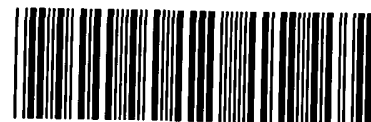

BL Sainsbury Superstores Limited

Annual Report and Financial Statements

Year ended 31 March 2017

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Company number: 06514226

BL Sainsbury Superstores Limited

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for the year ended 31 March 2017**

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BL Sainsbury Superstores Limited

STRATEGIC REPORT for the year ended 31 March 2017

Strategic report

The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

This Strategic Report has been prepared for the group as a whole and therefore gives emphasis to those matters which are significant to BL Sainsbury Superstores Limited and its subsidiary undertakings.

Business review and principal activities

BL Sainsbury Superstores Limited ("the company"), and its subsidiaries (together "the group") operates as a joint venture between Linestair Limited, a subsidiary of The British Land Company PLC, and Sainsbury Property Investment Limited, a subsidiary of J Sainsbury PLC.

The group's principal activity is property investment, in the United Kingdom.

As shown in the group's consolidated income statement on page 6, the group's revenue was £49.1m (2016: £55.2m) and loss on ordinary activities before taxation was £27.8m (2016: £6.2m loss). The loss was driven by a valuation loss on the group's investment property of £46.0m (2016: valuation loss of £36.4m).

The consolidated balance sheet on page 8 shows the group had net assets of £401.0m at 31 March 2017 (2016: £538.8m).

The value of investment properties held as at 31 March 2017 has decreased by 18.7% during the year then ended as shown in note 7 to the consolidated balance sheet. The decrease is predominantly due to the disposal of two investment properties during the year and decreases in the value of the standing investment portfolio. The investment properties were sold for net proceeds of £134.7m, resulting in a gain of £3.4m. The decrease in value of the standing investment portfolio was £46.0m.

The company's balance sheet on page 10 shows the company having net assets of £387.9m at 31 March 2017 (2016: £404.0m).

The expected future developments of the company are determined by the strategy of the group. There are no future developments outside of the company's current operations planned.

Principal risks and uncertainties

This group is a large property investment group. The fundamental underlying risks for this group are as discussed below.

The group generates returns to shareholders through long-term investment decisions requiring the evaluation of opportunities arising in the following areas:

- demand for space from occupiers against available supply;
- differential pricing for premium locations and buildings;
- alternative use for buildings;
- demand for returns from investors in property, compared to other asset classes;
- economic cycles, including their impact on tenant covenant quality, interest rates, inflation and property values;
- price differentials for capital to finance the business;
- legislative changes, including planning consents and taxation; and
- construction pricing and programming.

These opportunities also represent risks, the most significant being change to the value of the property portfolio. This risk has high visibility to the directors of the company and is considered and managed on a continuous basis. The directors use their knowledge and experience to knowingly accept a measured degree of market risk.

The group's preference for prime assets and their secure long term contracted rental income, primarily with upward only rent review clauses, presents lower risks than many other property portfolios.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. In order to manage this risk, management regularly monitors all amounts that are owed to the company to ensure that amounts are paid in full and on time.

Liquidity risk is the risk that the entity will encounter difficulty in raising funds to meet commitments associated with financial liabilities. This risk is managed through day to day monitoring of future cash flow requirements to ensure that the company has enough resources to repay all future amounts outstanding.

The group finances its operations by a mixture of equity and public debt issues. The group borrows in Sterling at fixed rates of interest, which limits its exposure to interest rate risk.

This report was approved by the Board on 29/12/2017 and signed by the order of the board by:



British Land Company Secretarial Limited
Secretary

BL Sainsbury Superstores Limited

DIRECTORS' REPORT for the year ended 31 March 2017

The directors present their report on the affairs of the company and the group, together with the audited financial statements and independent auditors' report for the year ended 31 March 2017.

Directors

The directors who were in office during the year and up to the date of signing the financial statements were:

M Burke
D Clegg
G Cowen
B Grose (resigned 19 October 2017)
B Lewis (resigned 19 October 2017)
S Moore (resigned 25 November 2016)
D O'Loan (resigned 22 December 2016)
H Shah
W Atkinson (appointed 19 October 2017)
L Francis (appointed 19 January 2017)
J Honeyman (appointed 19 October 2017)
S Nelson (appointed 22 December 2016)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. 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 group and the company and of the profit or loss of the company and group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and Financial Reporting Standard 101 Reduced Disclosure Framework have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors 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 Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Dividends

Dividends of £108.7m (2016: £19.3m) were paid in the year.

Significant events since the balance sheet date

Details of significant events since the balance sheet date, if any, are contained in note 17.

Going concern

The directors consider the company and the group to be a going concern and the accounts are prepared on this basis. Details of this are shown in note 1 of the financial statements.

BL Sainsbury Superstores Limited

DIRECTORS' REPORT (CONTINUED)
for the year ended 31 March 2017

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

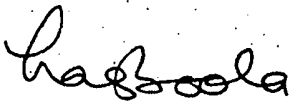
- (a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the next Board meeting.

This report was approved by the Board on 19/12/2017 and signed by the order of the board by:



British Land Company Secretarial Limited
Secretary

BL Sainsbury Superstores Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BL SAINSBURY SUPERSTORES LIMITED for the year ended 31 March 2017

Report on the financial statements

Our opinion

In our opinion:

- BL Sainsbury Superstores Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's loss and cash flows for the year then ended;
- the group's financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Consolidated Balance Sheet as at 31 March 2017;
- the Company Balance Sheet as at 31 March 2017;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the group financial statements is IFRSs as adopted by the European Union, and applicable law. The financial reporting framework that has been applied in the preparation of the parent company financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter 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 the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group, the parent company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

BL Sainsbury Superstores Limited

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
BL SAINSBURY SUPERSTORES LIMITED (CONTINUED)
for the year ended 31 March 2017**

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

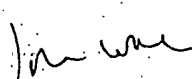
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.


John Waters (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

19 December 2017

BL Sainsbury Superstores Limited**CONSOLIDATED INCOME STATEMENT
for the year ended 31 March 2017**

	Note	2017 £m	2016 £m
Revenue	2	49.1	55.2
Property outgoings		(0.1)	(0.2)
Gross profit		49.0	55.0
Administrative expenses		(0.6)	(0.7)
Operating profit		48.4	54.3
Profit on disposal of investment properties	7	3.4	4.9
Revaluation of investment properties	7	(46.0)	(36.4)
Profit on ordinary activities before interest and taxation		5.8	22.8
Interest receivable and similar income	5	0.1	0.1
Interest payable and similar charges	5	(33.7)	(29.1)
Loss on ordinary activities before taxation	3	(27.8)	(6.2)
Tax on loss on ordinary activities	6	(1.3)	(2.3)
Loss for the year after taxation attributable to shareholders of the company		(29.1)	(8.5)

Turnover and results are derived from continuing operations within the United Kingdom. The group has only one significant class of business, that of property investment.

The notes on pages 13 to 25 form part of these financial statements.

BL Sainsbury Superstores Limited

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 March 2017**

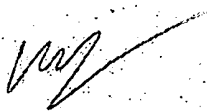
	2017 £m	2016 £m
Loss for the year	(29.1)	(8.5)
Total comprehensive expense for the year	<u>(29.1)</u>	<u>(8.5)</u>

The notes on pages 13 to 25 form part of these financial statements.

BL Sainsbury Superstores Limited**CONSOLIDATED BALANCE SHEET
for the year ended 31 March 2017**

	Note	2017 £m	2016 £m
ASSETS			
Non-current assets			
Investment properties	7	769.1	946.4
Total non-current assets		769.1	946.4
Current assets			
Trade and other receivables	9	0.1	0.4
Cash and deposits		17.2	80.3
Total current assets		17.3	80.7
Total assets		786.4	1,027.1
LIABILITIES			
Current liabilities			
Trade and other payables	10	(41.2)	(70.2)
Total current liabilities		(41.2)	(70.2)
Non-current liabilities			
Financial liabilities	11	(344.2)	(418.1)
Total non-current liabilities		(344.2)	(418.1)
Total liabilities		(385.4)	(488.3)
NET ASSETS		401.0	538.8
EQUITY			
Called up share capital	13	-	-
Share premium		285.6	360.6
Retained earnings		115.4	178.2
TOTAL EQUITY		401.0	538.8

The financial statements of BL Sainsbury Superstores Limited, company number 06514226, on pages 6 to 25, were approved by the Board of Directors and authorised for issue on 29/12/17 and signed on its behalf by:


 Director
 Company number 06514226
H-SHAH

The notes on pages 13 to 25 form part of these financial statements.

BL Sainsbury Superstores Limited

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2017**

	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2016	-	360.6	178.2	538.8
Loss for the year	-	-	(29.1)	(29.1)
Total comprehensive income for the year	-	-	(29.1)	(29.1)
Dividends	-	-	(108.7)	(108.7)
Share premium reduction	-	(75.0)	75.0	-
Balance at 31 March 2017	-	285.6	115.4	401.0

	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2015	-	360.6	206.0	566.6
Loss for the year	-	-	(8.5)	(8.5)
Total comprehensive income for the year	-	-	(8.5)	(8.5)
Dividends	-	-	(19.3)	(19.3)
Balance at 31 March 2016	-	360.6	178.2	538.8

The notes on pages 13 to 25 form part of these financial statements.

BL Sainsbury Superstores Limited**COMPANY BALANCE SHEET
as at 31 March 2017**

	Note	2017 £m	2017 £m	2016 £m	2016 £m
Fixed assets					
Investments	8		321.4		321.4
			321.4		321.4
Current assets					
Debtors	9	106.9		110.2	
Cash and deposits		2.9		1.0	
		109.8		111.2	
Creditors due within one year	10	(43.3)		(28.6)	
Net current assets			66.5		82.6
Total assets less current liabilities			387.9		404.0
Net assets			387.9		404.0
Capital and reserves					
Called up share capital	13		-		-
Share premium			285.6		360.6
Retained earnings			102.3		43.4
Total equity			387.9		404.0

The company has not presented its own income statement as permitted by Section 408 of the Companies Act 2006. The profit on ordinary activities after taxation for the financial year was £92.6m (2016: £8.7m profit).

The financial statements of BL Sainsbury Superstores Limited, company number 06514226, on pages 6 to 25, were approved by the Board of Directors and authorised for issue on 21/12/17 and signed on its behalf by:



Director
Company number 06514226

H-SHAH

The notes on pages 13 to 25 form part of these financial statements.

BL Sainsbury Superstores Limited

**COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2017**

	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2016	-	360.6	43.4	404.0
Profit for the year	-	-	92.6	92.6
Total comprehensive income for the year	-	-	92.6	92.6
Dividends	-	-	(108.7)	(108.7)
Share premium reduction	-	(75.0)	75.0	-
Balance at 31 March 2017	-	285.6	102.3	387.9

	Share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2015	-	360.6	54.0	414.6
Profit for the year	-	-	8.7	8.7
Total comprehensive income for the year	-	-	8.7	8.7
Dividends	-	-	(19.3)	(19.3)
Balance at 31 March 2016	-	360.6	43.4	404.0

The notes on pages 13 to 25 form part of these financial statements.

As a result of the investment properties disposal, £134.7m of cash was paid to BL Sainsbury Superstores Limited in August 2016. After repayment of debt, break costs and deal costs, £75m of share premium was transferred to Retained earnings.

BL Sainsbury Superstores Limited

**CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 March 2017**

	2017 £m	2016 £m
Cash generated from operating activities		
Cash generated from operating activities	47.1	54.6
Interest received	0.1	-
Interest paid	(22.0)	(24.3)
UK corporation tax	(1.0)	(2.1)
	<u>24.2</u>	<u>28.2</u>
Cash flows from investing activities		
Disposal of investment properties	134.7	63.1
	<u>134.7</u>	<u>63.1</u>
Cash flows used in financing activities		
Dividend paid	(108.7)	(19.3)
Redemption of bonds	(95.9)	(16.4)
Break costs on sale of investment properties	(17.4)	-
	<u>(222.0)</u>	<u>(35.7)</u>
Net (decrease)/increase in cash	<u>(63.1)</u>	<u>55.6</u>
Cash and cash equivalents at the beginning of the year	80.3	24.7
Cash and cash equivalents at the end of the year	<u><u>17.2</u></u>	<u><u>80.3</u></u>

Notes to the Cash Flow Statement

Reconciliation of operating profit to cash generated from operations

	2017 £m	2016 £m
Operating profit	48.4	54.3
Net decrease in debtors	0.7	0.8
Net decrease in creditors	(2.0)	(0.5)
	<u>47.1</u>	<u>54.6</u>
Cash generated from operations		

The notes on pages 13 to 25 form part of these financial statements.

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2017

1. Accounting policies

Group financial statements

Basis of preparation

BL Sainsbury Superstores Limited ("the company") is a company incorporated and domiciled in the United Kingdom under Companies Act 2006. The address of the registered office is York House, 45 Seymour Street, London, W1H 7LX.

The principal accounting policies adopted by the directors are summarised below. They have been applied consistently throughout the current year and previous year.

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

Measurement convention

The financial statements are prepared on the historical cost basis except investment property which is stated at fair value. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Going concern

These financial statements have been prepared on the going concern basis. The group is in a net asset position. Having reviewed the company's forecast working capital and cash flow requirements, in addition to making enquiries and examining areas described within the risk management section of the Strategic Report, which could give rise to financial exposure, the directors have a reasonable expectation that the company has adequate resources to continue its operations for the foreseeable future. As a result they continue to adopt the going concern basis in preparing the financial statements.

Critical accounting judgments and key sources of estimation uncertainty

The key source of estimation and uncertainty relates to the valuation of the property portfolio, where an external valuation is obtained. The potential for management to make judgements or estimates relating to these that would have a significant impact on the financial statements is considered, by the nature of group business, to be limited.

Adoption of new and revised standards

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective for the current period. None of these are expected to have a material impact on the financial statements of the group.

Consolidation

The consolidated financial statements include the results of the company and all subsidiaries.

Investment properties

Properties are externally valued on an open market basis at the balance sheet date. Investment and development properties are recorded at fair value.

Any surplus or deficit arising on revaluing investment properties is recognised in the income statement.

Disposals are recognised on completion; profits and losses arising are recognised through the income statement, the profit on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset at the commencement of the accounting year plus capital expenditure in the period.

In determining whether leases and related properties represent operating or finance leases, consideration is given to whether the tenant or landlord bears the risks and rewards of ownership.

Investments

Fixed asset investments are stated at the lower of cost and the underlying net asset value of the investments.

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

1. Accounting policies (continued)

Interest payable and receivable

Interest payable and receivable is recognised as incurred under the accruals concept. Interest payable includes financing charges which are spread over the period to redemption using the effective interest method. Commitment fees on non-utilised facilities are also included within interest payable.

Financial assets and liabilities

Head leases

Where an investment property is held under a head lease it is initially recognised as an asset as the sum of the premium paid on acquisition and the present value of minimum ground rent payments. The corresponding rent liability to the head leaseholder is included in the balance sheet as a finance lease obligation.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments

Investments in joint ventures, associates and subsidiaries are carried at cost less impairment.

Cash and cash equivalents

Cash equivalents are limited to instruments with a maturity of less than three months. Cash and cash equivalents comprise cash balances.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method.

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 March 2017

1. Accounting policies (continued)

Revenue recognition

Rental income is recognised on an accruals basis. A rent adjustment based on open market estimated rental value is recognised from the rent review date in relation to unsettled rent reviews. Where a rent-free period is included in a lease, the rental income foregone is allocated evenly over the period from the date of lease commencement to the earliest termination date.

Rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis to earliest termination date. Where such rental income is recognised ahead of the related cash flow, an adjustment is made to ensure the carrying value of the related property including the accrued rent does not exceed the external valuation.

Initial direct costs incurred in negotiating and arranging a new lease are amortised on a straight-line basis over the period from the date of lease commencement to the earliest termination date.

Where a lease incentive payment, including surrender premiums paid, does not enhance the value of a property, it is amortised on a straight-line basis over the period from the date of lease commencement to the earliest termination date. Upon receipt of a surrender premium for the early determination of a lease, the profit, net of dilapidations and non-recoverable outgoings relating to the lease concerned is immediately reflected in income.

Taxation

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Taxable loss differs from net loss as reported in the income statement because it excludes items of income or expense that are not taxable (or tax deductible).

In particular the group (including this company) became a REIT on 1 January 2007 and income and gains on qualifying assets are now exempt from taxation. On 26 March 2008, the sale of 50% of the group to a non-REIT entity resulted in now only 50% of the income and gains on qualifying assets being exempt from taxation.

Deferred tax is provided on items that may become taxable at a later date, on the difference between the balance sheet value and tax base value, on an undiscounted basis. On business combinations, the deferred tax effect of fair value adjustments is incorporated in the consolidated balance sheet.

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 March 2017

1. Accounting policies (continued)

Company financial statements

Basis of preparation

The financial statements have been prepared under the historical cost convention.

The separate company financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) The requirements of IAS 1 to provide a Balance Sheet at the beginning of the year in the event of a prior year adjustment;
- (b) The requirements of IAS 1 to provide a Statement of Cash flows for the year;
- (c) The requirements of IAS 1 to provide a statement of compliance with IFRS;
- (d) The requirements of IAS 1 to disclose information on the management of capital;
- (e) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose new IFRSs that have been issued but are not yet effective;
- (f) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (g) The requirements of paragraph 17 of IAS 24 Related Party Disclosures to disclose key management personnel compensation;
- (h) The requirements of IFRS 7 to disclose financial instruments; and
- (i) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs.

Investments

Investments in subsidiaries are stated at cost less provision for impairment.

Current taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Profit for the year attributable to the members of BL Sainsbury Superstores Limited

The company has taken advantage of section 408 of the Companies Act 2006 and consequently an income statement for the company alone is not presented. The profit of the parent company for the year was £92.6m (2016: £8.7m profit).

2. Revenue

Revenue represents rental income and is wholly attributable to the principal activity of the group which operates solely in the United Kingdom.

	2017 £m	2016 £m
Rental income	49.1	55.2
Total revenue	49.1	55.2

BL Sainsbury Superstores Limited

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017**

3. Profit(loss) on ordinary activities before taxation

A charge of £66,600 for the group is payable to PricewaterhouseCoopers LLP in respect of the audit of the financial statements for the year ended 31 March 2017 (2016: £70,600).

No non-audit fees were paid to PricewaterhouseCoopers LLP.

4. Staff numbers and costs

No directors or employees received remuneration from the group during the current or comparative year. The remuneration of directors was borne by another company, for which no apportionment or recharge was made.

Average number of employees, excluding directors, of the group during the year was nil (2016: nil).

5. Finance costs

	2017 £m	2016 £m
Interest payable on		
Bank loans and overdrafts	(0.9)	(1.0)
Bonds	(20.1)	(23.2)
Break costs on sale of investment properties	(12.6)	(4.8)
	<u>(33.6)</u>	<u>(29.0)</u>
 Amortisation of issue costs	 (0.1)	 (0.1)
Total interest payable	<u>(33.7)</u>	<u>(29.1)</u>
 Interest receivable on		
Deposits, securities and liquid investments	0.1	0.1
Total interest receivable	<u>0.1</u>	<u>0.1</u>

6. Taxation on loss on ordinary activities

	2017 £m	2016 £m
Current tax		
UK corporation tax	1.3	2.3
Total taxation charge	<u>1.3</u>	<u>2.3</u>

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained on the following page.

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **for the year ended 31 March 2017**

6. Taxation on loss on ordinary activities (continued)

Tax reconciliation

	2017 £m	2016 £m
Loss on ordinary activities before taxation	(27.8)	(6.2)
Tax on loss on ordinary activities at UK corporation tax rate of 20% (2016: 20%)	(5.6)	(1.2)
Effects of:		
REIT exempt income and gains	(1.6)	(2.8)
Expense not deductible/(income not taxable) for tax purposes	-	(1.0)
Decrease in fair value of investment property	8.5	7.3
Total tax charge	1.3	2.3

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. A further reductions to 17% (effective from 1 April 2020) substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the Balance Sheet date, where relevant.

7. Investment properties

	Freehold £m	Long leasehold £m	Total £m
Group			
At valuation			
1 April 2016	588.2	358.2	946.4
Additions	-	0.1	0.1
Disposals	(62.0)	(69.3)	(131.3)
Movement in lease incentives and rent review receivables	-	(0.1)	(0.1)
Revaluation deficit included in consolidated Income Statement	(28.9)	(17.1)	(46.0)
31 March 2017	497.3	271.8	769.1
1 April 2015	614.3	424.6	1,038.9
Disposals	-	(56.0)	(56.0)
Movement in lease incentives and rent review receivables	-	(0.1)	(0.1)
Revaluation deficit included in consolidated Income Statement	(26.1)	(10.3)	(36.4)
31 March 2016	588.2	358.2	946.4
Analysis of cost and valuation			
31 March 2017			
Cost	546.9	286.8	833.7
Revaluation	(49.6)	(15.0)	(64.6)
Net book value	497.3	271.8	769.1
1 April 2016			
Cost	597.6	340.6	938.2
Revaluation	(9.4)	17.6	8.2
Net book value	588.2	358.2	946.4

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 March 2017

7. Investment properties (continued)

The different valuation method levels are defined below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

These levels are specified in accordance with IFRS 13 'Fair Value Measurement'. Property valuations are inherently subjective as they are made on the basis of assumptions made by the valuer which may not prove to be accurate. For those reasons, we have classified the valuations of our property portfolio as Level 3 as defined by IFRS 13. Some of the inputs to the valuations are defined as "unobservable" by IFRS 13 and the significant inputs are analysed in the table below.

Investment properties are valued by adopting the "investment method" of valuation. This approach involves applying capitalisation yields to current and estimated future rental streams net of income voids arising from vacancies and rent-free periods and associated running costs. These capitalisation yields and rental values are based on comparable property and leasing transactions in the market, using the valuers' professional judgement. Other factors taken into account in the valuations include the tenure of the property, tenancy details and ground and structural conditions. Properties were valued as at 31 March 2017 by Knight Frank LLP.

Properties valued at £761.6m (2016: £938.4m) were charged to secure the borrowings of BL Superstores Finance PLC. BL Superstores Finance PLC is a subsidiary within the group.

Information about fair value measurements using unobservable inputs (Level 3):

	Fair value at 31 March 2017 £m	Valuation methodology	ERV per sq ft Average £	Equivalent yield Average %
UK Retail	769.1	Investment methodology	21	5.5

Information about future aggregate minimum rentals receivable under non-operating leases

The group leases out all of its investment properties under operating leases. The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Less than one year	47.2	52.8
Between one and five years	188.8	211.3
Greater than five years	265.4	506.3
Total	501.4	770.4

The group disposed of two Superstores occupied by Sainsbury's at Chiswick and Croydon on 23 August 2016. The sales were for net proceeds of £134.7m resulting in a gain of £3.4m.

BL Sainsbury Superstores Limited
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

8. Investments

Company		Shares in subsidiaries £m
At cost or underlying net asset value of investment		
1 April 2016		321.4
31 March 2017		321.4
Provision for underlying net asset change		
1 April 2016		-
31 March 2017		-
At cost		
31 March 2017		321.4
31 March 2016		321.4

Subsidiaries

The principal undertakings of BL Sainsbury Superstores Limited at 31 March 2017, all of which are wholly owned and included in the consolidated financial statements, are shown below. The registered office of each company is York House, 45 Seymour Street, London, W1H 7LX.

Company name	Principal activity	Country	Holding of ordinary shares
Penicilscreen Limited *	Investment holding	United Kingdom	100%
BLSSP Property Holdings Limited *	Investment holding	United Kingdom	100%
BL Superstores Finance Plc	Finance	United Kingdom	100%
BLSSP (Lending) Limited	Finance	United Kingdom	100%
BLSSP (Cash Management) Limited	Cash Management	United Kingdom	100%
BL Superstores (Funding) Limited	Finance	United Kingdom	100%
BLSSP (PHC 1) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 2) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 3) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 4) Limited **	Property investment	United Kingdom	100%
BLSSP (PHC 5) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 6) Limited **	Property investment	United Kingdom	100%
BLSSP (PHC 9) Limited **	Property investment	United Kingdom	100%
BLSSP (PHC 10) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 11) Limited **	Property investment	United Kingdom	100%
BLSSP (PHC 12) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 14) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 15) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 17) Limited **	Property investment	United Kingdom	100%
BLSSP (PHC 19) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 20) Limited	Dominant	United Kingdom	100%
BLSSP (PHC 21) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 22) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 23) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 24) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 25) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 28) Limited **	Property investment	United Kingdom	100%
BLSSP (PHC 29) Limited	Dominant	United Kingdom	100%
BLSSP (PHC 32) Limited	Property investment	United Kingdom	100%

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **for the year ended 31 March 2017**

8. Investments (continued)

Company name	Principal activity	Country	Holding of ordinary shares
BLSSP (PHC 33) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 34) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 35) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 1 2010) Limited	Property investment	United Kingdom	100%
BLSSP (PHC 2 2010) Limited **	Property investment	United Kingdom	100%
BLSSP (PHC 2012 1) Limited	Property investment	United Kingdom	100%
British Land Superstores (Non-Securitisised) Limited	Investment holding	United Kingdom	100%
BLS Non-Securitisised 2012 2 Limited	Dormant	United Kingdom	100%
BL Non Securitisised 2012 1 Limited	Property investment	United Kingdom	100%
Selected Land and Property Company (Unlimited)	Dormant	United Kingdom	100%
Clarendon Property Company (Unlimited)	Dormant	United Kingdom	100%
Vyson (Unlimited)	Dormant	United Kingdom	100%
Ten Fleet Place (Unlimited)	Dormant	United Kingdom	100%
BL Crawley (Unlimited)	Dormant	United Kingdom	100%

* The shares are directly owned by the company.

** Investment properties disposed subsequent to year end.

9. Trade and other receivables - current

Group	2017 £m	2016 £m
Prepayments and accrued income	0.1	0.4
	<u>0.1</u>	<u>0.4</u>
Company	2017 £m	2016 £m
Amounts owed from group companies	106.9	110.2
	<u>106.9</u>	<u>110.2</u>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. As at 31 March 2017, there were no trade and other receivables outside their payment term provided for (2016: nil).

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

10. Trade and other payables - current

	2017	2016
	£m	£m
Group		
Bonds (see note 11)	22.4	44.1
Corporation tax	0.6	0.3
Other taxation and social security	2.3	2.6
Accruals and deferred income	15.9	23.2
	41.2	70.2
	2017	2016
	£m	£m
Company		
Amounts owed to group companies - current account	42.7	28.2
Corporation tax	0.4	0.2
Accruals and deferred income	0.2	0.2
	43.3	28.6

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2017

11. Non-current liabilities - Net debt

Group

Secured bonds

	2017 £m	2016 £m
Class A2 4.482% Bonds due 2030	172.8	218.9
Class B2 5.270% Bonds due 2030	145.4	195.2
Class B3 5.578% Bonds due 2030	49.0	49.0
	367.2	463.1
Capitalised borrowing costs	(0.6)	(0.9)
Gross debt	366.6	462.2
Cash and short-term deposits	(17.2)	(80.3)
Net debt	349.4	381.9

Maturity analysis of net debt

Group

	2017 £m	2016 £m
Repayable within one year	22.4	44.1
Due: one to two years	24.0	26.0
two to five years	83.0	89.8
after five years	237.2	302.3
	344.2	418.1
Gross debt	366.6	462.2
Cash and short-term deposits	(17.2)	(80.3)
Net debt	349.4	381.9

At 31 March 2017, there were no floating rate bonds. The bonds amortise between 2008 to 2025, and are secured on the properties of the group valued at £761.6m (2016: £938.4m). The weighted average interest rate of the bonds is 4.94% (2016: 4.93%). The weighted average maturity of the bonds is 5.90 years (2016: 6.54 years).

In April 2016, £24.0m of bonds were repaid, relating to the disposal of an investment property in the prior year.

In October 2016 £52.9m of bonds were repaid, relating to the disposal of two investment properties during the year.

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) for the year ended 31 March 2017

11. Non-current liabilities - Net debt (continued)

Comparison of market values and book values and fair value hierarchy

Group

Comparison of market values and book values and fair value hierarchy.

The table below provides a comparison of market value and book value along with the classification per the fair value hierarchy. The different levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level	2017 Market value £m	2017 Book value £m	2016 Market value £m	2016 Book value £m
Secured bonds	2	424.1	366.6	514.0	462.2
		<u>424.1</u>	<u>366.6</u>	<u>514.0</u>	<u>462.2</u>

The fair values of the bonds have been established by obtaining quoted market prices from brokers.

12. Financial instruments

Risk Management

Capital risk management:

The group finances its operations by a mixture of equity and public debt issues to ensure that finance is available to support the property strategy of the group.

The approach adopted has been to engage in debt financing with long term maturity dates and as such the bonds issued are due between 2025 and 2030. Including debt amortisation 64.7% (2016: 65.4%) of the total borrowings is due for payment after 5 years. There are no immediate debt refinancing requirements.

The group maintains an undrawn revolving liquidity facility which provides financial liquidity. At 31 March 2017 this facility was £115.0m (2016: £115.0m).

Details of bond covenants are outlined in The Bonds Offering Circular, accessible via <http://www.britishland.com/investors/strategic-partnerships/bl-superstores-finance.aspx>.

Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The carrying amount of financial assets recorded in the financial statements represents the company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Cash and deposits at 31 March 2017 amounted to £17.2m (2016: £80.3m) and were placed with a UK financial institution with a BBB+ credit rating. At 31 March 2017, prior to taking account of any offset arrangements, the largest combined credit exposure to a single counterparty arising from money market deposits and derivatives was £nil (2016: £nil).

In order to manage this risk, management regularly monitors all amounts that are owed to the group to ensure that amounts are paid in full and on time.

BL Sainsbury Superstores Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) **for the year ended 31 March 2017**

12. Financial instruments (continued)

Liquidity risk:

Liquidity risk is the risk that the entity will encounter difficulty in raising funds to meet commitments associated with financial liabilities. This risk is managed through day to day monitoring of future cash flow requirements to ensure that the group has enough resources to repay all future amounts outstanding.

Interest rate risk:

The group borrows in Sterling at fixed rates of interest, thus the exposure to interest rate volatility is limited.

13. Share capital

	2017 £	2016 £
Issued share capital - allotted, called up and fully paid		
A shares of £1 each issued to Sainsbury Property Investments Limited	1,000	1,000
B shares of £1 each issued to Linestair Limited	1,000	1,000
C shares of £1 each issued to Linestair Limited	2,200	2,200
Balance as at 1 April and as at 31 March: 4,200 shares	4,200	4,200

14. Capital commitments

The company had capital commitments contracted as at 31 March 2017 of £nil (2016: £nil).

15. Contingent liabilities

BL Sainsbury Superstores Limited, British Land Superstores (Non-Securitised) and its subsidiaries are part of the same VAT group and are jointly liable for all monies falling due under this registration.

16. Related parties

Related party disclosures noted below are in respect of transactions between the group and its related parties as defined by International Accounting Standard 24.

During the year rent received from Sainsbury's Supermarkets Limited, a subsidiary of J Sainsbury PLC, amounted to £49.1m (2016: £55.2m).

Management fees of £0.3m (2016: £0.3m) were paid to British Land Property Management Limited during the year. Administration fees of £0.2m (2016: £0.2m) were paid to The British Land Company PLC during the year.

17. Subsequent events

On 24 May 2017 six investment properties of the group were sold to third parties for £138.8m.

On 1 December 2017 one investment property was sold to a third party for £36.3m.

18. Immediate parent and ultimate holding company

BL Sainsbury Superstores Limited is a joint venture between Linestair Limited, which is a wholly owned subsidiary of The British Land Company PLC, and Sainsbury Property Investments Limited, which is a wholly owned subsidiary of J Sainsbury PLC, which are incorporated in Great Britain.