

# Sainsbury's Supermarkets Ltd

## Annual Report and Financial Statements

For the 52 weeks to 6 March 2021



### **Principal activities and review of business**

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

J Sainsbury plc (the Group) of which the Company forms a part has seen a year of good progress against its strategy. The Group delivered a strong operating performance with grocery sales up 7.8 per cent, general merchandise sales up 8.3 per cent and digital sales up 102 per cent.

A full review of the business and the market can be found in the 2021 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/ar2021](http://www.about.sainsburys.co.uk/ar2021)

Revenue for the Company decreased to £23,823 million for the financial year (2020: £24,059 million), with strong growth in grocery and general merchandise sales offset by a material reduction in fuel sales and a decline in clothing sales. Grocery growth was driven by increased consumption of food at home as a result of the COVID-19 pandemic and increased online capacity. The Company generated an underlying loss before tax of £(41) million (2020: underlying profit before tax £260 million), driven by significant COVID-19 costs.

The loss before tax of the Company is £(90) million (2020: profit before tax £172 million) and the loss after tax for the financial year is £(125) million (2020: profit after tax £120 million). The financial position as at 6 March 2021 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 in promoting the long-term success of the Company.

The Board believes that it has acted in accordance with Section 172(1) of the Companies Act 2006 during the year ended 6 March 2021. This requires each Director to act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, have regard to the interest of other stakeholders, whilst maintaining high standards of business conduct.

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

Pages 5 to 8, as well as pages 19 to 22 of the Group's Annual Report, provide information on how the Board and Directors engage with our stakeholders.

### **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 32 to 43 of the Group's Annual Report, which does not form part of this report.

### **Financial risk management**

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

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

#### ***Liquidity risk***

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

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

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 Group's Revolving Credit Facility held at Group 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 6 March 2021, the Revolving Credit Facility was undrawn. In addition, the Group maintains uncommitted facilities of £195 million to provide additional capacity to fund short-term working capital requirements. The uncommitted facilities were undrawn at 6 March 2021.

#### *Credit risk*

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

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

#### *Market Risk*

##### *a. Foreign currency risk*

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

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

##### *b. Interest rate risk*

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

##### *c. Commodity risk*

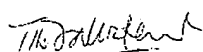
Commodity risk is the risk of increased costs arising from unexpected movements in commodity prices impacting the Company's own use consumption of electricity, gas and diesel.

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 24 to 25 of the Group's Annual Report, which does not form part of this report.

By order of the Board



Tim Fallowfield

**Director**

8 December 2021

**Sainsbury's Supermarkets Ltd**  
**Directors report**  
**for the 52 weeks to 6 March 2021**  
**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 6 March 2021. The prior financial year's financial statements were for the 52 weeks to 7 March 2020.

**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  
Paul Mills-Hicks (resigned on 31 January 2021)  
James Brown  
Kevin O'Byrne  
Phil Jordan  
Simon Roberts  
Clodagh Moriarty  
Mark Given (appointed on 1 June 2020)  
Rhian Bartlett (appointed on 14 June 2021)  
Paula Nickolds (appointed on 14 June 2021)

**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 2020/21, which was renewed for 2021/22. 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 17 of the Annual Report and Financial Statements 2021 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 19 to 22 of the Group annual report.

**Ethical policies**

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

### **Corporate responsibility and Sustainability**

The Company's parent has developed a wide variety of projects and policies to meet the needs of stakeholders under the heading 'Corporate Responsibility and Sustainability Committee Report'. Further details can be found on page 62 of the Group Annual Report, which does not form part of this report.

### **Donations**

The Company made no political donations in 2021 (2020: £nil). See page 88 of the Group Annual Report, which does not form part of this report, for details of J Sainsbury plc and its subsidiaries' (the 'Group's') political donations.

### **Essential contracts**

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

### **Financial risk management**

This is discussed in the Strategic Report on page 2.

### **Wates Corporate Governance Principles**

The Company is a wholly-owned subsidiary of J Sainsbury plc and our governance and business decisions are integrated with J Sainsbury plc and its subsidiaries (the 'Group'). For the year ended 6 March 2021, 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 was involved in developing the Group's purpose and strategic priorities. Details of the which can be found on pages 7 to 18 of the Group's Annual Report.

The Board has reviewed culture, including receiving feedback from colleague listening groups and 'We're Listening' and other surveys, which provided a snapshot of how colleagues across the business felt. It also examined how the business responded positively and at pace to the impact of the pandemic, including faster decision-making, greater empowerment and a renewed collective pride. Using this insight, the Board have explored ways to align culture to its updated strategy, particularly focusing on decision pace and accountability, values and leadership, and performance edge and prioritisation.

#### **Principle 2 - Board composition**

As at 6 March 2021, the Board consisted of eight 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.

### **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. During the year, the governance of inclusion became a regular part of the Group's Business Performance Review (BPR) agenda. Diversity is promoted at Board level and the balance amongst Directors is continuously considered. 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% ethically diverse representation in senior management roles and above by 2021. As at 6 March 2021, of the eight members of the Board, 30% are women. 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 8 principal meetings during 2020/21 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 Business Performance Review, Group Data Governance Committee, Group Safety Committee, Group Operational Resilience Committee and Net Zero Steering Committee.

### **Principle 4 - Opportunity and Risk**

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

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

For more information on the Principal Risks and Uncertainties, see pages 32 to 43 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 69 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 Remuneration Committee during the year, see pages 70 to 87 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><b>Customers</b>  Our customer shop with us in stores, online and on our mobile app.</p>	<p>The Board was regularly updated on consumer sentiment, trends and the overall metrics from the customer feedback programme. The Board heard what mattered to customers through:</p> <ul style="list-style-type: none"> <li>• 2.7 million responses per year across all customer feedback programmes (CSAT)</li> <li>• Social media listening</li> <li>• Market research</li> <li>• Qualitative customer focus groups and quantitative surveys</li> <li>• Nectar data to understand how customers are shopping</li> <li>• Brand tracking which assesses the performance and perception of our different brands</li> </ul>
<p><b>Colleagues</b>  Our colleagues include everyone who is employed by the business.</p>	<p>The Board engages directly with colleagues through the Great Place to Work National Group, our Workforce Advisory Panel. It receives detailed presentations on culture, colleague engagement, wellbeing, and diversity and inclusion from our Group HR Director, and regular summaries from the Chief Executive Officer on key initiatives. Colleagues are kept updated on decisions made following their feedback through regular internal communications from the Chief Executive Officer and Board members.</p> <p>Our colleague engagement activities include the following:</p> <ul style="list-style-type: none"> <li>• Great Place to Work National Group, our Workforce Advisory Panel, made up of colleagues from across the business elected by their peers to represent their views.</li> <li>• Continual feedback on internal social media including live question and answer sessions with the J Sainsbury plc Chief Executive Officer and Board members which is fed back to the Board</li> <li>• 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 business</li> <li>• 'We're All Ears', a short 'temperature check' survey issued several times a year, helps us understand how colleagues are feeling and their views on what we are planning, so the Board can act swiftly on colleague feedback and suggestions</li> <li>• Updates on culture, engagement, inclusion and colleague pay to the Board.</li> </ul>
<p><b>Communities</b>  We play an active role in our communities and aim to generate a positive impact in the communities we serve and source from worldwide.</p>	<p>Customer feedback provides the Board with valuable information on how we can best support our customers and local communities. These insights helped shape our activities during the pandemic. For example, following customer feedback we introduced dedicated shopping hours and priority access to Groceries Online shopping slots for elderly, disabled and vulnerable customers, as well as NHS and care workers.</p>
<p><b>Shareholders</b>  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 ad-hoc 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>

Who are our stakeholders?	How do we engage with them?
<p><b>Suppliers</b>  We have Goods For Resale (GFR) suppliers that supply products for food, general merchandise and clothing and Goods Not For Resale (GNFR) suppliers supporting all functions including Logistics, Marketing, Technology and Retail.</p> <p>Our suppliers range from large multinational companies to small independently run businesses.</p>	<p>Our suppliers have access to our online suppliers' portals where we share news about the organisation and develop new ways of working with them which ensures a consistent forum for communication. We take part in annual, independent surveys which benchmark us against other retailers and highlight areas for improvement; these include the Advantage survey and Groceries Supply Code of Practice supplier survey. During the year, the Board was updated on initiatives that led to improved performance in these surveys.</p> <p>During the pandemic, the principal feedback from our small suppliers was around cash flow. The Board was supportive of management's approach to provide cash flow support to suppliers through adjustment in payment terms, where necessary, despite the impact it had on our working capital. We particularly supported small suppliers by paying them immediately and we continue to support them with a permanent commitment to pay them within 14 days.</p> <p>We actively engage with our suppliers to prevent modern slavery and human trafficking in our business operations and supply chains, and report this through our Modern Slavery Statement.</p>
<p><b>Government</b>  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"> <li>• Responding to Government consultations</li> <li>• Direct meetings</li> <li>• Trade association meetings</li> <li>• Government organised roundtables</li> <li>• Participation in Government organised forums such as the Food and Drink Sector Council (Defra) or the Retailer Panel for Exiting the EU (BEIS)</li> </ul>

For further information on stakeholder engagement which applies throughout the Group, see pages 19 to 22 of the Group's Annual Report.

#### **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.

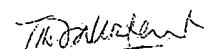
#### **Disclosure of information to auditors**

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



Tim Fallowfield  
**Director**  
8 December 2021



**Sainsbury's Supermarkets Ltd**  
**Statement of Directors' responsibilities**  
**for the 52 weeks to 6 March 2021**  
**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.

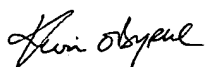
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including 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**  
8 December 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 6 March 2021 which comprise the Income statement, Statement of comprehensive income, 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 6 March 2021 and of its loss for the 52-week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

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

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

### **Conclusions relating to going concern**

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

- In conjunction with our walkthrough of the Company's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure key factors were considered in their assessment;
- We obtained management's going concern assessment, including cashflow forecasts, which covers a period to March 2023.
- The Company is reliant on support from its parent J Sainsbury plc. We have obtained the signed support letter and performed procedures to challenge whether the parent has the ability to provide such support as detailed in the following points.
- The Group has modelled various adverse scenarios in their cash forecasts in order to incorporate unexpected changes to the forecast liquidity of the Group.
- We tested the clerical accuracy of the model used to prepare the Group's going concern assessment;
- We tested the inputs and assumptions included in the cash forecast and considered the impact of COVID-19 included in the forecast. We challenged the appropriateness of the methods used to calculate the cash forecasts and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriately sophisticated to be able to make an assessment for the entity. We also corroborated assumptions to external market forecasts and historical financial performance and searched for contrary evidence to challenge the assumptions used;
- We considered whether the mitigating factors included in the cash forecasts were appropriate and within control of the Company;
- We also obtained evidence of the group's available facilities, noting no associated financial covenants.
- We challenged the reverse stress testing scenario, performed to identify what factors would lead to the Group utilising all liquidity during the going concern period;
- We read the Company's going concern disclosures included in the annual report and financial statements in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to March 2023.

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

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

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

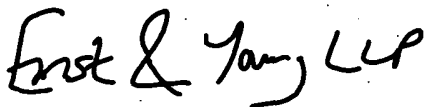
## Independent auditors' report to the members of Sainsbury's Supermarkets Ltd (continued)

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

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

### Use of our report

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



Ben Marles (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
9 December 2021

**Sainsbury's Supermarkets Ltd**  
**Income statement**  
**for the 52 weeks to 6 March 2021**

2021				2020			
	Before non- underlying items	Non- underlying items (Note 3)	Total	Before non- underlying items	Non- underlying items (Note 3)	Total	
Note	£m	£m	£m	£m	£m	£m	
Revenue	23,823	-	23,823	24,059	-	24,059	
Cost of sales	(22,577)	(187)	(22,764)	(22,664)	(107)	(22,771)	
Gross profit	1,246	(187)	1,059	1,395	(107)	1,288	
Administrative expenses	(820)	(73)	(893)	(666)	(77)	(743)	
Other income	(2)	195	193	23	79	102	
Operating profit	5	424	(65)	359	752	(105)	647
Finance income	6	6	26	32	3	31	34
Finance costs	6	(471)	(10)	(481)	(495)	(14)	(509)
(Loss)/profit before tax		(41)	(49)	(90)	260	(88)	172
Income tax (expense)/credit	8	(6)	(29)	(35)	(114)	62	(52)
(Loss)/profit for the financial year		(47)	(78)	(125)	146	(26)	120

The notes on pages 17 to 53 form an integral part of these financial statements.

**Sainsbury's Supermarkets Ltd**  
**Statement of comprehensive income**  
**for the 52 weeks to 6 March 2021**

	Note	2021 £m	2020 £m
<b>(Loss)/profit for the financial year</b>		<b>(125)</b>	<b>120</b>
<b>Items that will not be reclassified subsequently to the income statement</b>			
Remeasurement on defined benefit pension schemes	22	(413)	(31)
Cash flow hedges fair value movements – inventory hedges		(33)	9
Current tax relating to items not reclassified	8	21	6
Deferred tax relating to items not reclassified	8	35	(35)
		<b>(390)</b>	<b>(51)</b>
<b>Items that may be reclassified subsequently to the income statement</b>			
Cash flow hedges effective portion of fair value movements		1	(6)
Items reclassified from cash flow hedge reserve	21	8	-
Deferred tax on items that may be reclassified	8	5	1
		<b>14</b>	<b>(5)</b>
<b>Total other comprehensive loss for the year (net of tax)</b>		<b>(376)</b>	<b>(56)</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(501)</b>	<b>64</b>

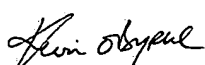
The notes on pages 17 to 53 form an integral part of these financial statements.

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

	Note	2021 £m	2020 £m
<b>Non-current assets</b>			
Property, plant and equipment	9	5,835	6,078
Right of use assets	10	7,712	7,995
Intangible assets	11	245	181
Investments in subsidiaries	12	359	359
Investments in joint ventures and associates	13	2	2
Other receivables	15	36	31
Derivative financial assets		6	1
Retirement benefit surplus	22	1,061	1,455
		<b>15,256</b>	<b>16,102</b>
<b>Current assets</b>			
Inventories	14	1,012	990
Trade and other receivables	15	1,878	1,516
Derivative financial assets		2	5
Cash and cash equivalents		113	207
		<b>3,005</b>	<b>2,718</b>
Assets held for sale	16	21	2
		<b>3,026</b>	<b>2,720</b>
<b>Total assets</b>		<b>18,282</b>	<b>18,822</b>
<b>Current liabilities</b>			
Trade and other payables	17	(3,653)	(3,628)
Borrowings	18	(94)	(10)
Lease liabilities	10	(601)	(561)
Derivative financial liabilities		(43)	(17)
Taxes payable		(68)	(128)
Provisions	19	(89)	(26)
		<b>(4,548)</b>	<b>(4,370)</b>
<b>Net current liabilities</b>		<b>(1,522)</b>	<b>(1,650)</b>
<b>Non-current liabilities</b>			
Other payables	17	(17)	(20)
Lease liabilities	10	(9,290)	(9,532)
Derivative financial liabilities		(2)	(5)
Deferred income tax liability	8	(86)	(123)
Provisions	19	(91)	(49)
		<b>(9,486)</b>	<b>(9,729)</b>
<b>Total liabilities</b>		<b>(14,034)</b>	<b>(14,099)</b>
<b>Net assets</b>		<b>4,248</b>	<b>4,723</b>
<b>Equity</b>			
Called up share capital	20	2,900	2,900
Other reserves	21	(27)	(10)
Retained earnings	21	1,375	1,833
<b>Total equity</b>		<b>4,248</b>	<b>4,723</b>

The notes on pages 17 to 53 form an integral part of these financial statements.

The financial statements on pages 13 to 53 were approved by the Board of Directors on 8 December 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 6 March 2021**

	Note	Called up share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
<b>At 8 March 2020</b>		<b>2,900</b>	<b>(10)</b>	<b>1,833</b>	<b>4,723</b>
Loss for the year	21	-	-	(125)	(125)
Other comprehensive expense	21	-	(19)	(357)	(376)
<b>Total comprehensive expense for the year ended 6 March 2021</b>		<b>-</b>	<b>(19)</b>	<b>(482)</b>	<b>(501)</b>
Cash flow hedges gains and losses transferred to inventory	21	-	2	-	2
Transactions with owners:					
Share-based payment (net of tax)	23	-	-	24	24
<b>At 6 March 2021</b>		<b>2,900</b>	<b>(27)</b>	<b>1,375</b>	<b>4,248</b>
<b>At 10 March 2019</b>		<b>2,900</b>	<b>(5)</b>	<b>1,742</b>	<b>4,637</b>
Profit for the year restated	21	-	-	120	120
Other comprehensive income	21	-	4	(60)	(56)
<b>Total comprehensive income for the year ended 7 March 2020</b>		<b>-</b>	<b>4</b>	<b>60</b>	<b>64</b>
Cash flow hedges gains and losses transferred to inventory	21	-	(9)	-	(9)
Transactions with owners:					
Share-based payment (net of tax)	23	-	-	31	31
<b>At 7 March 2020</b>		<b>2,900</b>	<b>(10)</b>	<b>1,833</b>	<b>4,723</b>

The notes on pages 17 to 53 form an integral part of these financial statements.



**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements**  
**for the 52 weeks to 6 March 2021**

**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 6 March 2021 (prior financial year 52 weeks to 7 March 2020).

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

**Basis of preparation**

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

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

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

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

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

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

**Presentation update – cash pooling arrangements**

In the current financial period, the company has adjusted its presentation of cash and overdrafts for cash pooling arrangements where the intention to net settle cannot be clearly demonstrated, and therefore does not meet the requirements for offsetting in accordance with IAS 32: 'Financial Instruments: Presentation'. The impact on the current period is a gross up of cash and cash equivalents and overdrafts (borrowings) of £93 million, with no impact on profit or cash flow. The impact on the prior financial period is immaterial at £1 million and therefore the comparatives have not been restated.

**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 pages 44 and 45.

## **1 General information & basis of preparation (continued)**

In making this going concern 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. These severe but plausible scenarios included modelling the ongoing impact of COVID-19, recognising the degree of uncertainty that continues to exist, the impact of any regulatory fines, failure to deliver planned cost savings and the impact of the UK's withdrawal from the EU on the Group's Northern Ireland operations where trade flows have proved more difficult.

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

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 has considered the following amendments to published standard that are effective for the Company for the financial year beginning 8 March 2020 and concluded that they are either not relevant to the Company or that they do not have a significant impact on the Company's financial statements other than disclosures.

- 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: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' on the Interest Rate Benchmark Reform

### **Standards and revisions effective for future periods:**

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

- Amendments to IFRS 3 'Business Combinations' with reference to the Conceptual Framework
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use
- Amendments to IAS 1 'Presentation of Financial Statements' on the classification of liabilities as current or non-current
- IFRS 17 'Insurance Contracts'

### **Interest Rate Benchmark Reform**

The Company applied the Phase 1 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 which became effective from 1 January 2020 and early adopted the Phase 2 amendments from 8 March 2020 retrospectively. The Company currently uses UK overnight swap rates to set its Incremental Borrowing Rates (IBRs) to apply to the measurement of lease liabilities, however as part of the IBOR reform these will be replaced with UK gilts. This transition will occur in the period ending 5 March 2022. None of the Company's lease agreements or payments are linked to LIBOR. The impact of the Interest Rate Benchmark Reform on the Company is immaterial.

## **2 Accounting policies**

### **Revenue**

Consists of sales through retail outlets and online and excludes value added tax.

#### *Sale of goods*

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

## **2 Accounting policies (continued)**

### *Other revenue items*

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

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

### **Other income**

Other income generally consists of profits and losses on disposal of assets and dividend income from other Group entities. The current year also includes income in relation to legal disputes – refer note 3 for further information.

### **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

## **2 Accounting policies (continued)**

### **Property, plant and equipment (continued)**

Capital work in progress is not depreciated.

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.

## **2 Accounting policies (continued)**

### **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.

### **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.

### **Lessor accounting**

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

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

## **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.

### **Investment in subsidiaries, joint ventures and associates**

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

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

## **2 Accounting policies (continued)**

### **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.

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.

## **2 Accounting policies (continued)**

### **Financial instruments**

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)). All of the Company's financial assets are recognised at amortised cost, with the exception of derivative financial assets which are measured at FVPL.

#### *a) Financial instruments at amortised cost*

Financial assets that are principally held for the collection of contractual cash flows are classified as amortised cost. For the Company, these are its debtors, including intercompany balances. The Company initially measures these 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.

#### *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.

### **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.



## **2 Accounting policies (continued)**

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:

#### **Judgements**

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

##### *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.

##### *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 Alternative Performance Measures (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 3.

## **2 Accounting policies (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.

Supplier arrangements, which were disclosed as key estimates in the prior year financial statements, are no longer deemed to be key estimates because supplier incentives, rebates and discounts are inherently mechanical in nature. The Company is moving away from volume-based supplier arrangements, and they are typically aligned to the Company's year-end and therefore they are no longer considered a source of significant estimation uncertainty. Equally, agreements in relation to fixed amounts and marketing and advertising income are sufficiently detailed to significantly reduce the degree of estimation required to be applied by the Company. Therefore, supplier arrangements are no longer deemed to be a significant estimate.

#### *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 £105 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).

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

##### *Assets*

The Scheme holds private market assets, some of which are held as they are expected to deliver a more favourable risk/return profile than public market equivalents. These assets are relatively illiquid (likely to be realised over c. 5 years) but the 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. The Company therefore performs a roll-forward for these valuations, adjusting for cash received or paid and applying the changes seen in relevant liquid indices as follows:

<b>Asset Class</b>	<b>Returns from 31<sup>st</sup>-Dec-20 to 6<sup>th</sup>-Mar-21</b>
Global equity USD return	1.66%
Global High Yield Debt USD return	0.78%
US loans USD return	1.74%
UK REITS GBP return	0.62%

The roll-forward has increased the valuation of illiquid assets by £13 million. A 1 per cent increase / decrease in the indices used would have caused a £8 million increase / decrease in the adjustment.

## **2 Accounting policies (continued)**

### **Significant accounting judgements, estimates and assumptions (continued)**

#### *c) Provisions*

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

#### *d) Lease liabilities*

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

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

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

	Increase/(decrease) in lease liability recognised £m
Increase in IBR of 1%	(72)
Decrease in IBR of 1%	91

## **3 Profit before 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. Therefore it may not be directly comparable with adjusted measures of other companies.

The most significant non-underlying items in the current year relate to restructuring programmes, impairment charges, income in relation to legal disputes and income relating to the Supreme Court ruling on ATM business rates reimbursement. More details on each are included further below.

The Company has also excluded the following items from underlying profit:

- Profit or loss on disposal of properties – such disposals are not part of the Company's underlying business.
- Non-underlying finance movements – these include fair value remeasurements on derivatives not in a hedging relationship and lease interest on impaired non-trading sites. The fair value measurements on derivatives 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 interest and expenses include the financing element and scheme expenses of the Company's defined benefit scheme. These are reported outside underlying profit as they no longer relate to the Company's on-going activities following closure of the scheme to future accrual.
- Intercompany dividends and mark-ups on intercompany recharges, as they are not considered part of the day-to-day activities of the business.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**3 Profit before non-underlying items (continued)**

The Company has not included any additional costs incurred or credits received directly in relation to the impacts of COVID-19 within non-underlying items. Whilst some items (such as additional expenses incurred protecting colleagues and customers) are discrete and can be separately quantified, others, such as incremental food sales cannot be reliably disaggregated from the Company's underlying performance. The Company has therefore concluded that presenting some movements as underlying and others as non-underlying would give an imbalanced view that is not easily comparable to past and subsequent periods. In addition, the repayment of business rates relief announced in December has also been treated as underlying, due to being a cost that would have been incurred in an ordinary trading year.

For the 52 weeks ended 6 March 2021							
	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/(costs) £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Income recognised in relation to legal disputes	-	-	169	-	169	(32)	137
<b>Restructuring and impairment charges</b>							
Restructuring programmes	(124)	(64)	-	-	(188)	27	(161)
Impairment of non-financial assets	(105)	-	-	-	(105)	14	(91)
<b>Total restructuring and impairment charges</b>	<b>(229)</b>	<b>(64)</b>	<b>-</b>	<b>-</b>	<b>(293)</b>	<b>41</b>	<b>(252)</b>
<b>Property, finance, pension, intercompany and investment adjustments</b>							
ATM business rates reimbursement	42	-	-	-	42	(8)	34
Profit/(loss) on disposal of properties	-	-	7	-	7	-	7
Dividend income from investments	-	-	19	-	19	-	19
Non-underlying finance movements	-	-	-	(2)	(2)	-	(2)
Recharges to Group Companies	-	4	-	-	4	(1)	3
IAS 19 pension expenses	-	(13)	-	18	5	-	5
<b>Total property, finance, pension, intercompany and investment adjustments</b>	<b>42</b>	<b>(9)</b>	<b>26</b>	<b>16</b>	<b>75</b>	<b>(9)</b>	<b>66</b>
<b>Tax adjustments</b>							
Revaluation of deferred tax balances	-	-	-	-	-	(1)	(1)
Derecognition of capital losses	-	-	-	-	-	(28)	(28)
<b>Total adjustments</b>	<b>(187)</b>	<b>(73)</b>	<b>195</b>	<b>16</b>	<b>(49)</b>	<b>(29)</b>	<b>(78)</b>

**Income recognised in relation to legal disputes**

The Company has a number of ongoing legal cases in relation to overcharges from payment card processing fees, which largely reflect inter-bank "interchange fees". Subsequent to 6 March 2021 agreements have been reached for two of these. The legal cases have been ongoing for a number of years meaning the conditions existed as at 6 March 2021 so £169 million of net income has been recognised in the current financial period. Of the £169 million net income, cash of £75 million was received in a prior year and held as deferred income. The remainder is expected to be received in the next financial year.

**Restructuring Programmes**

Further opportunities to rationalise the Company's supermarkets and convenience estate have been identified, building on last year's property strategy programme that was announced at the Capital Markets Day in September 2019.

In addition, the Company has been subject to the Group's creation of a new supply chain and logistics operating model, which has resulted in the closure of a number of existing depots. Further, the Company has reviewed its Store Support Centre ways of working and as a result is reducing its office space.

Costs totalling £188 million have been recognised in the period in relation to the above and comprise the following:

	£m
Write downs of property, plant and equipment	32
Write downs of leased assets	13
Write downs of intangible assets	12
Closure provisions (a)	87
Accelerated depreciation of assets (b)	2
Redundancy provisions (c)	38
Consultancy costs	9
Gain on lease terminations (d)	(5)
	<b>188</b>

### **3 Profit before non-underlying items (continued)**

- a) Closure provisions relate to onerous contract costs, dilapidations and strip out costs on leased sites. Onerous contract costs have been recognised where sites are forecast to close before the end of the contractual lease term, and relate to the unavoidable costs that the business will incur by virtue of remaining in a lease, such as service charges, insurance, security.
- b) The remaining useful economic lives of corresponding sites have been reassessed to align with closure dates, resulting in an acceleration in depreciation of these assets. The existing depreciation of these assets (depreciation that would have been recognised absent of a closure decision) is recognised within underlying expenses, whereas accelerated depreciation above this is recognised within non-underlying expenses.
- c) Redundancy costs are recognised as the plan has been announced and a valid expectation raised with the affected colleagues.
- d) Gains on lease terminations relate to impaired sites for which it has been negotiated to exit the leases before the contractual end date.

With regards to the above restructuring and impairment charges, the costs incurred arise as a result of implementing changes for the future to evolve and reshape the business. They are therefore different in nature to the COVID-19-related income and costs that were incurred to maintain business as usual activity and which have been reported within underlying profit.

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

#### **Impairment of non-financial assets**

In addition to the above, in line with IAS 36 'Impairment of non-financial assets', the Company is required to assess whether there is any indication that an asset (or cash generating unit (CGU)) may be impaired (i.e. its carrying amount may be higher than its recoverable amount).

The COVID-19 pandemic has resulted in changes to customer shopping habits, patterns and sources of finance. Despite this, the Company has proved resilient through the pandemic, with higher grocery sales growth helping to offset the additional in-store costs. However the changes in customer behaviour have led to an acceleration of the Company's structural integration of Argos into Sainsbury's supermarkets during the period and through this, a review of the economic performance of the Company's assets has been performed as a result of store rationalisation, changes in channel mix, and changes in customer borrowing and cash usage behaviour. This has been deemed an indicator of impairment and a full impairment review has therefore been performed covering Sainsbury's Supermarkets Limited.

An impairment charge of £105 million has been recognised in the period and comprises:

	<b>£m</b>
Impairment of property, plant and equipment	<b>40</b>
Impairment of leased assets	<b>55</b>
Impairment of intangible assets	<b>10</b>
	<b>105</b>

#### **ATM business rates reimbursement**

£42 million of income is due to be received (of which £27 million has been received as at 6 March 2021) from the Valuation Office following the Supreme Court's ruling that ATMs outside stores should not be assessed for additional business rates on top of normal store rates.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**3 Profit before non-underlying items (continued)**

**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 £(2) million for the Company. These are presented separately in note 6.
- Defined benefit pension expenses comprise pension finance income of £18 million and scheme expenses of £(13) million (see note 22).

**Comparative information**

For the 52 weeks ended 7 March 2020

	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
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 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							
Over provision in prior years	-	-	-	-	-	3	3
Revaluation of deferred tax balances	-	-	-	-	-	2	2
Total adjustments	(107)	(77)	79	17	(88)	62	(26)

**Prior year property strategy programme**

During the prior year, the Company identified an impairment indicator following an approved programme of store closures. This programme was initially announced at the Capital Markets Day in September 2019. It was subsequently revisited during the second half of the prior-financial year resulting in additional planned closures. Impairment charges and closure costs were therefore recognised in the prior year as follows:

	Property strategy programme
	£m
Impairment of property, plant and equipment	105
Impairment of leased assets	34
Impairment of intangible assets	14
Store closure provisions	19
Redundancy provisions	2
Total property strategy programme costs	174

**Prior year retail restructuring programme**

Restructuring costs of £(6) million in the prior 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, as well as the closure of one Argos distribution centre, prior to the wider store closure programme announced at the Capital Markets Day. Also included costs incurred following announced head-office restructures during the year.

#### **4 Supplier Arrangements**

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

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

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

- Discounts and supplier incentives – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.
- Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. Income is recognised as the obligations per the terms of the agreement have been satisfied. These involve a degree of judgement and estimation in ensuring the appropriate cut-off for fixed amounts which span a period-end, however the agreements are sufficiently detailed which significantly reduces the degree of estimation required to be applied.
- Volume-based 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 estimates required are minimised.

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

	2021 £m	2020 £m
Fixed amounts (within cost of sales)	103	98
Volume-based rebates (within cost of sales)	31	30
<b>Total supplier arrangements</b>	<b>134</b>	<b>128</b>

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

	2021 £m	2020 £m
<b>Within current trade receivables</b>		
Supplier arrangements due	7	7
Accrued supplier arrangements	8	8
<b>Within current trade payables</b>		
Supplier arrangements due	14	11
Accrued supplier arrangements	5	5

#### **5 Operating profit**

	2021 £m	2020 £m
Employee costs (note 7)	3,128	2,654
Depreciation expense (note 9 & note 10)	1,070	1,066
Amortisation expense (note 11)	47	26
Profit on disposal of properties (note 3)	(7)	(53)
Foreign exchange losses	4	20
Impairment charges	162	153

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**5 Operating profit (continued)**

	2021 £m	2020 £m
<b>Auditor's remuneration</b>		
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
<b>Total fees</b>	<b>0.5</b>	<b>0.5</b>

**6 Finance Income and finance costs**

	2021			2020		
	Underlying £m	Non- Underlying £m	Total £m	Underlying £m	Non- Underlying £m	Total £m
Fair value measurements	-	8	8	-	-	-
Intercompany interest income	4	-	4	1	-	1
IAS 19 pension financing income	-	18	18	-	31	31
Finance income on net investment in leases	2	-	2	2	-	2
<b>Finance Income</b>	<b>6</b>	<b>26</b>	<b>32</b>	<b>3</b>	<b>31</b>	<b>34</b>
<b>Borrowing costs:</b>						
Provisions - amortisation of discount	-	(1)	(1)	-	-	-
Lease liabilities	(473)	(9)	(482)	(497)	(10)	(507)
Fair value measurements	-	-	-	-	(4)	(4)
	(473)	(10)	(483)	(497)	(14)	(511)
<b>Interest capitalised - qualifying assets</b>						
Interest capitalised - qualifying assets	3	-	3	4	-	4
Intercompany interest costs	(1)	-	(1)	(2)	-	(2)
	2	-	2	2	-	2
<b>Finance costs</b>	<b>(471)</b>	<b>(10)</b>	<b>(481)</b>	<b>(495)</b>	<b>(14)</b>	<b>(509)</b>

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

Lease liabilities included £190 million (2020: £197 million) of intercompany interest costs.

**7 Employee costs**

	2021 £m	2020 £m
<b>Employee costs for the Group during the year amounted to:</b>		
Wages and salaries, including bonus and termination benefits	2,742	2,336
Social security costs	191	149
Pension costs – defined contribution schemes	171	138
Share-based payments expense	24	31
	<b>3,128</b>	<b>2,654</b>
	2021 Number 000s	2020 Number 000s
<b>The average number of employees, including directors, during the year was:</b>		
Full-time	55.1	17.4
Part-time	99.0	127.4
	<b>154.1</b>	<b>144.8</b>
<b>Full-time equivalent</b>	<b>100.8</b>	<b>97.0</b>

In addition to the above, 1,658 (2020: 988) full-time employees and 1,633 (2020: 984) 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.



**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**8 Income tax expense**

	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
Current tax expense:		
Current year UK tax expense	<b>32</b>	92
Over provision in prior years	-	(35)
<b>Total current tax expense</b>	<b>32</b>	<b>57</b>
Deferred tax credit:		
Origination and reversal of temporary differences credit	<b>(16)</b>	(31)
(Over)/under provision in prior years	<b>(1)</b>	26
Derecognition of capital losses	<b>29</b>	-
Revaluation of deferred tax balances expense	<b>(9)</b>	-
<b>Total deferred tax expense/(credit)</b>	<b>3</b>	<b>(5)</b>
<b>Total income tax expense in income statement</b>	<b>35</b>	<b>52</b>
Analysed as:		
Underlying tax	<b>6</b>	114
Non-underlying tax	<b>29</b>	(62)
<b>Total income tax expense in income statement</b>	<b>35</b>	<b>52</b>
Underlying tax rate	<b>14.6%</b>	43.5%
Effective tax rate	<b>38.9%</b>	30.1%

The effective tax rate of 38.9 per cent (2020: 30.1 per cent) is higher than (2020: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
(Loss)/profit before tax	<b>(90)</b>	172
Income tax at UK corporation tax rate of 19.0% (2020: 19.0%)	<b>(17)</b>	32
Effects of underlying items:		
Disallowed depreciation on UK properties	<b>18</b>	18
Over provision in prior years	-	(7)
Revaluation of deferred tax balances	<b>(10)</b>	2
Other	<b>5</b>	6
Deferred rental deductions	-	45
Effects of non-underlying items:		
Profit on disposal of properties	-	(11)
Non-taxable dividends received	<b>(4)</b>	(5)
Pension scheme expenses	<b>(1)</b>	(42)
Restructuring and impairments	<b>15</b>	17
Capital loss derecognition	<b>28</b>	-
Over provision in prior years	-	(2)
Revaluation of deferred tax balances	<b>1</b>	(2)
Other	-	1
<b>Total income tax expense in income statement</b>	<b>35</b>	<b>52</b>

In the current period, the substantively enacted UK Corporation tax rate applicable to the company from 1 April 2020 was increased from 17 per cent to 19 per cent. The closing deferred tax assets and liabilities have been calculated at 19 per cent and accordingly a rate change adjustment has arisen as the opening deferred tax balance had been calculated taking into account the previously enacted rate of 17 per cent.

It was 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.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**8 Income tax expense (continued)**

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 £45m. 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:

	Retirement benefit obligations £m	Fair value movements £m	Total £m
<b>52 weeks to 06 March 2021</b>			
Current tax recognised in equity or other comprehensive income	(21)	-	(21)
Deferred tax recognised in equity or other comprehensive income	(58)	(5)	(63)
Revaluation of deferred tax balances in the income statement	23	-	23
	(56)	(5)	(61)
<b>52 weeks to 07 March 2020</b>			
Current tax recognised in equity or other comprehensive income	(6)	-	(6)
Deferred tax recognised in equity or other comprehensive income	35	(1)	34
	29	(1)	28

The current and deferred tax in relation to the Group'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 8 March 2020	(151)	61	-	-	(24)	(61)	(197)	5	246	(2)	(123)
Prior year adjustment to income statement	7	(10)	-	-	-	10	-	-	(6)	-	1
(Charge)/credit to income statement	24	(29)	-	-	-	-	(1)	1	(15)	7	(13)
(Charge)/credit to equity or other comprehensive income	-	-	4	-	-	-	58	1	-	-	63
Revaluation adjustment to income statement	(17)	6	-	-	-	(6)	-	1	28	(3)	9
Revaluation adjustment to equity or other comprehensive income	-	-	-	-	-	-	(23)	-	-	-	(23)
At 6 March 2021	(137)	28	4	-	(24)	(57)	(163)	8	253	2	(86)
At 10 March 2019	(133)	62	(1)	39	(24)	(62)	(250)	11	263	1	(94)
Prior year adjustment to income statement	(22)	1	-	-	-	-	-	(7)	-	2	(26)
(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)	-	-
At 7 March 2020	(151)	61	-	-	(24)	(61)	(197)	5	246	(2)	(123)
								<b>2021</b>			<b>2020</b>
								<b>£m</b>			<b>£m</b>
Total deferred income tax liabilities								(381)			(435)
Total deferred income tax assets								295			312
<b>Net deferred income tax liability recognised in non-current liabilities</b>								<b>(86)</b>			<b>(123)</b>

Deferred income tax assets have been recognised in respect of all income tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered; except for unrecognised capital losses of £278m (2020: £48m) due to the enacted law change on the utilisation of capital losses. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**9 Property, plant and equipment**

	Land and buildings £m	Fixtures and equipment £m	Total £m
<b>Cost</b>			
At 8 March 2020	6,014	4,850	10,864
Additions	78	314	392
Disposals	(30)	(338)	(368)
Transfer to asset held for sale	(79)	-	(79)
<b>At 6 March 2021</b>	<b>5,983</b>	<b>4,826</b>	<b>10,809</b>
<b>Accumulated depreciation and impairment</b>			
At 8 March 2020	1,596	3,190	4,786
Depreciation expense for the year	127	411	538
Impairment loss for the year	45	27	72
Disposals	(25)	(338)	(363)
Transfer to asset held for sale	(59)	-	(59)
Transfer between categories	(6)	6	-
<b>At 6 March 2021</b>	<b>1,678</b>	<b>3,296</b>	<b>4,974</b>
<b>Net book value at 6 March 2021</b>	<b>4,305</b>	<b>1,530</b>	<b>5,835</b>
<b>Capital work-in-progress included above</b>	<b>112</b>	<b>242</b>	<b>354</b>

*Interest capitalised*

Interest capitalised included in additions amounted to £4 million (2020: £4 million). Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £281 million (2020: £282 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.0 per cent (2020: 4.1 per cent).

Details of the impairment charges are included in note 3.

**10 Leases**

**Company as lessee**

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

	Land and buildings £m	Equipment £m	Total £m
<b>Net book value</b>			
At 8 March 2020	7,736	259	7,995
New leases and modifications	220	97	317
Depreciation charge	(455)	(77)	(532)
Impairment charge	(68)	-	(68)
<b>At 6 March 2021</b>	<b>7,433</b>	<b>279</b>	<b>7,712</b>
At 10 March 2019	7,031	228	7,259
New leases and modifications	1,200	103	1,303
Depreciation charge	(461)	(72)	(533)
Impairment charge	(34)	-	(34)
At 7 March 2020	7,736	259	7,995

Details of the impairment charges are included within note 3.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**10 Leases (continued)**

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

	2021 £m	2020 £m
<b>At 8 March 2020 and 10 March 2019</b>	<b>10,093</b>	<b>9,202</b>
Additions	305	1,328
Interest expense	482	507
Payments	(989)	(944)
<b>At 6 March 2021 and 7 March 2020</b>	<b>9,891</b>	<b>10,093</b>
Current	601	561
Non-current	9,290	9,532

The Company presents additions to lease liabilities and right of use assets in line with the disclosure requirements of IFRS 16 'Leases'. In doing so, additions to right of use assets and lease liabilities above include the net impact of new leases, terminations, modifications and reassessments.

During the year it was identified that three leases that commenced in the prior financial year had been recorded in the lease accounting system with incorrect payments. The impact of updating the payments is an increase to lease liabilities and right of use assets of circa £41m and £40m respectively. The impact of the adjustments, both quantitatively and qualitatively, was considered in detail, and it was concluded that they were not sufficiently qualitatively material to warrant a restatement of the prior year accounts. The adjustments are predominantly balance sheet in nature, with none of them impacting KPIs or financial covenants, and the impact on the 2020 income statement is less than £1 million.

**Other information – Group as lessee**

The following are the amounts recognised in profit or loss:

	2021 £m	2020 £m
Depreciation of right-of-use assets	(532)	(533)
Interest on lease liabilities	(482)	(507)
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	23	45
Expenses relating to short term leases	(2)	(2)
Expenses relating to leases of low value assets	(6)	(7)
<b>Total amount recognised in profit or loss</b>	<b>(998)</b>	<b>(1,003)</b>
<b>Total cash outflow for leases (excluding sublet income)</b>	<b>(998)</b>	<b>(954)</b>

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.

**Maturity analysis**

	2021 £m	2020 £m
<b>Contractual undiscounted cash flows</b>		
Less than one year	957	1,015
One to two years	951	973
Two to three years	892	956
Three to four years	866	883
Four to five years	827	843
Total one to five years	4,493	4,670
Five to ten years	4,048	3,674
Ten to fifteen years	3,917	3,279
More than fifteen years	5,661	8,337
<b>Total undiscounted lease liability</b>	<b>18,119</b>	<b>19,960</b>
<b>Lease liabilities included in the statement of financial position</b>	<b>9,891</b>	<b>10,093</b>
Current	601	561
Non-current	9,290	9,532

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**10 Leases (continued)**

The Company is committed to payments totalling £32m (2020: £38m) in relation to leases that have been signed but have not yet commenced.

**Company as lessor**

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

	2021 £m	2020 £m
Less than one year	17	16
One to two years	15	14
Two to three years	13	12
Three to four years	11	10
Four to five years	9	9
Five to ten years	28	25
Ten to fifteen years	8	11
More than fifteen years	13	14
<b>Total undiscounted lease payments receivable</b>	<b>114</b>	<b>111</b>

The finance lease receivable (net investment in the lease) included in other receivables is £34m (2020: £25m).

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

**11 Intangible assets**

	Goodwill £m	Computer software £m	Total £m
<b>Cost</b>			
At 8 March 2020	89	153	242
Additions	-	144	144
Disposals	(5)	(30)	(35)
<b>At 6 March 2021</b>	<b>84</b>	<b>267</b>	<b>351</b>
<b>Accumulated amortisation and impairment</b>			
At 8 March 2020	14	47	61
Amortisation expense for the year	-	47	47
Impairment loss for the year	21	1	22
Disposals	(4)	(20)	(24)
<b>At 6 March 2021</b>	<b>31</b>	<b>75</b>	<b>106</b>
<b>Net book value at 6 March 2021</b>	<b>53</b>	<b>192</b>	<b>245</b>

Goodwill comprised of:

	2021 £m	2020 £m
Bells Stores Limited	9	17
Jacksons Stores Limited	32	45
Other	12	13
	<b>53</b>	<b>75</b>

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.

## 11 Intangible assets (continued)

### Impairment of goodwill

The COVID-19 pandemic has resulted in changes to customer shopping habits, patterns and sources of finance. This has led to an acceleration of the Company's structural integration with Argos during the year and through this, a review of the economic performance of the Company's assets was performed as a result of store rationalisation and changes in channel mix. This was deemed an indicator of impairment and a full impairment review was therefore performed during the year, covering the Company's non-financial assets. An impairment charge of £(22) million in relation to goodwill allocated to stores was recognised (2020: £(14) million).

Goodwill was also separately tested at the year-end as required under IAS 36. Jacksons Stores Limited and Bells Stores Limited goodwill balances are allocated to individual store CGUs to which they relate. The recoverable amounts for CGUs were determined using value in use calculations which are based on the cash flows expected to be generated, derived from the latest budget and forecast data which are reviewed by the Board. Budget and forecast data reflect both past experience and future expectation of market conditions. Where lease liabilities are included within the CGU, a corresponding deduction is also made to the value in use calculation. The key assumptions in the value in use calculations are detailed in the Group accounts on pages 129 to 132.

## 12 Investments in subsidiaries

	2021 £m	2020 £m
Beginning of the year	359	4
Additions	-	355
<b>End of the year</b>	<b>359</b>	<b>359</b>

The direct and indirect subsidiaries of the Company are:

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

<sup>1</sup> See full address on page 183 of the J Sainsbury plc Annual Report 2021.

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

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

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**13 Investments in joint ventures and associates**

	2021 £m	2020 £m
At the beginning of the year	2	23
Disposals	-	(21)
<b>At the end of the year</b>	<b>2</b>	<b>2</b>

The joint ventures directly owned by the Company were:

	Year-end	Share of ordinary allotted capital	Country of registration or incorporation	Address <sup>1</sup>
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	5 St John's Lane

<sup>1</sup> See full address on page 183 of the J Sainsbury plc Annual Report 2021.

**14 Inventories**

	2021 £m	2020 £m
Gross finished goods	1,066	1,031
Inventory Provision	(54)	(41)
<b>Inventory recognised on balance sheet</b>	<b>1,012</b>	<b>990</b>

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 6 March 2021 was £17,822 million (2020: £18,304 million).

Inventory losses and provisions recognised as an expense for the year were £421 million (2020: £458 million)

**15 Receivables**

**(a) Trade and other receivables**

	2021 £m	2020 £m
<b>Non-current</b>		
Other receivables	30	24
Prepayments and accrued income	6	7
	<b>36</b>	<b>31</b>
<b>Current</b>		
Trade receivables	75	71
Amounts owed by Parent company	955	805
Amounts owed by Group entities	653	477
Other receivables	158	94
	<b>1,841</b>	<b>1,447</b>
Prepayments and accrued income	37	69
	<b>1,878</b>	<b>1,516</b>

Trade receivables are non-interest bearing and are on commercial terms. Other receivables of £188 million (2020: £118 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 £955 million (2020: £805 million) are denominated in sterling and are non-interest bearing. Current amounts owed by other Group entities of £493 million (2020: £317 million) are denominated in sterling and non-interest bearing. The remaining £160 million (2020: £160 million) are interest bearing at an interest rate of base rate. All amounts are repayable on demand.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**15 Receivables (continued)**

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

Receivables balances with other Group entities are reviewed for potential impairment based on the ability of the counterparty to meet its obligations. This is assessed by considering the net asset position and whether the amounts owed to the Company are covered. Where this is not the case, the estimated future cash flows of the counterparty are considered in line with the methodology detailed in note 12. No impairment losses were recognised in the year.

**(b) Major counterparties**

Major counterparties are identified as follows:

	<b>2021</b>	<b>2021</b>	<b>2020</b>	<b>2020</b>
	<b>Number of</b>	<b>Balance</b>	<b>Number of</b>	<b>Balance</b>
	<b>counterparties</b>	<b>£m</b>	<b>counterparties</b>	<b>£m</b>
Other receivables	1	26	1	18
Parent company	1	955	1	805
Other Group entities	9	630	8	476

No major counterparty balances are considered overdue or impaired.

**16 Assets and liabilities held for sale**

	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
<b>Assets held for sale</b>		
Opening balance	2	-
Classified as held for sale in the year	20	2
Sold in the year	(1)	-
<b>Closing Balance</b>	<b>21</b>	<b>2</b>

Of the Company's assets held for sale at 7 March 2020, £1 million was sold during the current financial year. There were £20 million additional assets classed as held for sale during the current financial year. For the remaining assets, the sale is still considered probable in the next financial year and so they remain classified as held for sale. The fair value of assets held for sale is based on independent market valuations of the assets.

**17 Trade and other payables**

	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
<b>Current</b>		
Trade payables	2,283	2,483
Amounts owed to Parent company	351	322
Amounts owed to other Group entities	248	238
Other payables	452	263
Accruals and deferred income/gains	319	322
	<b>3,653</b>	<b>3,628</b>
<b>Non-current</b>		
Other payables	5	-
Accruals and deferred income/gains	12	20
	<b>17</b>	<b>20</b>

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.



**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**17 Trade and other payables (continued)**

Current amounts owed to Parent company in the current year of £351 million are denominated in sterling and interest bearing at an interest rate of base rate plus 1.5 per cent and repayable on demand. Current amounts owed to other Group entities of £201 million (2020: £189 million) are denominated in sterling and non-interest bearing.

The remaining £47 million (2020: £49 million) are interest bearing at an interest rate of 12 month LIBOR plus 1.0 per cent (2020: 12 month LIBOR plus 1.0 per cent). All amounts are repayable on demand.

**18 Borrowings**

	2021			2020		
	Current £m	Non-Current £m	Total £m	Current £m	Non-Current £m	Total £m
Bank overdrafts	94	-	94	10	-	10
<b>Total borrowings</b>	<b>94</b>	<b>-</b>	<b>94</b>	<b>10</b>	<b>-</b>	<b>10</b>

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

**19 Provisions**

	Property provisions £m	Insurance provisions £m	Restructuring £m	Other provisions £m	Total £m
At 8 March 2020	34	32	1	8	75
Additional provisions	96	19	42	1	158
Unused amounts reversed	(2)	-	-	-	(2)
Utilisation of provision	(15)	(16)	(20)	-	(51)
<b>At 6 March 2021</b>	<b>113</b>	<b>35</b>	<b>23</b>	<b>9</b>	<b>180</b>
Current	54	10	23	2	89
Non-current	59	25	-	7	91
At 10 March 2019	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)
<b>At 7 March 2020</b>	<b>34</b>	<b>32</b>	<b>1</b>	<b>8</b>	<b>75</b>
Current	12	12	1	1	26
Non-current	22	20	-	7	49

**Property provisions**

Property Provisions include provisions for onerous contracts which 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. These provisions do not include rent in accordance with IFRS 16, however do include unavoidable costs related to the lease, such as service charges and business rates. The charge for the year is as a result of the store and depot closures which form part of the restructuring programmes announced during the year, as detailed in note 3.

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

**Insurance provisions**

The provision relates to the Group'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.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**19 Provisions (continued)**

**Restructuring provisions**

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

The charge for the year mostly comprises redundancy payments as part of the store and depot closures announced during the year as detailed in note 3, as well as announced head-office restructures during the year.

Other provisions includes provisions for long service awards.

**Significant estimate – provisions**

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

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

	Increase/(decrease) in provisions recognised				
	Property provisions	Insurance provisions	Restructuring	Other provisions	Total
Increase in cash outflows by 5%	5	1	2	-	8
Decrease in cash outflows by 5%	(5)	(1)	(2)	-	(8)

**20 Called up share capital**

	2021 million	2020 million	2021 £m	2020 £m
<b>Called up share capital</b>				
Allotted and fully paid authorised 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
<b>At 8 March 2020</b>	1,616	217	1,833	(10)	(10)
Loss for the year	(125)	-	(125)	-	-
Remeasurements on defined benefit pension schemes (net of tax)	-	(357)	(357)	-	-
Cash flow hedges gains and losses transferred to inventory	-	-	-	2	2
Cash flow hedges effective portion of fair value movements (net of tax)	-	-	-	(27)	(27)
Items reclassified from cash flow hedge reserve	-	-	-	8	8
Share-based payment (net of tax)	24	-	24	-	-
<b>At 6 March 2021</b>	1,515	(140)	1,375	(27)	(27)
<b>At 10 March 2019</b>	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	-	-
<b>At 7 March 2020</b>	1,616	217	1,833	(10)	(10)

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 6 March 2021, 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 Scottish Limited 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).

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

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 were agreed in FY2021 (of which £10 million relates to the Sainsbury's section) and £10 million in FY21/22. No additional cash contributions have been agreed for subsequent years.

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.

## **22 Retirement benefit obligations (continued)**

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. 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 the grounds of a future contribution reduction where schemes are still open to future accrual.

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

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

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

### **Unfunded pension liabilities**

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

	<b>2021</b>	<b>2020</b>
	<b>£m</b>	<b>£m</b>
Excluded from underlying profit before tax:		
Interest cost on pension liabilities <sup>1</sup>	<b>(141)</b>	<b>(211)</b>
Interest income on plan assets	<b>159</b>	<b>242</b>
Total included in finance income (note 6)	<b>18</b>	<b>31</b>
Defined benefit pension scheme expenses	<b>(7)</b>	<b>(6)</b>
Past service cost	<b>(6)</b>	<b>-</b>
Total excluded from underlying profit before tax (note 3)	<b>(13)</b>	<b>(6)</b>
Total income statement credit	<b>5</b>	<b>25</b>

<sup>1</sup> Includes interest of £1 million for the unfunded pension scheme (2020: £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. This was recognised in the year ended 9 March 2019.

On 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments made since 17 May 1990 to ascertain if any additional value is due as a result of GMP equalisation. As a result of this, the Company recognised a further past service cost of £6 million.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**22 Retirement benefit obligations (continued)**

**b) Other comprehensive income**

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

	2021 £m	2020 £m
Return on plan assets, excluding amounts included in interest	(393)	1,301
Actuarial (losses)/gains arising from changes in:		
Finance assumptions <sup>1</sup>	(100)	(1,421)
Demographic assumptions <sup>2</sup>	21	(25)
Experience <sup>3</sup>	59	114
Total actuarial losses	(20)	(1,332)
<b>Total remeasurements</b>	<b>(413)</b>	<b>(31)</b>

<sup>1</sup> Includes £nil loss for the unfunded pension scheme (2020: £3 million loss).

<sup>2</sup> Includes £nil gain for the unfunded pension scheme (2020: £nil gain).

<sup>3</sup> Includes £(1) million gain for the unfunded pension scheme (2020: £3 million gain).

**c) Valuations**

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

	2021 £m	2020 £m
As at the beginning of the year	1,455	1,440
Interest income	18	31
Remeasurement losses	(413)	(31)
Pension scheme expenses	(7)	(6)
Contributions by employer	13	376
Past service charge	(6)	-
Disposal of interest in property partnership	1	(355)
<b>As at the end of the year</b>	<b>1,061</b>	<b>1,455</b>

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

	2021 £m	2020 £m
As at the beginning of the year	(8,935)	(7,675)
Interest cost	(141)	(211)
Remeasurement losses	(20)	(1,332)
Benefits paid	273	283
Past service charge	(6)	-
<b>As at the end of the year</b>	<b>(8,829)</b>	<b>(8,935)</b>
Analysed as:		
Retirement benefit obligations	(8,807)	(8,914)
Unfunded obligations	(22)	(21)

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

	2021 £m	2020 £m
As at the beginning of the year	10,390	9,115
Interest income on plan assets	159	242
Pension scheme expenses	(7)	(6)
Remeasurement (losses)/gains	(393)	1,301
Contributions by employer	13	376
Benefits paid	(273)	(283)
Disposal of interest in property partnership	1	(355)
<b>As at the end of the year</b>	<b>9,890</b>	<b>10,390</b>

## 22 Retirement benefit obligations (continued)

### Investment strategy and risks associated with the Company's defined benefit pension scheme

The Trustee considers that its primary responsibility in respect of investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due. Based on this responsibility and its obligation to manage the investments, its investment objectives are as follows:

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

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

Risk	Description	Mitigation
<b>Longevity Risk</b>	The Scheme pays benefits longer than expected due to Scheme members' increasing life expectancy.	Longevity risk is managed as part of the Scheme's integrated risk management framework. The Scheme monitors longevity risk closely and aims to achieve a sufficient funding level by meeting milestone targets to prepare for members' increasing life expectancy.
<b>Currency Risk</b>	The Scheme's unhedged foreign currency exposure leads to additional volatility for non-sterling denominated assets' returns.	Foreign currency exposure is closely monitored, and hedging programmes are implemented to efficiently control foreign currency risk at reasonable hedging costs.
<b>Investment Strategy Risks</b>	Underperformance of the Defined Benefit investment strategy relative to the Pension Scheme's liabilities reduces the future resources available to meet pension obligations.	The Scheme adopts a liability driven investment framework to generate favourable asset returns with reference to its liabilities by largely removing its interest and inflation uncertainties.
<b>Investment Implementation Risks</b>	Poor execution including investment manager underperformance relative to their objectives leads to lower asset returns relative to pension liabilities.	Over two thirds of investment mandates are passively managed relative to their portfolio benchmarks with limited investment decisions made by managers.
<b>Custody Risks</b>	Inadequate controls lead to inaccurate record keeping and loss of assets through investment fraud.	The top tier global custodian Northern Trust is used to oversee the Scheme's assets. The Trustee also uses an independent third party to review Northern Trust.
<b>Sustainability, including ESG and climate risks</b>	Investment managers have poor ESG, Stewardship and climate risks oversight policies.	The Scheme incorporates ESG, stewardship and other related risks into its Statement of Investment Principles (SIP) and publishes an annual Implementation Statement. Investment managers are requested to confirm whether they operate in line with the Scheme's official policies.
<b>Investment Regulatory Risks</b>	Insufficient training and awareness of regulatory requirements results in non-compliance with regulations	The Scheme is advised by Eversheds Sutherland on legal and regulatory matters, and closely follows changes in regulatory and other legal requirements for pensions and investments. Periodic training is provided to the Investment Committee and advisers by relevant experts.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**22 Retirement benefit obligations (continued)**

<b>Investment Liquidity Risks</b>	Insufficient liquidity to meet ongoing cashflow requirements in respect of member benefit payments.	The Scheme adopts a collateral sufficiency framework which ensures sufficient high quality liquid assets are maintained in order to meet liquidity requirements, even in times of market stress. The Investment Adviser liaises with the Scheme Actuary to understand future cashflow requirements.
<b>Investment Counterparty Risks</b>	Financial losses may be incurred due to failure of counterparties or inability to roll-over derivative positions.	Investment Managers maintain credit limits for all their derivative counterparty exposures and monitor positions over derivative roll dates.

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

	<b>Quoted 2021 £m</b>	<b>Unquoted<sup>1</sup> 2021 £m</b>	<b>Quoted 2020 £m</b>	<b>Unquoted<sup>1</sup> 2020 £m</b>
<b>Equity</b>				
Public	-	-	778	-
Private	-	304	-	317
<b>Bonds<sup>2</sup></b>				
Government Bonds	964	76	1,639	-
Corporate Bonds	4,807	434	4,407	91
Emerging Market Bonds	305	8	445	1
<b>Derivatives<sup>3</sup></b>	164	526	254	567
<b>Alternatives</b>				
Real Estate	-	847	-	920
Private Debt	-	624	-	534
Diversified Growth	-	251	-	245
Cash and Cash equivalents	576	4	212	(20)
	<b>6,816</b>	<b>3,074</b>	<b>7,735</b>	<b>2,655</b>

**Notes**

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

Of the above assets, £3,432 million are denominated in sterling and £6,458 million are denominated in overseas currencies.

**d) Assumptions**

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

	<b>2021 %</b>	<b>2020 %</b>
Discount rate	1.95	1.60
RPI inflation rate	3.15	2.70
CPI inflation rate	2.45	1.70
Future pension increases	2.15 - 3.10	1.65 - 2.70

## **22 Retirement benefit obligations (continued)**

### **Discount rate**

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

### **Inflation**

On 25 November 2020, the Government and UK Statistics Authority's joint consultation response on RPI reform was published. This confirmed their intention to amend the RPI calculation methodology to be aligned to that already in use for the calculation of the CPI (including housing) with effect from 2030.

As a result, the Company has reduced the post 2030 gap between RPI and CPI to nil, effectively assuming RPI will be aligned with CPI post 2030, resulting in a single weighted average RPI-CPI gap of 0.70% p.a. for the 6 March 2021 year-end. The RPI-CPI gap used for the prior year was 1% p.a.

### **Mortality**

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements are Continuous Mortality Improvement (CMI) 2019 projections with a long term rate of improvement of 1.25 per cent p.a. at 2020 and CMI 2020 projections with a long term rate of improvement of 1.25 per cent p.a. at 2021.

While Covid-19 has had an exceptional impact on mortality in 2020, the impact on future mortality trends is currently unknown, very uncertain and so can be reasonably argued in different directions. All IAS 19 calculations use the (CMI) model, which measures potential changes to future mortality trends. The Group's usual approach is to use the latest version if it is released in time for year-end (the 2020 results used the CMI 2018 model). The latest CMI model, CMI 2020, was released on 4<sup>th</sup> March 2021.

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

As a result of this material and unprecedented change in mortality, the CMI modified the calibration process for CMI 2020 to allow choice on the weighting placed on an individual year's data. For the Core version of CMI 2020, a weight of 0% is applied to 2020 data and weightings of 100 per cent for other years, so the potentially exceptional 2020 experience is ignored when modelling future improvements.

The Group has determined that putting a high weighting on the impact of 2020 would potentially undervalue the liabilities, and there is currently insufficient information and data to be able to predict with any certainty the impact of Covid in future trends. A zero per cent weighting has therefore been applied to the 2020 mortality data. The impact of different weightings on the Scheme liabilities is included in the sensitivities section within this note.

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

	<b>Main Scheme</b>	<b>2021 Executive Scheme</b>	<b>2020 Main Scheme</b>	<b>2020 Executive Scheme</b>
Male pensioner	20.0	24.1	20.0	24.1
Female pensioner	23.8	25.3	23.7	25.2

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

	<b>Main Scheme</b>	<b>2021 Executive Scheme</b>	<b>2020 Main Scheme</b>	<b>2020 Executive Scheme</b>
Male pensioner	21.3	25.3	21.3	25.4
Female pensioner	25.3	26.7	25.2	26.7



## **22 Retirement benefit obligations (continued)**

### **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.

<b>Sensitivity analysis</b>	<b>£m</b>
<b>Financial sensitivities</b>	
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	790
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	905
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	558
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	575
An increase of 0.5% in the inflation rate for future pension increases would increase the present value of funded obligations by	337
A decrease of 0.5% in the inflation rate for future pension increases would reduce the present value of funded obligations by	383
<b>Demographic sensitivities</b>	
An increase of one year to the life expectancy would increase the present value of funded obligations by	339
Changing the w2020 parameter in CMI 2020 to w2020=10% would reduce the present value of funded obligations by	65
Changing the w2020 parameter in CMI 2020 to w2020=25% would reduce the present value of funded obligations by	145

The arms' length value of the interest in the Sainsbury's Thistle Scottish Limited Partnership pension asset, as assessed by an independent actuary, is sensitive to the assumption around the Trustee's future investment strategy. The values include an assumption that the investment strategy de-risks, in a linear fashion, over a period broadly aligned with the duration of the section's liabilities. De-risking is a change in the asset allocation to a portfolio in which the funding level volatility is very low. If no de-risking assumption was made, for the accounts ended 6 March 2021, then the value of the plan assets would be £30.1 million lower than with the inclusion of a de-risking strategy.

### **f) Future benefit payments**

The duration of the plan liabilities is around 21 years. The following table provides information on the timing of benefit payments (amounts undiscounted):

	<b>2021</b>
	<b>£m</b>
Within the next 12 months (next annual reporting period)	178
Between 2 and 5 years	831
Between 6 and 15 years	3,215
Between 16 and 25 years	3,722
Beyond 25 years	5,384
<b>Total expected payments</b>	<b>13,330</b>

## **23 Share-based payments**

The Company recognised £24 million (2020: £31 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £nil (2020: £nil) were cash-settled.

The Company operates a number of share-based payment schemes which are consistent with those described in the Group annual report on pages 176 to 178.

### **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 (and historically also five-year) savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price.

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**23 Share-based payments (continued)**

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

	2021		2020	
	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	51.8	190.0	51.3	210.2
Granted	21.9	162.0	20.5	161.0
Forfeited	(9.7)	196.0	(14.0)	223.2
Exercised	(7.7)	186.0	(6.0)	189.2
<b>Outstanding at the end of the year</b>	<b>56.3</b>	<b>179.0</b>	<b>51.8</b>	<b>190.1</b>
Exercisable at the end of the year	5.6	187.0	5.3	194.4
Exercisable price range	161 to 260		185 to 332	

The weighted average share price for options exercised over the year was 217 pence (2020: 211 pence). The weighted average remaining contractual life of options outstanding at 6 March 2021 was 2.2 years (2020: 2.2 years).

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

	2021	2020
Share price at grant date (pence)	226	220
Exercise price (pence)	161	161
Expected volatility	29.9	26.1
Option life	3.2	3.2
Expected dividends (expressed as dividend yield %)	5.1	2.9
Risk-free interest rate	0.1	0.6
Fair value per option	55	59

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.

**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 holding period following the end of the three year performing period. Options granted to acquire the award of shares will expire six years from the date of grant.

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

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**23 Share-based payments (continued)**

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:

	<b>2021</b>	<b>2020</b>
	<b>million</b>	<b>million</b>
Outstanding at the beginning of the year	<b>8.5</b>	7.6
Conditionally allocated	<b>6.5</b>	6.0
Released to participants	<b>(3.6)</b>	(3.6)
Lapsed	<b>(1.2)</b>	(1.5)
<b>Outstanding at the end of the year</b>	<b>10.2</b>	8.5

The weighted average remaining contractual life of share options outstanding at 6 March 2021 was 1.4 years (2020: 1.5 years).

Details of shares conditionally allocated at 6 March 2021 are set out below:

<b>Date of conditional award</b>	<b>2021</b>	<b>2020</b>
	<b>million</b>	<b>million</b>
14 May 2015 (2015 Future Builder)	-	0.2
12 May 2016 (2016 Future Builder)	-	1.6
11 May 2017 (2017 Future Builder)	<b>2.9</b>	1.8
11 May 2018 (2018 Future Builder)	<b>1.7</b>	1.9
9 May 2019 (2018 Future Builder)	<b>2.5</b>	3.0
7 May 2020 (2018 Future Builder)	<b>3.1</b>	-
	<b>10.2</b>	8.5

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:

	<b>2021</b>	<b>2020</b>
Share price at grant date (pence)	<b>199</b>	219
Option life (years)	<b>3 or 4</b>	3 or 4
Fair value per option (pence)	<b>199</b>	219

During the year, a total number of 3.7 million shares were exercised (2020: 3.6 million shares). The weighted average share price during the year for options exercised was 194 pence (2020: 213 pence).

**ii) Deferred Share Award**

The plan is no longer operated, the last awards made under this plan were in 2020/21. The Deferred Share Award targets a diverse range of financial and strategic scorecard measures. These are intended to reward the Directors in the Company, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. Awards are structured as nil cost options.

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

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

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**23 Share-based payments (continued)**

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

	<b>2021</b>	<b>2020</b>
	<b>million</b>	<b>million</b>
Outstanding at the beginning of the year	3.4	3.2
Granted	1.8	2.3
Forfeited	(0.6)	(1.4)
Exercised	(1.5)	(0.7)
<b>Outstanding at the end of the year</b>	<b>3.1</b>	<b>3.4</b>

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

	<b>2021</b>	<b>2020</b>
	<b>million</b>	<b>million</b>
11 May 2018	-	1.5
9 May 2019	1.6	1.9
7 May 2020	1.5	-
	<b>3.1</b>	<b>3.4</b>

The weighted average remaining contractual life of share options outstanding at 6 March 2021 was 0.5 years (2020: 0.6 years). The weighted average share price during the year for options exercised was 195 pence (2020: 215 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.

Senior Management receive 60 per cent of their bonus in cash and 40 percent of the award in shares. Director level management receive 50 percent of their bonus in cash and 50 percent of the award in shares. Before 2021, awards had a three-year deferral period, however awards granted from 2021 now have a deferral period of two years. These awards are automatically released following the end of the deferral period.

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

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

	<b>2021</b>	<b>2020</b>
	<b>million</b>	<b>million</b>
Outstanding at the beginning of the year	10.9	10.0
Granted	1.0	7.1
Exercised in the period	(2.4)	(4.9)
Lapsed	(0.6)	(1.3)
<b>Outstanding at the end of the year</b>	<b>8.9</b>	<b>10.9</b>

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

	<b>2021</b>	<b>2020</b>
	<b>million</b>	<b>million</b>
11 May 2017	-	1.9
11 May 2018	2.8	3.1
09 May 2019	5.3	5.9
07 May 2020	0.8	-
	<b>8.9</b>	<b>10.9</b>

**Sainsbury's Supermarkets Ltd**  
**Notes to the financial statements (continued)**  
**for the 52 weeks to 6 March 2021**

**23 Share-based payments (continued)**

The weighted average remaining contractual life of share options outstanding at 6 March 2021 was 0.8 years (2020: 1.4 years). The weighted average share price during the year for options exercised was 184 pence (2020: 225 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:*

	2021 £m	2020 £m
Dividends and distributions received	-	6
Disposals of joint ventures	-	21
Rental expenses paid	(6)	(6)

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

	2021 £m	2020 £m
<b>Payables</b>		
Other payables	(2)	-

**25 Capital commitments**

During the current financial year, the Company entered into contracts of £82 million (2020: £74 million) for future capital expenditure in relation to property plant and equipment not provided for in the financial statements.

**26 Contingent liabilities**

Along with other retailers, the Company is currently subject to claims from current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. There are currently circa 8,500 equal pay claims from circa 4,430 claimants, in which the claimants are alleging that their work within Sainsbury's stores is of equal value to that of colleagues working in Sainsbury's distribution centres, and that differences in terms and conditions relating to pay are not objectively justifiable. The claimants are seeking the differential back pay based on the higher wages in distribution centres, and the equalisation of wages and terms and conditions on an ongoing basis. The Company believes further claims may be served.

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 Company cannot make any assessment of the likelihood nor quantum of any outcome. No provision has therefore been recognised on the Company's balance sheet. There are substantial factual and legal defences to these claims and the Company intends to defend them vigorously.

**27 Post balance sheet events**

Subsequent to the year-end date, on 9 September 2021 the Company exercised purchase options on 13 leased supermarkets. The purchase options were not included within the lease liabilities at inception of the lease, the Company was not reasonably certain to exercise them. Following the exercise of the options, the respective lease liabilities were remeasured to include the assumed purchase price, leading to an increase in lease liabilities with a corresponding increase to the right-of-use asset. The purchases will be completed in the financial year ended 2 March 2024 when the existing leases end.

The Company has a number of ongoing legal cases in relation to overcharges from payment card processing fees, which largely reflect inter-bank "interchange fees". Subsequent to 6 March 2021 agreements have been reached for two of these. The legal cases have been ongoing for a number of years meaning the conditions existed as at 6 March 2021 and net income of £169 million has been recognised in the current periods financial statements, refer note 3.