Customer Loyalty Programmes'
- Amendment to IAS 39, Financial Instruments Recognition and measurement on eligible hedged items'
- IFRIC 16, Hedges of a net investment in a foreign operation'
- IFRIC 15, Agreements for construction of real estates'

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

2 Accounting policies (continued)

The Company has considered the above new standards, interpretations and amendments to published standards that are not yet effective and concluded that except for the amendment to IFRS 2 'Share-based payment', 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 Company is currently assessing the potential effect of the amendment to IFRS 2 'Share-based payment'.

The accounting policies herein have been applied consistently to all periods presented in the financial statements and have been applied consistently by the Company.

Consolidation

The financial statements contain information about Sainsbury's Supermarkets Ltd as an individual company and do not contain consolidation financial information as the parent of a group. The Company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary companies are included by full consolidation in the consolidated financial statements of J Sainsbury plc, a company registered in England and Wales. J Sainsbury plc is incorporated in the United Kingdom and listed on the London Stock Exchange. The consolidated financial statements of J Sainsbury plc are available from the Company Secretary at its registered address, 33 Holborn, London EC1N 2HT.

Associates and joint ventures

Associates are entities that are neither subsidiaries nor joint ventures, over which the Company has significant influence. Joint ventures are jointly controlled entities in which the Company has an interest.

Investments in subsidiaries, associates and joint ventures are carried at cost less any impairment loss in the financial statements of the Company.

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 excludes Value Added Tax and staff discounts.

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

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

Cost of sales

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

2 Accounting policies (continued)

Property, plant and equipment

Land and buildings

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

Fixtures, equipment and vehicles

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

Depreciation

Depreciation is calculated to write down the cost of the assets to their residual values, on 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 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 of IAS 38 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 loss.

All business combinations are accounted for by applying the purchase method.

On acquisition, the assets (including intangible assets) and liabilities of an acquired entity are measured at their fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the business acquired.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, and liabilities recognised.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

2 Accounting policies (continued)

Impairment of non-financial assets

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

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 to be 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 sub-tenant agreements and is recognised as earned.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

2 Accounting policies (continued)

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.

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. Provisions for dilapidation costs are recognised on a lease by lease basis.

Restructuring and disposal

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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

2 Accounting policies (continued)

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 cost on pension scheme liabilities and expected return on plan assets. Actuarial gains and losses are recognised in full in the period, in the statement of recognised income and expense.

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

Long service awards

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

Share-based payments

The Company provides benefits to employees (including Directors) of the Company in the form of equity-settled and cash-settled share-based payment transactions, whereby employees render services in exchange for shares, rights over shares or the value of those shares in cash terms (as detailed in note 29).

For equity settled share-based payments 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.

For cash-settled share-based payments the fair value of the employee services rendered is determined at each balance sheet date and the charge recognised through the income statement over the vesting period of the share-based payment scheme, with the corresponding increase in accruals.

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 adjustments made in equity and accruals.

Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

'Financial assets at fair value through profit or loss' include financial assets held for trading and those designated at fair value through profit or loss at inception. Derivatives are classified as held for trading unless they are accounted for as an effective hedging instrument. 'Financial assets at fair value through profit or loss' are recorded at fair value, with any gains or losses recognised in the income statement in the period in which they arise.

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 less impairment using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

2 Accounting policies (continued)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, these assets are recorded at amortised cost using the effective interest method. Income is calculated on an effective yield basis and is recognised in the income statement.

Available-for-sale ('AFS') financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Subsequent to initial recognition, these assets are recorded at fair value with the movements in fair value taken directly to equity until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on AFS equity instruments are recognised in the income statement when the entity's right to receive payment is established. Interest on AFS debt instruments is recognised using the effective interest method.

Purchases and sales of 'financial assets at fair value through profit or loss', held-to-maturity and AFS investments are recognised on trade date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

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 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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

2 Accounting policies (continued)

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the income statement. The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

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 26.

Derivative financial instruments and hedge accounting

The Company's activities expose it to financial risks associated with movements in exchange rates and interest rates. The Company uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Group'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 exchange rate risk of future highly probable inventory purchases denominated in foreign currency. 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 movements in interest rates. 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 or costs as they arise.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

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.

Non GAAP performance measures

The Directors believe that the 'underlying' profit before tax presented provides a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. This measure is consistent with how the business is measured internally. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies. The adjustments made to reported profit before tax are:

- Profit on sale of properties - these can vary from year to year and therefore create volatility in reported earnings, and
- One-off items - these are material and largely one-off in nature, creating volatility in reported earnings which does not reflect Sainsbury's underlying performance

(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 value in use calculations and these calculations require the use of estimates in relation to future cash flows and 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 28.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

2 Accounting policies (continued)

Provisions

Provisions have been made for onerous leases, dilapidations, restructuring and disposal 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.

4 Operating profit

	2008 £m	2007 £m
Operating profit is stated after charging/(crediting) the following items		
Employee costs (note 6)	1,891	1,718
Depreciation expense (note 10)	322	319
Amortisation expense (included within cost of sales)	11	11
(Profit)/loss on sale of properties (note 7)	(24)	3
Impairment of investments/financial assets	-	44
Costs relating to approach from Delta Two (note 7)	7	-
Costs associated with Office of Fair Trading dairy inquiry (note 7)	27	-
Reversal of impairment of receivables	(1)	-
Operating lease rentals - land and buildings	538	519
- other leases	51	45
- sublease payments received	(35)	(29)
Foreign exchange (gains)/losses	(2)	6
	2008 £m	2007 £m
Auditors' remuneration		
Audit services		
Fees payable for the audit of the Company and the financial statements	0.3	0.4
Non-audit services		
Fees payable to the Company auditor and its associates for other services as detailed below		
Audit of other Group companies pursuant to legislation	0.4	0.2
Other services pursuant to legislation	0.1	0.1
Tax services	0.5	0.3
All other services	0.2	0.2
	1.5	1.2

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

5 Finance income and finance costs

	2008 £m	2007 £m
Interest on bank deposits	3	2
Dividend income from investments	-	44
Amounts due from Group companies	52	39
Net return on pension schemes (note 28)	54	41
Finance income	109	126
 Borrowing costs		
Amounts due to Group companies		
Other loans	(23)	(2)
Obligations under finance leases		
- Other	(3)	(3)
Provisions - amortisation of discount (note 20)	(1)	(1)
	(27)	(6)
Interest capitalised - qualifying assets	12	6
Finance costs	(15)	-

6 Employee costs

	2008 £m	2007 £m
Employee costs for the Company during the year amounted to		
Wages and salaries, including bonus and termination benefits	1,623	1,523
Social security costs	111	117
Pension costs – defined contribution schemes	26	25
Pension costs – defined benefit schemes (note 28)	78	87
Pension costs – past service gains on defined benefit schemes (notes 7 and 28)	-	(72)
Share-based payments expense (note 29)	53	38
	1,891	1,718
	Number	Number
	000's	000's
The average number of employees, including Directors, during the year were		
Full-time	48 6	47 4
Part-time	98 4	95 5
	147 0	142 9
Full-time equivalent	96 1	92 8

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

7 Non GAAP performance measures

The adjustments made to reported profit before tax to arrive at underlying profit before tax are

	2008 £m	2007 £m
Profit/(loss) on sale of properties	24	(3)
One-off items for the financial year comprised		
Costs relating to approach from Delta Two	(7)	-
Costs associated with Office of Fair Trading dairy inquiry	(27)	-
Past service gains on defined benefit schemes (notes 6 and 28)	-	72
Total one-off items	(34)	72
Total non GAAP performance measures	(10)	69

Profit/(loss) on sale of properties

Includes all Company gains or losses on the sale of properties

Costs relating to approach from Delta Two

The Company has incurred £7 million of costs in relation to the approach from Delta Two

Costs associated with Office of Fair Trading dairy inquiry

The Company has incurred £27 million of costs associated with the Office of Fair Trading dairy inquiry

8 Income tax expense

	2008 £m	2007 £m
Current tax expense		
Current year	41	-
Over provision in prior years	(9)	-
	32	-
Deferred tax expense		
Origination and reversal of temporary differences	27	110
Deferred tax rate change from 30% to 28%	(8)	-
Over provision in prior years	(6)	(47)
	13	63
Total income tax expense in income statement	45	63
Income tax expense on underlying profit (1)	46	45
Tax on items below		
Sale of properties	-	(4)
Financing fair value movements	(1)	-
Costs relating to approach from Delta Two	(2)	-
Tax on property disposals	2	-
Past service gains on defined benefit schemes	-	22
Total income tax expense in income statement	45	63

(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 to 22 March 2008

8 Income tax expense (continued)

The effective tax rate of 14 per cent (2007 34 per cent) is lower than the standard rate of corporation tax in the UK. The differences are explained below

	2008 £m	2007 £m
Profit before taxation	333	187
Income tax at UK corporation tax rate of 30% (2007 30%)	100	56
Effects of		
Disallowed depreciation on UK properties	6	12
Non-deductible expenses	18	15
Non-taxable profit on disposal of property	(5)	(4)
Non-taxable dividend income	-	(13)
Transfer pricing adjustment	(2)	(6)
Other timing differences	2	-
Deferred tax rate change from 30% to 28%	(8)	-
Capital losses utilised	(3)	-
Group relief (claimed)/surrendered for nil consideration	(48)	50
Over provision in prior years	(15)	(47)
Total income tax expense in income statement	45	63

Income tax charged or credited to equity during the year is as follows

	2008 £m	2007 £m
Share-based payment tax recognised directly in equity		
Current tax payable	(5)	-
Deferred tax asset	19	(7)
Prior year adjustment	(13)	-
Deferred tax rate change from 30% to 28%	1	-
Deferred tax losses associated with share-based payment tax deduction	8	(8)
	10	(15)
Deferred tax on items recognised directly in equity		
Actuarial gains on defined benefit pension schemes	161	54
Deferred tax rate change from 30% to 28% - defined benefit pension scheme	(10)	-
	151	54
	161	39

9 Equity dividends

	2008 pence per share	2007 pence per share	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the year				
Interim dividend of current financial year	8.62	8.62	250	250

It was resolved that an interim dividend of 8.62 pence per share (2007 8.62 pence per share) would be paid to shareholders on 19 March 2008 at a total cost of £250 million (2007 £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 to 22 March 2008

10 Property, plant and equipment

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 25 March 2007	3,619	3,531	7,150
Additions	624	369	993
Disposals	(184)	(140)	(324)
Transfer to assets held for sale	(80)	(14)	(94)
At 22 March 2008	3,979	3,746	7,725
Accumulated depreciation and impairment			
At 25 March 2007	552	2,332	2,884
Depreciation expense for the year	55	267	322
Disposals	(19)	(122)	(141)
Transfer to assets held for sale	(5)	(5)	(10)
At 22 March 2008	583	2,472	3,055
Net book value at 22 March 2008	3,396	1,274	4,670
Capital work-in-progress included above	398	63	461
Cost			
At 26 March 2006	3,322	3,351	6,673
Additions	371	315	686
Disposals	(65)	(134)	(199)
Transfer to assets held for sale	(9)	(1)	(10)
At 24 March 2007	3,619	3,531	7,150
Accumulated depreciation and impairment			
At 26 March 2006	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

	2008 £m	2007 £m
The net book value of land and buildings comprised		
Freehold land and building	2,157	1,936
Long leasehold	758	703
Short leasehold	481	428
	3,396	3,067

Interest capitalised

Interest capitalised included in additions amounted to £12 million (2007 £6 million). Accumulated interest capitalised included in the cost total above amounted to £95 million (2007 £94 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.7 per cent (2007 5.3 per cent).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

10 Property, plant and equipment (continued)

Analysis of assets held under finance leases

	2008 £m	2007 £m
Land and buildings		
Cost	51	53
Accumulated depreciation and impairment	(21)	(21)
Net book value	30	32

11 Intangible assets

	Goodwill £m	Pharmacy licences £m	Software £m	Total £m
Cost				
At 25 March 2007	13	36	64	113
Additions	112	-	7	119
Transfer to assets held for sale	(2)	-	-	(2)
At 22 March 2008	123	36	71	230
Accumulated amortisation and impairment				
At 25 March 2007	-	15	38	53
Amortisation expense for the year	-	3	8	11
At 22 March 2008	-	18	46	64
Net book value at 22 March 2008	123	18	25	166
Cost				
At 26 March 2006	-	36	61	97
Additions	13	-	3	16
At 24 March 2007	13	36	64	113
Accumulated amortisation and impairment				
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

The goodwill balance above relates to the acquisition of stores by the Company at greater than fair value - Bells Stores Limited, Jacksons Stores Limited, Jacksons Stores 2002 Limited, J B Beaumont Limited, S L Shaw Limited and Culcheth Provision Stores Limited. The value of the 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 CGUs 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 (2007 ten per cent) over a 25 year period. Based on the operating performance of the respective CGUs, no impairment loss was deemed necessary in the current financial year (2007 £nil).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

12 Investments in subsidiaries

	2008 £m	2007 £m
Shares in subsidiaries		
At 24 March 2007	13	4
Additions	-	53
Impairment of investment	-	(44)
At 22 March 2008	13	13

At 22 March 2008, 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	67%	England

On 26 October 2006, the Company acquired 67 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 Investments in joint ventures

	Shares at cost £m	Total £m
At 25 March 2007	-	-
Additions in year	63	63
At 22 March 2008	63	63

The holdings directly owned by the Company were

	Year-end	Share of partnership	Country of registration or incorporation
The Harvest Limited Partnership (property investment - UK)	31 March	50%	England

14 Inventories

	2008 £m	2007 £m
Goods held for resale	679	576

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 22 March 2008 was £13,395 million (2007: £12,595 million).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

15 Receivables

Trade and other receivables

	2008 £m	2007 £m
Non-current		
Amounts due from parent company	782	782
Current		
Trade receivables	32	28
Amounts due from parent company	505	612
Amounts due from Group companies	38	25
Other receivables	66	59
	641	724
Prepayments and accrued income	89	95
	730	819

Trade and other receivables are carried at amortised cost less impairment using the effective interest method. Trade receivables are non-interest bearing and are on commercial terms. Current other receivables are generally non-interest bearing.

The Company's exposure to credit risk is minimal given that the customer base is large and unrelated and that the overwhelming majority of customer transactions are settled through cash or secure electronic means. New parties wishing to obtain credit terms with the Company are credit checked by the accounts receivable credit control team prior to any invoices being raised, credit limits are determined on an individual basis.

The non-current amount due from the parent company is at an interest rate of 4.97 per cent (2007: 4.97 per cent) and is repayable in 2018.

Amounts due from the parent company of £505 million (2007: £612 million) are at floating rates of interest on a commercial basis and are repayable on demand.

The remaining current amounts due from Group companies are non-interest bearing and are repayable on demand.

The Company has trade and other receivables of £3 million (2007: £11 million) that are past due but not impaired. These relate to a number of independent receivables for whom there is no recent history of default. These have not been provided for as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances.

The ageing analysis of these trade and other receivables are as follows:

	2008 £m	2007 £m
Up to 8 weeks	3	7
Over 8 weeks	-	4
	3	11

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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15 Receivables (continued)

Trade and other receivables of £1 million (2007 £2 million) are impaired and provided for. The ageing of these receivables are as follows

	2008 £m	2007 £m
Up to 8 weeks	-	-
8 to 20 weeks	-	-
Over 20 weeks	1	2
	1	2

Movements in the provision for impairment of trade and other receivables are as follows

	2008 £m	2007 £m
At beginning of year	2	2
Reversal of impairment of receivables	(1)	-
End of year	1	2

Amounts due from Group companies are not considered overdue or impaired

The carrying amounts of trade and other receivables are denominated in the following currencies

	2008 £m	2007 £m
Sterling	1,511	1,601
Euro	1	-
	1,512	1,601

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

	2008		2007	
	Number of counterparties	Balance £m	Number of counterparties	Balance £m
Trade receivables	1	9	1	8
Other receivables	1	16	3	30
Related parties	1	5	1	5
Parent company	1	1,287	1	1,394
Other Group companies	4	38	3	24

Significant trade receivables identified above relate to amounts receivable from credit card companies. The balance is not considered past due or impaired.

Major other receivables include amounts due from the National Health Service of £16 million (2007 £16 million) for pharmacy sales and loans to developers of £nil (2007 £14 million) for capital expenditure. Loans to developers are held in escrow and are determined on a contractual basis.

The Company's exposure to credit risk on amounts due from other Group companies is considered minimal and managed by the J Sainsbury plc group.

Related parties are from Sainsbury's Bank plc.

No major counterparty balances are considered overdue or impaired.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

16 Non-current assets held for sale

Assets held for sale of £94 million (2007 £25 million) consist of non-current assets relating to properties held in the retail operations division. Sale of these assets is expected to occur in the next financial year beginning 23 March 2008.

17 Payables

Trade and other payables

	2008 £m	2007 £m
Current		
Trade payables	1,703	1,699
Amounts due to Group companies	978	504
Other payables	278	278
Accruals and deferred income	232	169
	3,191	2,650
Non-current		
Amounts due to Group companies	43	45
Accruals and deferred income	88	33
	131	78

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 repayable on demand.

18 Borrowings

	2008 £m	2007 £m
Short-term borrowings		
Bank overdrafts	30	105
Long-term borrowings		
Obligations under finance leases	49	51
Total borrowings	79	156

Bank overdrafts

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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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18 Borrowings (continued)

Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	2008 £m	2007 £m
Amounts payable under finance leases				
Within 1 year	3	3	-	-
Within 2 to 5 years inclusive	12	13	1	1
After 5 years	188	198	48	50
	203	214	49	51
Less future finance charges	(154)	(163)		
Present value of lease obligations	49	51		
Disclosed as				
Current	-	-		
Non-current	49	51		
	49	51		

Finance leases have effective interest rates of 4.30 per cent to 8.50 per cent (2007: 4.30 per cent to 8.50 per cent). The average remaining lease term is 7.7 years (2007: 7.8 years).

19 Deferred taxation

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

	Accelerated tax depreciation £m	Other £m	Total £m
Deferred income tax liabilities			
At 25 March 2007	(119)	(20)	(139)
Prior year adjustment to income statement	10	(4)	6
Charge to income statement	(5)	(5)	(10)
Rate change adjustment to income statement	7	2	9
At 22 March 2008	(107)	(27)	(134)
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)

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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19 Deferred taxation

	Provisions £m	Retirement benefit obligations £m	Share-based payment £m	Tax losses £m	Total £m
Deferred income tax assets					
At 25 March 2007	-	48	30	8	86
Charge to income statement	-	(26)	9	-	(17)
Charge to equity	-	(161)	(19)	(8)	(188)
Prior year adjustment to equity	-	-	13	-	13
Rate change adjustment to income statement	-	-	(1)	-	(1)
Rate change adjustment to equity	-	10	(1)	-	9
At 22 March 2008	-	(129)	31	-	(98)
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	(3)	-	-	-	(3)
At 24 March 2007	-	48	30	8	86
Net deferred income tax liability					
At 22 March 2008					(232)
At 24 March 2007					(53)

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.

20 Provisions

	Onerous leases £m	Restructuring and disposal provisions £m	Long service awards £m	Total £m
At 25 March 2007	38	5	7	50
Charge to income statement				
- Additional provisions	10	-	-	10
- Unused amounts reversed	(2)	-	-	(2)
Utilisation of provision	(12)	(1)	-	(13)
Transfer to retirement benefit obligations (note 28)	-	(2)	-	(2)
Amortisation of discount	1	-	-	1
At 22 March 2008	35	2	7	44
			2008 £m	2007 £m
Disclosed as				
Current			8	12
Non-current			36	38
			44	50

The onerous lease provision covers residual lease commitments of up to an average of 30 years (2007 27 years), after allowance for existing or anticipated sublet rental income.

The restructuring and disposal provisions of £2 million (2007 £5 million) relate to the Business Review costs and are expected to be utilised in the financial year beginning 23 March 2008.

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 to 22 March 2008

21 Called up share capital

	2008 million	2007 million	2008 £m	2007 £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

22 Other reserves

	Actuarial gains/ (losses) £m	Cash flow hedge reserve £m	Total other reserves £m
At 25 March 2007	37	-	37
Actuarial gains on defined benefit pension schemes	390	-	390
Cash flow hedges effective portion of fair value movements	-	3	3
At 22 March 2008	427	3	430
At 26 March 2006	(88)	-	(88)
Actuarial gains on defined benefit pension schemes	125	-	125
At 24 March 2007	37	-	37

23 Retained earnings

	Retained earnings £m
At 25 March 2007	759
Profit for the year	288
Dividends paid	(250)
Share-based payment	42
At 22 March 2008	839
At 26 March 2006	831
Profit for the year	124
Dividends paid	(250)
Share-based payment	54
At 24 March 2007	759

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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24 Reconciliation of movements in equity

	Called up share capital £m	Other reserves £m	Retained earnings £m	Total Equity £m
At 25 March 2007	2,900	37	759	3,696
Profit for the year	-	-	288	288
Dividends paid	-	-	(250)	(250)
Share-based payment	-	-	42	42
Actuarial gains on defined benefit pension schemes	-	390	-	390
Cash flow hedges effective portion of changes in fair value	-	3	-	3
At 22 March 2008	2,900	430	839	4,169
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

25 Notes to the cash flow statements

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

	2008 £m	2007 £m
Operating profit	239	61
Adjustments for		
Depreciation expense	322	319
Amortisation expense	11	11
(Profit)/loss on sale of properties	(24)	3
Impairment of investment	-	44
Foreign exchange differences	(2)	6
Share-based payments expense	53	38
Operating cash flows before changes in working capital	599	482
Changes in working capital		
Increase in inventories	(103)	(19)
Decrease in trade and other receivables	78	778
Increase/(decrease) in trade and other payables	517	(123)
Decrease in provisions and other liabilities	(8)	(379)
Cash generated from operations	1,083	739

(b) Cash and cash equivalents

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

	2008 £m	2007 £m
Cash and cash equivalents	243	260
Bank overdrafts (note 18)	(30)	(105)
	213	155

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

The Company's activities expose it to a variety of financial risks including liquidity risk, credit risk and market risk arising from movements in exchange rates and interest rates

Funding and treasury risk management is undertaken through a central treasury department in accordance with policies and guidelines approved by J Sainsbury plc's board. The risk management policies are designed to minimise potential adverse effects on the Company's financial performance by identifying the various risks and setting appropriate risk limits and controls. The Finance Committee, a committee of the J Sainsbury plc's board, has on-going responsibility for approving treasury activity and specific financial transactions, the authority for which may be delegated. The Treasury Committee, chaired by the Chief Financial Officer of J Sainsbury plc, regularly reviews risk positions and monitors performance. The Audit Committee, a committee of the J Sainsbury plc's board, oversees management compliance with risk management policies and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in this role by J Sainsbury plc's Internal Audit department who regularly undertake reviews of the risk management controls and procedures.

The Company only uses derivative financial instruments to hedge risk exposures arising from an underlying current or anticipated business requirement and not for any speculative purpose. The treasury department does not operate as a profit centre.

Liquidity risk

The Company's operational cash flow is largely stable and predictable, reflecting the low business risk profile of the food retail business. Short and long-term cash flow forecasts are produced frequently to assist management in identifying liquidity requirements.

The Group's liquidity policy requires it to maintain committed funding to cover cash flow requirements over an 18-month period. This is achieved by monitoring and pre-funding the Group's forecast operational cash flows and maturing debt obligations and by maintaining an adequate level of headroom through committed loan facilities.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows or an estimation in respect of floating interest rate liabilities.

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 22 March 2008				
Notional overdraft	30	-	-	-
Borrowings				
Finance leases	3	3	9	188
Amounts due to Group companies ¹	978	1	5	37
Trade and other payables	2,213	-	-	-
At 24 March 2007				
Notional overdraft	105	-	-	-
Borrowings				
Finance leases	3	3	10	198
Amounts due to Group companies ¹	504	1	4	40
Trade and other payables	2,643	-	-	-

Assumptions

(1) Cash flows relating to debt bearing a floating interest rate have been calculated using the prevailing interest rates at 22 March 2008 and 24 March 2007.

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

The table below analyses the Company's derivative financial instruments, which will be settled on a gross basis, into relevant maturity groupings based on the period remaining from the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 22 March 2008				
Forward foreign exchange contracts – cash flow hedges				
Outflow	134	4	-	-
Inflow	(137)	(4)	-	-
At 24 March 2007				
Forward foreign exchange contracts – cash flow hedges				
Outflow	109	-	-	-
Inflow	(107)	-	-	-

The Company holds foreign exchange forward contracts, for which the inflow figures in the table above have been calculated by translating the foreign currency forward commitments at spot exchange rates prevailing at the reporting dates. At 22 March 2008 £3 million relating to these financial instruments has been recognised in equity (2007 £85,000)

Credit risk

The Company's exposure to credit risk arise from holdings of cash and cash equivalents, derivative financial instruments, deposits with banks and amounts receivable. Concentrations of credit risk with respect to trade and other receivables are limited due to the customer base being large and unrelated.

Cash held by the Group is managed centrally by the parent company. The Group's credit policy limits investments to banks or liquid securities which carry minimum short-term credit ratings of A1 from Standard & Poor's and P1 from Moody's or, in the case of Money Market Funds, AAAm from Standard & Poor's and Aaa from Moody's. No more than £25 million may be invested with any individual bank counterparty and no more than ten per cent of a fund's overall value may be deposited in a single Money Market Fund. Individual credit limits are reviewed quarterly. As at the balance sheet date Money Market Funds held by the Company were £nil (2007 £nil).

Market risk

(a) Currency risk

The Company is exposed to currency risk principally on future inventory purchases denominated in currencies other than pound sterling, primarily euros and US dollars but also Hong Kong dollars, Polish zloty, Australian dollars and New Zealand dollars. The Company also has limited exposure in respect of recognised foreign currency assets and liabilities.

The Company's risk management policy seeks to limit the impact of movements in exchange rates on Company income by requiring anticipated foreign currency cash flows in US dollars and euros to be hedged. The future cash flows, which may be either contracted or un-contracted, are hedged on a layered basis between 80 per cent and 20 per cent using forward contracts over a 14-month time horizon.

The Company has limited exposure to currency risk on balances held on foreign currency denominated bank accounts, which may arise due to short-term timing differences on maturing hedges relative to supplier payments or obligations.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

26 Financial risk management (continued)

A ten per cent change in the value of the US dollar versus sterling at the balance sheet date with all other variables held constant would have increased or decreased post-tax profit or loss for the year by £20,000 (2007 £300,000), as a result of gains or losses on translation of US dollar cash balances and US dollar denominated trade payables and receivables

A ten per cent change in the value of euro versus sterling at the balance sheet date with all other variables held constant would have increased or decreased post-tax profit or loss for the year by £500,000 (2007 £900,000), as a result of gains or losses on translation of euro cash balances and euro denominated trade payables and receivables

Movements of this magnitude in the other currencies noted above would have an immaterial impact on both the income statement and equity

(b) Interest rate risk

The Company's exposure to interest rate fluctuations are limited to amounts receivable and payable to Group companies. The Company does not hold any long-term debt other than finance leases

The interest rate risk is managed by the Group treasury function. The Group's interest rate policy seeks to minimise interest expense and volatility by converting, with the use of financial derivatives, the interest rate profile of underlying borrowings into a diversified portfolio of fixed rate, floating rate and inflation-linked liabilities. Group policy defines neutral benchmarks of 35 per cent for fixed rate debt, 25 per cent for floating rate debt and 40 per cent for capped inflation-linked debt, which may be varied within defined levels of tolerance

(i) Fair value sensitivity for fixed rate instruments

The Company holds no fixed interest rate intercompany receivables or payables (2007 £nil)

(ii) Cash flow sensitivity for variable rate instruments

The Company holds £481 million (2007 £388 million) of floating interest rate payables and receivables. A change of 100 basis points in interest rates at the balance sheet date would have increased or decreased post-tax profit or loss by £3.26 million (2007 £2.63 million) representing the change in interest charge/income

(c) Pricing risk

The Company operates risk management processes for other material costs associated with its activities, for example energy costs. An energy risk management committee meets regularly to review pricing exposure to electricity and gas consumption and determines strategy for forward purchasing and hedging of energy costs. The process undertaken is similar to that employed in purchasing foreign currency as described in section (a) above

Capital risk management

The parent company board's policy is to maintain a strong capital structure consistent with an investment grade credit rating to sustain investor confidence. The Company's current credit ratings comprise a Corporate Family rating of Baa3 from Moody's and a Corporate Credit rating of BBB- from Standard & Poor's

The parent company's board monitors a range of financial metrics including return on capital and gearing to measure the efficiency of the Company's capital structure, the returns for shareholders and benefits for other stakeholders

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

27 Financial instruments

	2008 £m	2007 £m
Derivative assets		
Current		
Forward contract – cash flow hedge	4	-

Foreign exchange forward contracts – cash flow hedges

At 22 March 2008, the Company held a portfolio of foreign exchange forward contracts with a fair value of £4 million (2007 £(0.4) million) to hedge its exposure to foreign exchange rate risk on its future foreign currency denominated trade purchases. The Company had purchased €144 million (2007 €110 million) and sold sterling at rates ranging from 0.68 to 0.97 (2007 0.68 to 0.71) with maturities from April 2008 to November 2008 (2007 April 2007 to January 2008) and purchased US\$237 million (2007 US\$66 million) and sold sterling at rates ranging from 1.93 to 2.05 (2007 1.79 to 1.98) with maturities from April 2008 to May 2009 (2007 April 2007 to February 2008).

At 22 March 2008, an unrealised gain of £3 million (2007 loss of £0.1 million) is included in equity in respect of these contracts. This gain will be transferred to the income statement over the next 14 months from balance sheet date.

Interest rate risk

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. The other financial instruments of the Company that are not included in the tables below are non-interest bearing and are therefore not subject to interest rate risk.

The following tables set 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	Total £m
2008					
Floating rate					
Cash and cash equivalents	243	-	-	-	243
Amounts due from parent company	505	-	-	-	505
Bank overdrafts	(30)	-	-	-	(30)
Fixed rate					
Amounts due from parent company	-	-	-	782	782
Finance lease obligations	-	-	(1)	(48)	(49)
2007					
Floating rate					
Cash and cash equivalents	260	-	-	-	260
Amounts due from parent company	612	-	-	-	612
Bank overdrafts	(105)	-	-	-	(105)
Fixed rate					
Amounts due from parent company	-	-	-	782	782
Finance lease obligations	-	-	(1)	(50)	(51)

Foreign currency risk

The Company has net euro denominated trade creditors of £12 million (2007 £12 million) and US dollar denominated trade creditors of £4 million (2007 £(5) million).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

27 Financial instruments (continued)

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all financial instruments that are carried in the financial statements at other than fair values. The fair values of short-term deposits, receivables, overdrafts, payables and loans of a maturity of less than one year are assumed to approximate to their book values, and are excluded from the analysis below

	Carrying amount £m	Fair value £m
2008		
Financial assets		
Amounts due from Group companies	782	758
Financial liabilities		
Obligations under finance leases	(49)	(49)
2007		
Financial assets		
Amounts due from Group companies	782	740
Financial liabilities		
Obligations under finance leases	(51)	(51)

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 22 March 2008 and 24 March 2007

	Loans and receivables £m	Available- for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
2008						
Cash and cash equivalents	243	-	-	-	-	243
Trade and other receivables	1,423	-	-	-	-	1,423
Trade and other payables	-	-	-	-	(3,234)	(3,234)
Short-term borrowings	-	-	-	-	(30)	(30)
Long-term borrowings	-	-	-	-	(49)	(49)
Derivative financial instruments						
Cash flow hedges ⁽¹⁾	-	-	-	4	-	4
	1,666	-	-	4	(3,313)	(1,643)
2007						
Cash and cash equivalents	260	-	-	-	-	260
Other receivables	1,506	-	-	-	-	1,506
Trade and other payables	-	-	-	-	(2,695)	(2,695)
Short-term borrowings	-	-	-	-	(105)	(105)
Long-term borrowings	-	-	-	-	(51)	(51)
	1,766	-	-	-	(2,851)	(1,085)

(1) Cash flow hedges are deferred through equity

Sainsbury's Supermarkets Ltd
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28 Retirement benefit obligations

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

The defined benefit schemes were subject to a triennial valuation carried out by Watson Wyatt, the schemes' independent actuaries, at March 2006 on the projected unit basis. The results of this valuation were approved by the schemes' trustees in June 2007. The retirement benefit obligations at 22 March 2008 have been calculated, where appropriate, on a basis consistent with this 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.

The amounts recognised in the balance sheet are as follows

	2008 £m	2007 £m
Present value of funded obligations	(3,668)	(4,395)
Fair value of plan assets	4,171	4,298
	503	(97)
Present value of unfunded obligations	(8)	(6)
Retirement benefit asset/(obligations)	495	(103)
Deferred income tax (liability)/asset	(129)	48
Net retirement benefit asset/(obligations)	366	(55)

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

The amounts recognised in the income statement are as follows

	2008 £m	2007 £m
Current service cost – funded schemes	(74)	(76)
Current service cost – unfunded scheme	(2)	-
Past service cost	(2)	(11)
Included in employee costs (note 6)	(78)	(87)
Past service gains on defined benefit schemes (notes 6 and 7)	-	72
Total included in employee costs	(78)	(15)
Interest cost on pension scheme liabilities	(230)	(212)
Expected return on plan assets	284	253
Total included in finance income (note 5)	54	41
Total income statement (expense)/income	(24)	26

Of the expense recognised in operating profit, £70 million (2007: £11 million) is included in cost of sales and £8 million (2007: £4 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was a loss of £96 million (2007: a gain of £342 million).

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

	2008 £m	2007 £m
Net actuarial gains recognised during the year	542	179
Cumulative actuarial gains recognised	594	52

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

28 Retirement benefit obligations (continued)

The movements in the funded retirement benefit obligations are as follows

	2008	2007
	£m	£m
Beginning of year	(4,395)	(4,361)
Current service cost	(74)	(76)
Past service cost	(2)	(11)
Past service gains (note 7)	-	72
Interest cost	(230)	(212)
Contributions by plan participants	(10)	(11)
Actuarial gains	922	90
Benefits paid	123	127
Transfer from provisions (note 20)	(2)	(13)
End of year	(3,668)	(4,395)

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

	2008	2007
	£m	£m
Beginning of year	4,298	3,710
Expected return on plan assets	284	253
Actuarial (losses)/gains	(380)	89
Contributions by employer	82	362
Contributions by plan participants	10	11
Benefits paid	(123)	(127)
End of year	4,171	4,298

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

	2008	2007
	%	%
Discount rate	6.9	5.3
Expected return on plan assets	6.6	6.6
Future salary increases	3.50	3.00
Future pension increases	2.40 – 3.50	2.35 – 3.00

A movement of 0.5 per cent in the discount rate would increase or decrease the retirement benefit obligations by £335 million

Consistent with the prior year, the discount rate is based on the annualised yield on an AA-rated sterling corporate bond index

The combined life expectancy for both the schemes operated at the balance sheet date for a pensioner at normal retirement age (now 65 years for men and 60 years for women), is as follows

	2008	2007
	years	years
Male pensioner	21.6	21.4
Female pensioner	23.1	22.9

The mortality assumptions used are the same as those adopted in the prior year

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

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

	2008 %	2007 %
Equities	45	52
Bonds	46	37
Property	4	4
Other	5	7
	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

	2008 £m	2007 £m	2006 £m	2005 £m
Present value of retirement benefit obligations	(3,676)	(4,401)	(4,368)	(3,512)
Fair value of plan assets	4,171	4,298	3,710	2,976
Surplus/(deficit)	495	(103)	(658)	(536)
Experience loss on plan liabilities	(79)	(236)	(27)	(6)
Experience (loss)/gain on plan assets	(380)	89	428	134

The expected contributions to defined benefit schemes for the next financial year beginning 23 March 2008 are £125 million

29 Share based payments

The Company recognised £53 million (2007 £38 million) of employee costs (note 6) related to share-based payment transactions made during the financial year. Of these, £2 million (2007 £nil) are cash-settled.

National insurance contributions are payable in respect of certain share-based payments transactions and are treated as cash-settled transactions. At 22 March 2008, the carrying amount of national insurance contributions payable was £13 million (2007 £14 million) of which £nil (2007 £2 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 in 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 22 March 2008, UK employees held 22,074 five-year savings contracts (2007 21,833) in respect of options over 20.6 million shares (2007 20.5 million) and 28,332 three-year savings contracts (2007 24,919) in respect of options over 15.3 million shares (2007 14.1 million).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

29 Share-based payments (continued)

A reconciliation of option movements is shown below

	2008		2007	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	34.5	256	35.4	237
Granted	10.0	331	9.1	328
Forfeited	(3.4)	272	(4.3)	236
Exercised	(4.9)	233	(4.4)	272
Expired	(0.3)	266	(1.3)	278
Outstanding at end of year	35.9	278	34.5	256
Exercisable at end of year	2.0	227	3.4	247

The weighted average share price during the period for options exercised over the year was 377 pence (2007 510 pence)

Details of options at 22 March 2008 are set out below

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2008 million	2007 million
20 December 2001 (5 year period)	31 August 2007	302	-	0.4
3 January 2003 (5 year period)	31 August 2008	239	0.9	3.0
17 December 2003 (3 year period)	31 August 2007	241	-	0.4
17 December 2003 (5 year period)	31 August 2009	241	2.8	3.0
15 December 2004 (3 year period)	31 August 2008	217	1.1	3.5
15 December 2004 (5 year period)	31 August 2010	217	4.0	4.3
15 December 2005 (3 year period)	31 August 2009	231	4.6	5.3
15 December 2005 (5 year period)	31 August 2011	231	5.0	5.6
15 December 2006 (3 year period)	31 August 2010	328	4.0	4.8
15 December 2006 (5 year period)	31 August 2012	328	3.7	4.2
20 December 2007 (3 year period)	31 August 2011	331	5.6	-
20 December 2007 (5 year period)	31 August 2013	331	4.2	-
			35.9	34.5

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

	2008	2007
Share price at grant date (pence)	413	409
Exercise price (pence)	331	328
Expected volatility - 3 year period (%)	23.5	18.0
- 5 year period (%)	25.3	25.5
Option life - 3 year period (years)	3.2	3.2
- 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	1.9	2.3
Risk-free interest rate - 3 year period (%)	4.5	4.2
- 5 year period (%)	4.7	4.2
Fair value per option - 3 year period (pence)	122	105
- 5 year period (pence)	144	132

The expected volatility is based on the standard deviation of the 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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

29 Share-based payments (continued)

(b) 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 the Company 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 22 March 2008, a total of 10,547 UK employees (2007: 17,793) participated in the plan and held options over 3.4 million shares (2007: 5.7 million). 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.

A reconciliation of option movements is shown below:

	2008		2007	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	5.7	365	18.6	366
Forfeited	(0.3)	352	(4.8)	363
Exercised	(2.0)	370	(7.9)	369
Expired	-	-	(0.2)	371
Outstanding at end of year	3.4	363	5.7	365
Exercisable at end of year	3.4	363	5.7	365

The weighted average share price during the period for options exercised over the year was 553 pence (2007: 500 pence).

Details of options at 22 March 2008 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2008 million	2007 million
2 August 1999	1 August 2009	378	2.9	5.0
2 June 2000	1 June 2010	272	0.5	0.7
			3.4	5.7

(c) 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 was two times basic salary and the grants were agreed by the J Sainsbury plc 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.

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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

29 Share-based payments (continued)

It is intended that there will be no further options granted under this plan

A reconciliation of option movements is shown below

	2008		2007	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	20.4	362	36.8	358
Forfeited	(6.3)	332	(0.5)	400
Exercised	(5.9)	405	(11.5)	356
Expired	(4.1)	294	(4.4)	343
Outstanding at end of year	4.1	411	20.4	362
Exercisable at end of year	3.5	437	12.2	420

The weighted average share price during the period for options exercised over the year was 546 pence (2007 460 pence)

Details of options at 22 March 2008 are set out below

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2008 million	2007 million
20 May 1997	19 May 2007	367	-	0.7
11 November 1997	10 November 2007	489	-	0.1
10 November 1998	9 November 2008	545	1.0	2.4
2 August 1999	1 August 2009	378	0.4	1.8
2 June 2000	1 June 2010	272	0.3	1.1
7 June 2001	6 June 2011	427	0.9	2.9
26 July 2001	25 July 2011	407	0.9	3.2
25 July 2002	24 July 2012	287	-	3.7
22 May 2003	21 May 2013	257	0.4	3.1
20 May 2004	19 May 2014	275	0.2	1.4
			4.1	20.4

(d) Performance Share Plan ("PSP")

The Performance Share Plan was a long-term incentive scheme through which shares were awarded to senior managers on a conditional basis. Under the PSP, participants remaining in the Company's employment or leaving for certain reasons, were entitled to receive a grant of options after a performance period of three years to acquire 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 depended on the Company's Total Shareholder Return ("TSR") – being the increase in the value of a share, including reinvested dividends, compared with a peer Company of 11 companies (namely Ahold, Alliance Boots, Carrefour, Casino, DSG International, 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 was not achieved at the end of the three-year performance period, the entitlement to receive the grant of options lapsed. At median level, shares to the value of 30 per cent of salary will be released and the award would be pro rated at every position between the median and first position in the comparator group. The maximum allocation for Directors was a conditional grant of shares equal to 75 per cent of salary.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

29 Share-based payments (continued)

No further allocations will be made under this plan

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

	Number of shares	
	2008 million	2007 million
Outstanding at beginning of year	0.9	2.2
Forfeited	-	(0.2)
Released to participants	(0.7)	(0.6)
Lapsed	(0.2)	(0.5)
Outstanding at end of year	-	0.9

Details of shares conditionally allocated at 22 March 2008 are set out below

	Shares conditionally allocated	
	2008 million	2007 million
Date of conditional allocation		
20 May 2004	-	0.9

Conditional awards of shares that have fulfilled all conditions at the end of the performance period are represented by options granted to participants to acquire 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 pence	2008		2007	
			Options	Shares in respect of options granted	Options	Shares in respect of options granted
17 May 2006 ⁽¹⁾	16 May 2016	-	-	-	1	13,187
16 May 2007	15 May 2017	-	2	37,627	-	-
			2	37,627	1	13,187

(1) 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	
	2008 million	2007 million
Outstanding at beginning of year	1.5	1.7
Forfeited	-	(0.1)
Released to participants	(0.1)	(0.1)
Outstanding at end of year	1.4	1.5

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

(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 the parent company's Executive Directors and eligible Operating Board members to make a personal investment of up to 50 per cent of salary in the plan.

The awards will vest if stretching sales and earnings per share ("EPS") targets are achieved, as shown in table 1 below. The relevant performance multiplier, which is on a sliding scale up to a maximum of five times, will be calculated and applied to the core award of shares, as well as the personal investment of shares i.e. shares acquired by the parent company's Executive Directors and eligible Operating Board members. 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 parent company's Executive Share Option Plan in 2002, 2003 and 2004.

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

Sales growth in £ billion	4 year EPS growth (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 in £ billion	3 year EPS growth (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

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

29 Share-based payments (continued)

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

	Number of shares	
	2008 million	2007 million
Outstanding at beginning of year	6.5	7.0
Forfeited	(0.4)	(0.5)
Outstanding at end of year	6.1	6.5

Details of shares conditionally allocated at 22 March 2008 are set out below

Date of conditional award	Shares conditionally allocated	
	2008 million	2007 million
13 July 2005	6.1	6.5

(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

ROCE	3 year cash flow per share growth (compound annual)				
	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

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

	Number of shares	
	2008 million	2007 million
Outstanding at beginning of year	2.5	-
Conditionally allocated	2.1	2.6
Forfeited	(0.1)	(0.1)
Outstanding at end of year	4.5	2.5

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

29 Share-based payments (continued)

Details of shares conditionally awarded at 22 March 2008 are set out below

	Shares conditionally allocated	
	2008 million	2007 million
Date of conditional award		
13 July 2006	2.4	2.5
20 June 2007	2.1	-
	4.5	2.5

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

	2008	2007
Share price at grant date (pence)	558	335
Exercise price (pence)	-	-
Expected volatility (%)	19.0	29.0
Option life (years)	4.2	4.1
Expected dividends (expressed as dividend yield %)	-	-
Risk-free interest rate (%)	5.6	4.7
Fair value per option (pence)	558	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.

(h) Deferred Annual Bonus Plan

The Deferred Annual Bonus Plan applies to the top levels of management including the parent company's Executive Directors and currently comprises around 40 participants in total. The first deferral took place in June 2007, in respect of the bonus awards for the financial year ended 24 March 2007. A further deferral took place in June 2008.

The Plan measures the parent company's TSR performance over a three-year period against a bespoke UK and European retail comparator group comprising Tesco, Morrisons, DSG International, Kingfisher, Home Retail Company, Marks & Spencer, Next, Aldi, Carrefour, Casino, Delhaize and Metro. Alliance Boots was removed from the comparator group following its de-listing.

Up to two matched shares may be awarded for each share deferred depending on the extent to which the TSR measure is achieved. No shares are awarded for below median performance, and the full match will only apply where the Company achieves first place within the comparator group. At median position the match will be 0.5 shares for each deferred bonus share and the share match will be pro-rated at every position between median and first place.

To the extent that the performance condition is met at the end of the three-year performance period, the matched shares will be added to the deferred bonus shares. The deferred bonus shares and half of the matched shares can be accessed immediately, while the remainder will be held over for a further year. Dividends or their equivalents will accrue on shares that vest.

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

	Number of shares	
	2008 million	2007 million
Outstanding at beginning of year	-	-
Granted during the year	0.6	-
Outstanding at end of year	0.6	-

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

Details of shares allocated at 22 March 2008 are set out below

Date of award	Shares conditionally allocated	
	2008 million	2007 million
20 June 2007	0.6	-

30 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 compensation is as follows

	2008 £m	2007 £m
Short-term employee benefits	6	7
Post-employment employee benefits	1	1
Share-based payments	9	7
	16	15

Directors

	2008 £m	2007 £m
Aggregate emoluments	6	7

Retirement benefits are accruing to 1 (2007: 1) Director under a defined benefit scheme and to 10 (2007: 6) Directors under defined contribution schemes.

During the year 3 (2007: 1) Directors exercised awards or options over shares in the parent company's share schemes.

8 (2007: 8) Directors were entitled to shares under long-term incentive schemes.

The remuneration of the highest paid Director, Justin King, is given on pages 27-32 of the J Sainsbury plc Annual Report and Financial Statements 2008.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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30 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 25 March 2007	4	8	2	(287)
Amounts advanced/(received) (1)	3	113	3	(264)
Interest earned/(paid)	1	-	1	-
Amounts (repaid)/withdrawn (2)	4	(111)	2	388
At 22 March 2008	3	10	4	(163)
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)

(1) Includes existing balances of new appointments

(2) Includes existing balances of resignations

(b) Transactions with parent company

	2008 £m	2007 £m
Advances due from parent company		
Advances repaid by parent company	(107)	(767)
Interest income received in respect of interest bearing loans	52	39
Advances due to parent company		
Dividend paid	(250)	(250)
Year end balances arising from transactions with parent company		
Receivables		
Advances due from parent company	1,287	1,394

(c) Transactions with subsidiaries

Transactions with subsidiaries

	2008 £m	2007 £m
Advances due from subsidiaries		
Advances repaid by subsidiaries	(1)	(1)
Advances given to subsidiaries	7	-
Advances due to subsidiaries		
Advances received from subsidiaries	(26)	(8)
Interest expense paid	20	-
Dividend income received	-	44

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

30 Related party transactions (continued)

Year-end balances arising from transactions with subsidiaries

	2008 £m	2007 £m
Receivables		
Advances due from subsidiaries	13	7
Payables		
Advances due to subsidiaries	(389)	(363)

(d) Transactions with Group companies

	2008 £m	2007 £m
Advances due from Group companies		
Advances given to Group companies	24	16
Advances repaid by Group companies	(17)	(4)
Advances due to Group companies		
Advances received from Group companies	(452)	(130)
Advances repaid to Group companies	6	1
Interest expense paid	1	-

Year end balances arising from transactions with Group companies

Receivables		
Advances due from Group companies	25	18
Payables		
Advances due to Group companies	(632)	(186)

On 27 January 2008 trade and net assets were transferred from three Group companies (Bells Stores Limited, Jacksons Stores Limited and Jacksons Stores 2002 Limited) to the Company. The consideration of £152 million represents the fair value of the trade and assets acquired and included 174 convenience stores.

The acquisition had the following effect on the Company's assets and liabilities:

	Pre-acquisition carrying amounts £m	Fair value adjustments £m	Recognised values on acquisition £m
Acquiree's net assets at acquisition date			
Working capital ⁽¹⁾	5	-	5
Property, plant and equipment	32	7	39
Goodwill - acquired	10	-	10
Net identifiable assets and liabilities	47	7	54
Goodwill on acquisition			98
Consideration ⁽²⁾			152

(1) Working capital acquired includes cash and cash equivalents of £1 million.

(2) Cash consideration paid: £nil.

If the acquisition had occurred at the beginning of the financial year, the estimated revenue and profit would have been £232 million and £2 million respectively, for the 52 weeks to 22 March 2008.

During the year, no assets were sold to Group companies. In the prior year, £69 million of assets were sold to Group companies for £68 million.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

30 Related party transactions (continued)

(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

Sainsbury's Supermarkets Ltd purchased 50% of the Harvest Limited Partnership in the current financial year as an investment in joint venture

For the 52 weeks to 22 March 2008, the Company entered into various transactions with these related parties as set out below

	2008 £m	2007 £m
Services and loans provided to other related parties		
Sales of inventories	6	4
Management services provided	20	3
Sale of assets	74	-
Services and loans provided by other related parties		
Rental expense paid	(4)	-

Year-end balances arising from transactions with other related parties

	2008 £m	2007 £m
Receivables		
Other receivables	6	3

31 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	
	2008 £m	2007 £m	2008 £m	2007 £m
Commitments under non-cancellable operating leases payable as follows				
Within 1 year	497	474	47	42
Within 2 to 5 years inclusive	1,984	1,897	80	82
After 5 years	10,391	10,550	2	7
	12,872	12,921	129	131

The Company sublets certain leased properties and the total future minimum sublease payments to be received under non-cancellable subleases at 22 March 2008 are £254 million (2007 £262 million)

32 Capital commitments

During the current financial year, the Company entered into contracts of £313 million (2007 £302 million) for future capital expenditure not provided for in the financial statements

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 22 March 2008

33 Contingent liabilities

Contingent liabilities

Operating lease commitments (note 31) 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.