

Sainsbury's Supermarkets Ltd

Annual Report and Financial Statements

For the 52 weeks to 7 March 2020



Principal activities and review of business

The principal activities of the Company are grocery and related retailing. All material operations are carried out in the United Kingdom.

J Sainsbury plc (the Group) of which the Company forms a part has seen a year of good progress against its strategy. Customer service scores are consistently improving, with ease and speed of checkout improving by just over 3 per cent and just under 4 per cent respectively, as customers respond well to store upgrades and the acceleration of the in-store digital offer, including SmartShop, which makes shopping quicker and more convenient. The general merchandise market remains challenging, particularly in toys and gaming, and sales declined 2.9 per cent. Clothing sales grew 1.2 per cent and clothing performed particularly well online, growing 47 per cent.

A full review of the business and the market can be found in the 2020 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/ar2020

Revenue for the Company increased to £24,059 million for the financial year (2019: £24,030 million), due to customers responding positively to price investment, new entry price ranges, investments in our store estate and an increase in fuel sales driven by retail price inflation and volume growth. Underlying profit before tax increased to £260 million (2019: £261 million).

The profit before tax of the Company is £172 million (2019: £114 million) and the profit after tax for the financial year is £120 million (2019: £46 million). The financial position as at 7 March 2020 is shown on the statement of financial position set out on page 15.

Section 172 Statement

Stakeholder considerations and culture are an important part of the Board's discussions and decision-making, to promote the success of the Company in the long term, consistent with the ethos of the Companies Act 2006 (CA2006) Section 172. For many years, various aspects of culture have been considered by the Board, which has been strengthened during the year by a review of our purpose, culture and values. Feedback from our stakeholders helped determine our long-term strategic priorities, and Board discussions during the COVID-19 pandemic focused on all the needs of our stakeholders, as referred to on pages 6 to 9 of the Group's Annual Report.

The Board believes that it has acted in the way it considers would be most likely to promote success of the Company for the benefit of its members as a whole, having regard to Section 172(1)(a) to (f) and other factors it reviewed, during the year ended 7 March 2020. More information on how the Board and Directors engage with our stakeholders, can be found on pages 7 to 8 as well as pages 14 to 17 of the Group's Annual Report.

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 36 to 45 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, counterparty credit 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. 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 has prepared additional cash flow forecasts in connection to COVID-19, to identify associated liquidity requirements.

The Company finances its operations through retained profits, leases and intra-group borrowings. The Group's committed £1,450 million Revolving Credit Facility was undrawn at 7 March 2020. The facility is provided by a syndicate of 16 banking partners. The Group has no financial covenants. In September 2019 the maturity of part of the £1,450 million RCF was extended by one year. The facility is split into two Facilities, a £300 million Facility (A) and a £1,150 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024. As at 7 March 2020, £nil had been drawn (2019: £35 million).

Counterparty credit risk

Counterparty 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.

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.

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.

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.

Own use consumption of electricity and gas is hedged with forward purchases under flexible purchasing arrangements with its suppliers. 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 28 to 29 of the Group's Annual Report, which does not form part of this report.

By order of the Board



Tim Fallowfield
Director
13 May 2021

Sainsbury's Supermarkets Ltd
Directors report
for the 52 weeks to 7 March 2020
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 7 March 2020. The prior financial year's financial statements were for the 52 weeks to 9 March 2019.

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:

Mike Coupe (resigned on 31 May 2020)
Tim Fallowfield
Angela Risley
John Rogers (resigned on 31 October 2019)
Paul Mills-Hicks (resigned on 31 January 2021)
Peter Griffiths (resigned on 27 August 2019)
James Brown (appointed on 28 August 2019)
Kevin O'Byrne
Phil Jordan
Simon Roberts
Clodagh Moriarty
Mark Given (appointed on 1 June 2020)

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 2019/20, which was renewed for 2020/21. 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 page 26 of the Annual Report and Financial Statements 2020 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 4 and 5.

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 page 64 of the Group Annual Report, which does not form part of this report.

Donations

The Company made no political donations in 2020 (2019: £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

For the year ended 7 March 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (Principles). The Company is wholly owned subsidiary of J Sainsbury plc, which has complied in full with the Principles and Provisions of the UK Corporate Governance Code 2018.

Set out below is how we have applied the Principles over the past year.

Principle 1 – Purpose and leadership

During the year the Board reviewed the Group's purpose 'Live Well for Less' and was involved in developing the Group's strategic priorities. Details of the Group's strategic priorities and progress against them can be found on pages 20 to 27 of the Group's Annual Report.

Culture and our strategic priority 'be a place where we all love to work' is a key focus of the Board and is discussed throughout the year. The Board discussed the Group's purpose, vision and values and the results from the Group's annual 'We're Listening' colleague engagement survey. The colleague engagement survey demonstrated how well our values have been embedded through the Group. Directors also attended the Great Place to Work Group, made up of colleagues across the business elected by their peers to represent their views at meetings, and Talking Shop our question and answer style listening sessions which give store colleagues the opportunity to meet the Directors and discuss the issues that affect them. At these meetings, colleagues' provided their views to Directors on matters such as Brexit, Winning Teams, security and safety and colleague development and Directors provided this feedback to the Board.

Principle 2 – Board composition

As at 7 March 2020, the Board consisted of nine 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's needs and the needs of our stakeholders. As a result of these reviews Clodagh Moriarty was appointed as Retail and Digital Director, taking on additional responsibility for our stores as well as our online offer across all of our brands. In addition, as we focus on putting customers at the centre of every decision we make, Mark Given, Chief Marketing Officer, joined the Board on 1 June 2020. Jim Brown was also appointed to the Board representing Sainsbury's Bank plc on 28 August 2019 succeeding Peter Griffiths.

Diversity and inclusion

Our aspiration is to be the most inclusive retailer, and the Board is highly supportive of the initiatives in place to promote diversity and inclusion throughout the Group. Clear leadership of our inclusion agenda has been established and senior management have been set annual objectives to drive progress through the business. The Group Diversity and Inclusion Steering Group is chaired by the Angie Risley, Group HR Director, and is also attended by five Directors who each champion an inclusion stream:

- Gender Balance
- Ethnicity, Religion and Belief
- Lesbian, Gay, Bisexual and Transgender
- Age, Carers and Disability
- Wellbeing

We promote diversity on our Board and continually consider the balance amongst our Directors. The Board has extensive and wide-ranging experience of retail and other consumer-facing businesses.

The Group's aspirational target is for 40% female and 10% BAME in senior management roles and above by 2021. As at 7 March 2020, of the nine members of the Board, two are women (22%). 35.7% of our Operating Board and their direct reports (excluding PAs) are women and 7.1% identify as BAME. For more information, see our Gender Pay Report on our website <https://www.about.sainsburys.co.uk/making-a-difference/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. The Board held 10 principal meetings during 2019/20 including days for strategic planning and development. On joining the Board, the Directors have a tailored induction programme.

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 Customer and Trading Forum, Investment Board, Group Data Governance Committee, Group Safety Committee, Group Diversity and Steering Group, Group Operational Resilience Committee and Net Zero Steering Group.

Principle 4 – Opportunity and Risk

Details of our business model can be found on pages 10 and 11 of the Group's 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 36 to 45 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 71 in the Group's Annual Report.

Principle 5 – Remuneration

The Company's objective is to have a fair, equitable and competitive total reward package that supports our vision of being the most trusted retailer where people love to work and shop, encourages colleagues to perform in ways that deliver great service for customers, drives profitable sales and provides opportunities for colleagues to share in the business's success.

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

- Determining and agreeing with the J Sainsbury plc Board the Remuneration Policy for the Chairman and Executive Directors of J Sainsbury plc and the Directors of the Company
- Setting individual remuneration arrangements for the Chairman and Executive Directors of J Sainsbury plc and the Directors of the Company
- Reviewing and noting the pay and benefits applying to colleagues across the business and taking these into account when determining executive pay

- Considering the achievement of the performance conditions under annual and long-term incentive arrangements.

More information on the work of the Remunerations Committee during the year, see pages 72 to 89 of the Group's Annual Report.

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?
<p>Customers Our customer shop with us in stores, online and on our mobile app.</p>	<p>The Board is regularly updated on consumer trends and the overall metrics from our customer feedback programme so it can understand how we are driving a consistent approach across the business. Further details on how we engage with our customers include:</p> <ul style="list-style-type: none"> — Customer feedback programme (CSAT) – real-time feedback on a range of service measures — Social media listening — Market research – qualitative customer focus groups, accompanied shopping trips, quantitative surveys — Nectar data which helps us understand how customers are shopping — Brand tracking which assesses the performance of our different brands <p>Colleagues</p>
<p>Colleagues Our colleagues include everyone who is employed by the Company.</p>	<p>The Board engages directly with colleagues through the Great Place to Work Group and Talking Shop. It receives detailed presentations on culture, colleague engagement surveys, and diversity and inclusion, and regular summaries on key initiatives that respond to colleagues' views.</p> <p>Our colleague engagement activities include the following:</p> <ul style="list-style-type: none"> — Great Place to Work National Group made up of colleagues across the business elected by their peers to represent their views at meetings. Directors attend these meetings — Talking Shop, our question and answer style listening sessions, give store colleagues the opportunity to meet the Directors and discuss the issues that affect them — Our annual colleague engagement survey 'We're Listening' invites every colleague to give honest confidential feedback on what it is like to work for the Group — Live social media question and answer sessions with the Chief Executive Officer around key topics such as our Net Zero by 2040 plan — Updates on culture and colleague engagement

<p>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 divisions' activities including Logistics, Marketing, Technology and Retail. Our suppliers range from large multi-national companies to small independently-run businesses.</p>	<p>The Board receives regular updates on supplier relationships. Directors lead our two annual conferences for all our GFR suppliers, one in Asia and one in London.</p> <p>Our suppliers have access to our online supplier portals where we share news about the organisation and develop new ways of working with them which ensures a consistent forum for tendering communication.</p> <p>We take part in annual, independent surveys which benchmark the business against other retailers; these include the Advantage survey and Groceries Supply Code of Practice (GSCOP) supplier survey.</p> <p>As part of our initiative to drive greater product differentiation, our Future Brands team has been working with exclusive brands to build stronger relationships.</p> <p>We have engaged with suppliers through the Sainsbury's Fairly Traded Programme and the Fair Development Fund.</p> <p>We engage with our suppliers to prevent modern slavery and human trafficking in our business operations and supply chain and report this through our Modern Slavery Statement.</p>
<p>Communities Generating positive impact in the communities we serve and source worldwide.</p>	<p>The Board was provided with regular updates on our community programme including on:</p> <ul style="list-style-type: none"> — The work by our 'Making a Positive Difference to our Community' Value Management Group, which helps ensure effective delivery of our community programmes across the business — Colleague feedback through our Great Place to Work Group — Our customer feedback programme and customer surveys which provide the Board with valuable information on our customers and local communities. These insights help shape our activities.
<p>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.</p>	<p>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.</p> <p>The Board also receives reports and updates on J Sainsbury plc shareholder relations. These summarise key feedback from its principal shareholders.</p>
<p>Government The UK Government and devolved administrations in Scotland, Wales and Northern Ireland set the regulatory environment in which our business operates.</p>	<p>The Board receives updates when regulation is relevant to the business through summaries on the following activities:</p> <ul style="list-style-type: none"> — Responding to Government consultations — Direct meetings — Trade association meetings — Government organised roundtables — Participation in Government organised forums such as the Food and Drink Sector Council (Defra) or the Retailer Panel for Exiting the EU (BEIS)

For further information on stakeholder engagement which applies throughout the Group, see pages 14 to 17 of the Group's Annual Report.

Post-balance sheet events

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of infections across many countries. As detailed in note 2 it has been concluded that none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements.

Further information is provided in note 2 and note 27.

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.

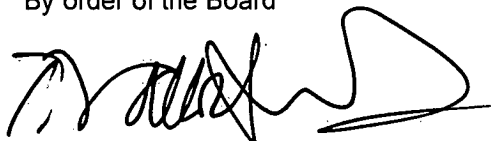
Disclosure of information to auditors

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

Independent auditors

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

By order of the Board

A handwritten signature in black ink, appearing to read 'Tim Fallowfield', written over a horizontal line.

Tim Fallowfield
Director
13 May 2021

Sainsbury's Supermarkets Ltd
Statement of Directors' responsibilities
for the 52 weeks to 7 March 2020
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 May 2021

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

Opinion

We have audited the financial statements of Sainsbury's Supermarkets Ltd for the 52 week period ended 7 March 2020 which comprise of the Income statement, Statement of comprehensive income, the Statement of financial position, 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 7 March 2020 and of its profit for the year 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 below. 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, 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.

Emphasis of Matter– disclosure of effects of COVID-19

We draw attention to note 2 and note 27 of the financial statements, which describe the impact on the Company as a result of COVID-19 in its operations and assessment of going concern. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements are not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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:

- 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.

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

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 directors' responsibilities statement 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.

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 (May 14, 2021 14:56 GMT+1)

Ben Marles (Engagement Partner)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
14 May 2021

Sainsbury's Supermarkets Ltd
Income statement
for the 52 weeks to 7 March 2020

2020				2019 (restated)			
		Before non- underlying items	Non- underlying items	Total	Before non- underlying items	Non- underlying items	Total
	Note	£m	£m	£m	£m	£m	£m
Revenue		24,059	-	24,059	24,030	-	24,030
Cost of sales		(22,664)	(107)	(22,771)	(22,596)	-	(22,596)
Gross profit		1,395	(107)	1,288	1,434	-	1,434
Administrative expenses	4	(666)	(77)	(743)	(697)	(126)	(823)
Other income	4	23	79	102	24	(18)	6
Operating profit		752	(105)	647	761	(144)	617
Finance income	6	3	31	34	2	10	12
Finance costs	6	(495)	(14)	(509)	(502)	(13)	(515)
Profit before tax		260	(88)	172	261	(147)	114
Income tax expense	8	(114)	62	(52)	(79)	11	(68)
Profit for the financial year		146	(26)	120	182	(136)	46

The notes on pages 17 to 56 form an integral part of these financial statements.

The restatements relate to the adoption of IFRS 16 as explained in note 3.

Sainsbury's Supermarkets Ltd
Statement of comprehensive income
for the 52 weeks to 7 March 2020

	Note	2020 £m	2019 (restated) £m
Profit for the financial year		120	46
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	22	(31)	1,180
Cash flow hedges fair value movements – inventory hedges		9	-
Current tax relating to items not reclassified	8	6	-
Deferred tax relating to items not reclassified	8	(35)	(197)
		(51)	983
Items that may be reclassified subsequently to the income statement			
Cash flow hedges effective portion of fair value movements		(6)	32
Items reclassified from cash flow hedge reserve	21	-	(17)
Deferred tax on items that may be reclassified	8	1	(3)
		(5)	12
Total other comprehensive income for the year (net of tax)		(56)	995
Total comprehensive income for the year		64	1,041

The notes on pages 17 to 56 form an integral part of these financial statements.

The restatements relate to the adoption of IFRS 16 as explained in note 3.

Sainsbury's Supermarkets Ltd
Statement of financial position
as at 7 March 2020 and 9 March 2019

		2020	2019
	Note	£m	(restated) £m
Non-current assets			
Property, plant and equipment	9	6,078	6,160
Right of use assets	10	7,995	7,259
Intangible assets	11	181	169
Investments in subsidiaries	12	359	4
Investments in joint ventures and associates	13	2	23
Other receivables	15a	31	32
Derivative financial assets		1	1
Retirement benefit surplus	22	1,455	1,440
		16,102	15,088
Current assets			
Inventories	14	990	1,077
Trade and other receivables	15a	1,516	1,091
Derivative financial assets		5	12
Cash and cash equivalents		207	271
		2,718	2,451
Assets held for sale	16	2	-
		2,720	2,451
Total assets		18,822	17,539
Current liabilities			
Trade and other payables	17	(3,628)	(3,280)
Borrowings	18	(10)	(1)
Lease liabilities	10	(561)	(540)
Derivative financial liabilities		(17)	(10)
Taxes payable		(128)	(164)
Provisions	19	(26)	(28)
		(4,370)	(4,023)
Net current liabilities		(1,650)	(1,572)
Non-current liabilities			
Other payables	17	(20)	(89)
Lease liabilities	10	(9,532)	(8,662)
Derivative financial liabilities		(5)	(1)
Deferred income tax liability	8	(123)	(94)
Provisions	19	(49)	(33)
		(9,729)	(8,879)
Total liabilities		(14,099)	(12,902)
Net assets		4,723	4,637
Equity			
Called up share capital	20	2,900	2,900
Other reserves	21	(10)	(5)
Retained earnings	21	1,833	1,742
Total equity		4,723	4,637

The notes on pages 17 to 56 form an integral part of these financial statements. The restatements relate to the adoption of IFRS 16 as explained in note 3.

The financial statements on pages 13 to 56 were approved by the Board of Directors on 13 May 2021, and are signed on its behalf by:


Kevin O'Byrne
Director

Sainsbury's Supermarkets Ltd
Statement of changes in equity
for the 52 weeks to 7 March 2020

	Note	Called up share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
At 10 March 2019 (as previously reported)		2,900	(5)	2,943	5,838
Cumulative adjustment to opening balance on adoption of IFRS 16		-	-	(1,201)	(1,201)
At 10 March 2019 (restated)		2,900	(5)	1,742	4,637
Profit for the year	21	-	-	120	120
Other comprehensive expense	21	-	4	(60)	(56)
Total comprehensive (expense)/income for the year ended 7 March 2020		-	4	60	64
Cash flow hedges gains and losses transferred to inventory		-	(9)	-	(9)
Transactions with owners:					
Share-based payment (net of tax)	23	-	-	31	31
At 7 March 2020		2,900	(10)	1,833	4,723
At 11 March 2018 (as previously reported)		2,900	(17)	1,829	4,712
Cumulative adjustment to opening balance on adoption of IFRS 16		-	-	(1,147)	(1,147)
At 11 March 2018 (restated)		2,900	(17)	682	3,565
Profit for the year (restated)	21	-	-	46	46
Other comprehensive income	21	-	12	983	995
Total comprehensive income for the period ended 9 March 2019 (restated)		-	12	1,029	1,041
Transactions with owners:					
Share-based payment (net of tax)	22	-	-	31	31
At 9 March 2019 (restated)		2,900	(5)	1,742	4,637

The notes on pages 17 to 56 form an integral part of these financial statements.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 7 March 2020

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 7 March 2020 (prior financial year 52 weeks to 9 March 2019).

The principal activities of the Company are grocery and related 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 International Financial Reporting Standards (IFRS) as adopted by the European Union.

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.

The Company has adopted IFRS 16 'Leases' effective for the 52 weeks ending 7 March 2020. IFRS 16 has been applied fully retrospectively and therefore comparatives for prior periods have been restated. Further details regarding the impact of IFRS 16 are included in note 3.

Significant accounting policies have been included in Note 2. Significant accounting policies have been applied consistently to all periods presented in the financial statements. Further details on the updated accounting policies following the adoption of IFRS 16 'Leases' are included in note 3.

Presentational changes

In accordance with IAS 1 'Presentation of Financial Statements', within the statement of comprehensive income the Company presents separately items that will not be subsequently reclassified to the income statement and items that may be subsequently reclassified to the income statement, which includes the fair value movements on effective cash flow hedges. In accordance with IFRS 9 'Financial Instruments', cash flow hedge gains and losses in relation to inventory purchases are recognised as part of the cost of inventory, and therefore the carrying value of inventory is adjusted for the accumulated gains or losses recognised directly in other comprehensive income (a basis adjustment), and then recognised in the income statement when the inventory is sold.

1 General information & basis of preparation (continued)

This basis adjustment is not part of other comprehensive income. The Company has therefore separately presented effective fair value movements on inventory hedges and non-inventory hedges within the statement of comprehensive income and shown the inventory basis adjustments as a separate line within the statement of changes in equity. Comparative period amounts have not been adjusted on the grounds of materiality.

Going concern

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. 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 Group going concern and viability assessment which is included within the Group annual report on page 46. In making the assessment, scenarios in relation to the Group's principal risks were considered by overlaying them into the Group's corporate plan and assessing the impact on cash flows, net debt and funding headroom.

COVID-19 continues to be an area of uncertainty, developing rapidly in 2020 with significant impacts on customer behaviour. In particular, the Group is exposed to a number of areas as follows:

- Sales impact from the closure of certain stores
- Changing customer behaviours during lockdown
- Operational cost increases, such as increased labour and other in-store costs,
- Supply chain disruptions

The review concluded that the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2023.

It is therefore concluded that the Company continue to adopt the going concern basis of accounting in preparing the financial statements.

Amendments to published standards

The Company considered the following amendments to published standards that are effective for the Company for the financial year beginning 10 March 2019 and concluded that, with the exception of IFRS 16 'Leases', they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- IFRS 16 'Leases'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation
- Amendments to IAS 19 'Employee Benefits' on plan amendments, curtailments or settlements
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' on long term interests in associates and joint ventures
- Annual Improvements Cycle 2015-2017 (issued in December 2017)

Further information on the impact of IFRS 16 is included in note 3.

Standards and revisions effective for future periods:

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 'Business Combinations' on the definition of a Business
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of material
- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures' on interest rate benchmark reform
- IFRS 17 'Insurance Contracts'

The impact of these new standards has been detailed within the Annual Report and Financial Statements 2020 of J Sainsbury plc.

2 Accounting policies

Revenue

For sales through retail outlets and online, the transaction price is the value of the goods, net of returns, colleague discounts, vouchers, and sales made on an agency basis. 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. Commission income is recognised in revenue based on the terms of the contract.

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 acquired retail chain of stores. Goodwill is recognised as an asset on the Company's balance sheet in the year in which it arises, and 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 capitalised and amortised on a straight-line basis over their useful economic lives of five to ten 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 ten years within administrative expenses.

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

Capital work in progress is not depreciated.

2 Accounting policies (continued)

Property, plant and equipment (continued)

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.

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.

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.

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 and the assets and liabilities 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. Assets held for sale are not depreciated as the sale is expected within one year from the date of classification.

Inventories

Inventories comprise of goods held for resale which are valued on a weighted average cost basis and carried at the lower of cost and 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 in the Company balance sheet comprise cash in hand and at bank and deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2 Accounting policies (continued)

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 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 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 expense in the period in which the event or condition that triggers the payment occurs. Agreements which contain both lease and non-lease components are reviewed, and non-lease components such as cleaning and maintenance services are 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 increased to reflect the accretion of interest and reduced for the lease payments made. In addition, 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, a change in the in-substance 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, as well as costs relating to variable lease payments dependent on performance of usage and 'out of contract' payments.

Lessor accounting

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 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. This assessment takes into consideration whether the sublet/head lease are above/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 at the recognition date, at the appropriate duration. 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.

2 Accounting policies (continued)

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 benefit 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.

Joint ventures and associates

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

Employee benefits

a) Retirement benefit surplus/obligations

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

2 Accounting policies (continued)

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.

Payments 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.

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 or Monte Carlo). The 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

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

a) Financial assets

The Company classifies all of its financial assets as either amortised cost or fair value through profit or loss (FVPL).

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.

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 (FVPL) or a combination thereof (fair value through other comprehensive income (FVOCI)).

2 Accounting policies (continued)

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, these are financial assets that are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company has no intention of trading these loans and receivables. 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 method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value 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 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.

2 Accounting policies (continued)

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to foreign exchange, 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 finance income or costs 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 forecast transaction. These include the exchange rate risk of inventory purchases denominated in foreign currency, as well as the 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 in conformity with IFRSs 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:

2 Accounting policies (continued)

Significant accounting judgements, estimates and assumptions (continued)

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 consolidated financial statements:

a) Lease term

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, if it is reasonably certain not to be exercised.

The Company has the option under some of its leases to either lease the assets for additional terms, or terminate the lease early (a break option). The Company applies judgement in evaluating whether it is reasonably certain to exercise these options. That is, it 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.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the options to renew (e.g. a change in business strategy). Any reassessment of the lease term will be reflected in a recalculation of the lease liability and respective right-of-use asset. Further information is included within note 10.

b) Non-underlying items

In order to provide additional insight into the underlying performance of the business, certain items are excluded from the Company's underlying results and presented as 'profit before non-underlying items' on the face of the income statement. This is consistent with how the performance of the Company is reviewed by management. Determining which items are to be adjusted requires judgement, and considers both the nature and scale of the item, as well as the circumstances surrounding it. Reversals of prior non-underlying items are considered based on the same criteria.

Profit before non-underlying items is not defined by International Financial Reporting Standards and is one of the APMs used by the Company. Therefore it may not be directly comparable with adjusted measures of other companies.

Further information on non-underlying items included in the Company's income statement are included in note 4.

c) Impact of COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections across many countries. Management has exercised significant judgement when determining whether any adjustments are required to the financial statements as at 7 March 2020.

The conditions that existed at the balance sheet date were that a disease, present in a number of countries globally, was in existence. It had stabilised in China, however had caused a level of uncertainty in the market. The UK response to the outbreak was still minor and day-to-day life in the UK where the Company operates was unchanged. Despite the lockdown in China, a UK lockdown and subsequent economic impact was not readily apparent at this stage. As a result none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements.

The subsequent rise in infections in the UK, significant market movements and global lockdowns occurred after the year-end date, but do not provide additional information about conditions that existed at the balance sheet date. In particular, it was on 11 March that the World Health Organisation declared the virus a pandemic, and from 16 March that the UK Government announced major government-backed loans. It is also this date that day-to-day life in the UK began to be impacted through announced social distancing measures, with additional, stay at home measures being enforced even later. The scale of these Government interventions and impact on daily life in the UK were not apparent at the balance sheet and therefore represent non-adjusting events to the Company. Given the significance of these events, additional disclosures are included in note 27 of the financial statements.

2 Accounting policies (continued)

Significant accounting judgements, estimates and assumptions (continued)

Sources of estimation uncertainty

The areas where assumptions and estimates are significant to the financial statements are as described 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. During the current financial period, an impairment charge was recognised of £153 million.

b) Post-employment benefits

Liabilities

The Company operates a defined benefit scheme for its employees. 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).

During the year the Company refined its method of extrapolation for long duration liabilities used for determining the discount rate. The corporate bond dataset used remains unchanged. The Company believes this refinement better reflects expected yields as it is based on existing data rather than theoretical extrapolation. The discount rate used following this refinement is 1.6%. The resulting actuarial loss is included within the £31 million of remeasurement losses as disclosed in note 22.

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 to movements in the discount rate are included in note 22.

Assets

The Pension Scheme has circa £1.8 billion of private market assets, split between private debt, private equity and property. These assets are held as they are expected to deliver a greater risk/return profile vs public market equivalents. The assets are genuinely illiquid (likely to be realised over 5+ years) but the Pension 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 31 December. In prior years, these valuations have been used in the year-end pension deficit/surplus calculation despite the time difference between the fund valuation and the Company year-end and adjusted for any cash received or paid between the valuation date and the year-end. This year, to reflect the high level of market volatility, caused in part by the COVID-19 crisis, the Group has performed a roll-forward for these valuations using relevant liquid indices as follows:

Asset Class	Return
Global equity GBP return	(6.8)%
Global High Yield Debt GBP return	(0.5)%
US loans GBP return	0.1%
Global High Yield Debt local currency return	(2.5)%
US loans USD return	(1.8)%
UK REITS return	(11.1)%

2 Accounting policies (continued)

Significant accounting judgements, estimates and assumptions (continued)

This has reduced the asset valuations by £40 million. A one per cent increase / decrease in the indices used would have caused a £1 million decrease / £1 million increase in the adjustment.

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 weighted average IBR applied on transition to IFRS 16 was 5.5%, with individual leases ranging from 0.7% to 16.5%.

e) 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. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset. The three key types 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 for that product.
- Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.
- 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 and requires estimates of the amount earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, agreements from suppliers are obtained to agree the value to be recognised at year-end, prior to it being invoiced. By aligning the agreements to the Company's financial year, where possible, the judgements required are minimised.

The income for the above arrangements is recognised as a credit within cost of sales unless the income earned relates to inventory purchases which are held by the Company at the reporting date, in which case the income is included within the cost of those inventories. It is then subsequently recognised when the inventory is sold.

Of the above categories, fixed amounts and supplier rebates involve a level of judgement and estimation. The amounts recognised in the income statement for these two categories in the financial year are as follows:

2 Accounting policies (continued)

Significant accounting judgements, estimates and assumptions (continued)

	2020 £m	2019 £m
Fixed amounts (within cost of sales)	98	101
Supplier rebates (within cost of sales)	30	26
Total supplier arrangements	128	127

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

	2020 £m	2019 £m
Within current trade receivables		
Supplier arrangements due	7	8
Accrued supplier arrangements	8	9
Within current trade payables		
Supplier arrangements due	11	19
Accrued supplier arrangements	5	7

3 Adoption of IFRS 16 'Leases'

IFRS 16 'Leases' supersedes IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Company has adopted IFRS 16 with a date of initial application of 10 March 2019. The Company adopted IFRS 16 using the full retrospective method of adoption as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in the consolidated financial statements has been restated. The Company has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

a. Effect of adoption of IFRS 16

The Company's lease portfolio consists of properties including retail, distribution and office properties, as well as vehicles and other equipment. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Assets funded through finance leases were capitalised as property, plant and equipment and depreciated over the shorter of their estimated useful lives or the lease term. The amount capitalised was the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term. The resulting lease obligations were included in liabilities net of finance charges. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. For operating leases under IAS 17, the lease payments were recognised as rental expense in the income statement on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised within "Other receivables" and "Trade and other payables", respectively.

Upon adoption of IFRS 16, the Company now applies a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The Company recognises a right-of-use asset and a lease liability at the lease commencement date, and the rental charge is replaced with depreciation on the right-of-use asset and interest on the lease liability. The new accounting policies for leases are detailed in note 2.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 7 March 2020

3 Adoption of IFRS 16 'Leases' (continued)

The effect of adoption of IFRS 16 on the balance sheet as at 10 March 2018 is as follows:

	10-Mar 2018 £m
Assets	
Property, plant and equipment	(420)
Right-of-use asset	7,204
Other receivables	33
Non-current assets	6,817
Trade and other receivables	(27)
Current assets	(27)
Liabilities	
Trade and other payables	110
Lease liabilities	(521)
Provisions	10
Current liabilities	(401)
Other payables	601
Lease liabilities	(8,459)
Deferred income tax liability	257
Provisions	65
Non-current liabilities	(7,536)
Net assets	(1,147)
Equity	
Retained earnings	(1,147)
Total equity	(1,147)

A full reconciliation of the impact of IFRS 16 on the Company income statement and balance sheet as at 9 March 2019 is set out below:

Income statement

	52 weeks 09-Mar 2019 (reported) £m	IFRS 16 Impact £m	52 weeks 09-Mar 2019 (restated) £m
Revenue	24,030	-	24,030
Cost of sales ^(a)	(23,030)	434	(22,596)
Gross profit	1,000	434	1,434
Administrative expenses ^(a)	(830)	7	(823)
Other income	6	-	6
Operating profit	176	441	617
Finance income ^(b)	10	2	12
Finance costs ^(a)	(12)	(503)	(515)
Profit before tax	174	(60)	114
Analysed as:			
Underlying profit before tax	318	(57)	261
Non-underlying items	(144)	(3)	(147)
	174	(60)	114
Income tax credit/(expense)	(74)	6	(68)
Profit for the financial period	100	(54)	46

- (a) Adjustments to cost of sales, administrative expenses and finance costs reflect rental expenses under IAS 17 being replaced with interest on lease liabilities and depreciation on right-of-use assets
- (b) Adjustment to finance income relates to interest income on leases where the Company acts as lessor

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 7 March 2020

3 Adoption of IFRS 16 'Leases' (continued)

Balance sheet

	52 weeks to 09-Mar 2019 (reported) £m	IFRS 16 Impact £m	52 weeks to 09-Mar 2019 (restated) £m
Non-current assets			
Property, plant and equipment ^(a)	6,587	(427)	6,160
Right-of-use asset ^(b)	-	7,259	7,259
Intangible assets	169	-	169
Investments in subsidiaries	4	-	4
Investments in joint ventures and associates	23	-	23
Other receivables ^(c)	8	24	32
Derivative financial instruments	1	-	1
Net retirement benefit surplus	1,440	-	1,440
	8,232	6,856	15,088
Current assets			
Inventories	1,077	-	1,077
Trade and other receivables ^(c)	1,126	(35)	1,091
Derivative financial assets	12	-	12
Cash and cash equivalents	271	-	271
	2,486	(35)	2,451
Assets held-for-sale	-	-	-
	2,486	(35)	2,451
Total assets	10,718	6,821	17,539
Current liabilities			
Trade and other payables ^(d)	(3,392)	112	(3,280)
Borrowings ^(e)	(13)	12	(1)
Lease liabilities ^(e)	-	(540)	(540)
Derivative financial instruments	(10)	-	(10)
Taxes payable	(164)	-	(164)
Provisions ^(g)	(37)	9	(28)
	(3,616)	(407)	(4,023)
Net current liabilities	(1,130)	(442)	(1,572)
Non-current liabilities			
Other payables ^(d)	(721)	632	(89)
Borrowings ^(e)	(91)	91	-
Lease liabilities ^(e)	-	(8,662)	(8,662)
Derivative financial instruments	(1)	-	(1)
Deferred income tax liability ^(f)	(357)	263	(94)
Provisions ^(g)	(94)	61	(33)
	(1,264)	(7,615)	(8,879)
Net assets	5,838	(1,201)	4,637
Equity			
Called up share capital	2,900	-	2,900
Other reserves	(5)	-	(5)
Retained earnings	2,943	(1,201)	1,742
Total equity	5,838	(1,201)	4,637

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 7 March 2020

3 Adoption of IFRS 16 'Leases' (continued)

- (a) Reduction in property, plant and equipment reflects previously capitalised direct costs in relation to leases now being included within right-of-use assets, and removal of finance leases recognised under IAS 17
- (b) Recognition of right-of-use assets
- (c) Adjustments to receivables reflect the recognition of lease receivables where the Company sublets leased properties, offset by the removal of any rent prepayments
- (d) Predominantly the removal of any liabilities previously recognised due to lease incentives, along with rent accruals
- (e) Recognition of lease liabilities
- (f) Deferred tax asset recognised on transition
- (g) Predominantly relates to the removal of onerous lease provisions

b. Summary of new accounting policies

The new accounting policies of the Company upon adoption of IFRS 16 are detailed within note 2.

c. Updates to judgements and estimates

New judgements and estimates as a result of adopting IFRS 16 are as disclosed in note 2.

4 Profit before non-underlying items

In order to provide shareholders with additional insight in to the underlying performance of the business, items recognised in reported profit or loss before tax which, by virtue of their size and or nature, do not reflect the Company's underlying performance are excluded from the Company's underlying results.

These adjusted items are as follows:

- Profit on disposal of properties – such disposals are not part of the Group's underlying business
- Non-underlying finance movements – these include fair value remeasurements on derivatives not in a hedging relationship. The fair value measurements are impacted by external market factors and can fluctuate significantly year-on-year. Lease interest on impaired non-trading sites, including site closures, is excluded from underlying profit as those sites do not contribute to the underlying business.
- IAS 19 pension expenses include the financing element and scheme expenses of the Group's defined benefit scheme. These are reported outside underlying profit as they no longer relate to the Group's on-going activities following closure of the scheme to future accrual.
- Other – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance and in the current year include the property strategy programme and retail restructuring programme.

	Cost of sales	Administrative expenses	Other income	Net finance income/(costs)	Total adjustments before tax	Tax	Total adjustments
	£m	£m	£m	£m	£m	£m	£m
Property strategy programme	(107)	(67)	-	-	(174)	16	(158)
Retail restructuring programme	-	(6)	-	-	(6)	1	(5)
Total strategic programmes	(107)	(73)	-	-	(180)	17	(163)
Property, finance, pension, intercompany and investment adjustments							
Profit/(loss) on disposal of properties	-	-	53	-	53	-	53
Non-underlying finance movements	-	-	-	(14)	(14)	3	(11)
Dividend income from investments	-	-	26	-	26	-	26
Recharges to Group Companies	-	2	-	-	2	-	2
IAS 19 pension expenses	-	(6)	-	31	25	37	62
Total property, finance, pension, intercompany and investment adjustments	-	(4)	79	17	92	40	132
Tax adjustments							
Under provision in prior years	-	-	-	-	-	3	3
Revaluation of deferred tax balances	-	-	-	-	-	2	2
Total adjustments	(107)	(77)	79	17	(88)	62	(26)

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 7 March 2020

4 Non GAAP performance measures (continued)

a. Property strategy programme

- A programme of store closures was approved during the year and announced at the Capital Markets Day in September 2019. It was subsequently revisited during the second half of the year resulting in additional planned closures. The Company concluded that as a result of this, an impairment indicator was identified in the year. An impairment charge of £(153) million has been recognised as follows:
 - £(105) million on property, plant and equipment
 - £(34) million on right-of-use assets
 - £(14) million on goodwill allocated to stores.
- £(96) million of the charge is in relation to properties identified for closure. The remaining £(57) million relates to unprofitable and marginally profitable sites not identified for closure for which the cash flows no longer support the carrying amount.
- In addition, store closure costs have been recognised in the period of £(21) million. They comprise £(19) million onerous contract charges and dilapidation costs, and £(2) million of redundancy provisions.

b. Retail restructuring programme

- Restructuring costs of £(6) million in the year mostly comprise redundancy payments following changes to the Company's store management structure, responding to changing customer shopping habits and reducing costs throughout the store estate, prior to the wider store closure programme announced at the Capital Markets Day.
- Also includes costs incurred following announced head-office restructures during the year.

c. Property, finance and pension adjustments

- Profit on disposal of properties for the financial period predominantly relates to the sale of non-trading sites.
- Non-underlying finance movements for the financial year comprised £(14) million for the Company. These are presented separately in note 6.
- Defined benefit pension expenses comprise pension finance income of £31 million and scheme expenses of £(6) million (see note 22). Included in the prior year were £(98) million non-cash past service costs relating to Guaranteed Minimum Pension (GMP) equalisation. Also include in the prior year are £(2) million of pension related expenses incurred directly by the company.

Comparative information

2019 (restated)							
	Cost of sales	Administrative expenses	Other income	Net finance (costs)/ income	Total adjustments before tax	Tax	Total adjustments
	£m	£m	£m	£m	£m	£m	£m
Restructuring costs	-	(15)	-	-	(15)	3	(12)
Argos integration costs	-	(4)	-	-	(4)	1	(3)
Total strategic programmes	-	(19)	-	-	(19)	4	(15)
Property, finance, pension, intercompany and investment adjustments							
Loss on disposal of properties	-	-	(35)	-	(35)	-	(35)
Net Impairment and onerous contract charge	-	(3)	-	-	(3)	-	(3)
Non-underlying finance movements	-	-	-	1	1	-	1
Dividend income from investments	-	-	17	-	17	-	17
Recharges to Group Companies	-	4	-	-	4	-	4
IAS 19 pension expenses	-	(108)	-	(4)	(112)	19	(93)
Total property, finance, pension, intercompany and investment adjustments	-	(107)	(18)	(3)	(128)	19	(109)
Tax adjustments							
Over provision in prior years	-	-	-	-	-	1	1
Revaluation of deferred tax balances	-	-	-	-	-	(13)	(13)
Total adjustments	-	(126)	(18)	(3)	(147)	11	(136)

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 7 March 2020

5 Operating profit

	2020 £m	2019 (restated) £m
Employee costs (note 7)	2,654	2,545
Depreciation expense (note 9 & note 10)	1,066	1,030
Amortisation expense (note 11)	26	20
(Profit)/loss on disposal of properties (note 4)	(53)	35
Foreign exchange (gains)/losses	20	(12)
Impairment charges	153	3

	2020 £m	2019 £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

	2020			2019 (restated)		
	Underlying £m	Non- Underlying £m	Total £m	Underlying £m	Non- Underlying £m	Total £m
Fair value measurements	-	-	-	-	10	10
Intercompany interest income	1	-	1	-	-	-
IAS 19 pension financing income	-	31	31	-	-	-
Finance income on net investment in leases	2	-	2	2	-	2
Finance Income	3	31	34	2	10	12
Borrowing costs:						
Lease liabilities	(497)	(10)	(507)	(506)	(9)	(515)
Fair value measurements	-	(4)	(4)	-	-	-
	(497)	(14)	(511)	(506)	(9)	(515)
Interest capitalised - qualifying assets						
Interest capitalised - qualifying assets	4	-	4	6	-	6
IAS 19 pension financing charge	-	-	-	-	(4)	(4)
Intercompany interest costs	(2)	-	(2)	(2)	-	(2)
	2	-	2	4	(4)	-
Finance costs	(495)	(14)	(509)	(502)	(13)	(515)

Fair value remeasurements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship.

Lease liabilities included £197 million of intercompany interest costs.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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7 Employee costs

	2020 £m	2019 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	2,336	2,264
Social security costs	149	145
Pension costs – defined contribution schemes	138	104
Share-based payments expense	31	32
	2,654	2,545

	2020 Number 000s	2019 Number 000s
The average number of employees, including directors, during the year was:		
Full-time	17.4	28.6
Part-time	127.4	120.1
	144.8	148.7
Full-time equivalent	97.0	97.4

In addition to the above, 988 (2019: 754) full-time employees and 984 (2019: 755) 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

	2020 £m	2019 (restated) £m
Current tax expense:		
Current year UK tax	92	88
Under/(over) provision in prior years	(35)	15
Total current tax expense	57	103
Deferred tax credit:		
Origination and reversal of temporary differences	(31)	(44)
Under/(over) provision in prior years	26	(1)
Revaluation of deferred tax balances	-	10
Total deferred tax expense/(credit)	(5)	(35)
Total income tax expense in income statement	52	68
Analysed as:		
Underlying tax	114	79
Non-underlying tax	(62)	(11)
Total income tax expense in income statement	52	68
Underlying tax rate	43.5%	30.4%
Effective tax rate	30.1%	59.6%

The effective tax rate of 30.1 per cent (2019: 59.6 per cent) is higher than (2019: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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8 Income tax expense (continued)

	2020 £m	2019 (restated) £m
Profit before tax	172	114
Income tax at UK corporation tax rate of 19.0% (2019: 19.0%)	32	22
Effects of underlying items:		
Disallowed depreciation on UK properties	18	20
Under /(over) provision in prior years	(7)	16
Revaluation of deferred tax balances	2	(2)
Group relief claimed	-	(6)
Other	6	2
Deferred rental deductions	45	-
Effects of non-underlying items:		
(Profit) /loss on disposal of properties	(11)	7
Non-taxable dividends received	(5)	(3)
Pension scheme expenses	(42)	-
Property strategy programme	17	-
Under/(over) provision in prior years	(2)	(2)
Revaluation of deferred tax balances	(2)	12
Other	1	2
Total income tax expense in income statement	52	68

The main rate of UK corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017. A further reduction in the corporation tax rate to 17 per cent, effective from 1 April 2020, was substantively enacted in a prior period, so its effect is reflected in these financial statements. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse. A change to the corporation tax rate, so that it remains at 19 per cent rather than reducing to 17 per cent from 1 April 2020, was announced in the 2020 Budget. However, this rate change was not substantively enacted at the balance sheet date, so its effect is not reflected in these financial statements.

It was further announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25 per cent from 1 April 2023.

This change has not yet been substantively enacted. As a result, existing temporary differences on which deferred tax has been provided may unwind in periods subject to the 19 per cent/25 per cent rate. Considering known items that will unwind at 19 per cent, the impact of the post balance sheet date change in tax rate is expected to increase the deferred tax liability by approximately £48 million. The charge will be split between income statement and other comprehensive income

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 07 March 2020				
Current tax recognised in equity or other comprehensive income	-	(6)	-	(6)
Deferred tax recognised in equity or other comprehensive income	-	35	(1)	34
Income tax charged	-	29	(1)	28
52 weeks to 09 March 2019				
Current tax recognised in equity or other comprehensive income	(1)	-	-	(1)
Deferred tax recognised in equity or other comprehensive income	-	225	3	228
Revaluation of deferred tax balances in the income statement	-	(28)	-	(28)
Income tax charged/(credited)	(1)	197	3	199

Sainsbury's Supermarkets Ltd
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8 Income tax expense (continued)

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	Deferred rental deduction £m	Capitalised interest £m	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payments £m	Leases (IFRS16) £m	Other £m	Total £m
At 10 March 2019 (restated)	(133)	62	(1)	39	(24)	(62)	(250)	11	263	1	(94)
Prior year adjustment to income statement	(22)	1	-	-	-	-	-	(7)	-	2	(26)
Prior year adjustment to other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
(Charge)/credit to income statement	5	(2)	-	(39)	-	1	86	1	(16)	(5)	31
(Charge)/credit to equity or other comprehensive income	-	-	1	-	-	-	(35)	-	-	-	(34)
Revaluation adjustment to income statement	(1)	-	-	-	-	-	2	-	(1)	-	-
Revaluation adjustment to equity or other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
At 07 March 2020	(151)	61	-	-	(24)	(61)	(197)	5	246	(2)	(123)
At 11 March 2018 (restated)	(148)	63	2	35	(25)	(62)	(57)	7	257	(1)	71
Prior year adjustment to income statement	2	-	-	-	-	-	-	-	-	-	2
Prior year adjustment to other comprehensive income	-	-	-	-	-	-	-	-	-	(1)	(1)
(Charge)/credit to income statement	14	(1)	-	4	1	-	16	5	6	(1)	44
(Charge)/credit to equity or other comprehensive income	-	-	(3)	-	-	-	(225)	-	-	-	(228)
Revaluation adjustment to income statement	(1)	-	-	-	-	-	(12)	(1)	-	4	(10)
Revaluation adjustment to equity or other comprehensive income	-	-	-	-	-	-	28	-	-	-	28
At 09 March 2019 (restated)	(133)	62	(1)	39	(24)	(62)	(250)	11	263	1	(94)

	2020 £m	2019 (restated) £m
Total deferred income tax liabilities	(435)	(470)
Total deferred income tax assets	312	376
Net deferred income tax liability recognised in non-current liabilities	(123)	(94)

Deferred income tax assets have been recognised in respect of all temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority.

Finance Act 2020 included legislation restricting the amount of chargeable (capital) gains that a company can relieve with its carried-forward capital losses from previous accounting periods. Broadly, a company can now only offset up to 50 per cent of chargeable gains using carried-forward capital losses that are not subject to any wider restrictions. The change was not substantively enacted at the balance sheet date.

The company's carried forward unrestricted capital losses were fully recognised at 7 March 2020. The changes to the tax law will require a reduction in the recognition of deferred tax assets in future periods. The approximate impact of this is expected to be £30 million

9 Property, plant and equipment

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 10 March 2019 (restated)	5,941	4,538	10,479
Additions	167	465	632
Disposals	(92)	(153)	(245)
Transfer from/(to) asset held for sale	(2)	-	(2)
At 7 March 2020	6,014	4,850	10,864
Accumulated depreciation and impairment			
At 10 March 2019 (restated)	1,410	2,909	4,319
Depreciation expense for the year	129	404	533
Impairment loss for the year	76	29	105
Disposals	(19)	(152)	(171)
At 7 March 2020	1,596	3,190	4,786
Net book value at 7 March 2020	4,418	1,660	6,078
Capital work-in-progress included above	129	229	358

Interest capitalised

Interest capitalised included in additions amounted to £4 million (2019: £6 million). Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £282 million (2019: £283 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.1 per cent (2019: 4.1 per cent).

Details of the impairment charges are included in note 4.

10 Leases

Group as lessee

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

	Land and buildings £m	Equipment £m	Total £m
Net book value			
At 10 March 2019 (restated)	7,031	228	7,259
Additions ¹	1,200	103	1,303
Depreciation charge	(461)	(72)	(533)
Impairment charge	(34)	-	(34)
At 7 March 2020	7,736	259	7,995
At 11 March 2018 (restated)	6,980	224	7,204
Additions ¹	490	74	564
Depreciation charge	(439)	(70)	(509)
At 9 March 2019 (restated)	7,031	228	7,259

¹ Additions include cash and non-cash indirect costs and are offset by terminations which occurred during the period.

Details of the impairment charges are included within note 4.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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10 Leases (continued)

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

	2020 £m	2019 £m
At 10 March 2019 and 11 March 2018	9,202	9,097
Additions	1,328	562
Interest expense	507	515
Payments	(944)	(972)
At 7 March 2020 and 9 March 2019	10,093	9,202
Current	561	540
Non-current	9,532	8,662

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, lease extensions, terminations and the exercise of lease breaks.

As a result of the Capital Markets Day and associated store rationalisation programme announced in September 2019, the Company revisited its assumptions about the way that lease breaks will be exercised across the portfolio, and as a result reassessed lease terms across a number of properties to only include the period to lease break. This resulted in a decrease in the lease liability and right of use asset. In conjunction with store rationalisation, the Company has been actively pursuing lease extension opportunities across well-performing supermarket sites. This ensures key stores remain in the portfolio as the Company seeks to open more Argos store-in-stores within its supermarkets, as well as increasing its online capacity through its in-store picking model. The extension options recognised in the period increased the lease liability and right of use asset as a result of committing to future additional rental payments, as well as reflecting updated discount rates which were typically lower than those previously used. The modifications are included within additions above.

The following are the amounts recognised in profit or loss:

	2020 £m	2019 £m
Depreciation of right-of-use assets	(533)	(509)
Interest on lease liabilities	(507)	(515)
Variable lease payments not included in the measurement of lease liabilities	(1)	(1)
Finance income from sub-leasing of right-of-use assets	2	2
Operating sublet income	45	48
Expenses relating to short term leases	(2)	(4)
Expenses relating to leases of low value assets	(7)	(8)
Total amount recognised in profit or loss	(1,003)	(987)
Total cash outflow for leases	(954)	(983)

There were no leases with residual value guarantees nor leases not yet commenced to which the Company is committed. The Company does not hold any leases as investment properties under IAS 40. All right-of-use assets are recognised on a historical cost convention.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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10 Leases (continued)

Maturity analysis

Lease liabilities:

	2020 £m	2019 £m
Contractual undiscounted cash flows		
Less than one year	1,015	868
One to five years	3,654	3,218
More than five years	15,290	10,754
Total undiscounted lease liability	19,960	14,840
Lease liabilities included in the statement of financial position	10,093	9,202
Current	561	540
Non-current	9,532	8,662

The Company is committed to payments totalling £38m (2019: £86m) in relation to leases that have been signed but have not yet commenced.

Group as lessor

The below tables sets out the maturity analysis of lease receivables classified as operating leases:

	2020 £m	2019 £m
Less than one year	16	16
One to two years	14	16
Two to three years	12	14
Three to four years	10	12
Four to five years	9	10
More than five years	50	58
Total undiscounted lease payments receivable	111	126

The finance lease receivable (net investment in the lease) included in other receivables is £25m (2019: £33m).

11 Intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 10 March 2019	89	113	202
Additions	-	53	53
Disposals	-	(13)	(13)
At 7 March 2020	89	153	242
Accumulated amortisation and impairment			
At 10 March 2019	-	33	33
Amortisation expense for the year	-	26	26
Impairment loss for the year	14	-	14
Disposals	-	(12)	(12)
At 7 March 2020	14	47	61
Net book value at 7 March 2020	75	106	181

Goodwill comprised of:

	2020 £m	2019 £m
Bells Stores Limited	17	19
Jacksons Stores Limited	45	51
Other	13	19
	75	89

11 Intangible assets (continued)

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 Company identified an impairment indicator during the period following an approved programme of store closures during the year. This programme was initially announced at the Capital Markets Day in September. It was subsequently revisited during the second half of the year resulting in additional planned closures. An impairment charge of £(14) million in relation to goodwill allocated to stores was recognised (2019: £nil). Subsequently, the value of the remaining goodwill was tested for impairment during the current financial year by means of comparing

the recoverable amount of each CGU or group of CGUs with the carrying value of the unit. The calculation of the Retail CGU's value in use is calculated on the cash flows expected to be generated by the stores using the same assumptions as detailed in the Group accounts on pages 140 to 142.

The carrying amounts and respective headroom are shown in the Group accounts on pages 140 to 142. Sensitivity analysis on the impairment tests for each group of cash generating units to which goodwill has been allocated has been performed. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill. Management are satisfied that there are no reasonable changes to assumptions that would lead to an impairment

12 Investments in subsidiaries

	2020	2019
	£m	£m
Beginning of the year	4	4
Additions	355	-
End of the year	359	4

Additions arose as a result of the Company's new asset backed contribution scheme (refer note 22 for more information).

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
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 2020.

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12 Investments in subsidiaries (continued)

The following subsidiaries were dissolved in the year (or following the year-end where indicated):

Entity	Country of registration or incorporation	Share of ordinary allotted capital and voting rights	Holding	Post year-end dissolved date
Portfolio Investments Ltd	England	100.00%	Direct	

During the year, a provision of £nil (2019: £nil) was made against investments in subsidiaries where the carrying value exceeded the recoverable amount.

13 Investments in joint ventures and associates

	2020 £m	2019 £m
At the beginning of the year	23	18
Additions in year	-	5
Disposals	(21)	-
At the end of the year	2	23

Disposals arose as a result of the return of capital from the Harvest 2 Limited Partnership joint venture.

The joint ventures directly owned by the Company were:

	Year-end	Share of ordinary allotted capital	Country of registration or incorporation	Address ¹
Harvest 2 Limited Partnership	31-Mar	50%	UK	100 Victoria Street
Nectar 360 Services LLP	31-Mar	50%	UK	33 Holborn
3BW Limited	31-Mar	50%	UK	33 Holborn

¹ See full address on page 193 of the J Sainsbury plc Annual Report 2020.

14 Inventories

	2020 £m	2019 £m
Goods held for resale	990	1,077

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 7 March 2020 was £18,304 million (2019: £18,257 million).

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

(a) Trade and other receivables

	2020	2019
	£m	(restated) £m
Non-current		
Other receivables	24	24
Prepayments and accrued income	7	8
	31	32
Current		
Trade receivables	71	89
Amounts owed by Parent company	805	503
Amounts owed by Group entities	477	337
Other receivables	94	100
	1,447	1,029
Prepayments and accrued income	69	62
	1,516	1,091

Trade receivables are non-interest bearing and are on commercial terms. Other receivables of £118 million (2019 restated: £124 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 £805 million are denominated in sterling and are non-interest bearing. Current amounts owed by other Group entities of £317 million (2019 restated: £337 million) are denominated in sterling and non-interest bearing. The remaining £160 million (2019: £nil) 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.

(b) Major counterparties

Major counterparties are identified as follows:

	2020	2020	2019	2019
	Number of	Balance	Number of	Balance
	counterparties	£m	counterparties	£m
Other receivables	1	18	-	-
Parent company	1	805	1	503
Other Group entities	8	476	6	307

The Company's exposure to credit risk on amounts owed by the Parent and other Group companies is considered minimal and is managed by the Group.

No major counterparty balances are considered overdue or impaired.

16 Assets and liabilities held for sale

	2020	2019
	£m	£m
Assets held for sale		
Retail segment properties	2	-

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
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17 Trade and other payables

	2020 £m	2019 (restated) £m
Current		
Trade payables	2,483	2,551
Amounts owed to Parent company	322	-
Amounts owed to other Group entities	238	108
Other payables	263	339
Accruals and deferred income/gains	322	282
	3,628	3,280
Non-current		
Accruals and deferred income/gains	20	89
	20	89

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 £322 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 £189 million (2019 restated: £56 million) are denominated in sterling and non-interest bearing. The remaining £49 million (2019: £52 million) are interest bearing at an interest rate of 12 month LIBOR plus 1.0 per cent (2019: 12 month LIBOR plus 1.0 per cent). All amounts are repayable on demand.

18 Borrowings

	2020			2019 (restated)		
	Current £m	Non- Current £m	Total £m	Current £m	Non- Current £m	Total £m
Bank overdrafts	10	-	10	1	-	1
Total borrowings	10	-	10	1	-	1

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

19 Provisions

	Onerous contracts £m	Insurance provisions £m	Restructuring £m	Other provisions £m	Total £m
At 10 March 2019 (restated)	14	29	5	13	61
Additional provisions	25	19	3	5	52
Unused amounts reversed	(2)	-	-	(10)	(12)
Utilisation of provision	(3)	(16)	(7)	-	(26)
At 7 March 2020	34	32	1	8	75
At 11 March 2018 (restated)	12	23	135	10	180
Additional provisions	8	21	2	11	42
Unused amounts reversed	(2)	-	-	-	(2)
Utilisation of provision	(4)	(15)	(132)	(8)	(159)
At 9 March 2019 (restated)	14	29	5	13	61
	2020				2019 (restated)
	£m				£m
Disclosed as:					
Current	26				28
Non Current	49				33
	75				61

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

Provisions for onerous contracts are recognised where expected cash outflows exceed the anticipated future benefits. The amounts provided are based on the Company's best estimate of the likely committed outflow, net of anticipated future benefits. Upon adoption of IFRS 16, these provisions no longer include rent, however do include unavoidable costs related to the lease, such as service charges and business rates. The charge for the year is predominantly in relation to site closures announced during the year.

The insurance 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.

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.

Other provisions includes provisions for warranties and long service awards.

20 Called up share capital

	2020 million	2019 million	2020 £m	2019 £m
Called up share capital				
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 10 March 2019 (as previously reported)	2,666	277	2,943	(5)	(5)
Cumulative adjustment to opening balance on adoption of IFRS 16	(1,201)	-	(1,201)	-	-
At 10 March 2019 (restated)	1,465	277	1,742	(5)	(5)
Profit for the year	120	-	120	-	-
Remeasurements on defined benefit pension schemes (net of tax)	-	(60)	(60)	-	-
Cash flow hedges effective portion of fair value movements (net of tax)	-	-	-	4	4
Items reclassified from cash flow hedge reserve	-	-	-	(9)	(9)
Share-based payment (net of tax)	31	-	31	-	-
At 7 March 2020	1,616	217	1,833	(10)	(10)
At 11 March 2018 (as previously reported)	2,535	(706)	1,829	(17)	(17)
Cumulative adjustment to opening balance on adoption of IFRS 16	(1,147)	-	(1,147)	-	-
At 11 March 2018 (restated)	1,388	(706)	682	(17)	(17)
Profit for the year	46	-	46	-	-
Remeasurements on defined benefit pension schemes (net of tax)	-	983	983	-	-
Cash flow hedges effective portion of fair value movements (net of tax)	-	-	-	29	29
Items reclassified from cash flow hedge reserve	-	-	-	(17)	(17)
Share-based payment (net of tax)	31	-	31	-	-
At 9 March 2019	1,465	277	1,742	(5)	(5)

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

Background

At 7 March 2020, retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme as well as unfunded pension liabilities relating to senior former employees of Sainsbury's.

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 valuations (see below) for known events and changes in market conditions as allowed under IAS 19 'Employee Benefits'. Assets are valued at bid price and are held separately from the Company's assets.

Sainsbury's Scheme

The Scheme has three different benefit categories: final salary, career average and cash balance. For final salary and career average members, benefits at retirement are determined by length of service and salary. For cash balance members, benefits are determined by the accrued retirement account credits.

The Scheme was closed to new employees on 31 January 2002 and closed to future benefit accrual on 28 September 2013. The Scheme is also used to pay life assurance benefits to current (including new) colleagues.

Triennial valuation

In these financial statements the Company accounts for pension costs in accordance with IAS 19 'Employee Benefits'. Under this standard, the difference between the fair values of scheme assets and the present value of scheme liabilities is reported as a surplus or deficit in the balance sheet. The accounting value is different from the result obtained using the triennial funding basis.

The accounts show a surplus compared to the deficit in the triennial funding valuation. The main reason for this is the different assumptions used to value the liabilities in the accounting and triennial funding valuations. The triennial funding valuation assumptions are used to determine the contributions that the Company is required to pay into the Scheme to ensure that the Scheme has sufficient assets to pay all the benefits due in future. Regulations require that the triennial funding assumptions are set conservatively. These assumptions therefore place a relatively high value on the Scheme's liabilities. By contrast, the IAS 19 accounting standard requires all companies to value their pension scheme liabilities on 'best estimate' assumptions. This approach places a lower value on pension scheme liabilities and results in a more favourable financial position.

The Scheme was subject to a triennial actuarial valuation, carried out by Willis Towers Watson for the Trustee, as at 30 September 2018 on the projected unit basis and a recovery plan was agreed. On the basis of the assumptions agreed, the actuarial deficit at 30 September 2018 was £309 million.

Under the revised funding plan, Sainsbury's established a new property partnership - Sainsbury's Thistle Scottish Limited Partnership ("The Partnership") with the Scheme on 17 July 2019. This replaced the existing property partnership (Sainsbury's Property Scottish Partnership) which is now a wholly owned subsidiary of the Company. The investment held by the Scheme in the Partnership qualifies as a plan asset for the purposes of the Company's financial statements and is therefore included within the fair value of plan assets.

In respect of the establishment of the Partnership, Sainsbury's Supermarkets Ltd made contributions totalling £356 million to the merged pension scheme. Properties were transferred into a newly formed property holding company (Sainsbury's Property Holdings Ltd) from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. These will be leased by the Company under a 40 year arrangement. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership.

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

- 1) Payments to the Sainsbury's section (approximately £15 million per year)
- 2) Payments to the Argos section (recognised in Argos Limited, another Group company, approximately £20 million per year)
- 3) 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, further cash contributions of £40 million have been agreed in FY2021 (of which £10 million relates to the Sainsbury's section) and £10 million in FY2022. No additional cash contributions have been agreed for subsequent years.

22 Retirement benefit obligations (continued)

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. Once that funding target is achieved, payments switch to the Argos section. Payments continue until 2038 or until both sections have reached their funding targets, if earlier.

IFRIC 14

IFRIC 14 is the interpretation that details when a company can recognise any pension surplus that exists. Furthermore, if the Company has a funding commitment in excess of the IAS 19 deficit, then IFRIC 14 requires recognition of this excess in those circumstances when the surplus that would result on fulfilling that commitment cannot be recognised. A surplus may be recognised either because of an unconditional right to a refund to the Company, or on grounds of a future contribution reduction where schemes are still open to future accrual.

For the Sainsbury's pension scheme, 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.

Unfunded pension liabilities

The unfunded pension liabilities are unwound when each employee reaches retirement and takes their pension from the Group 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:

	2020	2019
	£m	£m
Excluded from underlying profit before tax:		
Interest cost on pension liabilities ¹	(211)	(242)
Interest income on plan assets	242	238
Total included in finance income/(costs) (note 6)	31	(4)
Defined benefit pension scheme expenses	(6)	(8)
Past service cost	-	(98)
Total excluded from underlying profit before tax (note 4)	(6)	(106)
Total income statement credit/(expense)	25	(110)

¹ Includes interest of £1 million for the unfunded pension scheme (2019: £1 million).

Past service amounts

On 26 October 2018, the High Court ruled in the landmark Lloyds Banking Group case on Guaranteed Minimum Pensions (GMPs). The judgement requires equalisation between men and women for the effect of unequal GMPs. The Company worked with the Trustee of the Scheme and independent actuaries and estimated the cost of equalising benefits at £98m for the Sainsbury's section.

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22 Retirement benefit obligations (continued)

b) Other comprehensive income

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

	2020	2019
	£m	£m
Return on plan assets, excluding amounts included in interest	1,301	131
Actuarial (losses)/gains arising from changes in:		
Finance assumptions ¹	(1,421)	(67)
Demographic assumptions ²	(25)	504
Experience ³	114	612
Total actuarial (losses)/gains	(1,332)	1,049
Total remeasurements	(31)	1,180

¹ Includes £3 million loss for the unfunded pension scheme (2019: £nil gain).

² Includes £nil gain for the unfunded pension scheme (2019: £1 million gain).

³ Includes £3 million gain for the unfunded pension scheme (2019: £nil gain).

c) Valuations

The movements in the net defined benefit obligations are as follows:

	2020	2019
	£m	£m
As at the beginning of the year	1,440	367
Interest income/(costs)	31	(4)
Remeasurement (losses)/gains	(31)	1,180
Pension scheme expenses	(6)	(8)
Contributions by employer	376	3
Past service (charge)/credit	-	(98)
Disposal of interest in property partnership	(355)	-
As at the end of the year	1,455	1,440

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

	2020	2019
	£m	£m
As at the beginning of the year	(7,675)	(8,762)
Interest cost	(211)	(242)
Remeasurement (losses)/gains	(1,332)	1,049
Benefits paid	283	378
Past service (charge)/credit	-	(98)
As at the end of the year	(8,935)	(7,675)
Analysed as:		
Retirement benefit obligations	(8,914)	(7,654)
Unfunded obligations	(21)	(21)

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

	2020	2019
	£m	£m
As at the beginning of the year	9,115	9,129
Interest income on plan assets	242	238
Pension scheme expenses	(6)	(8)
Remeasurement gains	1,301	131
Contributions by employer	376	3
Benefits paid	(283)	(378)
Disposal of interest in property partnership	(355)	-
As at the end of the year	10,390	9,115

22 Retirement benefit obligations (continued)

Risks associated with the Company's defined benefit pension schemes

The defined benefit schemes expose the Company to a number of risks as detailed below:

Risk	Description	Mitigation
Asset volatility	Returns on assets that vary from the discount rate create funding level volatility. The scheme holds a significant proportion of growth assets such as equities and real estate. Whilst growth assets are expected to outperform corporate bond yields over the long term this might not always occur in the short term.	<p>Diversification of non-matching assets (equities, real estate and emerging market debt) reduces volatility and is expected to outperform the discount rate in the long term</p> <p>The equity portfolios are invested passively and diversified between UK and overseas markets, including both emerging markets and smaller companies in order to track global economic growth by replicating global equity capitalisation. Asset volatility is therefore mitigated by investing in as many companies as possible. The Scheme has for some time been reducing equity.</p> <p>All other assets are invested actively and are widely diversified to reduce returns risk and enhance returns.</p>
Currency	The Schemes' liabilities are sterling based whereas the majority of investments are denominated in foreign currencies.	Currency risk is hedged by investing in currency hedging programmes which hold currency derivatives to help dampen returns volatility caused by the fluctuation of sterling against other leading currencies.
Changes in bond yields	A decrease in bond yields, which in turn drive the discount rate, will increase the present value of the Schemes' liabilities for accounting purposes.	A significant proportion of assets are held in corporate bonds that provide a hedge against falling bond yields. Furthermore significant levels of interest rate hedging within the Schemes' liability hedging portfolios through interest rate derivatives serve to protect against falling bond yields. Over the last twelve months, the Scheme has increased the interest rate and inflation hedging to 90% of liabilities and will extend the interest rate hedge to cover the front twenty-five years of all cashflows in the target hedge.
Inflation	The majority of the Schemes' liabilities are linked to UK price inflation indices (to a maximum of five per cent per year).	The investment strategy includes investing in liability-driven investments. These portfolios hedge significant proportions of inflation liabilities by holding index linked bonds and inflation rate derivatives. The Schemes' equity portfolio provides a natural hedge against inflation.
Longevity	Beneficiaries living longer than expected could increase the Scheme's liabilities.	The Trustee and the Company have agreed a joint review of the Scheme's longevity risk.
Operational	Poor administration of benefits may result in an increased defined benefit obligation in future years.	The Schemes' benefits administrators have agreed service level agreements and controls are carefully monitored.

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22 Retirement benefit obligations (continued)

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

	Quoted 2020 £m	Unquoted1 2020 £m	Quoted 2019 £m	Unquoted1 2019 £m
Equity				
Public2	778	-	839	-
Private	-	317	-	322
Bonds3				
Government Bonds	1,639	-	1,621	-
Corporate Bonds	4,407	91	3,752	(51)
Emerging Market Bonds	445	1	395	(6)
Derivatives4	254	567	-	743
Alternatives				
Real Estate	-	920	-	858
Private Debt	-	534	-	433
Diversified Growth	-	245	-	-
Cash and Cash equivalents	212	(20)	211	(2)
	7,735	2,655	6,818	2,297

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. Quoted equities – circa 70% of the Scheme's equities are invested in publically quoted, highly liquid securities across developed markets. The remainder are invested in smaller companies and Emerging Markets.
3. Bonds – circa 89% of the Scheme's bonds are invested in investment grade credit. The remainder are below investment grade.
4. 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, £4,025 million are denominated in sterling and £6,365 million are denominated in overseas currencies.

d) Assumptions

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

Assumptions		
The principal actuarial assumptions used at the balance sheet date are as follows:		
	2020 %	2019 %
Discount rate	1.6	2.8
RPI inflation rate	2.7	3.2
CPI inflation rate	1.7	2.2
Future pension increases	1.65 - 2.70	2.00 - 3.05

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements are CMI 2018 projections with a long-term rate of improvement of 1.25 per cent per annum.

22 Retirement benefit obligations (continued)

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

	2020		2019	
	Sainsbury's section Main Scheme	Sainsbury's section Executive Scheme	Sainsbury's section Main Scheme	Sainsbury's section Executive Scheme
Male pensioner	20.0	24.1	19.8	24.0
Female pensioner	23.7	25.2	23.5	25.1

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

	2020		2019	
	Sainsbury's section Main Scheme	Sainsbury's section Executive Scheme	Sainsbury's section Main Scheme	Sainsbury's section Executive Scheme
Male pensioner	21.3	25.4	21.1	25.3
Female pensioner	25.2	26.7	25.0	26.5

e) Sensitivities

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 change in the retirement benefit obligation 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
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	829
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	954
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	633
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	570

f) Future benefit payments

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

	2020 £m
Within the next 12 months (next annual reporting period)	170
Between 2 and 5 years	788
Between 6 and 15 years	3,098
Between 16 and 25 years	3,796
Beyond 25 years	5,790
Total expected payments	13,642

23 Share-based payments

The Company recognised £31 million (2019: £32 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £nil (2019: £1 million) 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 184 to 187.

a) Savings-Related Share Option Scheme (Sharesave)

The Group 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 Group's employment at the end of the three-year or five-year savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price.

Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving. A reconciliation of Sharesave option movements is shown below:

	2020		2019	
	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	51.3	210.2	68.5	196.0
Opening adjustment	-	-	(8.6)	-
Granted	20.5	161.0	13.5	260.0
Forfeited	(14.0)	223.2	(12.4)	206.5
Exercised	(6.0)	189.2	(9.7)	205.4
Outstanding at the end of the year	51.8	190.1	51.3	210.2
Exercisable at the end of the year	5.3	194.4	5.5	224.6
Exercisable price range	185 to 332		184 to 332	

The weighted average share price for options exercised over the year was 211 pence (2019: 268 pence). The weighted average remaining contractual life of options outstanding at 7 March 2020 was 2.2 years (2019: 2.1 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:

	2020	2019
Share price at grant date (pence)	220	300
Exercise price (pence)	161	260
Expected volatility		
– 3 year period (%)	26.1	24.5
– 5 year period (%)	27.8	26.9
Option life		
– 3 year period (years)	3.2	3.2
– 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	2.9	3.5
Risk-free interest rate		
– 3 year period (%)	0.6	0.9
– 5 year period (%)	0.7	1.3
Fair value per option		
– 3 year period (pence)	59	53
– 5 year period (pence)	62	62

The expected volatility is based on the standard deviation of the parent 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.

23 Share-based payments (continued)

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 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will then be released one year after the vesting date. Options granted to acquire the award of shares will expire five years from the grant date.

For Executive Directors, awards will normally be subject to a two-year retention 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

	2020	2019
	million	million
Outstanding at the beginning of the year	7.6	7.2
Opening adjustment	-	(1.0)
Conditionally allocated	6.0	3.6
Released to participants	(3.6)	(1.9)
Lapsed	(1.5)	(0.3)
Outstanding at the end of the year	8.5	7.6

The weighted average remaining contractual life of share options outstanding at 7 March 2020 was 1.5 years (2019: 1.4 years).

Details of shares conditionally allocated at 7 March 2020 are set out below:

Date of conditional award	2020	2019
	million	million
15 May 2014 (2014 Future Builder)	-	0.2
14 May 2015 (2015 Future Builder)	0.2	1.4
12 May 2016 (2016 Future Builder)	1.6	1.7
11 May 2017 (2017 Future Builder)	1.8	2.1
11 May 2018 (2018 Future Builder)	1.9	2.2
9 May 2019 (2018 Future Builder)	3.0	-
	8.5	7.6

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:

	2020	2019
Share price at grant date (pence)	219	301
Option life (years)	3 or 4	3 or 4
Fair value per option (pence)	219	301

During the year, a total number of 3.6 million shares were exercised (2019: 1.9 million shares). The weighted average share price during the year for options exercised was 213 pence (2019: 303 pence).

23 Share-based payments (continued)

ii) Deferred Share Award

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. Dividend equivalents 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:

	2020	2019
	million	million
Outstanding at the beginning of the year	3.2	3.4
Opening adjustment	-	(0.3)
Granted	2.3	2.0
Forfeited	(1.4)	(1.8)
Exercised	(0.7)	(0.1)
Outstanding at the end of the year	3.4	3.2

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

	2020	2019
	million	million
11 May 2018	1.5	1.4
09 May 2019	1.9	1.8
	3.4	3.2

The weighted average remaining contractual life of share options outstanding at 7 March 2020 was 0.6 years (2019: 0.6 years). The weighted average share price during the year for options exercised was 215 pence (2019: 301 pence).

iii) Bonus Share Award

The bonus arrangements for our senior managers and supermarket store managers include corporate and personal performance targets. A profit gateway is in place where a certain level of underlying profit before tax must be achieved before any bonus related to the corporate element of the bonus is released.

60 per cent of the bonus is paid in cash and 40 per cent awarded in shares. They are automatically released after three financial years. Shares are subject to forfeiture if the participant resigns or is dismissed.

Dividend equivalents accrue on these shares and are released at the end of the three-year retention period.

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

	2020	2019
	million	million
Outstanding at the beginning of the year	10.0	10.2
Opening adjustment	-	(1.0)
Granted	7.1	4.2
Exercised	(4.9)	(2.7)
Forfeited	(1.3)	(0.7)
Outstanding at the end of the year	10.9	10.0

23 Share-based payments (continued)

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

	2020 million	2019 million
13 May 2016	-	4.1
12 May 2017	1.9	2.2
11 May 2018	3.1	3.7
09 May 2019	5.9	-
	10.9	10.0

The weighted average remaining contractual life of share options outstanding at 7 March 2020 was 1.4 years (2019: 1.0 years). The weighted average share price during the year for options exercised was 225 pence (2019: 246 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:

	2020 £m	2019 £m
Dividends and distributions received	6	-
Investment in joint ventures and associates	-	(5)
Disposals of joint ventures	21	-
Rental expenses paid	(6)	(38)

As at 7 March 2020 there were nil year end balances arising from transactions with joint ventures and other related parties.

25 Capital commitments

During the current financial year, the Company entered into contracts of £74 million (2019: £75 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 approximately 5,500 claims brought by current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. Typically, claims of this nature can take many years to be determined. Given that the claims against the Company are still at a relatively early stage and the outcome of such claims is highly uncertain at this stage, the Group considers the likelihood of a material payout to be remote.

27 Post balance sheet events

COVID-19

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of infections across many countries. As detailed in note 2 it has been concluded that none of the conditions at the balance sheet date indicated that any adjustments would be required to the Company's financial statements. However, given the significance of these events, further disclosure is provided below indicating where there may be material changes in the Company's judgements and estimates impacting the balance sheet as at 7 March 2020.

Impairment of non-current assets

Details of the Company's impairment methodology and assumptions are consistent with those disclosed in note 17 of the Group's annual report.

27 Post balance sheet events (continued)

The Group has carried out sensitivity analyses, including on forecast cash flows, for its portfolio of stores and goodwill as part of the impairment review conducted during the year. These are as disclosed in the Group annual report in notes 16 and 17. As the pandemic continues to progress and evolve, it is challenging at this time to predict the full extent and duration of its business and economic impact. For Sainsbury's stores, additional instore costs and reduction in general merchandise and clothing sales since the balance sheet date have partially been offset by grocery sales growth. The Company has remained profitable and anticipates continued grocery sales growth as the pandemic continues to progress and evolve. It is therefore not anticipated that the resulting cash flow impacts will cause material impairment charges on the Company's non-current assets.

Pension surplus

The defined benefit pension scheme (the Scheme) has been affected by the impact of COVID-19 on financial markets and the global economy.

When considering the ongoing funding of the Scheme, the exposure to falling asset values has been reduced as a result of the continued reduction in equities held in recent years. Additional mitigations of risks associated with the Group's defined pension scheme are included within note 35 and remain valid in the current economic environment.

Note 22 includes detail of the Company contributions which are set by the Trustee's triennial valuation and will not be impacted by COVID-19. The contributions framework allows for short-term changes in volatility, so the Scheme can continue its longer-term journey to being funded on a low dependency basis, giving members a greater level of security.

Inventory

The inventory provisions in the Company's General Merchandise and Clothing areas have been reviewed for post year-end changes in expected net realisable value, driven by changes in customer buying behaviour as a result of COVID-19. All inventory provisioning requires judgement, and is based on a number of factors including current and expected sales performance, stock cover, current trends and changes in technology. Following the review it is not anticipated that further material provisioning is required against the inventory held at the balance sheet date of 7 March 2020.

Restructuring programmes and impairment of non-financial assets

Subsequent to the Company's year-end, it was agreed to accelerate the structural integration of Sainsbury's and Argos. The Group is creating a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos. As a result of this, a number of existing depots are closing. Further, the Group has reviewed its Store Support Centre ways of working and as a result is reducing its office space.

Further opportunities to rationalise the Company's supermarkets, convenience estate have been identified, building on the property strategy programme that was announced at the Capital Markets Day in September 2019. At that time it was communicated that 10 to 15 supermarkets and 30 to 40 convenience stores would close. It is now expected that 15 to 20 supermarkets and 55 to 65 convenience stores will close or be sold.

In addition to the above, subsequent to the Company's year-end a review of the economic performance of the Company's assets was performed as a result of store rationalisation, changes in channel mix, and changes in customer shopping habits. In line with IAS 36 'Impairment of non-financial assets', this was deemed an indicator of impairment and a full impairment review was therefore performed.

As a result of the restructuring programmes and impairment review noted above, an impairment charge of circa. £150 million, closure provisions of circa. £95 million, redundancy provisions of circa. £40 million and consultancy provisions of circa. £10 million have been recognised by the Company subsequent to the balance sheet date. The impairments have been recognised across property, plant and equipment, intangible assets and right of use assets.