Registered Company number: 03261722

Sainsbury's Supermarkets Ltd

Annual Report and Financial Statements

For the 52 weeks to 5 March 2022

Sainsbury's Supermarkets Ltd
Strategic Report
for the 52 weeks to 5 March 2022
Registered number: 03261722

Principal activities and review of business
The principal activities of the Company are Food, General Merchandise and Clothing retailing. All material operations are carried out in the United Kingdom.

2021/22 was the first full year of delivering our Food First strategy, as we put Food back at the heart of Sainsbury's, increasing product innovation and using the benefits of our Save to Invest programme to become more price competitive for customers and drive a strong volume share performance.

J Sainsbury plc (the Group) of which the Company forms a part has seen a year of good progress against its strategy. The Group delivered a strong performance with underlying profit before tax up 25 per cent versus the full-year 2019/20 (not compared to the full year 2020/21 as this reflected significant costs associated with adapting the business to the COVID-19 pandemic). A full review of the business and the market can be found in the 2022 Annual Report and Financial Statements of J Sainsbury plc (the Group's Annual Report), the parent undertaking, on the following website:www.about.sainsburys.co.uk/ar2022

Revenue for the Company increased to £25,238 million for the financial year (2021: £23,823 million), with grocery sales down slightly but strong compared to pre-pandemic levels, supported by continued elevated in-home consumption and our investments in value such as Sainsbury's Quality, and Aldi Price Match. Clothing recovered well from suppressed demand over the pandemic with growth led by full price sales. Fuel sales grew strongly but remained below 2019/20. As expected, Groceries Online sales decreased 4.7 per cent as demand moderated after 119.6 per cent growth in the previous year. This was partially offset by a recovery in convenience sales of 8.8 per cent as the nation returned more to workplaces and other urban locations. The Company generated an underlying profit before tax of £225 million (2021: underlying loss before tax £(40) million).

The profit before tax of the Company is £244 million (2021 restated: loss before tax £(56) million) and the profit after tax for the financial year is £222 million (2021 restated: loss after tax £(98) million). The financial position as at 5 March 2022 is shown on the statement of financial position set out on page 16.

Section 172 Statement
The Board believes that it has acted in accordance with Section 172(1) of the Companies Act 2006 during the year ended 5 March 2022. This requires each Director to act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, have regard to the interest of other stakeholders, whilst maintaining high standards of business conduct.

The Board acknowledges that decisions made will not necessarily result in a positive outcome for every stakeholder group. The Board does, however, aim to take into account the potential consequences of its decisions on stakeholders and has a process in place for decision-making and engaging with stakeholders that takes into account Sainsbury's strategic priorities, purpose, culture and values.

Further details on how the Group engaged with its stakeholders, can be found in the 2022 Annual Report for J Sainsbury plc on pages 24 to 29.

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 38 to 50 of the Group's Annual Report, which does not form part of this report.

Financial risk management
Financial risk management is managed by a central treasury department in accordance with policies and guidelines which are reviewed and approved by the Group Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying financial exposures and setting appropriate risk limits and controls. The risk management policies also ensure sufficient liquidity is available to the Group to meet foreseeable financial obligations and that cash assets are invested safely.

The principal financial risks faced by the Company relate to liquidity risk, credit risk and market risk (foreign currency risk, interest rate risk and commodity risk).

Liquidity risk
Liquidity risk is the risk that the Company could be unable to meet its financial obligations as they fall due and is managed centrally by the Group treasury function.

The principal operational cash flow of the Company is largely stable and predictable reflecting the low business risk profile of the food retail sector and the cyclical profile of the non-food retail sector. The Company finances its operations through retained profits, leases and intra-group borrowings. As a result the Company's liquidity risk is closely aligned to that of the Group.

Cash flow forecasts are produced to assist management in identifying future liquidity requirements. The Group's liquidity policy sets a minimum funding headroom of £400 million in excess of forecast funding requirements over a rolling 12 month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding contingent committed credit facilities.

The Group's committed £1,394 million Revolving Credit Facility was undrawn at 5 March 2022. The facility is provided by a syndicate of 16 banking partners. The Group has no financial covenants. The facility is split into two Facilities, a £300 million Facility (A) and a £1,094 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024.

Credit risk
Credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities and trade and other receivables.

Counterparty limits are set based on their credit ratings and routinely monitored.

Market Risk
The Company uses forward contracts to hedge foreign exchange and commodity exposures. The use of financial derivatives is governed by Board approved policies which prohibit the use of derivative financial instruments for speculative purposes.

a. *Foreign currency risk*

Currency risk is the risk of increased costs arising from unexpected movements in exchange rates impacting the Company's foreign currency denominated supply contracts.

The Company seeks to limit the impact of fluctuating exchange rates on the income statement by requiring highly probable foreign currency cash flows to be hedged. Highly probable future cash flows, which may be either contracted or un-contracted, are hedged on a layered basis using foreign currency forward contracts.

b. *Interest rate risk*

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates and is managed by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

c. *Commodity risk*

Commodity risk is the risk of increased costs arising from unexpected movements in commodity prices impacting the Company's own use consumption of electricity, gas and diesel. The Company hedges own use consumption of electricity and gas with forward purchases under flexible purchasing arrangements with its suppliers as well as power purchase agreements for electricity. The Company uses a combination of purchasing agreements and financial derivatives to hedge fuel exposures on a layered basis using contracts for difference.

Key performance indicators ('KPIs')
The Directors of J Sainsbury plc manage the Group's operations on a divisional basis. 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 the Company. The development, performance and position of the Group, which includes the Company, are discussed on pages 30 to 31 of the Group's Annual Report, which does not form part of this report.

By order of the Board

Tim Fallowfield
Director
13 September 2022

Sainsbury's Supermarkets Ltd
Directors Report
for the 52 weeks to 5 March 2022
Registered number: 03261722

Directors Report

The Directors present their report and the audited financial statements of Sainsbury's Supermarkets Ltd (the 'Company') for the 52 weeks to 5 March 2022. The prior financial year's financial statements were for the 52 weeks to 6 March 2021.

Task Force on Climate-related Financial Disclosures (TCFD)

This year the Directors have strengthened the commitment to tackle the climate crisis, announcing the acceleration of our target to become Net Zero across our operations by five years, from 2040 to 2035. We have also committed to reducing our Scope 3 emissions by 30 per cent by 2030. As signatories of the TCFD, we are committed to providing consistent information to our stakeholders and the Group disclosure can be found on page 17 of the annual report.

Dividend

No dividends were paid in the current year or have been paid or proposed by the Directors since the balance sheet date.

Directors

The Directors of Sainsbury's Supermarkets Ltd who held office during the financial year and up to the date of signing are shown below:

Tim Fallowfield
Angela Risley
James Brown
Kevin O'Byrne
Phil Jordan
Simon Roberts
Clodagh Moriarty
Mark Given
Rhian Bartlett (appointed on 14 June 2021)
Paula Nickolds (appointed on 14 June 2021)
Graham Biggart (appointed on 6 March 2022)

Company Secretary

The Company Secretary of the Company who held office during the financial year and up to the date of signing the financial statements is shown below:

Tim Fallowfield

Directors' indemnities

The Directors are indemnified to the extent permitted by the Articles of Association of the Company in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The parent company purchased and maintained Directors' and Officers' liability insurance throughout 2021/22, which was renewed for 2022/23. The insurance covers all Directors and Officers of companies in the Group. Neither the indemnities nor insurance provide cover in the event that the Director or Officer is proved to have acted fraudulently.

Employment policies

The Company values the different perspectives, experiences and abilities of all our colleagues. We ensure that those living with a disability or long-term health condition are fully and fairly considered for employment with the Company through well-developed policies for the equal treatment of all. We have a workplace adjustments process in place for our colleagues who find themselves with a disability or long-term health condition; workplace adjustments can be made at any point during a colleague's employment with us. We are committed to providing equal opportunities for all colleagues and applicants through training, development and promotion. Further information on our diversity strategy can be found on pages 69 to 70 of the Annual Report and Financial Statements 2022 of J Sainsbury plc ("Group Annual Report"), which does not form part of this report, for further information on our diversity strategy.

Stakeholder engagement

Stakeholder considerations are an important part of the Board's discussions and decision making. Details of how we have engaged with our stakeholders can be found on pages 24 to 29 of the Group annual report.

Ethical policies
The Company takes bribery extremely seriously and is committed to ensuring compliance with laws and regulations. Colleagues are expected to abide by a set of clearly communicated formal policies, such as the Anti-Bribery and Corruption Policy. Training in support of these policies is provided to colleagues especially in the commercial divisions, firstly during their induction into the Company and thereafter through annual refreshers.

Corporate responsibility and Sustainability
The Company's parent has developed a wide variety of projects and policies to meet the needs of stakeholders under the heading 'Corporate Responsibility and Sustainability Committee Report'. Further details can be found on pages 71 to 72 of the Group Annual Report, which does not form part of this report.

Donations
The Company made no political donations in 2022 (2021: £nil). See page 96 of the Group Annual Report, which does not form part of this report, for details of J Sainsbury plc and its subsidiaries' (the 'Group's') political donations.

Essential contracts
The Company has contractual and other arrangements with numerous third parties in support of its business activities. None of the arrangements is individually considered to be essential to the Company's business.

Financial risk management
This is discussed in the Strategic Report on page 2.

Wates Corporate Governance Principles
The Company is a wholly-owned subsidiary of J Sainsbury plc and our governance and business decisions are integrated with J Sainsbury plc and its subsidiaries (the 'Group'). For the year ended 5 March 2022, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (Principles). The Company is a wholly owned subsidiary of J Sainsbury plc, which has complied in full with the Principles and Provisions of the UK Corporate Governance Code 2018 except for Provision 38 (further details can be found in the 2022 Annual Report for J Sainsbury plc on page 60).

Below sets out how the Principles have been applied over the past year.

Principle 1 - Purpose and leadership
During the year, the Board was involved in developing the Group's purpose and strategic priorities. Details of the which can be found on pages 9 to 23 of the 2022 Group Annual Report. Details of the strategic priorities and the Group's progress against them can be found on pages 9 to 23 of the 2022 Group Annual Report. Feedback from stakeholders was taken into account when determining the Group's strategic priorities, details of which can be found on pages 24 to 29 of the 2022 Group Annual Report.

Principle 2 - Board composition
As at 5 March 2022, the Board consisted of ten members and their biographies can be found on our website https://about.sainsburys.co.uk/about-us/our-management#operating-board. As the Company is a wholly owned subsidiary of J Sainsbury plc, it concentrates on the day-to-day management of the Group and execution of strategy set out by the Board of J Sainsbury plc. The Board of J Sainsbury plc has independent Non-Executive Directors that oversee the work of the Company and provide constructive challenge and ensure efficient decision- making. The Board size and structure and succession planning is constantly reviewed to ensure it aligns with business' needs and the needs of our stakeholders.

Diversity and inclusion
We are committed to being a truly inclusive retailer where every single one of our colleagues can fulfil their potential and where all our customers feel welcome when they shop with us. We embrace and actively promote diversity, inclusion and equity and aim to reflect the diverse communities we serve. The Group's Operating Board provide clear and committed leadership and accountability of our inclusion agenda, with members of the Operating Board acting as sponsors across wellbeing, diversity and inclusion, and our Colleague Networks. To ensure continued progress in this space, the governance of diversity and inclusion is a regular part of the Operating Board agenda.

The Group's aspirational target is for 50 per cent female, 12 per cent ethnically diverse and 3 per cent black representation specifically in senior management roles by 2022. As at 5 March 2022, of the ten members of the Board, 40% are women. For more information, see our Gender Pay Report on our website.
https://about.sainsburys.co.uk/sustainability/better-for-everyone/gender-pay-gap.

Principle 3 - Director Responsibilities
Matters not specifically reserved for J Sainsbury plc have been delegated to the Board supported by Terms of Reference. Each Director has a range of responsibilities, which are detailed in their biographies on our website.

To support its work the Board has delegated certain powers to Committees, each of which has approved Terms of Reference setting out its areas of responsibility. The Committees include the Business Performance Review, Group Data Governance Committee, Group Safety Committee, Group Operational Resilience Committee, Plan for Better Steering Committee and the Customer, Commercial and Channels Forum. For more information about these Group Committees, see page 61 of the 2022 Group Annual Report.

Principle 4 - Opportunity and Risk
Details of our business model can be found on pages 7 and 8 of the 2022 Group Annual Report. The risk management process is embedded by the Board and is supported by the bottom-up risk process within divisions and governance forums. The Board maintains an overall corporate risk map. Emerging risks and opportunities are formally assessed by the Board and continue to be monitored on a regular basis.

Directors certify annually that they are responsible for managing their business objectives and internal controls to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed.

For more information on the Principal Risks and Uncertainties, see pages 38 to 50 in the Group's Annual Report. The internal controls framework encompasses controls relating to financial reporting, operations, compliance, and risk management. More information can be found on page 77 in the Group's Annual Report.

Principle 5 - Remuneration
Pay and benefits for colleagues across the business is integrated within the Group's remuneration structure. The Group's objective is to have a fair, equitable and competitive total reward package that encourages colleagues to serve and help every customer, drives profitable sales and provides opportunities for colleagues to share in the business's success.

The Group Board determines the pay and benefits for colleagues across the business and the Group Remuneration Committee is responsible for:

- Determining and agreeing with the Board the Remuneration Policy for the Chairman, Executive Directors and the Operating Board Directors
- Setting individual remuneration arrangements for the Chairman, Executive Directors and Operating Board Directors
- Reviewing and noting the pay and benefits applying to colleagues across the Company and taking these into account when determining executive pay
- Approving the service agreements of each Executive Director, including termination arrangements
- Considering the achievement of the performance conditions under annual and long-term incentive arrangements

Principle 6 - Stakeholders
The Board has always deeply engaged with the Group's purpose, vision, values and goals recognising that they underpin everything we do as a business and help us strengthen relationships with our key stakeholders. It is the day-to-day responsibility of individual Directors to engage directly with stakeholders relevant to their roles and to provide this feedback to the Board at each meeting.

The disclosure below provides further detail on how the Board has engaged with stakeholders.

Who are our stakeholders?	How do we engage with them?
The Group (in which Sainsbury's Supermarkets Limited is a subsidiary)	Through the Group Operating Board and other Group Committees detailed in the 2022 Group Annual Report on page 61. Feedback from the Directors that are also members of the Group Operating Board.
Customers Our customers shop with us in stores, online and on our mobile app.	Customer feedback and overall metrics on consumer sentiment and trends were shared regularly with the Group Board and Operating Board. The Group Board heard what mattered to customers through: - 2.7 million responses per year across our Sainsbury's and Argos customer feedback programmes (CSAT)

	- Social media listening - Market research - Qualitative customer focus groups and quantitative surveys - Nectar data, which helps us understand how customers are shopping - Brand tracking, which assesses the performance and perception of our different brands
Colleagues Our colleagues include everyone who is employed by the business.	The Group Board engaged directly with colleagues through the National Great Place to Work Group, our Workforce Advisory Panel. It received presentations on culture, colleague engagement, talent retention and progression from our Group HR Director, and regular summaries from the Chief Executive Officer on key initiatives. Colleagues were updated on decisions made following their feedback through regular internal communications from the Chief Executive Officer and Operating Board members. Our colleague engagement activities include the following: • Non-Executive Director meetings with National Great Place to Work Group members to directly understand the views of colleagues from across the business via their elected peers • Continual feedback through internal channels, including live presentations, question and answer sessions and internal social media discussions with the Operating Board • Honest, confidential colleague feedback on what it is like to work for the business through our annual colleague engagement survey, 'We're Listening', to inform improvements over the year • Colleague feedback through topic-specific 'temperature check' surveys throughout the year, helping us to understand colleagues' views and sentiments, enabling the Group Board and Operating Board to act swiftly • Regular updates provided to the Group Board, Remuneration and CR&S Committees on culture, engagement, diversity and inclusion, and colleague pay
Communities We play an active role in our communities, supporting them through charitable endeavours and generating a positive impact on our communities worldwide.	Customer and colleague feedback provided the Group Board with valuable information on how we can best support our customers and local communities, particularly in relation to the pandemic and household financial challenges. Partnering with Neighbourly, an award-winning giving platform that helps businesses make a positive impact in their communities by redistributing supermarket store-level surplus food to people in need, is an example of one of many initiatives we have put in place to support our communities.
Shareholders The Company's shareholder is J Sainsbury plc. J Sainsbury plc is a listed, public limited company and has institutional, large investors and private shareholders.	The Board receives regular updates from the board of J Sainsbury plc through the Chief Executive Officer and Chief Financial Officer. The Board attends the annual strategy conference with the board of J Sainsbury plc, and the Directors from both companies meet on an adhoc basis, as necessary. The Board also receives reports and updates on J Sainsbury plc shareholder relations. These summarise key feedback from its principal shareholders.

Who are our stakeholders?	How do we engage with them?
Suppliers We have Goods For Resale (GFR) suppliers that supply products for food, general merchandise and clothing and Goods Not For Resale (GNFR) suppliers supporting all functions including Logistics, Marketing, Technology and Retail. Our suppliers range from large multi- national companies to small independently run businesses	The Group Board is cognisant of the impact its decisions have on suppliers and receives regular updates on supplier relationships. Working collaboratively with our suppliers helps us deliver innovation in food and we continue to build stronger relationships with exclusive brands. In order to maintain consistent communication with our suppliers, they have access to online supplier portals, enabling the sharing of news and development of new ways to work together. Management actively engage with both the GFR and GNFR supply chains to manage key risks, including the impacts of COVID-19, global supply chain issues and inflation on stock levels and logistics. This enabled us to manage our supply chain and continuity of supply to customers. Additionally, key supplier meetings with the Board are held to further enhance communication with these stakeholders. We take part in annual, independent surveys which benchmark us against other retailers and highlight areas for improvement; these include the Supplier Advantage survey and Groceries Supply Code of Practice supplier survey. The CR&S Committee received updates during the year on the outcomes of these surveys, which helped shape supplier-related initiatives.
Government and regulators The UK Government and devolved administrations in Scotland, Wales and Northern Ireland set the regulatory environment in which our business operates.	The Board receives updates when regulation is relevant to the business through summaries on the following activities: • Engagement with government through Parliamentary and party events • Public responses to government consultations • Direct meetings • Trade association meetings • Government organised roundtables • Participation in Government organised forums such as the Food and Drink Sector Council • Liaison with regulators, including the Grocery Code Adjudicator and HMRC

For further information on stakeholder engagement which applies throughout the Group, see pages 24 to 29 of the Group's Annual Report.

As per Section 54(1) of the Modern Slavery Act 2015, our Slavery and Human Trafficking Statement is published annually on our Group website. The statement covers the activities of the Group and details the steps taken during the year ended 5 March 2022 to prevent modern slavery and human trafficking in our own operations and supply chains.

Going concern and future developments
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Further information is included within note 1 of the financial statements. The Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

The assessment period for the purposes of considering going concern is the 12 months from the date on which these financial statements are signed.

Disclosure of information to auditors
Each of the Directors has confirmed that, so far as they are aware, there is no relevant audit information of which the auditors are unaware. Each Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent auditors
The auditors, Ernst & Young LLP, have indicated their willingness to continue in office.

By order of the Board

Tim Fallowfield
Director
13 September 2022

Sainsbury's Supermarkets Ltd
Statement of Directors' responsibilities
for the 52 weeks to 5 March 2022
Registered number: 03261722

The Directors are responsible for preparing the Strategic report, the Directors 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

By order of the Board

Kevin O'Byrne
Director
13 September 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAINSBURY'S SUPERMARKETS LIMITED

Opinion

We have audited the financial statements of Sainsbury's Supermarkets Limited for the period ended 5 March 2022 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 5 March 2022 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated management's assessment

- We understood the process undertaken by the directors to assess going concern.
- The Company is reliant on support from its parent, J Sainsbury plc. We have obtained and inspected the letter of support issued by the directors of J Sainsbury plc to the directors of the Company confirming their support for the period of 12 months after the date of issue of these financial statements.
- We have obtained the annual report and accounts of J Sainsbury plc for the 52-week period ended 5 March 2022 and reviewed the latest market announcements, trading updates and management accounts to further corroborate the financial position of J Sainsbury plc.
- We have made inquiries of the EY audit team which audits J Sainsbury plc to assess the ability of J Sainsbury plc to provide financial support to the Company until 13 September 2023. The Group audit team have performed the following procedures in relation to management's going concern assessment of J Sainsbury plc:
    - Obtained Group management's assessment prepared in April 2022 supporting their ability to provide the ongoing financial support pledged. This included assessing the adequacy of the going concern assessment to 9 September 2023 and considering the existence of any significant events or conditions beyond this period.
    - Assessed the completeness of the risks and uncertainties identified by Group management in relation to their going concern assessment. This included considering whether any new information had become available since the April 2022 assessment that may cast doubt on the Group's ability to continue as a going concern.
    - Confirmed the stress testing scenarios and mitigation actions performed by management were still appropriate.
    - Performed additional audit procedures in respect of the period between 27 April 2022, the date of the audit opinion on the annual report and accounts of J Sainsbury plc for the 52-week period ended 5 March 2022, and the date of approval of these financial statements to determine whether there have been any changes that would require us to reconsider the conclusions of Group management.
    - Considered actual trading performance subsequent to the Group's period end and compared to the budget used in the year-end assessment.

- We reviewed the Company's going concern disclosures included in the financial statements, in order to assess whether the disclosures were appropriate and in conformity with reporting standards.

Our key observations

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern, through to a period of 12 months from when the financial statements are authorised for issue, given the ability to rely on the parental support.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework", the Companies Act 2006 and the relevant UK tax compliance regulations. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements, being competition law, employment laws and regulations, and the Groceries Supply Code of Practice.
- We understood how Sainsbury's Supermarkets Limited is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, as well as consideration of the results of our audit procedures.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the programmes and controls that the Company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. We identified a risk in relation to management override for supplier income amounts, cut-off for fixed supplier income amounts, and judgment and estimation related to supplier rebates. We also identified a fraud risk of management override in relation to manual adjustments to revenue. The procedures included testing, on a sample basis, agreements, settlements and underlying calculations of arrangements with suppliers and testing appropriateness of journal entries meeting a pre-defined criterion and impacting revenue.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included testing manual journals, with a focus on journals posted to revenue and journals indicating large or unusual transactions based on our understanding of the business, enquiries of legal counsel, internal audit and management. In addition, we completed procedures to conclude on the compliance of the disclosures in the accounts with all applicable reporting requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Colin Brown (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

13 September 2022

Sainsbury's Supermarkets Ltd
Income statement
for the 52 weeks to 5 March 2022

		2022			2021 (restated)		
	Note	**Before non-underlying items £m**	**Non-underlying items (Note 3) £m**	**Total £m**	Before non-underlying items £m	Non-underlying items (Note 3) £m	Total £m
Revenue		**25,238**	**-**	**25,238**	23,823	-	23,823
Cost of sales		**(23,799)**	**26**	**(23,773)**	(22,576)	(169)	(22,745)
Gross profit		**1,439**	**26**	**1,465**	1,247	(169)	1,078
Administrative expenses		**(788)**	**(51)**	**(839)**	(820)	(59)	(879)
Other income		**18**	**40**	**58**	(2)	195	193
Operating profit	5	**669**	**15**	**684**	425	(33)	392
Finance income	6	**2**	**15**	**17**	6	26	32
Finance costs	6	**(446)**	**(11)**	**(457)**	(471)	(9)	(480)
Profit/(loss) before tax		**225**	**19**	**244**	(40)	(16)	(56)
Income tax expense	8	**(16)**	**(6)**	**(22)**	(6)	(36)	(42)
Profit/(loss) for the financial year		**209**	**13**	**222**	(46)	(52)	(98)

The notes on pages 18 to 56 form an integral part of these financial statements.

Refer to note 1 for details of prior year restatements.

Sainsbury's Supermarkets Ltd
Statement of comprehensive income
for the 52 weeks to 5 March 2022

	Note	2022 £m	2021 (restated) £m
Profit/(loss) for the financial year		**222**	(98)
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	22	**1,080**	(413)
Cash flow hedges fair value movements – inventory hedges		**15**	(33)
Current tax relating to items not reclassified	8	**-**	21
Deferred tax relating to items not reclassified	8	**(349)**	35
		746	(390)
Items that may be reclassified subsequently to the income statement			
Cash flow hedges effective portion of fair value movements		**119**	1
Items reclassified from cash flow hedge reserve	21	**(5)**	8
Deferred tax on items that may be reclassified	8	**(37)**	5
		77	14
Total other comprehensive income/(loss) for the year (net of tax)		823	(376)
Total comprehensive income/(loss) for the year		1,045	(474)

The notes on pages 18 to 56 form an integral part of these financial statements.

Refer to note 1 for details of prior year restatements.

Sainsbury's Supermarkets Ltd
Statement of financial position
as at 5 March 2022, 6 March 2021 and 7 March 2020

	Note	2022 £m	2021 (restated) £m	2020 (restated) £m
Non-current assets				
Property, plant and equipment	9	**5,722**	5,835	6,078
Right of use assets	10	**8,425**	7,712	7,995
Intangible assets	11	**311**	245	181
Investments in subsidiaries	12	**359**	359	359
Investments in joint ventures and associates	13	**2**	2	2
Other receivables	15	**48**	36	31
Derivative financial assets		**182**	6	1
Retirement benefit surplus	22	**2,153**	1,061	1,455
		17,202	15,256	16,102
Current assets				
Inventories	14	**1,086**	1,012	990
Trade and other receivables	15	**2,009**	1,878	1,516
Derivative financial assets		**35**	2	5
Cash and cash equivalents		**306**	113	207
		3,436	3,005	2,718
Assets held for sale	16	**8**	21	2
		3,444	3,026	2,720
Total assets		**20,646**	18,282	18,822
Current liabilities				
Trade and other payables	17	**(3,897)**	(3,653)	(3,628)
Borrowings	18	**(6)**	(94)	(10)
Lease liabilities	10	**(535)**	(601)	(561)
Derivative financial liabilities		**(6)**	(43)	(17)
Taxes payable		**(83)**	(77)	(130)
Provisions	19	**(42)**	(83)	(24)
		(4,569)	(4,551)	(4,370)
Net current liabilities		**(1,125)**	(1,525)	(1,650)
Non-current liabilities				
Other payables	17	**(23)**	(17)	(20)
Lease liabilities	10	**(10,107)**	(9,290)	(9,532)
Derivative financial liabilities		**(2)**	(2)	(5)
Deferred income tax liability	8	**(441)**	(86)	(123)
Provisions	19	**(86)**	(49)	(37)
		(10,659)	(9,444)	(9,717)
Total liabilities		**(15,228)**	(13,995)	(14,087)
Net assets		**5,418**	4,287	4,735
Equity				
Called up share capital	20	**2,900**	2,900	2,900
Other reserves	21	**94**	(27)	(10)
Retained earnings	21	**2,424**	1,414	1,845
Total equity		**5,418**	4,287	4,735

The notes on pages 18 to 56 form an integral part of these financial statements. Refer to note 1 for details of prior year restatements.

The financial statements on pages 14 to 56 were approved by the Board of Directors on 13 September 2022, and are signed on its behalf by:

Kevin O'Byrne

Kevin O'Byrne
Director

Sainsbury's Supermarkets Ltd
Statement of changes in equity
for the 52 weeks to 5 March 2022

	Note	Called up share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
At 7 March 2021 (as previously reported)		**2,900**	**(27)**	**1,375**	**4,248**
Opening balance adjustment		**-**	**-**	**39**	**39**
At 7 March 2021 (restated)		**2,900**	**(27)**	**1,414**	**4,287**
Profit for the year	21	**-**	**-**	**222**	**222**
Other comprehensive income	21	**-**	**92**	**731**	**823**
Total comprehensive income for the year ended 5 March 2022		**-**	**92**	**953**	**1,045**
Cash flow hedges gains and losses transferred to inventory	21	**-**	**29**	**-**	**29**
Transactions with owners:					
Share-based payment (net of tax)	23	**-**	**-**	**57**	**57**
At 5 March 2022		**2,900**	**94**	**2,424**	**5,418**
At 8 March 2020 (as previously reported)		2,900	(10)	1,833	4,723
Opening balance adjustment		-	-	12	12
At 8 March 2020 (restated)		2,900	(10)	1,845	4,735
Loss for the year	21	-	-	(98)	(98)
Other comprehensive expense	21	-	(19)	(357)	(376)
Total comprehensive expense for the year ended 6 March 2021		-	(19)	(455)	(474)
Cash flow hedges gains and losses transferred to inventory	21	-	2	-	2
Transactions with owners:					
Share-based payment (net of tax)	23	-	-	24	24
At 6 March 2021		2,900	(27)	1,414	4,287

The notes on pages 18 to 56 form an integral part of these financial statements.

Refer to note 1 for details of prior year restatements.

1 General information & basis of preparation

General information

Sainsbury's Supermarkets Ltd (the 'Company') is a private limited company incorporated and domiciled in England and Wales. The Company's registered address is 33 Holborn, London, EC1N 2HT and is part of the J Sainsbury plc Group ("Group").

The financial year represents the 52 weeks to 5 March 2022 (prior financial year 52 weeks to 6 March 2021).

The principal activities of the Company are Food, General Merchandise and Clothing retailing. All material operations are carried out in the United Kingdom.

Basis of preparation

The Company's financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the Standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition measurement and disclosure requirements of adopted International Financial Reporting Standards (IFRS).

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 to present a cash flow statement.
- The requirements of paragraph 17 of IAS 24, Related Party Transactions, to disclose information related to key management personnel, and the requirements of IAS 24 to disclose related party transactions between two or more members of a group for wholly owned subsidiaries.
- The requirements of paragraphs 30 and 31 of IAS 8 to disclose information assessing the possible impact of new standards issued but which are not yet effective.
- The requirements of IFRS 7 and IFRS 13 for disclosure of financial instruments and fair values.
- The requirement of IAS 1 to present comparative information in respect of property, plant and equipment and intangible assets.
- The requirements of IAS 36 to disclose assumptions, the effect of changes in assumptions and valuation techniques.
- The requirements of IFRS 15 to disclose the disaggregation of revenue.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments and defined benefit scheme assets.

The Company is a wholly-owned subsidiary of J Sainsbury plc and is included in the consolidated financial statements of J Sainsbury plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006. J Sainsbury plc address is 33 Holborn, London, EC1N 2HT.

Significant accounting policies have been included in Note 2 unless otherwise stated. Significant accounting policies have been applied consistently to all periods presented in the financial statements.

Prior period restatements

Business rates within property provisions

The financial statements include a prior year restatement in relation to the treatment of business rates within property provisions. Where the Company no longer operates from a leased property, onerous property contract provisions are recognised for the least net cost of exiting from the contract. Unless a separate exit agreement with a landlord has already been agreed, the Company's policy is that this onerous contract provision includes all unavoidable costs of meeting the obligations of the contract – these include service charges and insurance, and have also historically included business rates.

There is apparent mixed practice across companies concerning the treatment of business rates in onerous contract provisions. However following additional guidance published this year by accounting advisory firms, the Company has reassessed its policy in this area, and concluded that business rates are a statutory obligation rather than a contractual one, and should be recognised as a periodic cost in line with IFRIC 21 "Levies". Prior period comparatives have therefore been restated to remove business rates from previously recognised property provisions.

Prior period comparatives

The prior period comparatives have been restated in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Policies and Errors' and have impacted the primary financial statements as follows:

Income statement

	Before non-underlying items			Non-underlying items			Total		
For the 52 weeks to 6 March 2021	As previously reported £m	Business rates adjustment £m	As restated £m	As previously reported £m	Business rates adjustment £m	As restated £m	As previously reported £m	Business rates adjustment £m	As restated £m
Revenue	23,823	-	23,823	-	-	-	23,823	-	23,823
Cost of sales	(22,577)	1	(22,576)	(187)	18	(169)	(22,764)	19	(22,745)
Gross profit/(loss)	1,246	1	1,247	(187)	18	(169)	1,059	19	1,078
Administrative expenses	(820)	-	(820)	(73)	14	(59)	(893)	14	(879)
Other income	(2)	-	(2)	195	-	195	193	-	193
Operating profit/(loss)	424	1	425	(65)	32	(33)	359	33	392
Finance income	6	-	6	26	-	26	32	-	32
Finance costs	(471)	-	(471)	(10)	1	(9)	(481)	1	(480)
Profit/(loss) before tax	(41)	1	(40)	(49)	33	(16)	(90)	34	(56)
Income tax (expense)/credit	(6)	-	(6)	(29)	(7)	(36)	(35)	(7)	(42)
Profit/(loss) for the financial period	(47)	1	(46)	(78)	26	(52)	(125)	27	(98)

Balance sheets

As at 6 March 2021	As previously reported £m	Business rates adjustment £m	As restated £m
Current liabilities			
Taxes payable	(68)	(9)	(77)
Provisions	(89)	6	(83)
Total current liabilities	(4,548)	(3)	(4,551)
Net current liabilities	(1,522)	(3)	(1,525)
Non-current liabilities			
Provisions	(91)	42	(49)
Total liabilities	(14,034)	39	(13,995)
Net assets	4,248	39	4,287
Equity			
Retained earnings	1,375	39	1,414
Total equity	4,248	39	4,287

As at 7 March 2020	As previously reported £m	Business rates adjustment £m	As restated £m
Current liabilities			
Taxes payable	(128)	(2)	(130)
Provisions	(26)	2	(24)
Total current liabilities	(4,370)	-	(4,370)
Net current liabilities	(1,650)	-	(1,650)
Non-current liabilities			
Provisions	(49)	12	(37)
Total liabilities	(14,099)	12	(14,087)
Net assets	4,723	12	4,735
Equity			
Retained earnings	1,833	12	1,845
Total equity	4,723	12	4,735

Change in accounting policy – Software as a Service (SaaS) arrangements

During the year, the Company revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing software as a service (SaaS) arrangements. This is in response to the IFRS Interpretations Committee (IFRIC) agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements during the current financial year. The new accounting policy is presented within note 2 under Cloud computing arrangements.

Adjustments in relation to costs capitalised in prior years have therefore been recognised as follows:

	£m
Intangible assets	(30)
Prepayments	9
Total assets / net assets	**(21)**
Administrative expenses	(21)
Profit before tax	**(21)**

The impact is not considered to have a material impact on the prior year balance sheet nor income statement, therefore the prior year results have not been restated. Given this is an out of period cost and could distort comparability between reporting periods, this has been included within non-underlying profit before tax. Intangible asset write-offs have been included within disposals.

In addition to the above, £14 million of current year spend that would have been capitalised to intangible assets under the Company's previous accounting policy has now been recognised within prepayments (£6 million) and underlying profit (£8 million).

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue for a period of at least 12 months from the date of approval. The parent company, J Sainsbury plc, has confirmed its present intention to provide financial support such that the Company is able to repay its liabilities as they fall due. Therefore the going concern assessment of the Company is linked to the Group's going concern and viability assessment which is included within the Group annual report on pages 51 to 52, 76 and 116.

In assessing the Company's ability to continue as a going concern, the Directors have considered the Group's most recent corporate planning and budgeting processes. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecasted future funding requirements over three years, with a further two years of indicative movements.

In assessing going concern, scenarios in relation to the Group's principal risks have been considered in line with those disclosed in the viability statement on page 51, of the Group annual report, by overlaying them into the corporate plan and assessing the impact on cash flows, net debt and funding headroom. These severe but plausible scenarios included modelling inflationary pressures on both food margins and general recession-related risks, the impact of any regulatory fines, and the failure to deliver planned cost savings.

In performing the above analysis, the Directors have made certain assumptions around the availability and effectiveness of the mitigating actions available to the Company. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses, and dividend payments.

The Group's most recent corporate planning and budgeting processes incorporates assumed cashflows to address climate change risks, including those associated with the Group's Plan for Better commitment which include reducing environmental impacts and meeting customer expectations in this area, notably through reducing packaging and energy usage across the estate. Climate-related risks do not result in any material uncertainties affecting the Company's ability to continue as a going concern.

Consideration was also given to the conflict in Ukraine which has continued to develop subsequent to the Company's balance sheet date. Inflationary pressures which may be caused by the conflict are already incorporated into the overall going concern assessment, as such the impact of the conflict in Ukraine does not impact the conclusions reached over going concern.

As a consequence of the work performed, the Directors considered it appropriate to adopt the going concern basis in preparing the Financial Statements with no material uncertainties to disclose.

Amendments to published standards

Effective for the Company in these financial statements:

The Company has considered the following amendments to published standards that are effective for the Company for the financial year beginning 7 March 2021 and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements other than disclosures.

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' on the Interest Rate Benchmark Reform – Phase 2
- Amendment to IFRS 16 'Leases' with regards to the exemption granted in the 'COVID-19-related rent concessions'

The Company early adopted the Interest Rate Benchmark Reform Phase 2 amendments in the financial year ended 6 March 2021. The Company has elected not to apply the exemption granted in the 'COVID-19-related rent concessions' as the Company has not received material COVID-19-related rent concessions as a lessee.

Standards and revisions effective for future periods:
The following standards and revisions will be effective for future periods:

- Amendments to IFRS 3 'Business Combinations' with reference to the Conceptual Framework
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use
- Amendments to IAS 1 'Presentation of Financial Statements' on the classification of liabilities as current or non-current
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements' on the disclosure of accounting policies
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of accounting estimates
- Amendments to IAS 12 'Income Taxes' on Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
- IFRS 17 'Insurance Contracts'

The Company has considered the impact of the remaining above standards and revisions and have concluded that they will not have a significant impact on the Company's financial statements.

2 Accounting policies

Revenue

Revenue consists of sales through retail outlets and online, and excludes Value Added Tax (VAT). Revenue is recognised when the Company has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation.

Sale of goods
For sales through retail outlets and online, the transaction price is the value of the goods, net of returns, colleague discounts, and vouchers. Revenue is recognised when the customer obtains control of the goods, which is when the transaction is completed in-store or, for online orders, when goods have been delivered or collected by customers (for click and collect).

Other revenue items
Other revenue items include wholesale sales made directly to third-party customers, and income from concessions and commissions, net of returns and discounts. Wholesale revenue is recognised when the goods are delivered to the customer. Revenue collected on behalf of others is not recognised as revenue, other than the related commission which is based on the terms of the contract. Sales are recorded net of VAT.

An element of judgement is required for commission-based arrangements to determine whether the Company should recognise revenue as principal (recognising gross revenue and associated costs) or as agent (recognising net income as revenue only). The assessment considers whether the Company controls the relevant goods prior to sale to the end customer. The Company's relevant contracts are not complex and therefore the level of judgement involved is not considered significant to the Company.

Other income

Other income generally consists of profits and losses on disposal of assets and dividend income from other Group entities.

Cost of sales

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

Finance income and costs

Finance income and costs are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method.

Intangible assets

a) 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 considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

b) Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are amortised on a straight-line basis over their useful economic lives of five to fifteen years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38, 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of five to fifteen years within administrative expenses.

c) Cloud computing arrangements

Software as a Service (SaaS) arrangements are service contracts providing the Company with the right to access a cloud provider's application software over the contract period. Typically such arrangements involve ongoing licence fees to obtain access to the cloud provider's application software, as well as upfront costs incurred to configure or customise the SaaS solution.

Configuration and customisation costs are capitalised in the following instances as intangible assets:
— The Company has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor.
— The costs incurred meet the definition of and recognition criteria for an intangible asset. This includes for example the development of software code that enhances or modifies, or creates additional capability to, existing systems controlled by Sainsbury's.

Where these conditions are not met, costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Where the configuration or customisation of a SaaS solution is performed by the SaaS vendor, consideration is given to whether this activity is distinct from the provision of the solution itself. This assessment considers the nature of the activities, and whether Sainsbury's can benefit from any of the services in isolation. Where the activity is not considered distinct, the costs are capitalised as a prepayment and amortised over the expected useful life of the solution.

Property, plant and equipment

a) Land and buildings

Land and buildings are held at historical cost less accumulated depreciation and any recognised provision for impairment. Capital work in progress is held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs to bringing the asset to its working condition for intended use. This includes capitalised borrowing costs.

b) Fixtures and equipment

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and its intended use.

c) Depreciation

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

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

Property, plant and equipment (continued)
Capital work in progress is not depreciated prior to being brought to its working condition and its intended use. Capital work in progress does not include land.

Gains and losses on disposal are determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and are recognised within operating profit.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. This includes consideration over climate change related risks which may impact the useful lives of the Company's assets, such as the impact of flood risks on store and non-store assets, and any anticipated replacement of existing assets with new technologies. During the year, no changes were made to the remaining useful lives of the Company's assets as a result of climate change risks.

Capitalisation of interest
Borrowing 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.

Impairment of non-financial assets

Goodwill
Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired.

For the purposes of impairment testing, goodwill is allocated to the Cash Generating Unit (CGU) being its respective retail chain of store. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to dispose. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not subsequently reversed.

Property, plant and equipment, right-of-use assets, and finite lived intangible assets
At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment (PPE), right-of-use assets, and finite-lived 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, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and an impairment loss is recognised immediately in the income statement.

Where there has been a change in the estimates used to determine the recoverable amount and an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. An impairment loss reversal is recognised immediately in the income statement.

Assets held for sale
Assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable within one year from the date of classification and the assets are available for sale in their present condition. Assets held for sale are stated at the lower of the carrying amount and fair value less costs to dispose

Inventories
Inventories comprise goods held for resale and are valued on a weighted average cost basis and carried at the lower of cost or net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. 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 bank balances comprise cash in hand and at bank, deposits at central banks, investments in money market funds and deposits and other short-term highly liquid investments.

To be classified as cash and cash equivalents, an asset must:
— Be readily convertible into cash;
— Have an insignificant risk of changes in value; and
— Have a maturity period of typically three months or less at acquisition.

Right-of-use assets
Right-of-use assets are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
Lease liabilities are recognised at the commencement date of the lease and are measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The majority of the Company's leases are discounted using the IBR.

The IBRs depend on the start date and term of the lease, and are determined based on a reference (risk free) rate and adjustments to reflect the Company's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the Company and quoted credit default swaps ("CDS"). IBRs are determined quarterly.

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease (a break clause), if it is reasonably certain not to be exercised.

The lease payments include fixed payments and variable lease payments that depend on an index or a rate (using the relevant rate at the commencement date of the lease), less any lease incentives receivable. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. For agreements which contain both lease and non-lease components, such as cleaning and maintenance services, the non-lease component is excluded from the lease payments used to measure the lease liabilities.

After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is remeasured when there is a change in the future lease payments due to a change in the lease term such as a recognition of an extension or break option, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to groups of underlying leases that are considered uniformly low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are expensed to the income statement.

Lessor accounting
The Company leases out owned properties and sublets leased properties under operating and finance leases. Such properties include mall units, stores and units within stores. Where the Company subleases assets, the sublease classification is assessed with reference to the head lease right-of-use asset. This assessment considers, among other factors, whether the sublease represents the majority of the remaining of life of the head lease. The ratio of rental income to head lease rental payments is used to determine how much of the right-of-use asset should be derecognised, or analysis of square foot leased in the headlease and sublease where appropriate. This assessment takes into consideration whether the sublease/headlease are above or below market rate.

Amounts due from lessees under finance leases are recorded as a receivable at an amount equal to the net investment in the lease. This is initially calculated and recognised using the IBR prevalent in the underlying headlease at the recognition date. Any difference between the derecognised right-of-use asset and the newly recognised amounts due for lessees under finance leases is recognised in the income statement. The Company recognises finance income over the lease term, reflecting a constant periodic rate of return on the Company's net investment in the lease. Operating lease income is recognised as earned on a straight-line basis over the lease term.

Current tax
Current tax is accounted for on the basis of tax laws enacted or substantively enacted at the balance sheet date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity or other comprehensive income.

Deferred tax
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 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 substantively 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 or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches, and joint ventures except where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Receivables
Trade and other receivables are non-interest bearing and are on commercial terms. They are initially recognised at fair value and subsequently measured at amortised cost less allowances for expected credit losses, using the simplified approach under IFRS 9, with adjustments for factors specific to each receivable.

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

Trade payables are initially recognised at fair value, which is typically the invoiced amount and then held at amortised cost. They are shown net of supplier arrangements due where there is a contractual right of offset.

Provisions
Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation and where the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

At each reporting period, the Company assesses the carrying amounts of its investments to determine whether there is any indication of impairment. Where such an indication exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the investment is less than its carrying amount, the investment is written down to its recoverable amount. Any impairment loss is immediately recognised in the income statement.

Employee benefits

a) Retirement benefit surplus/obligations

The surplus or deficit recognised in the balance sheet for defined benefit schemes 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.

Actuarial gains and losses are reported in the statement of other comprehensive income as incurred, and comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses.

The financing charge is determined by applying the discount rate used to measure the defined benefit obligation to the pension scheme liabilities and plan assets at the beginning of the financial year.

b) Long service awards

The costs of long service awards are accrued over the period the service is provided by the employee when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

c) 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.

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). This fair value is charged to the income statement over the vesting period of the share-based payment scheme with a 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 a 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.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Foreign currencies

The financial statements are presented in sterling, which is the ultimate parent company's functional currency.

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.

Financial instruments

The Company classifies all of its financial assets as either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The business model assessment reflects how the Company manages the risks relating to the underlying financial assets, including whether the Company's principal objective is to collect the contractual cash flows arising from the instruments (amortised cost), to sell the financial instruments (FVTPL) or a combination thereof (FVOCI).

a) Financial instruments at amortised cost
Financial assets that are principally held for the collection of contractual cash flows and which pass the SPPI test are classified as amortised cost. For the Company this includes cash and receivables. The Group has no intention of trading these assets. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures these financial assets at fair value plus transaction costs. Subsequently these assets are carried at amortised cost less impairment using the effective interest rate method. Income from these financial assets is calculated on an effective interest rate basis and is recognised in the income statement.

b) Impairment of financial assets
Loan loss impairments are accounted for using a forward-looking expected credit loss (ECL) approach in line with IFRS 9. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. For trade receivables, the Company establishes provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9.

c) Financial liabilities
The Company recognises all of its financial liabilities at amortised cost and all derivative financial liabilities are classified as FVPL.

Financial liabilities costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in 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.

Interest-bearing bank loans, overdrafts and other deposits 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.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

d) Fair value estimation
The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, other receivables, overdrafts and payables and lease liabilities are assumed to approximate to their book values.

e) 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. 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. Where derivatives do not qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised in the income statement as they arise.

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, the nature of the risks being hedged and an assessment of the effectiveness of the hedging relationship to ensure it is highly effective on an ongoing basis.

Where a derivative does qualify for hedge accounting, any changes in fair value are recognised depending on the nature of the hedge relationship and the item being hedged as follows:

Cash flow hedges
Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the Company's exposure to variability in cash flows resulting from a highly probable forecasted transaction. These include the exchange rate risk of inventory purchases denominated in foreign currency, interest rate risk and commodity risk on purchases of power and fuel. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

If a cash flow hedge is hedging a firm commitment or forecast transaction that 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 other comprehensive income are included in the initial measurement of the asset or liability. This applies to the Company's foreign currency hedges in relation to inventory purchases.

Significant accounting judgements, estimates and assumptions
The preparation of financial statements 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. Those which are significant to the Company are discussed separately below:

Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

- Non-underlying items – refer note 3
- Lease term – refer to note 10

Sources of estimation uncertainty
The areas where estimates and assumptions are significant to the financial statements are as listed below. 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.

a) Impairment of non-financial assets
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 the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance. The recoverable amount is sensitive to the discount rate used for the value in use model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

b) Post-employment benefits

Assets
The Scheme holds some private market assets as they are expected to deliver a more favourable risk/return profile than public market equivalents. These assets are relatively illiquid (likely to be realised over c.5 years) but the Scheme holds sufficient liquid assets (cash, gilts and other liquid securities) to be confident that it can meet its pension and collateral obligations over time.

The valuation of these assets is based on the audited accounts of the funds, where available, and net asset value statements from the investment managers where recent accounts are not available. For many of the investments, the valuations provided are at 30 September.

The Company therefore performs a roll-forward for these valuations, adjusting for cash received or paid and applying the changes seen in relevant liquid indices as follows:

Asset Class	Returns from 30-Sep-21 to 5-Mar-22
Global equity USD return	(3.22)%
Global High Yield Debt USD return	(3.02)%
US loans USD return	0.51%
UK REITS GBP return	(1.10)%

The roll-forward has increased the valuation of illiquid assets by £36 million. A 1 per cent increase/decrease in the indices used would have caused a £16 million increase/decrease in the adjustment. As at 5 March, the scheme has an immaterial exposure to Russian and Ukrainian assets, with market value totalling £6.0m, which represents only 0.05% of total scheme assets.

Liabilities
The present value of the scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on the discount rate applied which is derived from the expected yields on high quality corporate bonds over the duration of the Company's pension scheme. High quality corporate bonds are those which at least one of the main rating agencies considers to be at least AA (or equivalent).

Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 22. The carrying value of the retirement benefit obligations will be impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate. Sensitivities are included in note 22.

c) Provisions
Provisions have been made for onerous contracts, dilapidations, restructuring, insurance and long service awards. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events and market conditions. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. The carrying amount of provisions will be impacted by changes in the discount rate. Details of provisions are set out in note 19.

d) Lease liabilities
The discount rate used to calculate the lease liability is the rate implicit in the lease if it can be readily determined, or the Group's incremental borrowing rate (IBR) if not.

The IBRs depend on the start date and term of the lease, and are determined based on a number of inputs including a reference (risk free) rate and adjustments to reflect the Group's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the group and quoted credit default swaps ("CDS").

The following table summarises the impact that a reasonable possible change in the IBR would have had on the lease liability additions and modifications recognised during the year:

	Increase/(decrease) in lease liability recognised £m
Increase in IBR of 1%	(39)
Decrease in IBR of 1%	37

3 Profit before non-underlying items

In order to provide shareholders with additional insight into the year-on-year performance of the business, an adjusted measure of profit (underlying profit before tax) is provided to supplement the reported IFRS numbers, and reflects how the business measures performance internally. This adjusted measure excludes items recognised in reported profit or loss before tax which, if included, could distort comparability between periods.

Determining which items are to be adjusted requires judgement, in which the Company considers items which are significant either by virtue of their size and/or nature, or that are non-recurring. The same assessment is applied consistently to any reversals of prior non-underlying items.

Underlying profit is not an IFRS measure and therefore not directly comparable to other companies.

The Company has not included any additional costs incurred or credits received directly in relation to the impacts of COVID-19 within non-underlying items. Whilst some items (such as additional expenses incurred protecting colleagues and customers) are discrete and can be separately quantified, others, such as incremental food sales, cannot be reliably disaggregated from the Company's underlying performance. The Company has therefore concluded that presenting some movements as underlying and others as non-underlying would give an imbalanced view that is not easily comparable to past and subsequent periods.

For the 52 weeks to 5 March 2022

	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/(costs) £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Restructuring programmes	(52)	(29)	11	-	(70)	13	(57)
Software as a service accounting adjustment	-	(21)	-	-	(21)	4	(17)
Property, finance, pension and acquisition adjustments							
ATM business rates reimbursement	2	-	-	-	2	-	2
Profit/(loss) on disposal of properties	-	-	13	-	13	(2)	11
Dividend income from investments	-	-	16	-	16	-	16
Non-underlying finance and fair value movements	76	-	-	(11)	65	(12)	53
Recharges to Group Companies	-	5	-	-	5	(1)	4
IAS 19 pension expenses	-	(6)	-	15	9	(2)	7
Total property, finance, pension and acquisition adjustments	78	(1)	29	4	110	(17)	93
Tax adjustments							
Over provision in prior years	-	-	-	-	-	2	2
Revaluation of deferred tax balances	-	-	-	-	-	(9)	(9)
Capital loss derecognition	-	-	-	-	-	1	1
Total adjustments	26	(51)	40	4	19	(6)	13

Restructuring Programmes

In the prior year, the Company announced a restructuring programme to accelerate the structural integration of Sainsbury's and Argos; create a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos; and further rationalise / repurpose the Company's supermarkets and convenience estate. The programme also considered the Company's Store Support Centre ways of working.

The programme is a multi-year activity which began in the prior year and has continued into the current year. Total cumulative costs to 5 March 2022 are £(331) million split between £(261) million in the prior year and £(70) million in the current period as detailed in the table below.

(Costs)/gains recognised in the current year are as follows:

	2022 £m	2021 (restated) £m
Write downs of property, plant and equipment (a)	(8)	(32)
Write downs of leased assets (a)	(2)	(13)
Write downs of intangible assets	(1)	(12)
Closure provisions (b)	(20)	(55)
Accelerated depreciation of assets (c)	(19)	(2)
Redundancy provisions (d)	(19)	(38)
Consultancy costs	(14)	(9)
Gain on lease terminations (e)	2	5
Profit on disposal of properties (f)	11	-
Restructuring programmes	(70)	(156)
Impairment of non-financial assets	-	(105)
Total restructuring and impairment costs	(70)	(261)

a) During the financial year, the Company announced the closure of 200 of its in-store cafes. Related assets have been written down as a result.

b) Closure provisions relate to onerous contract costs, dilapidations and strip out costs on leased sites that have been identified for closure. Upon initial recognition of closure provisions, management uses its best estimates of the relevant costs to be incurred as well as expected closure dates. Business rates on leased property where the Company no longer operates from are recognised in the period they are incurred.

c) The remaining useful economic lives of corresponding sites have been reassessed to align with closure dates, resulting in an acceleration in depreciation of these assets. The existing depreciation of these assets (depreciation that would have been recognised absent of a closure decision) is recognised within underlying expenses, whereas accelerated depreciation above this is recognised within non-underlying expenses.

d) Redundancy costs are recognised as the plan is announced and a valid expectation raised with the affected colleagues. The current year charge relates to redundancies announced as part of depot closures and café and food counter closures.

e) Gains on lease terminations relate to sites impaired in the prior year for which it has been negotiated to exit the leases before the contractual end date. This includes the release of any lease liabilities and right-of-use assets, as well as any closure provisions previously recognised.

f) Profit on disposal of properties relates to profits recognised in the period as sites previously impaired as part of the restructuring programmes have been disposed of.

As the costs incurred facilitate future underlying cost savings, it was considered whether it was appropriate to report these costs within underlying profit. Whilst they arise from changes in the Company's underlying operations, they can be separately identified, are material in size and do not relate to ordinary in-year trading activity. In addition, the areas being closed or restructured no longer relate to the Company's remaining underlying operations and their exclusion provides meaningful comparison between financial years.

Software as a service accounting adjustment
During the year, the Company revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing software as a service (SaaS) arrangements; refer to note 1 for further details. Costs capitalised in prior years totalling £21 million have been written off this year. Given this is an out of period cost and could distort comparability between reporting periods, this has been included within non-underlying profit before tax.

Property, finance, pension and acquisition adjustments

- £2 million of ATM business rates reimbursement income is due to be received from the Valuation Office following the Supreme Court's ruling that ATMs outside stores should not be assessed for additional business rates on top of normal store rates.
- Profit on disposal of non-trading properties for the financial period comprised £13 million for the Company and are excluded from underlying profit as such profit is not related to the ongoing operating activities of the Company.
- Non-underlying finance and fair value movements for the financial period comprised £65 million for the Company. These include fair value remeasurements on derivatives not in a hedging relationship and lease interest on impaired non-trading sites, including site closures. The fair value movements are driven by external market factors and can significantly fluctuate year-on-year. They are therefore excluded to ensure consistency between periods. Lease interest on impaired, non-trading sites is excluded as they do not contribute to the operating activities of the Company. Included within cost of sales is £76 million of income in relation to favourable movements on long-term, fixed price power purchase arrangements (PPAs) with independent producers. These are accounted for as derivative financial instruments, however are not designated in hedging relationships, therefore gains and losses are recognised in the income statement. Increases in electricity forward prices in the year have led to gains on the related derivative financial instruments. The remaining movement of £(11) million within finance income and costs are analysed further in note 5.
- Defined benefit pension interest and expenses comprises pension finance income of £15 million and scheme expenses of £(6) million (see note 22). Although a recurring item, the Company has chosen to exclude net retirement benefit income and costs from underlying profit as, following closure of the defined benefit scheme to future accrual, it is not part of the ongoing operating activities of the Company and its exclusion is consistent with how the Directors assess the performance of the business.
- Intercompany dividends and mark-ups on intercompany recharges are excluded from underlying items as they are not considered part of the day-to-day activities of the business.

Comparatives (restated)

	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/ (costs) £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Income recognised in relation to legal disputes	-	-	169	-	169	(32)	137
Restructuring and impairment charges							
Restructuring programmes	(106)	(50)	-	-	(156)	20	(136)
Impairment of non-financial assets	(105)	-	-	-	(105)	14	(91)
Total restructuring and impairment charges	(211)	(50)	-	-	(261)	34	(227)
Property, finance, pension, intercompany and investment adjustments							
ATM business rates reimbursement	42	-	-	-	42	(8)	34
Profit on disposal of properties	-	-	7	-	7	-	7
Dividend income from investments	-	-	19	-	19	-	19
Non-underlying finance movements	-	-	-	(1)	(1)	-	(1)
Recharges to Group Companies	-	4	-	-	4	(1)	3
IAS 19 pension expenses	-	(13)	-	18	5	-	5
Total property, finance, pension, intercompany and investment adjustments	42	(9)	26	17	76	(9)	67
Tax adjustments							
Revaluation of deferred tax balances	-	-	-	-	-	(1)	1
Derecognition of capital losses	-	-	-	-	-	(28)	(28)
Total adjustments	(169)	(59)	195	17	(16)	(36)	(52)

Refer to note 1 for details of prior year restatements.

4 Supplier Arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and directly affect the Company's reported margin.

Income is recognised when earned by the Company when all obligations per the terms of the contract have been performed. Any supplier arrangements which are linked to inventory purchases are included within the cost of the related inventory, and therefore recognised within cost of sales once the inventory is sold. Unpaid amounts relating to supplier arrangements are recognised within trade and other receivables, unless there is a legal right of offset, in which case it is recognised within trade and other payables.

The types of supplier arrangements applicable to the Company are as follows:

— Discounts and supplier incentives – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.

— Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space.

— Supplier rebates – these are typically agreed on an annual basis, aligned with the Company's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes.

Amounts recognised in the income statement during the year for fixed amounts and volume-based rebates are shown below. Discounts and supplier incentives are not shown as they are deemed to be part of the cost price of inventory.

	2022 £m	2021 £m
Fixed amounts	**95**	103
Volume-based rebates	**57**	31
Total supplier arrangements	**152**	134

Of the above amounts, the following was outstanding and held on the balance sheet at year-end:

	2022 £m	2021 £m
Within current trade receivables		
Supplier arrangements due	**7**	7
Accrued supplier arrangements	**8**	8
Within current trade payables		
Supplier arrangements due	**11**	14
Accrued supplier arrangements	**5**	5

5 Operating profit

	2022 £m	2021 £m
Employee costs (note 7)	**3,002**	3,100
Depreciation expense (note 9 & note 10)	**1,058**	1,070
Amortisation expense (note 11)	**71**	47
Profit on disposal of properties1 (note 3)	**(24)**	(7)
Foreign exchange (gains)/losses	**(17)**	4
Impairment charges (note 3)	**11**	162

1 Includes £(11) million in relation to disposal of properties as part of the restructuring programme.

	2022 £m	2021 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	0.5	0.5
Fees payable to the Company's auditor for other services:		
Audit related assurance services	0.0	0.0
Total fees	**0.5**	**0.5**

6 Finance Income and finance costs

	2022 Underlying £m	2022 Non-Underlying £m	2022 Total £m	2021 (restated) Underlying £m	2021 (restated) Non-Underlying £m	2021 (restated) Total £m
Fair value measurements	-	-	-	-	8	8
Intercompany interest income	-	-	-	4	-	4
IAS 19 pension financing income	-	15	15	-	18	18
Finance income on net investment in leases	2	-	2	2	-	2
Finance Income	**2**	**15**	**17**	6	26	32
Borrowing costs:						
Provisions - amortisation of discount	-	(2)	(2)	-	-	-
Lease liabilities	(447)	(9)	(456)	(473)	(9)	(482)
Interest capitalised - qualifying assets						
Interest capitalised - qualifying assets	2	-	2	3	-	3
Intercompany interest costs	(1)	-	(1)	(1)	-	(1)
	1	-	1	2	-	2
Finance costs	**(446)**	**(11)**	**(457)**	(471)	(9)	(480)

Lease liabilities included £187 million (2021: £190 million) of intercompany interest costs.

Refer to note 1 for details of prior year restatements.

7 Employee costs

	2022 £m	2021 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**2,596**	2,714
Social security costs	**191**	191
Pension costs – defined contribution schemes	**164**	171
Share-based payments expense	**51**	24
	3,002	3,100

The comparative for wages and salaries has been updated to include a £28 million adjustment. This does not have an affect on the statements and has been updated for disclosure purposes only.

	2022 Number 000s	2021 Number 000s
The average number of employees, including directors, during the year was:		
Full-time	**56.6**	55.1
Part-time	**107.0**	99.0
	163.6	154.1
Full-time equivalent	**105.4**	100.8

In addition to the above, 1,482 (2021: 1,658) full-time employees and 1,502 (2021: 1,633) full-time equivalent employees are employed by the Company; however, the related employee costs are borne directly by JS Information Systems Limited, a fellow subsidiary of J Sainsbury plc.

8 Income tax expense

	2022 £m	2021 £m
Current tax expense:		
Current year UK tax expense	**67**	32
Over provision in prior years	**(16)**	-
Total current tax expense	**51**	32
Deferred tax credit:		
Origination and reversal of temporary differences credit	**(3)**	(16)
Over provision in prior years	**(4)**	(1)
Derecognition of capital losses	**2**	29
Revaluation of deferred tax balances expense	**(24)**	(9)
Total deferred tax (credit)/expense	**(29)**	3
Total income tax expense in income statement	**22**	35
Analysed as:		
Underlying tax	**16**	6
Non-underlying tax	**6**	29
Total income tax expense in income statement	**22**	35
Underlying tax rate	**7.1%**	14.6%
Effective tax rate	**9.0%**	38.9%

The effective tax rate of 9.0 per cent (2021: 38.9 per cent) is lower than (2021: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	2022 £m	2021 £m
Profit/(loss) before tax	**244**	(90)
Income tax at UK corporation tax rate of 19.0% (2021: 19.0%)	**46**	(17)
Effects of underlying items:		
Disallowed depreciation on UK properties	**19**	18
Over provision in prior years	**(18)**	-
Revaluation of deferred tax balances	**(30)**	(10)
Other	**3**	5
Effects of non-underlying items:		
Profit on disposal of properties	**(2)**	-
Non-taxable dividends received	**(3)**	(4)
Pension scheme expenses	**-**	(1)
Restructuring and impairments	**-**	15
Capital loss derecognition	**2**	28
Over provision in prior years	**(2)**	-
Revaluation of deferred tax balances	**7**	1
Total income tax expense in income statement	**22**	35

It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change was enacted during the accounting period.

As a result, existing temporary differences on which deferred tax has been provided have been revalued, where appropriate, to reflect the fact that they will now unwind at 25% rather than 19%. The impact of this is £109 million charge recognised as a £24 million credit to the Income statement and a £133 million charge recognised through OCI.

Income tax charged or (credited) to equity and/or other comprehensive income during the year is as follows:

	Share Based Payments £m	Retirement benefit obligations £m	Fair value movements £m	Total £m
52 weeks to 5 March 2022				
Current tax recognised in equity or other comprehensive income	**(1)**	**-**	**-**	**(1)**
Deferred tax recognised in equity or other comprehensive income	**(1)**	**223**	**30**	**252**
Revaluation of deferred tax balances in equity or other comprehensive income	**(2)**	**127**	**8**	**133**
	(4)	**350**	**38**	**384**
52 weeks to 6 March 2021				
Current tax recognised in equity or other comprehensive income	-	(21)	-	(21)
Deferred tax recognised in equity or other comprehensive income	-	(58)	(5)	(63)
Revaluation of deferred tax balances in equity or other comprehensive income	-	23	-	23
	-	(56)	(5)	(61)

The current and deferred tax in relation to the Company's defined benefit pension scheme's remeasurements and fair value movements have been charged or credited through other comprehensive income where appropriate.

Deferred tax
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 capital allowances £m	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payments £m	Leases (IFRS16) £m	Other £m	Total £m
At 7 March 2021	**(137)**	**28**	**4**	**(57)**	**(163)**	**8**	**253**	**(22)**	**(86)**
Prior year adjustment to income statement	**(8)**	**(3)**	**-**	**6**	**-**	**-**	**-**	**10**	**5**
(Charge)/credit to income statement	**17**	**(2)**	**-**	**4**	**(2)**	**4**	**(15)**	**-**	**6**
(Charge)/credit to equity or other comprehensive income	**-**	**-**	**(29)**	**-**	**(222)**	**1**	**-**	**-**	**(250)**
Revaluation adjustment to income statement	**(40)**	**7**	**-**	**(15)**	**(2)**	**2**	**71**	**(6)**	**17**
Revaluation adjustment to equity or other comprehensive income	**-**	**-**	**(8)**	**-**	**(127)**	**2**	**-**	**-**	**(133)**
At 5 March 2022	**(168)**	**30**	**(33)**	**(62)**	**(516)**	**17**	**309**	**(18)**	**(441)**
At 8 March 2020	(151)	61	-	(61)	(197)	5	246	(2)	(99)
Prior year adjustment to income statement	7	(10)	-	10	-	-	(6)	-	1
(Charge)/credit to income statement	24	(29)	-	-	(1)	1	(15)	7	(13)
(Charge)/credit to equity or other comprehensive income	-	-	4	-	58	1	-	-	63
Revaluation adjustment to income statement	(17)	6	-	(6)	-	1	28	(3)	9
Revaluation adjustment to equity or other comprehensive income	-	-	-	-	(23)	-	-	-	(23)
At 6 March 2021	(137)	28	4	(57)	(163)	8	253	2	(62)

	2022 £m	2021 £m
Total deferred income tax liabilities	**(797)**	(381)
Total deferred income tax assets	**356**	295
Net deferred income tax liability recognised in non-current liabilities	**(441)**	(86)

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; except for unrecognised capital losses of £285 million (2021: £290 million) due to the enacted law change on the utilisation of capital losses. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority.

9 Property, plant and equipment

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 7 March 2021	**5,983**	**4,826**	**10,809**
Additions	**89**	**319**	**408**
Disposals	**(33)**	**(331)**	**(364)**
Transfer to assets held for sale	**(9)**	**-**	**(9)**
At 5 March 2022	**6,030**	**4,814**	**10,844**
Accumulated depreciation and impairment			
At 7 March 2021	**1,678**	**3,296**	**4,974**
Depreciation expense for the year	**122**	**382**	**504**
Impairment loss for the year	**-**	**8**	**8**
Disposals	**(28)**	**(327)**	**(355)**
Transfer to assets held for sale	**(9)**	**-**	**(9)**
At 5 March 2022	**1,763**	**3,359**	**5,122**
Net book value at 5 March 2022	**4,267**	**1,455**	**5,722**
Capital work-in-progress included above	**99**	**238**	**337**

Interest capitalised
Interest capitalised included in additions amounted to £2 million (2021: £4 million). Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £280 million (2021: £281 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.2 per cent (2021: 4.0 per cent).

Details of the impairment charges are included in note 3.

10 Leases

Company as lessee
Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

Net book value	Land and buildings £m	Equipment £m	Total £m
At 7 March 2021	**7,433**	**279**	**7,712**
New leases and modifications	**1,230**	**39**	**1,269**
Depreciation charge	**(477)**	**(77)**	**(554)**
Impairment charge	**(2)**	**-**	**(2)**
At 5 March 2022	**8,184**	**241**	**8,425**
At 8 March 2020	7,736	259	7,995
New leases and modifications	220	97	317
Depreciation charge	(455)	(77)	(532)
Impairment charge	(68)	-	(68)
At 6 March 2021	7,433	279	7,712

Details of the impairment charges are included within note 3.

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2022 £m	2021 £m
At 7 March 2021 and 8 March 2020	**9,891**	10,093
Additions	**964**	305
Interest expense	**456**	482
Payments	**(669)**	(989)
At 5 March 2022 and 6 March 2021	**10,642**	9,891
Current	**535**	601
Non-current	**10,107**	9,290

The Company presents additions to lease liabilities and right-of-use assets in line with the disclosure requirements of IFRS 16 'Leases'. In doing so, additions to right-of-use assets and lease liabilities above include the net impact of new leases, terminations, modifications, and reassessments. This year includes the impact of exercising purchase options on 21 leased supermarkets held by a property investment pool in which the Company holds an interest. The purchase options were not included within the lease liabilities at inception of the lease as the Company was not reasonably certain to exercise them. Following the exercise of the options, the respective lease liabilities have been remeasured to include the assumed purchase price, leading to an increase in lease liabilities with a corresponding increase to the right-of-use asset. The purchases will be completed in the financial year ending 2 March 2024 when the existing leases end.

The purchase price is subject to negotiation and at the year-end had not yet been agreed. Therefore to remeasure the lease liability, the purchase price has been estimated based on up-to-date property valuations carried out by independent valuers not connected with the Company. The lease liabilities (and right-of-use assets) may be subsequently adjusted as the property valuations change, and when purchase prices are agreed. This is not considered a significant estimate in line with IAS 1 'Presentation of financial statements'.

Significant judgement – lease terms

The inclusion of a lease extension period or lease break period in the lease term is a key judgement for the Company and considers all relevant factors that create an economic incentive for it to exercise them. For leased properties, this includes the current and expected profitability of the respective site, as well as the length of time until the option can be exercised. Any changes to the Company's judgement over lease terms will impact both the right of use asset and lease liability.

Set out below are the undiscounted future rental payments not currently included within the reported lease liability where lease extensions have not been included, or where lease breaks have been assumed:

	2022 £m	2021 £m
Extension options expected not to be exercised	**4,681**	4,590
Lease Breaks expected to be exercised	**364**	334

Other information – Company as lessee

The following are the amounts recognised in profit or loss:

		2022 £m	2021 £m
Depreciation of right-of-use assets		**(554)**	(532)
Interest on lease liabilities		**(456)**	(482)
Variable lease payments not included in the measurement of lease liabilities		**-**	(1)
Finance income from sub-leasing of right-of-use assets	**2**	**2**	
Operating sublet income		**31**	23
Expenses relating to short term leases		**(13)**	(2)
Expenses relating to leases of low value assets		**-**	(6)
Total amount recognised in profit or loss		**(990)**	(998)
Total cash outflow for leases		**(682)**	(998)

There were no leases with residual value guarantees. There have been no sale or leaseback transactions during the period. The Company does not hold any leases as investment properties under IAS 40. All the right of use assets are recognised on a historic cost convention. Approximately £2,764m (2021: £2,811m) of the Company's lease liabilities are subject to inflation-linked rentals and a further £246m (2021: £260m) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis. The Company is committed to payments totalling £20m (2021: £32m) in relation to leases that have been signed but not yet commenced.

Maturity analysis

	2022 £m	2021 £m
Contractual undiscounted cash flows		
Less than one year	**972**	957
One to two years	**1,908**	951
Two to three years	**876**	892
Three to four years	**844**	866
Four to five years	**818**	827
Total less than five years	**5,418**	4,493
Five to ten years	**3,875**	4,048
Ten to fifteen years	**3,323**	3,917
More than fifteen years	**5,038**	5,661
Total undiscounted lease liability	**17,654**	18,119
Lease liabilities included in the statement of financial position	**10,642**	9,891
Current	**535**	601
Non-current	**10,107**	9,290

Company as lessor

The below table sets out the maturity analysis of lease payments to be received on an annual basis, for leases classified as operating leases:

	2022 £m	2021 £m
Less than one year	**17**	17
One to two years	**16**	15
Two to three years	**13**	13
Three to four years	**11**	11
Four to five years	**9**	9
Five to ten years	**28**	28
Ten to fifteen years	**9**	8
More than fifteen years	**10**	13
Total undiscounted lease payments receivable	**113**	114

The net book value of property, plant & equipment subject to operating leases at year-end is not material to the accounts.

The below table sets out the maturity analysis of lease receivables classified as finance leases:

	2022 £m	2021 £m
Contractual undiscounted cash flows		
Less than one year	**7**	7
One to five years	**36**	26
More than five years	**5**	15
Total undiscounted net investment in lease receivable	**48**	48
Lease receivables included in the statement of financial position	**41**	34
Current	**5**	5
Non-current	**36**	29

11 Intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 7 March 2021	**84**	**267**	**351**
Additions	**-**	**173**	**173**
Disposals	**(3)**	**(92)**	**(95)**
At 5 March 2022	**81**	**348**	**429**
Accumulated amortisation and impairment			
At 7 March 2021	**31**	**75**	**106**
Amortisation expense for the year	**-**	**71**	**71**
Impairment loss for the year	**1**	**-**	**1**
Disposals	**(2)**	**(58)**	**(60)**
At 5 March 2022	**30**	**88**	**118**
Net book value at 5 March 2022	**51**	**260**	**311**

Goodwill is comprised of:

	2022 £m	2021 £m
Bells Stores Limited	**10**	9
Jacksons Stores Limited	**29**	32
Other	**12**	12
	51	53

The goodwill balances above are allocated to the respective cash-generating units (CGUs) or group of CGUs. The CGUs to which goodwill has been allocated and the level at which it is monitored are deemed to be the respective acquired retail stores.

The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to dispose. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not subsequently reversed.

At the year-end reporting date, the Company assessed whether indicators of impairment existed within and it was concluded that no indicators of impairment existed.

The key assumptions in the value in use calculations are detailed in the Group accounts on pages 139 to 140.

12 Investments in subsidiaries

	2022 £m	2021 £m
At beginning and end of the year	**359**	359

Only material investments are included within investment in subsidaries.

The direct and indirect subsidiaries of the Company are:

Entity	Country of registration or incorporation	Share of ordinary allotted capital and voting rights	Holding	Address1
Barleygold Limited	UK	100.00%	Direct	50 Bedford Street
BLSSP (PHC 7) Limited	UK	100.00%	Direct	33 Holborn
Coolidge Investments Limited	UK	100.00%	Direct	33 Holborn
Argos (N.I.) Limited	UK	100.00%	Direct	Forestside Shopping Centre
Nash Court (Kenton) Limited	UK	100.00%	Direct	33 Holborn
Sainsbury's Argos Asia Commercial Limited	Hong Kong	62.50%	Indirect	7/F, 348 Kwun Tong Road
Sainsbury's Argos Asia Limited	Hong Kong	62.50%	Indirect	7/F, 348 Kwun Tong Road
Sainsbury's Argos Asia Sourcing Limited	Hong Kong	62.50%	Indirect	7/F, 348 Kwun Tong Road
Sainsbury's Argos Asia Technical Limited	Hong Kong	62.50%	Indirect	7/F, 348 Kwun Tong Road
Sainsbury's Argos Commercial Consulting (Shanghai) Limited	China	62.50%	Indirect	26/F, Tower 1
Sainsbury's Property Scottish Limited Partnership	UK	100.00%	Direct	3 Lochside Avenue
Sainsbury's Property Scottish Partnership	UK	100.00%	Indirect	3 Lochside Avenue
Town Centre Retail (Bicester) Limited	UK	100.00%	Direct	33 Holborn

1 See full address on page 193 of the J Sainsbury plc Annual Report 2022.

The Company considers impairment of its investment in subsidiaries by estimating the recoverable amounts of the investments, which are based on either the net assets of the subsidiary, or value in use calculations. Where a value in use calculation is used, discounted cash flows have been derived from the latest five-year Board-approved cash flows to perpetuity with no growth rate applied, discounted at a pre-tax rate of 7 per cent.

No impairment charge was recognised over the Company's investments in subsidiaries.

13 Investments in joint ventures and associates

	2022 £m	2021 £m
At beginning and end of the year	**2**	2

The joint ventures directly owned by the Company were:

	Year-end	Share of ordinary allotted capital	Country of registration or incorporation	Address1
Harvest 2 Limited Partnership	31-Mar	50%	UK	100 Victoria Street
Nectar 360 Services LLP	5-Mar	50%	UK	33 Holborn
3BW Limited	31-Mar	50%	UK	5 St John's Lane

1 See full address on page 193 of the J Sainsbury plc Annual Report 2022.

14 Inventories

	2022 £m	2021 £m
Gross finished goods	**1,133**	1,066
Inventory provision	**(47)**	(54)
Inventory recognised on balance sheet	**1,086**	1,012

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 5 March 2022 was £19,195 million (2021: £17,822 million).

Inventory losses and provisions recognised as an expense for the year were £427 million (2021: £421 million).

15 Receivables

(a) Trade and other receivables

	2022 £m	2021 £m
Non-current		
Other receivables	**37**	30
Prepayments and accrued income	**11**	6
	48	36
Current		
Trade receivables	**66**	75
Amounts owed by Parent company	**1,104**	955
Amounts owed by Group entities	**691**	653
Other receivables	**91**	158
	1,952	1,841
Prepayments and accrued income	**57**	37
	2,009	1,878

Trade receivables are non-interest bearing and are on commercial terms. Other receivables of £128 million (2021: £188 million) are generally non-interest bearing. The carrying amounts of trade and other receivables are denominated in sterling.

Current amounts owed by the Parent company in the current year of £1,104 million (2021: £955 million) are denominated in sterling and are non-interest bearing. Current amounts owed by other Group entities of £531 million (2021: £493 million) are denominated in sterling and non-interest bearing. The remaining £160 million (2021: £160 million) are interest bearing at an interest rate of base rate. All amounts are repayable on demand.

The Company's exposure to credit risk arising from its retail operations 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 prior to invoices being raised and credit limits are determined on an individual basis.

Receivables balances with other Group entities are reviewed for potential impairment based on the ability of the counterparty to meet its obligations. This is assessed by considering the net asset position and whether the amounts owed to the Company are covered. No impairment losses were recognised in the year.

(b) Major counterparties

Major counterparties are identified as follows:

	2022 Number of counterparties	2022 Balance £m	2021 Number of counterparties	2021 Balance £m
Other receivables	**1**	**26**	1	26
Parent company	**1**	**1,104**	1	955
Other Group entities	**7**	**671**	9	630

No major counterparty balances are considered overdue or impaired.

16 Assets held for sale

	2022 £m	2021 £m
Assets held for sale		
Opening balance	**21**	2
Classified as held for sale in the year	**7**	20
No longer classified as held for sale	**(8)**	-
Sold in the year	**(12)**	(1)
Closing Balance	**8**	21

Of the Company's assets held for sale at 6 March 2021, £12 million were sold and £8 million were no longer classified as held for sale during the current financial year. There were £7 million additional assets classed as held for sale during the current financial year. For the remaining assets, the sale is still considered probable in the next financial year and so they remain classified as held for sale. The fair value of assets held for sale is based on independent market valuations of the assets.

17 Trade and other payables

	2022 £m	2021 £m
Current		
Trade payables	**2,432**	2,283
Amounts owed to Parent company	**351**	351
Amounts owed to other Group entities	**359**	248
Other payables	**397**	452
Accruals and deferred income/gains	**358**	319
	3,897	3,653
Non-current		
Other payables	**11**	5
Accruals and deferred income/gains	**12**	12
	23	17

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

Current amounts owed to Parent company in the current year of £351 million (2021: £351 million) are denominated in sterling and interest bearing at an interest rate of base rate plus 1.5 per cent and repayable on demand. Current amounts owed to other Group entities of £315 million (2021: £201 million) are denominated in sterling and non-interest bearing.

The remaining £44 million (2021: £47 million) are interest bearing at an interest rate of 12 month SONIA plus 1.0 per cent (2021: 12 month LIBOR plus 1.0 per cent). All amounts are repayable on demand.

18 Borrowings

	2022			2021		
	Current £m	**Non-Current £m**	**Total £m**	Current £m	Non-Current £m	Total £m
Bank overdrafts	**6**	**-**	**6**	94	-	94
Total borrowings	**6**	**-**	**6**	94	-	94

Bank overdrafts are repayable on demand and bear interest at a spread above Bank of England base rate.

19 Provisions

	Property provisions £m	Insurance provisions £m	Restructuring £m	Other provisions £m	Total £m
At 7 March 2021 (restated)	**65**	**35**	**23**	**9**	**132**
Additional provisions	**7**	**24**	**27**	**-**	**58**
Unused amounts reversed	**-**	**-**	**(4)**	**(2)**	**(6)**
Utilisation of provision	**(4)**	**(23)**	**(31)**	**-**	**(58)**
Amortisation of discount	**2**	**-**	**-**	**-**	**2**
At 5 March 2022	**70**	**36**	**15**	**7**	**128**
Current	**14**	**12**	**15**	**1**	**42**
Non-current	**56**	**24**	**-**	**6**	**86**
At 8 March 2020 (restated)	20	32	1	8	61
Additional provisions	61	19	42	1	123
Unused amounts reversed	(2)	-	-	-	(2)
Utilisation of provision	(14)	(16)	(20)	-	(50)
At 6 March 2021 (restated)	65	35	23	9	132
Current	48	10	23	2	83
Non-current	17	25	-	7	49

Refer to note 1 for details of prior year restatements.

Property provisions
Where the Company no longer operates from a leased property, onerous property contract provisions are recognised for the least net cost of exiting from the contract. Unless a separate exit agreement with a landlord has already been agreed, the Company's policy is that this onerous contract provision includes all unavoidable costs of meeting the obligations of the contract. The amounts provided are based on the Company's best estimates of the likely committed outflows and site closure dates. These provisions do not include rent in accordance with IFRS 16, however do include unavoidable costs related to the lease such as service charges and insurance. These provisions historically included business rates, however business rates are considered a statutory obligation rather than a contractual one, and are therefore now recognised as a periodic cost in line with IFRIC 21 "Levies". Prior period comparatives have been restated to remove business rates from previously recognised property provisions. Refer to note 1 for further details.

Property provisions also include provisions for dilapidations which are recognised where the Company has the obligation to make-good its leased properties. These provisions are recognised based on historically settled dilapidations which form the basis of the estimated future cash outflows. Any difference between amounts expected to be settled and the actual cash outflow will be accounted for in the period when such determination is made.

Where the Company is able to exit lease contracts before the expiry date or agree sublets, this results in the release of any associated property provisions. Such events are subject to the agreement of landlords, therefore the Company makes no assumptions on the ability to either exit or sublet a property until a position is agreed.

Restructuring provisions
A restructuring provision is recognised when the Company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

The charge for the year mostly comprises redundancy payments as part of depot closures, and café and food counter closures announced during the year as detailed in note 3.

Insurance provisions
The provision relates to the Company's outstanding insurance claims liabilities in relation to public and employer's liability claims, and third-party motor claims. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent actuary and are intended to provide a best estimate of the most likely or expected outcome.

Other provisions includes provisions for long service awards.

Climate change considerations
The Company has reviewed its provisions and concluded that no adjustments need to be made for climate change risks, nor that any new provisions need to be recognised for climate-related matters.

Significant estimate – provisions
The Company's provisions are estimates of the actual costs and timing of future cash flows, which are dependent on future events and market conditions. Thus there is inherently an element of estimation uncertainty within the provisions recognised by the Company. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

The provisions are most sensitive to estimates of the future cash outflows. The following table summarises the impact that a reasonable possible change in the cash outflow assumptions when estimating provisions would have had on the amounts recognised during the year.

	Increase/(decrease) in provisions recognised (£m)				
	Property provisions	Insurance provisions	Restructuring	Other provisions	Total
Increase in cash outflows by 5%	4	2	1	-	7
Decrease in cash outflows by 5%	(4)	(2)	(1)	-	(7)

20 Called up share capital

	2022 million	2021 million	2022 £m	2021 £m
Called up share capital				
Authorised, allotted and fully paid ordinary shares - £100	**29**	29	**2,900**	2,900

21 Retained earnings and other reserves

	Profit and loss account £m	Actuarial losses £m	Total retained earnings £m	Cash flow hedge reserve £m	Total other reserves £m
At 7 March 2021 (as previously reported)	1,515	(140)	1,375	(27)	(27)
Opening balance adjustment	39	-	39	-	-
At 7 March 2021 (restated)	1,554	(140)	1,414	(27)	(27)
Profit for the year	222	-	222	-	-
Remeasurements on defined benefit pension schemes (net of tax)	-	731	731	-	-
Cash flow hedges gains and losses transferred to inventory	-	-	-	29	29
Cash flow hedges effective portion of fair value movements (net of tax)	-	-	-	97	97
Items reclassified from cash flow hedge reserve	-	-	-	(5)	(5)
Share-based payment (net of tax)	57	-	57	-	-
At 5 March 2022	**1,833**	**591**	**2,424**	**94**	**94**
At 8 March 2020 (as previously reported)	1,616	217	1,833	(10)	(10)
Opening balance adjustment	12	-	12	-	-
At 8 March 2020 (restated)	1,628	217	1,845	(10)	(10)
Loss for the year (restated)	(98)	-	(98)	-	-
Remeasurements on defined benefit pension schemes (net of tax)	-	(357)	(357)	-	-
Cash flow hedges gains and losses transferred to inventory	-	-	-	2	2
Cash flow hedges effective portion of fair value movements (net of tax)	-	-	-	(27)	(27)
Items reclassified from cash flow hedge reserve	-	-	-	8	8
Share-based payment (net of tax)	24	-	24	-	-
At 6 March 2021	1,554	(140)	1,414	(27)	(27)

Refer to note 1 for details of prior year restatements.

The actuarial losses reserve represents the actuarial gains and losses on the defined benefit pension schemes operated by the Company and is included as part of retained earnings. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Company.

22 Retirement benefit obligations

Accounting policies – defined contribution pension schemes
The Company contributions to defined contribution pension schemes are charged to the income statement as incurred. 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.

The surplus or deficit recognised in the balance sheet for defined benefit schemes 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.

Background
At 5 March 2022, retirement benefit obligations relate to the Sainsbury's section of the Sainsbury's Pension Scheme as well as unfunded pension liabilities relating to senior former employees of Sainsbury's.

This section holds the assets and liabilities of the original Sainsbury's Pension Scheme prior to acquisition of Home Retail Group. The section's assets are segregated by deed and ring fenced for the benefit of the members of this section. The Scheme is run by a corporate trustee with nine directors.

The Scheme is also used to pay life assurance benefits to current (including new) colleagues.

The retirement benefit obligations at the year-end have been calculated by Isio, the actuarial advisers to the Company, using the projected unit credit method and based on adjusting the position at the date of the previous triennial valuation for known events and changes in market conditions as allowed under IAS 19 'Employee Benefits'.

Sainsbury's section of the Sainsbury's Pension Scheme
The section was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. There are three benefit categories: final salary, career average and cash balance. Final salary and career average benefits are determined by service and salary. Cash balance benefits are determined by the accrued retirement account credits.

Triennial valuation
The Trustee's triennial valuation is used to determine the contributions required for the Scheme to pay all the benefits due, now and in the future. The Trustee must allow for a level of prudence and so these assumptions therefore place a relatively high value on the Scheme's liabilities. By contrast, IAS 19 'Employee Benefits' requires all companies to value the liabilities on a 'best estimate' basis which places a lower value on the liabilities and therefore a more favourable financial position. As such, the accounting value is different to the result obtained using the Trustee's triennial valuation basis.

The Trustee completed a triennial valuation, carried out by Willis Towers Watson, as at 30 September 2018 on the projected unit basis and a recovery plan was agreed. The deficit on the basis of the assumptions agreed was £538 million.

Under the funding plan, Sainsbury's established a new Scottish Limited partnership – Sainsbury's Thistle Scottish Limited Partnership ('the Partnership') with the Scheme on 17 July 2019.

Properties with a valuation of £1,350 million were transferred into a newly formed property holding company – Sainsbury's Property Holdings Limited ('Propco') from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. The Propco is a wholly owned subsidiary of the Group and leases the transferred properties to Sainsbury's Supermarkets Ltd. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership, in which the Scheme holds an interest.

The Partnership is controlled by Sainsbury's and its results are consolidated by the Group. The Group's balance sheet, IAS 19 deficit and income statement are unchanged by the establishment of the Partnership. The Scheme's investment in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets. The value of the properties transferred to the Propco remains in the Group's property, plant and equipment on the balance sheet and the Group retains full operational flexibility to extend, develop and substitute them.

The Scheme's interest in the Partnership entitles it to annual distributions over up to 20 years through three payment streams:

a. Payments to the Sainsbury's section (£15 million per year)
b. Payments to the Argos section (£20 million per year)
c. Switching payment stream, paid to either the Sainsbury's section or Argos section (initially approximately £23 million per year, increasing to £33 million by 2038).

In addition to the above, cash contributions of £10 million were paid during the year (2021: cash contributions of £40 million).

The payments to the Sainsbury's and Argos sections (streams 1 and 2) stop in 2030, or when the relevant section reaches its funding target, if earlier.

The switching stream is initially paid to the Sainsbury's section until it reaches the funding target, when it will then switch to the Argos section. Payments continue until 2038 or until both sections have reached their funding targets, if earlier.

The level of property in the Propco reduces as the Scheme reaches the funding targets.

The Sainsbury's section reached its funding target on 31 December 2021, and so the first payment stream was switched off. The switching stream will move to the Argos section from March 2022.

The next triennial funding valuation as at 30 September 2021 is currently being completed by the Trustee. The results of this valuation are not yet available.

IFRIC 14

Under IFRIC 14, a company is required to measure any economic benefits available to it in the form of refunds or reductions to future contributions at the maximum amount that is consistent with the terms and conditions of the pension scheme. These are regarded as available to a company if it has an unconditional right to realise them at some point during the life of the pension scheme or when all benefits are finally settled. Such an unconditional right would not exist when the availability of the refund or the reduction in future contribution would be contingent upon factors beyond the company's control.

Management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such no adjustment has been made for potential additional liabilities.

In forming this conclusion management has considered whether the Company can control the run-off of the Scheme until there are no liabilities left, consistent with IFRIC 14. For example, if the Trustee has a unilateral power to wind up the Scheme while there are liabilities remaining, then it is viewed that the Company cannot access surplus through this route. For both sections, management have assessed that the Company can control run-off until no liabilities remain by complying with its obligations under the Scheme rules and pensions legislation, and there will therefore be a gradual settlement of the planned liabilities over the life of each section.

The Scheme rules list certain situations under which the Trustee can wind up the Scheme; however whilst there is gradual settlement of the Scheme's liabilities, these are concluded to be within the control of the Company. As a result, it is concluded that the Trustee does not have a unilateral power to wind up the Scheme nor augment benefits while the Scheme is ongoing.

Unfunded pension liabilities

The unfunded pension liabilities are 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.

a) Income statement

The amounts recognised in the income statement are as follows:

	2022 £m	2021 £m
Excluded from underlying profit before tax:		
Interest cost on pension liabilities[1]	**(170)**	(141)
Interest income on plan assets	**185**	159
Total included in finance income (note 6)	**15**	18
Defined benefit pension scheme expenses	**(6)**	(7)
Past service cost	**-**	(6)
Total excluded from underlying profit before tax (note 3)	**(6)**	(13)
Total income statement credit	**9**	5

[1] Includes interest of £nil for the unfunded pension scheme (2021: £1 million).

Past service amounts

Current year past service cost is £nil and prior year past service cost relates to Guaranteed Minimum Pension (GMP) equalisation following a High Court ruling in November 2020 regarding individual transfer payments.

b) Other comprehensive income

Remeasurements of the retirement benefit obligations have been recognised as follows:

	2022 £m	2021 £m
Return on plan assets, excluding amounts included in interest	**450**	(393)
Actuarial gains/(losses) arising from changes in:		
Finance assumptions[1]	**309**	(100)
Demographic assumptions	**112**	21
Experience[2]	**209**	59
Total actuarial gains/(losses)	**630**	(20)
Total remeasurements	**1,080**	(413)

[1] Includes £1 million gain for the unfunded pension scheme (2021: £nil loss).
[2] Includes £nil for the unfunded pension scheme (2021: £(1) million loss).

c) Valuations

The movements in the 'retirement benefit surplus' per Balance Sheet are as follows:

	2022 £m	2021 £m
As at the beginning of the year	**1,061**	1,455
Interest income	**15**	18
Remeasurement gains/(losses)	**1,080**	(413)
Pension scheme expenses	**(6)**	(7)
Contributions by employer	**2**	13
Past service credit/(charge)	**-**	(6)
Disposal of interest in property partnership	**1**	1
As at the end of the year	**2,153**	1,061

The movements in the retirement benefit obligations (including unfunded obligations) are as follows:

	2022 £m	2021 £m
As at the beginning of the year	**(8,829)**	(8,935)
Interest cost	**(170)**	(141)
Remeasurement gains/(losses)	**630**	(20)
Benefits paid	**287**	273
Past service charge	**-**	(6)
As at the end of the year	**(8,082)**	(8,829)
Analysed as:		
Retirement benefit obligations	**(8,061)**	(8,807)
Unfunded obligations	**(21)**	(22)

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

	2022 £m	2021 £m
As at the beginning of the year	**9,890**	10,390
Interest income on plan assets	**185**	159
Pension scheme expenses	**(6)**	(7)
Remeasurement gains/(losses)	**450**	(393)
Contributions by employer	**2**	13
Benefits paid	**(287)**	(273)
Disposal of interest in property partnership	**1**	1
As at the end of the year	**10,235**	9,890

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

Investment strategy and risks associated with the Company's defined benefit pension scheme
The Trustee considers that its primary responsibility in respect of investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due. Based on this responsibility and its obligation to manage the investments, its investment objectives are as follows:

1. Target a 50 per cent or better chance of being fully funded on a gilts + 0.5 per cent p.a. funding level basis by March 2022; and
2. To limit the downside risk associated with the investment policy, wherever possible.

The risks associated with achieving the above strategy are as follows:

Risk	Description	Mitigation
Investment strategy risk	Underperformance of Defined Benefit investment strategy relative to the Pension Scheme's liabilities reduces the future resources available to meet pension obligations.	The Scheme adopts a liability driven investment framework to generate excess asset returns with reference to its liabilities by largely removing its interest and inflation uncertainties.
Investment implementation risk	Poor execution including investment manager underperformance relative to their targets leads to lower funding levels.	Over two thirds of investment mandates are managed to closely follow a portfolio benchmark with limited investment decisions made by managers.
Custody risk	Inadequate controls lead to inaccurate record keeping and loss of assets through investment fraud.	The top tier global custodian Northern Trust is used to oversee the Scheme's assets. The Trustee also uses an independent third party to periodically review Northern Trust.
Sustainability, including ESG and climate risks	Investment managers have poor ESG, Stewardship and climate risks oversight policies.	The Scheme incorporates ESG, stewardship and other related risks into its Statement of Investment Principles (SIP) and publishes an annual Implementation Statement. Investment managers are requested to confirm whether they operate in line with the Scheme's official policies. The approach that the Trustee has adopted as part of its ongoing process to deliver a Net Zero goal by 2050 includes investment decisions based on new climate governance and reporting standards, engagement with corporates and government, maintaining outcomes focused climate objectives in investments and the role of the Scheme's investment managers in signing up to the UN Principles of Responsible Investment and having Net Zero targets.
Investment regulatory risk	Insufficient training and awareness of regulatory requirements results in non-compliance with regulations.	The Scheme is advised by Eversheds Sutherland on legal and regulatory matters, and closely follows changes in regulatory and other legal requirements for pensions and investments. Periodic training is provided to the Investment Committee, advisers, and if necessary, the full Board by relevant experts.
Investment liquidity risk	Insufficient liquidity to meet ongoing cashflow requirements in respect of member benefit payments.	The Scheme adopts a collateral sufficiency framework which ensures sufficient high quality liquid assets are maintained in order to meet liquidity requirements, even in times of market stress. The Investment Adviser liaises with the Scheme Actuary to understand future cash flow requirements.
Investment counterparty risk	Financial losses may be incurred due to failure of counterparties or inability to roll-over derivative positions.	Asset Managers manage credit limits for all their derivative counterparty exposures and monitor positions over derivative roll dates.
Longevity risk	The Scheme pays benefits longer than expected due to Scheme members' increasing life expectancy.	Longevity risk is managed as part of the Scheme's integrated risk management framework. The Scheme monitors longevity risk closely and aims to achieve sufficient funding level by meeting milestone targets to prepare for members' increasing life expectancy.
Currency risk	The Scheme's unhedged foreign currency exposure leads to additional volatility for non-sterling denominated assets' returns.	Foreign currency exposure is closely monitored and hedging programmes are implemented to efficiently control foreign currency risk at reasonable hedging costs.

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

	Quoted 2022 £m	Unquoted1 2022 £m	Quoted 2021 £m	Unquoted1 2021 £m
Equity				
Private	-	393	-	304
Bonds2				
Government Bonds	2,651	18	964	76
Corporate Bonds	3,603	1,325	4,807	434
Emerging Market Bonds	77	4	305	8
Derivatives3	114	365	164	526
Alternatives				
Real Estate	-	568	-	847
Private Debt	-	630	-	624
Diversified Growth	-	264	-	251
Cash and Cash equivalents	223	-	576	4
	6,668	3,567	6,816	3,074

Notes
1. Certain unquoted fixed interest securities, private equity and debt investments, property investments and hedge funds are stated at fair values. These fair values may differ from their realisable values due to the absence of liquid markets in these investments.
2. Bonds – circa 84% of the Scheme's bonds are invested in investment grade credit. The remainder are below investment grade.
3. Swap contracts derivatives outstanding at the year-end are stated at the net present value of future discounted cash flows of each leg of the swap.

Of the above assets, £4,774 million are denominated in sterling and £5,461 million are denominated in overseas currencies.

d) Assumptions

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

Assumptions	2022 %	2021 %
Discount rate	2.40	1.95
Inflation rate - RPI	3.60	3.15
Inflation rate - CPI	2.90	2.45
Future pension increases	2.30 - 3.45	2.15 - 3.10

Discount rate

The discount rate for the Scheme is derived from the expected yields on high quality corporate bonds over the duration of the Company's pension scheme and extrapolated in line gilts with no theoretical growth assumptions. High quality corporate bonds are those for which at least one of the main ratings agencies considers to be at least AA (or equivalent).

Inflation

On 25 November, the Government and UK Statistics Authority's joint consultation response on RPI reform was published. This confirmed their intention to amend the RPI calculation methodology to be aligned to that already in use for the calculation of the CPI (including housing) with effect from 2030. As a result, the Company reduced the post 2030 gap between RPI and CPI to nil in the prior year, effectively assuming RPI will be aligned with CPI post 2030, resulting in a single weighted average RPI-CPI gap of 0.70% p.a. for the 5th March 2022 year-end. This approach has been applied consistently in the current year.

Mortality
The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements for the 2022 year-end are CMI 2021 projections with a long term rate of improvement of 1.25 per cent p.a. Future mortality improvements for the 2021 year-end were CMI 2020 projections with a long term rate of improvement of 1.25 per cent p.a.

While Covid-19 had an impact on mortality in 2020, the impact on future mortality trends is currently unknown. All IAS 19 calculations use the CMI model, which measures potential changes to future mortality trends. The Company's policy is to use the available version as at the year-end (the 2021 results used the CMI 2020 model). The latest CMI model, CMI 2021, was released on 9 March 2022.

The CMI 2020 model showed a significant reduction of 11.8 per cent in the 2020 rates of longevity for the general population. This is well outside the range of annual mortality changes in the last 40 years.

As a result of this significant change in mortality, the CMI modified the calibration process for CMI 2020 to allow choice on the weighting placed on an individual year's data. For the Core version of CMI 2020, a weight of zero per cent was applied to 2020 data and weightings of 100 per cent for other years, so the potentially exceptional 2020 experience was ignored when modelling future improvements. This approach has been maintained for CMI 2021, with zero per cent weighting applied to 2020 and 2021 data. In the prior year, the Company determined that putting a high weighting on the impact of 2020 could undervalue the liability so a zero per cent weighting was therefore applied to the 2020 mortality data.

The level and quality of knowledge on the long-term impact of COVID-19 is still uncertain, however there have now been two years of adverse experience and management is of the opinion that this justifies some allowance in long-term mortality trends. The choice of weighting to apply to 2020 and 2021 data is judgemental. The UK has continued to see the impact of the pandemic into 2021 with significant excess deaths compared to pre-pandemic levels. Deaths for 2021 are therefore expected to be higher than 2019 but not as high as 2020 given the success, thus far, of the vaccination programme at reducing hospitalisations and deaths. With 2020 and 2021 experiencing negative mortality improvements relative to 2019, it is felt that it would be overly conservative to adopt the Core CMI 2021 model which shows improvements in mortality in 2020, 2021 and beyond.

A 10 per cent weighting has therefore been applied to the 2020 and 2021 mortality data, broadly reflecting that the effects of the pandemic are significantly reduced going forwards with mortality rates for 2022 immediately returning to those in 2019. Thereafter, mortality improvements are in line with the CMI 2021 Core model. The impact of different weightings on the Scheme liabilities is included in the sensitivities section within this note.

The life expectancy for members aged 65 years at the balance sheet date is as follows:

	2022		2021	
	Sainsbury's section Main Scheme	**Sainsbury's section Executive Scheme**	Sainsbury's section Main Scheme	Sainsbury's section Executive Scheme
Male pensioner	**19.6**	**23.8**	20.0	24.1
Female pensioner	**23.5**	**25.0**	23.8	25.3

The life expectancy at age 65 for members aged 45 years at the balance sheet date is as follows:

	2022		2021	
	Sainsbury's section Main Scheme	**Sainsbury's section Executive Scheme**	Sainsbury's section Main Scheme	Sainsbury's section Executive Scheme
Male pensioner	**20.8**	**25.0**	21.3	25.3
Female pensioner	**25.0**	**26.5**	25.3	26.7

e) Sensitivities
The present value of the Scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on the discount rate. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates. The carrying value of the retirement benefit obligations is impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate.

The following sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the impact for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

Sensitivity analysis	Sainsbury's £m
Financial sensitivities	
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	673
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	763
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	399
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	409
An increase of 0.5% in the inflation rate for future pension increases in payment only would increase the present value of funded obligations by	202
A decrease of 0.5% in the inflation rate for future pension increases in payment only would reduce the present value of funded obligations by	233
Demographic sensitivities	
An increase of one year to the life expectancy would increase the present value of funded obligations by	347
Changing the w2020 and w2021 parameters in CMI 2021 to 0% would increase the present value of funded obligations by	108
Changing the w2020 and w2021 parameters in CMI 2021 to 25% would decrease the present value of funded obligations by	104

The arms' length value of the interest in the Sainsbury's Thistle Scottish Limited Partnership pension asset, as assessed by an independent actuary, is sensitive to the assumption around the Trustee's future investment strategy. The values include an assumption that the investment strategy de-risks, in a linear fashion, over a period broadly aligned with the duration of the section's liabilities. De-risking is a change in the asset allocation to a portfolio in which the funding level volatility is very low. If no de-risking assumption was made, for the accounts ended 5 March 2022, then the value of the plan assets would be £23.2 million lower than with the inclusion of a de-risking strategy.

f) Future benefit payments

The duration of the plan liabilities are around 19 years. The following table provides information on the timing of benefit payments (amounts undiscounted):

	2022 £m
Within the next 12 months (next annual reporting period)	217
Between 2 and 5 years	895
Between 6 and 15 years	3,198
Between 16 and 25 years	3,601
Beyond 25 years	5,229
Total expected payments	**13,140**

23 Share-based payments

The Company recognised £51 million (2021: £24 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £1.6 million (2021: £nil) were cash-settled.

The Company operates a number of share-based payment schemes which are consistent with those described in the Group annual report on pages 186 to 189.

a) Savings-Related Share Option Scheme (Sharesave)
The Company 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 Sharesave, participants remaining in the Company's employment at the end of the three-year (and historically also five-year) savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price.

Employees leaving for certain reasons can use their savings to purchase shares within six months of their leaving.

A reconciliation of Sharesave option movements is shown below:

	2022		2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	million	**pence**	million	pence
Outstanding at the beginning of the year	**56.3**	**179.0**	51.8	190.0
Granted	**13.2**	**228.0**	21.9	162.0
Forfeited	**(8.8)**	**178.8**	(9.7)	196.0
Exercised	**(8.5)**	**202.6**	(7.7)	186.0
Outstanding at the end of the year	**52.2**	**186.3**	56.3	179.0
Exercisable at the end of the year	**4.2**	**237.8**	5.6	187.0
Exercisable price range		**161 to 260**		161 to 260

The weighted average share price for options exercised over the year was 258 pence (2021: 217 pence). The weighted average remaining contractual life of options outstanding at 6 March 2021 was 1.8 years (2021: 2.2 years).

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:

		2022	2021
Share price at grant date (pence)		**277**	226
Exercise price (pence)		**228**	161
Expected volatility	– 3 year period (%)	**30.8**	29.9
Option life	– 3 year period (years)	**3.2**	3.2
Expected dividends (expressed as dividend yield %)		**4.0**	5.1
Risk-free interest rate	– 3 year period (%)	**0.1**	0.1
Fair value per option	– 3 year period (pence)	**59**	55

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

b) Long-Term Incentive Plan

i) Future builder
Under the Long-Term Incentive Plan, shares are conditionally awarded to the senior managers in the Company. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

Performance is measured at the end of the three-year performance period. If the required performance conditions have been met, the awards vest and the participants are able to exercise 100% of the awards received. For 2020 awards and prior, recipients were only able to receive 50% of their awards after 3 years and 50% of their awards after 4 years. Options granted will expire five years from the grant date.

For Executive Directors, awards will normally be subject to a two-year holding period following the end of the three-year performing period. Options granted to acquire the award of shares will expire six years from the date of grant.

Dividends will accrue on the shares that vest in the form of additional shares.

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. Awards are structured as nil cost options.

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

	2022 million	2021 million
Outstanding at the beginning of the year	**10.2**	8.5
Conditionally allocated	**10.8**	6.5
Released to participants	**(4.1)**	(3.6)
Lapsed	**(1.2)**	(1.2)
Outstanding at the end of the year	**15.7**	10.2

The weighted average remaining contractual life of share options outstanding at 5 March 2022 was 1.4 years (2021: 1.4 years).

Details of shares conditionally allocated at 5 March 2022 are set out below:

Date of conditional award	**2022 million**	2021 million
11 May 2017 (2017 Future Builder)	**1.1**	2.9
11 May 2018 (2018 Future Builder)	**2.4**	1.7
9 May 2019 (2019 Future Builder)	**2.4**	2.5
7 May 2020 (2020 Future Builder)	**2.7**	3.1
6 Jun 2021 (2021 Win in Food Plan)	**7.1**	-
	15.7	10.2

The 2021 Win in Food Plan was opened up to a larger population of managers, which has driven through the higher amount of options granted for the year. This was a one-off increase specifically for the 2021 Win in Food Plan.

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:

	2022	2021
Share price at grant date (pence)	**267**	199
Option life (years)	**3**	3 or 4
Fair value per option (pence)	**267**	199

During the year, a total number of 5.0 million shares were exercised (2021: 3.7 million shares). The weighted average share price during the year for options exercised was 248 pence (2021: 194 pence).

ii) Deferred Share Award

This plan is closed to new participants; the last awards made under this plan were in 2020/21. The Deferred Share Award targets a diverse range of financial and strategic scorecard measures. These are intended to reward the Directors in the Company, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. Awards are structured as nil cost options.

Share-based awards are made to participants subject to performance against a basket of measures. At least 50 per cent of the awards are based on the delivery of financial performance and returns to shareholders. The balance is based on measures which will assess the Company's performance relative to its competitors as well as key strategic goals.

Performance against the target is measured over one financial year. Any shares awarded are deferred for a further two years to ensure that management's interests continue to be aligned with those of shareholders. The shares are subject to forfeiture if the participant resigns or is dismissed. Dividends accrue on the shares that vest in the form of additional shares.

A reconciliation of the number of shares granted over the year is shown below:

	2022 million	2021 million
Outstanding at the beginning of the year	**3.1**	3.4
Granted[1]	**0.2**	1.8
Lapsed	**(0.1)**	(0.6)
Exercised	**(1.8)**	(1.5)
Outstanding at the end of the year	**1.4**	3.1

1. The awards Granted in 2022 relate to dividend shares awarded.

The number of shares allocated at the end of the year is set out below:

	2022 million	2021 million
9 May 2019	**-**	1.6
7 May 2020	**1.4**	1.5
	1.4	3.1

The weighted average remaining contractual life of share options outstanding at 5 March 2022 was nil years (2021: 0.5 years). The weighted average share price during the year for options exercised was 242 pence (2021: 195 pence).

iii) Bonus Share Award
Senior managers and supermarket managers receive 60 per cent of their bonus in cash and 40 per cent of the award in shares. Director level managers receive 50 per cent of their bonus in cash and 50 per cent of the award in shares. Before 2021 awards had a three year deferral period, however awards granted from 2021 now have a deferral period of two years (except for colleagues who are subject to a deferral period due to certain financial service regulations).

Dividends accrue on these shares and are released at the end of the deferral period.

A reconciliation of the number of shares granted over the year is shown below:

	2022 million	2021 million
Outstanding at the beginning of the year	**8.9**	10.9
Granted	**11.7**	1.0
Exercised in the period	**(3.8)**	(2.4)
Lapsed	**(1.4)**	(0.6)
Outstanding at the end of the year	**15.4**	8.9

The number of shares allocated at the end of the year is set out below:

	2022 million	2021 million
11 May 2018	**-**	2.8
9 May 2019	**4.5**	5.3
7 May 2020	**0.7**	0.8
7 May 2021	**10.2**	-
	15.4	8.9

The weighted average remaining contractual life of share options outstanding at 5 March 2022 was 0.7 years (2021: 0.8 years). The weighted average share price during the year for options exercised was 241 pence (2021: 184 pence).

24 Related party transactions

(a) Joint Ventures and other related parties

The Company entered into transactions with joint ventures and other related parties as set out below.

Transactions with joint ventures and other related parties:

	2022 £m	2021 £m
Dividends and distributions received	**2**	-
Rental expenses paid	**(8)**	(6)

Year-end balances arising from transactions with joint ventures and associates

	2022 £m	2021 £m
Payables		
Other payables	**(1)**	(2)

25 Capital commitments

During the current financial year, the Company entered into contracts of £88 million (2021: £82 million) for future capital expenditure in relation to property plant and equipment not provided for in the financial statements.

26 Contingent liabilities

Along with other retailers, the Company is currently subject to claims from current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. There are currently circa 8,600 equal pay claims from circa 4,400 claimants, in which the claimants are alleging that their work within Sainsbury's stores is or was, of equal value to that of colleagues working in Sainsbury's distribution centres, and that differences in terms and conditions relating to pay are not objectively justifiable. The claimants are seeking the differential back pay based on the higher wages in distribution centres, and the equalisation of wages and terms and conditions on an ongoing basis. The Company believes further claims will be served.

There are three stages in the tribunal procedure for equal value claims of this nature and the claimants will need to succeed in all three. The first stage is whether store claimants have the legal right to make the comparison with depot workers. Following European and Supreme Court decisions in other similar litigation, Sainsbury's has conceded this point. The second stage is the lengthy process to determine whether any of the claimants' roles are of equal value to their chosen comparators. This process is likely to continue for several more years. In the event that any of the claimants succeed at the second stage there will be further hearings, in the years following, to consider whether any pay differential is justified.

Given that the outcome of the second and third stages in the litigation remains highly uncertain at this stage, the Company cannot make any assessment of the likelihood nor quantum of any outcome. No provision has therefore been recognised on the Company's balance sheet. There are substantial factual and legal defences to these claims and the Company intends to defend them vigorously.

27 Post balance sheet events

In light of the events in Russia and Ukraine, which continued to evolve subsequent to the Company's balance sheet date, it has been concluded that the conflict has no material impacts on the Company's financial statements.