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J Sainsbury plc
Annual report and financial statements 2009

Also online...

An illustrated review of Sainsbury's during the 2008/09 financial year is also online at our corporate website or through the direct website address www.j-sainsbury.co.uk/illustratedreview

This annual report is also available online at www.j-sainsbury.co.uk. By providing information online we are reducing the amount of paper printed and distributed and last year the majority of our shareholders chose to receive information online helping us to save 26 tonnes of paper. If you would like to receive this document electronically in the future rather than in print please contact Computershare (see page 94 for details).

Business review

Sainsbury's celebrates its 140th anniversary this month and we do so from a position of increasing fitness and strength. We have made fundamental improvements to our operation over the last few years, but one thing has not changed: our commitment to the values that have underpinned our business throughout our history. Our passion for great food at fair prices, our commitment to customers, colleagues and suppliers and our strong ethical approach to business. This is the heart of our brand and it has helped our strong continued improvement.

About Sainsbury's

J Sainsbury plc was founded in 1869 and today comprises 502 supermarkets and 290 convenience stores. It jointly owns Sainsbury's Bank with Lloyds Banking Group and has two property joint ventures with Land Securities Group PLC and The British Land Company PLC.

The Sainsbury's brand is built upon a heritage of providing customers with healthy, safe, fresh and tasty food. Quality and fair prices go hand-in-hand with a responsible approach to business. Sainsbury's stores have a particular emphasis on fresh food and we strive to innovate continuously and improve products in line with customer needs.

We now serve over 18 million customers a week and have a market share of around 16 per cent. Our large stores offer around 30,000 products and we offer complementary non-food products and services in many of our stores. An internet-based home delivery shopping service is also available to 88 per cent of UK households.

	2009 £m	2008 £m
Sales (including VAT)	**20,383**	19,287
Sales (excluding VAT)	**18,911**	17,837
Underlying operating profit	**616**	535
Underlying profit before tax	**543**	488
Profit before tax	**466**	479
Profit after tax	**289**	329
Underlying basic earnings per share	**22.1p**	19.6p
Basic earnings per share	**16.6p**	19.1p
Proposed dividend per share	**13.2p**	12.0p

Notes

Like-for-like sales: Like-for-like sales are Easter adjusted for comparative purposes. 2008/09 included an Easter Sunday trading week, 2007/08 included two Good Friday trading weeks and an Easter Sunday trading week.

Underlying operating profit: Underlying profit before tax from continuing operations before underlying net finance costs and share of underlying post-tax results from joint ventures.

Underlying profit before tax: Profit before tax from continuing operations before any profit or loss on sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements and one-off items that are material and infrequent in nature. In the prior financial year, these one-off items were the costs relating to an approach from Delta Two, the costs associated with the Office of Fair Trading dairy inquiry and fair value gain on other financial asset.

Underlying basic earnings per share: Profit after tax from continuing operations attributable to ordinary shareholders before any profit or loss on sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements and one-off items that are material and infrequent in nature, divided by the weighted average number of ordinary shares in issue during the period, excluding those held by the ESOP trusts, which are treated as cancelled.

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout the Annual Report and Financial Statements and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Chairman's statement

This is another good set of results for Sainsbury's with continuing growth in sales and tight cost control leading to further improvements in profit. Underlying profit before tax for the year was up 11.3 per cent to £543 million with underlying basic earnings per share up 12.8 per cent to 22.1 pence. As a result of this further improvement in profitability, the Board is recommending a final dividend of 9.6 pence per share, making a full year dividend of 13.2 pence, an increase of ten per cent over the previous year. This dividend is covered 1.67 times by earnings in line with our long-term policy for dividend cover of 1.50 to 1.75 times.

This year's performance is pleasing for two particular reasons. Firstly, many commentators believed Sainsbury's would be relatively poorly placed for the expected decline in consumer confidence in the UK. 2008 was a year in which growth expectations throughout the world worsened. But while consumer confidence in the UK declined, our performance improved during the year as a result of the strength and resilience of our brand and the actions we took to develop our offer to changing customer trends.

Our universal customer appeal, part of our 'Making Sainsbury's Great Again' ("MSGA") recovery plan, stood us in very good stead but the team also did a great job during the year, extending our entry price point 'basics' range, relaunching core 'own label' products for which Sainsbury's is justly famous, running marketing campaigns such as 'Feed your Family for a Fiver', increasing promotional activity and implementing many other initiatives to boost revenues and control costs. The second reason why the performance was pleasing is that the year marks the end point for the management incentives in the MSGA recovery plan set out in 2004. The targets set in 2004 were widely held to be challenging and in some quarters unrealistic, but have been achieved.

In the current environment there is much discussion about inappropriate management incentives but I believe Sainsbury's recovery is a persuasive example of how reaching strategic goals can be aided by appropriate reward structures, aligning interests of all key stakeholders. In our case, customers and colleagues have benefited from our trading recovery, our top 1,000 managers have achieved good rewards and our shareholders too are participating in our improved performance, despite the recent sharp declines in stock market values worldwide.

In the UK, high levels of government and consumer debt will impact customer attitudes and put business conditions under pressure for some while. This is the market within which we have to operate and we must continue to develop our business appropriately. The grocery sector tends to be relatively well-placed in weaker economic conditions as most people are inclined to prioritise their weekly food shop over more discretionary expenditure. They will however insist on great food and fair prices. Sainsbury's long heritage of offering great product quality, competitive pricing and integrity of sourcing is integral to how we do business and our values are just as relevant today, as we celebrate our 140th anniversary, as they were when we set up shop in 1869.

The last year or so has been dominated by the worldwide slowdown in economic growth triggered by the 'credit crunch' affecting banks and other financial institutions in many countries, and notably the UK. It would be wrong to suggest the Board foresaw the depth and intensity of the financial crisis, but it is true that our solid financial position is a clear advantage in current conditions. In March 2006 almost all Sainsbury's debt was put on a low-cost long-term basis, maturing in 2018 and 2031 and so our need for short-term bank finance is very limited.

We continue to be active in the management of our extensive property assets, with a successful programme of selling the freeholds of properties with limited development potential in order to direct investment to stores which can be extended or otherwise developed in the interests of shareholders. Our joint venture with British Land unlocks significant opportunity to develop a number of our most important stores and deliver an improved customer offer.

I believe we are well positioned to continue our good progress and we have identified opportunities for further growth. While food remains at the heart of Sainsbury's offer, non-food ranges are playing an increasingly important role in our growth. Half our new space is dedicated to non-food and we will be launching non-food offer online during the first half of 2009/10.

Finally, towards the end of 2008 I indicated to the Board that I believed it would be prudent to consider the succession planning for Sainsbury's chairman. Having completed five years in the role, a search for my successor is now being undertaken. The business is in a fundamentally stronger competitive position than in 2004 and is in the hands of an experienced and well-established Board, a fine management team and 150,000 committed colleagues. I am confident Sainsbury's will continue to prosper in these more challenging times.

Philip Hampton
Chairman

Corporate objectives

Corporate objectives

The Company's 'Recovery to Growth' plan spans from March 2007 to March 2010 and has five areas of focus:

- **Great food at fair prices:** To build on and stretch the lead in food. By sharing customers' passion for healthy, safe, fresh and tasty food, Sainsbury's will continue to innovate and provide leadership in delivering quality products at fair prices, sourced with integrity.
- **Accelerating the growth of complementary non-food ranges and services:** To continue to accelerate the development of non-food ranges and services following the principles of quality and value and to provide a broader shopping experience for customers.
- **Reaching more customers through additional channels:** To extend the reach of Sainsbury's brand by opening new convenience stores and developing the online home delivery operation.
- **Growing supermarket space:** To expand the Company's store estate, actively seeking and developing a pipeline of new stores and extending the largely under-developed store portfolio to provide an even better food offer while also growing space for non-food ranges.
- **Active property management:** The ownership of property assets provides operational flexibility and the exploitation of potential development opportunities will maximise value.

These areas are underpinned by Sainsbury's **strong heritage and brand** which consistently sets it apart from major competitors. A passion for healthy, safe, fresh and tasty food, the Company's values, innovation and strong ethical approach to business are what customers want and expect from Sainsbury's. Despite current economic conditions these values remain important for customers who give Sainsbury's most credit among the four major supermarkets for addressing the issues of most concern to them.

Targets March 2007 – March 2010

- Space growth – ten per cent new space by March 2010
- Development of grocery and non-food ranges
- Costs – cost savings to offset half of operating cost inflation
- Channel growth through online and convenience expansion
- Profit – profit growth flowing through at a percentage rate to sales in high single digits
- Annual investment in price and quality of 100 – 150 basis points
- Sales growth – total additional sales of £3.5 billion by March 2010
- Capital expenditure of £2.5 billion by March 2010
- Cash flow broadly neutral over three years

Key Financial Performance Indicators

Like-for-like sales year-on-year %

Trading Intensity per Square Foot[1] (£ per week)

2006/07 **£19.30**

2007/08 **£19.69**

2008/09 **£20.01**

Underlying Profit Before Tax[2] (£m)

Underlying Basic Earnings per Share[3] (pence)

2006/07 **14.7p**

2007/08 **19.6p**

2008/09 **22.1p**

Underlying Operating Margin[4] (%)

Net Capital Expenditure[5] (£m)

Operating Cash Flow (£m)

Notes

1 Trading intensity per square foot: sales per week (including VAT, excluding fuel) divided by sales area excluding checkout space.

2 Underlying profit before tax: profit before tax from continuing operations before any profit or loss on sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements and one-off items that are material and infrequent in nature.

3 Underlying basic earnings per share: Profit after tax from continuing operations attributable to ordinary shareholders before any profit or loss on sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements and one-off items that are material and infrequent in nature, divided by the weighted average number of ordinary shares in issue during the period, excluding those held by the ESOP trusts, which are treated as cancelled.

4 Underlying operating margin: underlying profit before tax from continuing operations before underlying net finance costs and underlying share of post-tax profit or loss from joint ventures, divided by sales excluding VAT, including fuel.

5 Net capital expenditure: Total capital expenditure including the investment in the British Land joint venture, less disposal proceeds.

Key Progress and Achievements

Five areas of focus

Great food at fair prices

- Over

  18m

  customer transactions every week.
- Market share now circa 16 per cent.
- Product availability and customer service are measured in all stores on an ongoing basis. We have maintained our high performance levels in these areas and during the year, price perception recorded the biggest improvement of all metrics tracked.
- Universal Appeal delivered through 'good, better best' tiering of Sainsbury's 'basics'[1], standard Sainsbury's[2] and 'Taste the difference'[3] sub-brands.

1 2 3

Accelerating the growth of complementary non-food ranges and services

- TU clothing: over **40 per cent** of customers bought a TU product during the past year up around 20 per cent.
- Sainsbury's Bank delivers post-tax profit of £4 million (50 per cent share of joint venture financial services operation).

Reaching more customers through additional channels

- Accelerated growth of convenience chain with 50 new stores planned in 2009/10 and 100 in 2010/11.
- Online food home delivery service sales up by over 25 per cent year-on-year.
- Online food business now annualising at over £500 million.
- Operates from 169 stores covering 88 per cent of UK households.
- Non-food online launching in first half of 2009/10.

Growing supermarket space

- Over four per cent gross space growth achieved in 2008/09 and on track for over five per cent in 2009/10.

Active property management

- Over £750 million of gross property transactions completed.

CR highlights

Best for food and health

- 'basics' sales up

  60%

  year-on-year in final quarter of year.
- '1 per cent fat' milk, launched in April 2008, is now consumed in approximately 2.5 million UK households.

Sourcing with integrity

- Sales of RSPCA Freedom Food chicken are up

  130%

  year-on-year.
- In February 2009 Sainsbury's became the first major supermarket to stop selling eggs from caged hens.

Respect for our environment

- Over 200 stores have achieved savings of over 53,000 tonnes of CO_2 in 2008.
- **On track to send zero food waste to landfill by the end of 2009.**

Making a positive difference to our community

- We raised over

  £10m

  this year in support of Comic Relief. The Company is the charity's largest corporate partner having donated more than £40 million in the last ten years.
- Active Kids: we have now donated over **£70 million** worth of sports equipment and experiences to schools, nurseries, Scouts and Girlguiding UK groups through our Active Kids scheme which was launched in 2005.

A great place to work

- We now have

  2,000

  colleagues participating in You Can, the Company's umbrella brand for established and new initiatives supporting job opportunities for the long-term unemployed and disadvantaged, and skills development for both new and existing colleagues.

Operating review

Justin King, Chief Executive

Our business is growing because we have responded quickly and effectively to a rapidly changing environment. Total sales for the year were up 5.7 per cent and like-for-like sales excluding fuel were up 4.5 per cent. In addition we have continued to drive cost efficiencies offsetting over 75 per cent of cost inflation and delivered further profit growth.

Fixing fundamental parts of our operation through our 'Making Sainsbury's Great Again' ("MSGA") recovery programme has placed the business in a strong position. Although consumer confidence in the UK has declined during the year, our performance improved as a result of the strength of the Sainsbury's brand and actions we have taken to adjust our offer to changing customer trends.

Sainsbury's is a long-established company and celebrates its 140th anniversary this month. It has a heritage of offering customers great products at fair prices, through a variety of economic trading periods, and we have developed our offer to compete and grow in what has been a very challenging period for the UK retail industry.

Our universal customer appeal and continued investment in price and quality have been fundamental to our growth, catering for a range of changing customer needs and trends. Over the past 12 months consumers have become increasingly 'savvy' and have responded to rises in the cost of living by making significant changes to the mix of products they buy. In an effort to manage their household budgets more tightly, people are eating out less and cooking at home more. They are shopping around to get the best prices and deals but also want the best quality they can afford and to stay true to their values.

Sainsbury's 'good, better, best' product range hierarchy has provided customers with the flexibility to change what they buy, rather than where they shop. Customer transactions have grown to over 18 million a week and basket size has also increased. Further improvements in service levels and product availability have been achieved and as customers increasingly compare the value offered in different supermarkets they are realising they can get both great products and fair prices at Sainsbury's. Investment in pricing, improved promotions and a range of marketing activities have all combined to significantly improve our customers' price perception.

We have continued to invest in our five areas of focus (outlined on page three), each of which has delivered over the past year and provides significant opportunities for future growth. The areas are to build and stretch our lead in food, accelerate the development of non-food ranges and services, extend the reach of our brand via our online and convenience offers, to grow our store estate and actively manage our property assets.

Our progress in the past four years has made the Company a stronger business with a wide customer base and universal appeal. We are performing well and have significant opportunities for further growth. We expect the current economic environment to remain challenging but our focus on doing a great job for customers means we are well positioned to continue our good progress.

Operating review

Sainsbury's performance over the past 12 months has been underpinned by the enormous changes made during the MSGA recovery programme. Sainsbury's is now a stronger business having delivered four consecutive years of sales growth and we continue to build on this strong foundation. Our focus on listening to customers and constantly working to improve their shopping experience has enabled us to successfully anticipate and respond to changing economic conditions during the past 12 months. The brand has been proven to be both resilient and flexible and we are competing effectively and growing sales in a particularly challenging economic environment.

There has been a considerable change in customer shopping patterns over the year as consumers have increasingly felt the need to manage household budgets more carefully. The grocery sector tends to be more resilient in such conditions as food purchasing is not as discretionary as many other product sectors, but Sainsbury's has still had to adapt to changes in how and where consumers want to spend their money. Our performance in the current economic climate shows we are in touch with our customers and capable of responding effectively to their changing needs and wants.

This year Sainsbury's is celebrating its 140th anniversary having set up shop in Drury Lane, London in 1869. The Company was founded on the principle of helping people in poorer parts of London eat a better diet, despite budget constraints, and over the years it has remained true to its value of offering great products at fair prices with a strong ethical approach to business. Getting value for money is even more important to consumers when budgets are stretched. Basket size has increased as Sainsbury's 'good, better, best' product range hierarchy, the basis of our universal appeal, caters for the full range of customer needs and budgets. As requirements have changed, customers have been able to adapt their shopping within Sainsbury's stores.

Over 18 million customers now shop at Sainsbury's every week. Even though they are looking to economise, ethical and environmental concerns are growing in importance for customers. Sainsbury's provides a compelling offer and we take a leading stance on a range of such issues on behalf of our customers while still ensuring products are competitively priced. This has been the essence of Sainsbury's brand for 140 years and has relevance in all economic environments. Today our marketing campaigns are based around three themes. 'Shop and Save' provides customers with competitive pricing and a range of promotions. 'Switch and Save' highlights the quality and value of Sainsbury's own-brand products at significantly lower prices than equivalent leading brands and 'Cook and Save' helps customers make their household budgets stretch further with initiatives such as 'Feed your Family for a Fiver' and 'Love your Leftovers'.

Customers increasingly compare and contrast the offer available in different supermarkets, and are recognising the value they get at Sainsbury's. While further improvements to customer service and product availability have been achieved, of all the measurements tracked on a regular basis over the past 12 months, our price perception metric has seen the biggest improvement.

The entry level 'basics' range was extended during the year and now comprises over 650 products. A wider 'basics' products range was also made available in a greater number of stores across our estate. 'Basics' provides a compelling part of Sainsbury's own-brand range and is a clear way to save money when considerations such as size, shape or product appearance are not a primary concern. New products continue to be added to the range. Around two-thirds of the items are under £1 and over 200 are under 50 pence. Around 70 per cent of our customers now buy into the range helping to make 'basics' the Company's fastest growing sub-brand over the year. In the final quarter of the year sales were up over 60 per cent year-on-year.

Strong marketing campaigns have played a key role in showing customers that Sainsbury's understands the challenges they are facing and has solutions to help them. In October 2008 the Institute of Grocery Distribution presented us with its 'Award for Consumer Understanding' for delivering innovative and appropriate solutions for customers. In particular it acknowledged our 'Feed Your Family for a Fiver' campaign, launched in March 2008, which recognised the increasing trend towards cooking more from scratch and eating at home. The campaign has been incredibly successful and customers also believe they have a better, healthier diet when cooking meals at home themselves. The campaign helps customers save money with simple meal ideas for a family of four, for £5 or under.

Operations and cost efficiency

We have made significant progress in improving our operational efficiency as a result of the MSGA recovery plan. Major projects were completed to improve the performance of our supply chain and information technology infrastructure and there was significant investment to realign the customer offer. Ongoing operational improvements now ensure we continue to do a great job for customers in terms of product availability and service and are also delivering cost savings.

During the year, cost efficiency programmes have offset over 75 per cent of total cost inflation. Cost inflation was at the top end of our medium-term expectations of between two and three per cent and largely driven by increases in wages, property and energy costs despite hedging to help smooth the impact of the latter area of expenditure.

Efficiency programmes are focused on continued simplification of operations to deliver better processes and lower costs. Initiatives across all areas of our business are supporting sustained investment in the customer offer. New checkout equipment means faster scanning of items and new printers producing double-sided receipts are quicker and also provide environmental benefits. Over 100 stores now have self-scan tills providing customers with a choice of check-out options and this year we plan to roll-out self-scan tills to around 100 additional stores. Shelf-ready packaging continues to improve replenishment and further enhancements to store labour scheduling have been completed.

In August 2008 Sainsbury's opened its flagship 'green' store in Dartmouth, Devon. This has reduced its overall CO_2 emissions by 54 per cent through the use of renewable energy and has reduced energy consumed from the national grid by over 50 per cent. Rainwater harvesting has reduced mains water usage by 60 per cent saving around one million litres of mains water every year. Most of the energy-saving features identified in Dartmouth are now being replicated in new stores.

A project was launched in 2007 to further improve the energy efficiency of existing stores. This comprised the roll-out of new technology and enhanced 'housekeeping' initiatives and is delivering good pay-back. Over 200 stores have been completed, saving over 53,000 tonnes of CO_2 every year as a result. Stock loss has also been reduced through investment in security, management information and training and further improvements have been made in product availability.

During 2008 we redefined the role of deputy store managers eliminating duplicated activities and setting out new accountabilities and reporting lines. Comprehensive training is supporting the change so that we continue to grow while maintaining our customer focus and flexibility. The store HR structure has also been streamlined following the introduction of a shared HR service centre in Manchester in 2008. The centre assumes some administrative tasks previously undertaken within store and provides an online recruitment service allowing store HR colleagues to focus more time on mentoring, training and leadership.

In January 2009 we announced plans to restructure our store support centre in London, cutting out duplication of activities and simplifying structures across our Holborn, Manchester and Coventry support teams, aligning them for the future growth of the business. The new structures were in place by the start of the 2009/10 financial year.

There have been significant improvements within the distribution network which are delivering cost savings. The introduction of a new transport management system and processes are helping improve overall supply chain efficiency, reducing the requirement for temporary facilities at peak trading periods, and the benefits of investments made in the previous financial year are now coming through in lower costs. Our Waltham Point depot has now been reconfigured and new facilities have been opened in North Yorkshire and Kent to support our ongoing growth. To keep pace with the development of non-food, distribution of these ranges has transferred to a 350,000 sq ft site at Tamworth. Our depot in Corby, Northamptonshire, is currently undergoing refurbishment and will support the online non-food operation.

The full-year benefit of many of the initiatives to improve operations and drive cost efficiency will continue to come through in the current year and similar programmes are being introduced on an ongoing basis.

Strong financial position

Sainsbury's balance sheet is well supported by significant property assets and long-dated debt. Retaining ownership of appropriate property assets is an important part of the Company's strategy and the estimated market value of these assets at the year-end was circa £7.5 billion, including the share of joint venture properties. In March 2006, Sainsbury's refinanced its debt book with low-cost long-term property-backed finance. The Company does not require any significant refinancing until 2018 and in addition to this funding has undrawn committed facilities which allows flexibility for working capital management and investment flows.

Great food at fair prices

Great food at fair prices is integral to our approach to innovating and leading on ingredient standards and product quality while also offering competitive prices. This month Sainsbury's celebrates its 140th anniversary. The 'Quality perfect, prices lower' strapline was on the front of the first store and has remained a guiding principle throughout Sainsbury's history. The first store stocked just butter, eggs and milk but provided these at a time when affordable quality food was scarce.

The Company pioneered the introduction of own-label lines in 1882 and our extensive heritage provides customers today with a unique proposition in Sainsbury's own-brand products. Over the years we have led the way on ingredient standards and product innovation and the quality of Sainsbury's own-brand products is widely recognised. Red Label tea is the oldest own-brand product still sold today and became Fairtrade in 2007. Customers have increasingly looked to own-brand products during the year to help them save money and they have unrivalled trust in Sainsbury's own-brand products.

Within our own-brand product ranges three tiers defined as 'good, better, best' are offered via the 'basics', standard Sainsbury's and 'Taste the difference' sub-brands. All tiers must adhere to Sainsbury's stringent policies concerning ingredients and sourcing so customers can be confident of the Company's attention to quality while ensuring products are tasty and as healthy as they can be. Sainsbury's front of pack multiple traffic light nutritional labelling is also applied to all relevant products, including 'basics', to help customers make easy, healthy and affordable choices at a glance. Sainsbury's has been advocating and supporting the use of colour and guideline daily amounts for four years as recommended by the Food Standard Agency, after extensive research, in April 2009.

Our attention to quality within own-brand product ranges is supported by competitive pricing. Prices are constantly benchmarked against key competitors. Over £450 million was invested during our MSGA programme and investment is ongoing. Promotions also play an important role in helping to reduce a customer's overall spend on everyday items. In April 2008 we refocused our promotional programme with simple, more family-oriented deals. New point-of-sale materials changed the look and feel of stores highlighting key offers to customers and a number of market-leading promotions were run over the year.

Advertising campaigns communicating value and quality have helped customers save money without compromising quality. 'Feed your Family for a Fiver', one of our most successful campaigns, uses a mix of 'Taste the difference', standard and 'basics' products in meal ideas. It helps customers manage tighter budgets as they make their own choices to substitute individual ingredients to get significantly below the £5 threshold or add more premium products if they wish.

In September 2008, we relaunched our standard own-brand range, which accounts for over 40 per cent of sales, with our 'Switch and Save' campaign. This offered savings of at least 20 per cent when selecting Sainsbury's equivalent product over the leading brand and followed a comprehensive appraisal and development programme for the top 200 products. In January the campaign focused on 'basics'. Growth during the four-week campaign was up nearly 80 per cent year-on-year. All these activities have significantly improved customers' price perception of Sainsbury's.

'Taste the difference' remains an important part of the product offer. In the current economic environment the range allows 'savvy shoppers' to make conscious decisions about the quality they want for different ingredients and meal occasions. In particular 'Taste the difference' ready meals are fulfilling a trend towards customers treating themselves at home rather than eating out or buying more expensive takeaways to eat at home.

Sainsbury's is committed to sourcing British products and we converted a number of own-brand ranges such as sandwiches and chilled ready meals to 100 per cent British during the year, with the exception of products used for authenticity reasons. We have also continued to innovate. 'Milk in a Bag' reduced packaging by 75 per cent compared to the two-pint plastic bottle and is now available in 126 stores. We also secured the first shipment into the UK of responsibly sourced palm oil ("RSPO") and have converted our entire frozen fish range to RSPO certified.

We strive to further animal husbandry standards and introduced a range of higher welfare meat, fish and poultry products during the year. In June 2008 we launched responsibly-sourced fresh and smoked salmon, and in September 2008 a new range of Freedom Food endorsed outdoor-bred pork was introduced and Freedom Food approval was granted for farms supplying 'Taste the difference' outdoor reared pork. In August 2008 we launched indoor-reared Freedom Food accredited chicken and in January 2009 'Taste the difference' Woodland Chicken. All birds are reared in a natural woodland environment and the range is independently audited to RSPCA-approved standards. Sales of RSPCA Freedom Food chicken are up 130 per cent year-on-year.

In February 2009 we became the first major retailer to stop selling eggs laid by battery hens. Two pence from every Woodland chicken and box of Woodland eggs sold is paid to Woodland producers to help promote sustainable free-range farming. Over £300,000 has already been donated to the Woodland Trust via this initiative. Sainsbury's was awarded the 2008 Compassion in World Farming Good Egg Award, the second year in a row, for our work in this area.

Accelerating the growth of complementary non-food ranges and services

Food remains at the heart of Sainsbury's proposition but non-food ranges complement our core food offer and are now a significant business in their own right. There has been good growth in home and lifestyle and core ranges and the star performer remains Sainsbury's TU clothing range. As household budgets tighten, there are signs that customers are increasingly appreciating the value offered by supermarket non-food product ranges and choosing them over other specialist retailers. Sainsbury's brand values are just as relevant in non-food products as in food. Products follow the same principles of quality, value and innovation and the 'good, better, best' hierarchy.

The TU clothing brand, launched in 2004, is the most established part of our non-food offer. The infrastructure supporting TU is now well developed and in-house designers focus on quality and value while tracking the latest developments in fashion and clothing technology. Fairtrade T-shirts are the biggest selling volume line with over two million T-shirts sold in the last year and over 40 per cent of customers have bought a TU item over the past year, an increase of around 20 per cent. TU was introduced into a further 20 stores during the year and is now in 290 stores. However, less than a third of these stores carry an extensive range showing the sales potential increased space will deliver.

Other elements of Sainsbury's non-food range are in earlier stages of development. In April 2008, the TU brand was transferred to our standard home and lifestyle product range as 'TU home' launched in two stores. The full range comprises over 2,000 kitchen and home products. The majority of stores now carry varying elements of the range, which is performing well. New stores, particularly those over 50,000 sq ft, now offer customers comprehensive non-food ranges. In April 2008, Sydenham in Kent became our largest store at 87,000 sq ft and in November, the first two-floor store opened in Hayes in Middlesex where 13,000 sq ft of TU clothing is situated above TU home and lifestyle ranges.

Our non-food business is now being run by Luke Jensen, previously Sainsbury's strategy director, who was appointed to the new role of managing director for non-food in January 2009. The non-food operation is now fully established in our Non-Food Support Centre in Coventry where around 450 colleagues provide the support and infrastructure required for this area of the business. There is significant opportunity and potential for the growth of non-food ranges as systems and support services such as information technology and logistics are developed for the individual specialist areas. New stores are providing additional sales area for the non-food products and wider ranges are being introduced as stores are extended. The importance and potential of our non-food business is demonstrated by half of our new space being allocated to non-food.

The performance of Sainsbury's Bank continues to improve. Our 50 per cent share of post-tax profit for our joint venture financial services operation is £4 million for 2008/09 (£(3) million loss in 2007/08). The continued investment in product development and customer acquisition is focused on insurance products, savings and credit cards. The steps taken during the MSGA programme to stabilise Sainsbury's Bank have resulted in a tight focus on cost control, tighter risk management and a concentration on commission-based products and growing savings accounts to deliver multiple income streams. This has continued to enable Sainsbury's Bank to make good progress and maintain a strong and well capitalised balance sheet.

Reaching more customers through additional channels

Our online food home delivery service continues to grow. Ongoing improvement to the service continues to deliver efficiencies and sales increased by over 25 per cent year-on-year through both customer retention and attracting new shoppers to the service. The operation is now annualising as a £500 million business and delivers over 100,000 orders a week. The service is available to 88 per cent of UK households. Over the year an additional 22 stores started running the service taking the total number to 169 stores. We believe there is significant growth potential in our online operation and plan to increase capacity in areas of high demand.

Non-food online

As previously announced, we are planning to complement our in-store non-food offer with a service providing non-food products online. This is on schedule to launch in the first half of 2009/10 and will provide customers with the choice of a range of Sainsbury's own-brand and branded non-food products.

Convenience stores

Convenience is a key part of our strategy and we believe there is potential to expand our presence in this market as our service and product offer is well received in convenience locations, where we complement and operate successfully alongside local individual specialist stores. Significant improvements in operating performance have been achieved through the integration with our core supermarket business during 2008 and the disposal of 57 stores and one closure during the year which did not fit our convenience operating model.

Under the leadership of Dido Harding, who joined Sainsbury's operating board in March 2008, a review of the convenience business was undertaken during the first half of the year. In November 2008, we announced plans to significantly accelerate the growth of our convenience operation. Sixteen convenience stores opened during the year and 50 new stores are planned in 2009/10. A further 100 are planned in 2010/11 and will continue at a similar level each year on an ongoing basis. We have been testing different approaches to the convenience market in five stores during the second half of the year. These have been developed from listening to customers and centre on two distinct shopping missions which characterise the convenience market; 'food on the move' and a 'local neighbourhood' mission. These are providing insight which will be part of the accelerated expansion of the convenience operation.

Growing supermarket space

New space growth opportunities are being developed as part of the plans outlined in May 2007. Half the targeted new space growth is set to come from new stores with the balance from extensions. Total new space will be split equally across food and non-food ranges enabling the continued development of a great food offer via expanded food halls as well as growing total non-food space. Over the three years from March 2007 to March 2010, more than 12 per cent gross new space will have opened compared to the original plan for ten per cent growth, for the same planned capital expenditure of £2.5 billion and with a higher proportion of freehold ownership than originally expected.

During the year, 13 supermarkets opened, two of which were replacements and a further 13 were refurbished. Twenty-one were extended during the year bringing total extensions over the last three years to 54. Total gross new space was over four per cent comprising two per cent from new stores and two per cent from extensions. We successfully operate a range of store formats and we are now opening and extending existing sites to create stores over 80,000 sq ft. In October 2008, we opened our largest new store in eight years in Milton Keynes, Buckinghamshire. At 60,000 sq ft this store provides customers with a full range of food and non-food products. In November 2008 the Hayes, Middlesex store became our first store over two floors and our largest extension having more than doubled in size from 34,000 sq ft to 82,000 sq ft.

In 2009/10 we expect to achieve gross new space growth of over five per cent, including the acquisition of 24 stores from the Co-operative Group. These are an excellent addition to the Company's store portfolio being mainly in the west of England, Wales and Scotland where Sainsbury's is less well represented. An extra 500,000 customers will now have a Sainsbury's store within a ten-minute drive. Nineteen of these stores are expected to operate as supermarkets.

The environment for growing space is changing as opportunities to acquire land for development and new stores are becoming more available and at more attractive rates than in recent years. We have increased our hurdle rates for property investments and have also developed our ability to deliver larger, more cost-effective store extensions and lower-cost new stores. We will seek to take full advantage of the unique opportunities available at the current time to acquire land and existing sites while ensuring we maintain a broadly stable debt position. Capital plans are flexible and constantly reviewed to target expenditure for the best long-term returns.

Active property management

We believe that ownership of our property assets enables us to retain operational flexibility while exploiting potential development opportunities and maximising value for shareholders. The proportion of freehold or long-leasehold property has increased and is now at 65 per cent, including half the space of 50 per cent owned joint venture properties. We have a significant portfolio of properties with development potential. In addition to 297 freehold and long leasehold properties, the majority of which can be extended, there are 43 properties within joint venture ("JV") arrangements.

Sainsbury's has two strategic property JVs. The first with Land Securities, formed in November 2007, brings together undeveloped properties and development expertise. One property was added to the JV during the year and it now comprises five properties planned for future mixed use development. In March 2008, we created a JV with British Land to unlock the significant opportunity to develop a number of our most important stores and deliver an improved customer offer. The JV comprises 38 Sainsbury's supermarkets with 25 earmarked for development. One year on, of these 25, two extensions adding 30,000 sq ft have already been completed and ten further projects are now going through the planning consent process. These will deliver around 260,000 sq ft of additional space in the next few years. We will benefit from the enhanced trading performance of the extensions as well as retaining a share of the increased property value.

The strategy is broadly cash neutral with mature assets sold to fund development opportunities. During the year a number of key leasehold sites, in addition to the 38 sites within the British Land JV, have been acquired for development at a total investment cost of £392 million. This investment was funded by the disposal of mature assets through sales and leaseback transactions (including eight supermarkets) for £393 million resulting in a profit of £57 million.

Corporate responsibility

With over 18 million customers each week, Sainsbury's has a real impact on UK consumers. Five principles underpin activities. As a leading food retailer we focus on being the 'best for food and health' which is why we are committed to 'sourcing with integrity'. Because we source from all over the world and sell in the UK we have to show 'respect for our environment' and play an active role in the communities we serve 'making a positive difference to our community'. All this is possible through the commitment of our colleagues so that Sainsbury's is 'a great place to work'.

A more comprehensive account of our approach to corporate responsibility can be found on pages 12-15.

Succession planning for role of Chairman

Led by senior independent director John McAdam, the Company is currently conducting a search for a new chairman and will announce the outcome of this process in due course.

Competition Commission ("CC")

We welcomed the CC's finding in its report published in 2008 that the UK groceries market is 'delivering a good deal for consumers'. This is consistent with the significant improvements our customers have experienced in product quality, availability, service and price over recent years. We are playing a full part in continuing discussions with the CC and other parties, to ensure remedies are implemented in the most effective and efficient way to maintain choice and value for UK consumers. In April 2009, the CC published its formal undertaking for the appointment of an Ombudsman. We continue to believe the creation of this new role to undertake investigations and arbitrate disputes between suppliers and grocery retailers will introduce additional, unnecessary bureaucracy and cost, will increase the burden and disruption to retailers and will not be in the best interests of consumers.

Office of Fair Trading ("OFT")

In April 2008 the OFT started an investigation involving suppliers and supermarkets including Sainsbury's on the basis that it had reasonable grounds to suspect co-ordination of retail prices. Sainsbury's has strict guidelines for compliance with competition law and is co-operating with the OFT in these enquiries.

Outlook

Sainsbury's is performing well and has identified significant opportunities for future growth in all its five areas of focus. Our progress in the past four years has made us a stronger business and we now serve over 18 million customers a week with great product at fair prices. Sainsbury's universal appeal gives customers the flexibility to change what they buy rather than where they shop, helping them offset the current constraints on household budgets. We expect the current economic environment to remain challenging but we are well positioned to continue our good progress.

OUR GOAL

... At Sainsbury's we will deliver an ever improving quality shopping experience for our customers with great products at fair prices. We will exceed customer expectations for healthy, safe, fresh and tasty food, making their lives easier every day.

As a leading food retailer we focus on being

1. BEST FOR FOOD AND HEALTH

...that's why we're so committed to...

2. SOURCING WITH INTEGRITY

And because we source from around the world and sell in the UK we have to show

3. RESPECT FOR OUR ENVIRONMENT

...and play an active role in the communities that we serve

4. MAKING A POSITIVE DIFFERENCE TO OUR COMMUNITY

All this is possible through the commitment of our colleagues so we make Sainsbury's

5. A GREAT PLACE TO WORK

And that's why we believe

OUR VALUES MAKE US DIFFERENT

Corporate responsibility review

With over 18 million customers each week Sainsbury's has a real impact on UK consumers. Five principles underpin our activities. As a leading food retailer we focus on being the 'best for food and health' which is why we are committed to 'sourcing with integrity'. Because we source from all over the world and sell in the UK we have to show 'respect for our environment' and play an active role in the communities we serve 'making a positive difference to our community'. All this is possible through the commitment of our colleagues so that Sainsbury's is 'a great place to work'.

Stakeholders trust the company to act responsibly on their behalf and this is an integral part of the Sainsbury's brand. In the current economic climate, our values remain just as important and relevant and although customers are increasingly price-conscious, ethical and environmental issues remain important for them.

Sainsbury's was the first UK food retailer to publish an environment report which we did in 1996. We continue to report on environmental issues although the report is now expanded to cover the fuller range of issues now commonly referred to under the umbrella of corporate responsibility.

Our 2009 Corporate Responsibility report will be published on 13 July and is available online at **www.j-sainsburys.co.uk/cr**

Best for food and health

Sainsbury's approach is to help and inspire customers to eat a healthy balanced diet by promoting healthy eating and active lifestyles. We aim to make products as healthy as possible without compromising taste and quality and promote clear and transparent labelling to help customers make informed choices about the food they eat. Sainsbury's promotes healthy eating inspiring customers to cook via successful campaigns such as 'Feed your Family for a Fiver' and simple 'tip card' ideas, 50 per cent of which contain at least one portion of fruit or vegetables towards an individual's recommended 5-a-day. Twenty-five per cent of the ideas on tip cards are also rated as 'healthier'.

As part of the Company's commitment to the responsible sale of alcohol, from September 2009 we will be introducing a 'Think 25' policy across all stores, building on the 'Think 21' policy introduced in September 2005.

Highlights during the year

Basics: 'basics' sales up 60 per cent year-on-year in the last quarter of the year. We continue to apply our front of pack Multiple Traffic Light labelling to all relevant products, including our basics range, making it easier for customers to make healthy and affordable choices at a glance.

Saturated fat: Dairy is one of the major contributors of saturated fat to the UK diet. Our '1 per cent fat' milk, launched in April 2008, has the same taste and calcium content as semi-skimmed milk but nearly half the fat and is now consumed in around two and a half million UK households.

Sugar: We have reduced the sugar or sucralose in all of our squash lines by ten per cent. Over 65 per cent of our own brand bottled and carbonated squash and over 90 per cent of our own brand squash contain no added sugar.

Fibre: In 2008 we introduced a number of products with higher fibre content including a wholemeal 'basics' loaf, one of our top three selling 'basics' bakery products. Sales of the new loaf almost doubled in the three months following its launch.

Sourcing with integrity

Sourcing with integrity is about offering products that are better for customers, the environment and the animals, farmers and suppliers involved in their production. Sainsbury's is committed to offering British products at their best, when in season and when the quality meets customers' expectations. We have a long history of supporting British farmers and helping to raise capability and skills to create sustainable businesses and long-term relationships.

Sainsbury's also recognises the value it can bring to communities in developing countries and we are the UK's largest retailer of Fairtrade products, accounting for around one-third of all UK Fairtrade sales. In August 2008 we celebrated the first anniversary of our Fair Development Fund by introducing dried fruit and nuts from Uganda, Malawi, Mozambique and Zambia, the first food produced from grants awarded at the fund's launch in August 2007. A major aim of the fund, run by Comic Relief and financed by Sainsbury's with £1 million over four years, is to develop long-term sustainable solutions for producers in developing countries to meet Fairtrade standards and start selling internationally on fairer terms.

We remain committed to promoting high standards of animal welfare and recognise that in using sustainable resources in our products, such as FSC Timber, we minimise the impact of our products on the environment.

Highlights during the year

RSPCA Freedom Food chicken: Sales of our RSPCA Freedom Food chicken are up over 130 per cent year-on-year. Sales of all our higher welfare chicken (including Freedom Food, Free range and Organic) are up over 30 per cent year-on-year.

Cage-free Eggs: In February 2009 we became the first major supermarket to stop selling eggs from caged hens. This means that over half a million hens will no longer be kept in battery cages, meeting our 2010 target a whole year ahead of schedule and two years before government legislation comes into effect.

Fairtrade: Our Fairtrade sales this year hit £210 million, maintaining our position as the largest retailer of Fairtrade products in the UK by sales value. We now account for around one-third of all Fairtrade sales in the UK.

RSPCA Freedom Food salmon: In June 2008 we launched our 'Responsibly sourced' salmon, making us the first major supermarket to convert all our farmed salmon to the RSPCA Freedom Food standard. All our fresh and smoked farmed salmon is now 100 per cent Scottish and meets the RSPCA Freedom Food standard.

Respect for our environment

Sainsbury's recognises that tackling issues such as climate change involves working both upstream in its supply chains and downstream with customers. On the issue of carbon reduction we are working hard to reduce our operational footprint by improving the energy efficiency of stores and the distribution network and by increasing the amount of renewable energy used.

Sainsbury's champions the 'Reduce, Re-use, Recycle' approach to minimise waste from its business and customer waste via packaging and food waste. We are on target to send zero food waste to landfill by the end of 2009. We have also promoted the re-use of shopping bags since the mid 1990s. In April 2008 we increased the recycled content of our single use bags from 33 per cent to 50 per cent and started issuing Nectar loyalty points to customers re-using their own bags when shopping in Sainsbury's stores in June 2008.

Highlights during the year

Environmentally efficient stores: In August 2008 we opened our flagship green store in Dartmouth, Devon. The store has achieved reductions in its overall CO_2 emissions by 54 per cent through the use of renewable energy and has reduced energy consumed from the national grid by over 50 per cent. Rainwater harvesting has reduced mains water usage by 60 per cent, saving around one million litres of mains water every year. Most of the energy saving features identified from Dartmouth are now being replicated in our new stores.

Energy reduction programme for existing stores: A project was launched in 2007 to improve the energy efficiency of our existing stores. Over 200 stores have so far been completed, achieving savings of over 53,000 tonnes of CO_2 every year as a result. In 2009 we will continue the scheme, targeting 100 stores during 2009/10.

Carrier bags: Over the past three years the company has reduced the environmental impact of its carrier bags by 63 per cent as measured by the amount of virgin plastic used and over the past two years has reduced the number of bags issued by 58 per cent.

Food waste: Following the success of a food waste trial we are on track to send zero food waste to landfill in 2009. Food waste from 38 stores is currently sent for anaerobic digestion in Northamptonshire where it is broken down into fertiliser and methane gas, used to generate electricity. This approach will be rolled out nationwide in 2009.

Making a positive difference to our community

Sainsbury's stores are at the heart of the communities they serve and with around 150,000 colleagues throughout the UK, we are a major contributor to local employment. We support local communities through programmes such as food donation schemes and Sainsbury's Active Kids.

Sainsbury's participation in Red Nose Day on 13 March 2009 also saw customers and colleagues help the company donate over £10 million to Comic Relief an increase of 32 per cent over the previous event. We are the charity's largest corporate partner having donated over £40 million in the past ten years.

Highlights during the year
Comic Relief: The £10 million donated to Comic Relief this year will help to support some of the most vulnerable people in both the UK and the developing world.

Active Kids: We have now donated over £70 million worth of sports equipment and experiences to schools, nurseries, Scouts and Girlguiding UK groups through our Active Kids scheme which was launched in 2005. In the year ending March 2009 we donated £18 million worth of equipment and resources, with more than 150,000 young people trying a new physical activity as a result. We are on target to donate £100 million worth of equipment by 2011.

Food donation: In 2008/09 we donated over £5 million worth of surplus food to a network of charities across the UK through our Food Donation programme.

Job creation: During the year ending March 2009 we generated 5,000 new jobs by opening 11 new supermarkets, 20 new convenience stores and a number of store extensions. We will continue our programme of store development in 2009/10 generating 6,500 additional jobs.

Alcohol: From September 2009 we will be introducing a Think 25 policy across all of our stores, further encouraging the responsible sale of alcohol.

A great place to work

Being a great place to work is rooted in Sainsbury's heritage and values. The Company was one of the first shops to actively recruit women in 1914 and we set up a training school in 1915 initially to help women do the jobs of men away at war. It was so successful that other retailers started advertising for 'Sainsbury's-trained' colleagues. We are committed to championing inclusion, diversity and flexible working and we aim to recruit, retain and engage colleagues from backgrounds that reflect the communities we serve.

Our colleague development programme 'You Can', combines established and new initiatives to support job opportunities for the long-term unemployed and disadvantaged and skills development for new and existing colleagues. Launched in November 2008 it offers colleagues development opportunities from support with literacy and numeracy through to Level 2 NVQ qualifications.

Highlights during the year
You Can: We now have over 2,000 colleagues participating in You Can. 760 colleagues have been recruited in 2008/09 by providing job opportunities to the long-term unemployed and disadvantaged, whilst around 1,300 colleagues are now benefiting from the online skills, job-related qualifications and apprenticeship opportunities offered through 'You Can'.

Colleague bonus: 120,000 colleagues will share a bonus of £60 million this year bringing the total amount paid out over the last four years to over £210 million. The bonus scheme is linked to the delivery of great service and product availability as well as overall sales and profit measures.

Financial review

Darren Shapland, Chief Financial Officer

Sainsbury's has made good progress in the challenging economic environment, reflecting the ongoing development of its offer and increasingly universal appeal, and continuing to deliver its growth strategy, whilst benefiting from a strong and robust balance sheet.

Sales (including VAT) increased by 5.7 per cent to £20,383 million (2008: £19,287 million). Underlying profit before tax improved by 11.3 per cent to £543 million (2008: £488 million). Profit before tax was down 2.7 per cent, at £466 million (2008: £479 million), impacted by the non-cash investment property fair value movements of £(124) million (2008: £nil), partially offset by £57 million profit on property disposals (2008: £7 million). Underlying basic earnings per share increased to 22.1 pence (2008: 19.6 pence), up 12.8 per cent. Basic earnings per share were down 13.1 per cent, at 16.6 pence (2008: 19.1 pence) as a result of the non-cash, investment property fair value movements (which are disallowable for tax purposes). A final dividend of 9.6 pence per share has been recommended by the Board (2008: 9.0 pence) making a full year dividend of 13.2 pence per share, up 10.0 per cent year-on-year (2008: 12.0 pence).

Summary income statement for the 52 weeks to 21 March 2009	2009 £m	2008 £m	Change %
Sales (including VAT)[1]	**20,383**	19,287	5.7
Sales (excluding VAT)	**18,911**	17,837	6.0
Underlying operating profit	**616**	535	15.1
Underlying net finance costs[2]	**(89)**	(45)	(97.8)
Underlying share of post-tax profit/(loss) from joint ventures[3]	**16**	(2)	n/a
Underlying profit before tax	**543**	488	11.3
Profit on sale of properties	**57**	7	n/a
Investment property fair value movements	**(124)**	–	n/a
Financing fair value movements	**(10)**	(4)	(150.0)
One-off items	**–**	(12)	n/a
Profit before tax	**466**	479	(2.7)
Income tax expense	**(177)**	(150)	(18.0)
Profit for the financial period	**289**	329	(12.2)
Underlying basic earnings per share	**22.1p**	19.6p	12.8
Basic earnings per share	**16.6p**	19.1p	(13.1)
Full year dividend per share	**13.2p**	12.0p	10.0

1 Sales (including VAT) were adversely affected by the reduction in the standard rate of VAT from 17.5 per cent to 15 per cent, effective from 1 December 2008. Sainsbury's estimates that this diluted sales growth by circa 30 basis points in the full year, with 40 basis points in quarter 3 and 80 basis points in quarter 4.
2 Net finance costs pre-financing fair value movements.
3 The underlying share of post-tax results from joint ventures is stated before investment property fair value movements and financing fair value movements.

Sales (including VAT) and space

Sales (including fuel) increased by 5.7 per cent to £20,383 million (2008: £19,287 million) through good like-for-like ("LFL") growth and new space. The 5.7 per cent growth includes a (0.7) per cent dilution caused by the timing of Easter in 2008 and 2009, which was more than offset by a 0.9 per cent contribution from net new space. LFL sales (including fuel) were up 5.5 per cent, which reflects in part the impact of higher fuel prices and improved fuel volumes.

Sales (including VAT, including fuel) for the 52 weeks to 21 March 2009	2009 %	2008 %
Like-for-like sales *(Easter-adjusted)*	**5.5**	4.4
Removal of Easter adjustment[1]	**(0.7)**	0.3
Net new space (excluding extensions)	**0.9**	1.1
Total sales growth	**5.7**	5.8

1 Like-for-like sales growth has been Easter-adjusted for comparative purposes. 2008 included two Good Friday trading weeks and one Easter Sunday trading week. 2009 included one Easter Sunday trading week only.

LFL sales (excluding fuel) were up 4.5 per cent, of which 0.5 per cent was contributed by extensions. This LFL growth was slightly above Sainsbury's medium-term planning assumption of between three and four per cent, and reflected continued improvement throughout the year, with LFL growth of 3.4 per cent in quarter 1, 4.3 per cent in quarter 2, 4.5 per cent in quarter 3 (4.9 per cent VAT-adjusted), and 6.2 per cent in quarter 4 (7.0 per cent VAT-adjusted). Online sales increased by over 25 per cent and now represents a £500 million annualised business.

Sales (including VAT, excluding fuel) for the 52 weeks to 21 March 2009	2009 %	2008 %
Like-for-like sales *(Easter-adjusted)*	**4.5**	3.9
Removal of Easter adjustment[1]	**(0.8)**	0.4
Net new space (excluding extensions)	**1.0**	1.4
Total sales growth	**4.7**	5.7

1 Like-for-like sales growth has been Easter-adjusted for comparative purposes. 2008 included two Good Friday trading weeks and one Easter Sunday trading week. 2009 included one Easter Sunday trading week only.

Net new space (excluding extensions) contributed 1.0 per cent to total sales growth (excluding fuel). Sainsbury's added a gross 665,000 sq ft of new space (net 512,000 sq ft after disposals and closures), which represents a gross increase of 4.1 per cent (net 3.2 per cent) since the start of the year. Sainsbury's opened 13 new supermarkets during the year, including two replacement stores, and completed 21 supermarket extensions and 13 refurbishments. In the convenience estate, it opened 16 new stores, disposed of 57 stores, as announced in March 2008, closed one store and refurbished four stores.

Store numbers and retailing space	Supermarkets Number	Supermarkets Area 000 sq ft	Convenience Number	Convenience Area 000 sq ft	Total Number	Total Area 000 sq ft
As at 22 March 2008	504	15,495	319	696	**823**	**16,191**
New stores	13	266	16	40	**29**	**306**
Closures/disposals	(2)	(50)	(58)	(103)	**(60)**	**(153)**
Extensions/refurbishments/downsizes	-	360	-	(1)	**-**	**359**
Reclassifications[1]	(13)	(97)	13	97	**-**	**-**
As at 21 March 2009	**502**	**15,974**	**290**	**729**	**792**	**16,703**
Memorandum						
Extensions	21	346	–	–	**21**	**346**
Refurbishments/downsizes	13	14	4	(1)	**17**	**13**
Total projects	**34**	**360**	**4**	**(1)**	**38**	**359**

1 Following the recent review of the convenience mission, 13 stores previously classified as supermarkets will now operate under the convenience fascia.

In March 2009, Sainsbury's announced the acquisition of 24 stores from the Co-operative Group, of which 19 are expected to operate as supermarkets. These stores are all expected to be converted in the first half of the year and will be slightly earnings-dilutive in 2010, with the more significant impact in the first half. Gross space growth of 5 per cent is expected in 2010, weighted towards new stores following this acquisition. Net new stores are expected to contribute 2.0 per cent to total sales growth (excluding fuel) in 2010, weighted more towards the second half.

Underlying operating profit

Underlying operating profit increased by 15.1 per cent to £616 million (2008: £535 million) reflecting the good sales performance and a 26 basis point improvement in underlying operating margin to 3.26 per cent for the year (2008: 3.00 per cent). The rate of improvement was consistent across the first half and the second half. Sainsbury's has driven operational gearing from higher sales volumes and the delivery of cost efficiency savings which have offset over 75 per cent of total cost inflation as well as supporting sustained investment in the customer offer. Sainsbury's expects cost inflation to be at the higher end of its medium-term expectation of between two and three per cent in 2010, offset by a similar level of savings as in 2009.

Underlying operating profit for the 52 weeks to 21 March 2009	2009	2008
Underlying operating profit (£m)[1]	**616**	535
Year-on-year operating profit growth (%)	**15.1**	24.7
Underlying operating margin (%)[2]	**3.26**	3.00

1 Underlying profit before tax from continuing operations before underlying net finance costs and underlying share of post-tax results from joint ventures.
2 Underlying operating profit divided by sales excluding VAT.

Sainsbury's Bank joint venture ("JV")
Sainsbury's 50 per cent equity share of Sainsbury's Bank's post-tax profit amounted to £4 million in the year (2008: £(3) million loss). The underlying banking business has driven increased profitability through a rise in net interest income, strong cost control and tighter risk management which has resulted in a reduced charge for bad debts. Sainsbury's Bank has imposed tighter lending criteria and attracted more diverse sources of income. It has a strong and well-capitalised balance sheet.

Profits from the Sainsbury's Bank JV are expected to show a small increase in 2010 as it continues to invest in growth.

Property joint ventures
On 26 March 2008 Sainsbury's invested £274 million to create a 50:50 JV with British Land. This securitised property JV holds 38 of Sainsbury's most important stores. The results of the JV have been equity accounted since inception and Sainsbury's share of underlying post-tax profit in the year is £9 million. The investment has been financed largely by the sale of mature assets with no further development potential, at broadly similar yields.

Sainsbury's share of underlying post-tax profit of its 50:50 JV with Land Securities, established in November 2007, was £3 million for the year (2008: £1 million profit). One additional property was sold into the JV during the year, bringing the total number of properties within the JV to five.

Profits from both the British Land JV and the Land Securities JV in 2010 are expected to be similar to those recorded in 2009.

Further to the establishment of the British Land JV, Sainsbury's now accounts for investment properties held within its property JVs at their market value as determined by professional valuers at each reporting date. The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included within the income statement but excluded from underlying profit in order to provide a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. Any profit or loss on properties sold out of the JVs once developed will be recognised within the income statement but will be excluded from underlying profit.

At 21 March 2009, non-cash investment property fair value movements of £(124) million (at the half-year: £(36) million) have been recognised within the share of post-tax losses from JVs in the income statement, reflecting Sainsbury's 50 per cent share. These fair value movements are broadly equivalent to a valuation of the properties at an average yield of 6.2 per cent.

Underlying net finance costs
Underlying net finance costs increased by £44 million to £(89) million (2008: £(45) million) which reflects £30 million lower net return on pension schemes and £21 million higher net interest costs due to increased level of average borrowings, partially offset by £7 million higher capitalised interest.

Under IAS 19 'Employee Benefits', there have been significant movements in the pension charges in 2009 compared to 2008. These have resulted in a reduction of £30 million in the net return on pension schemes, of which £19 million is due to an increase in interest on pension liabilities and £11 million is due to a lower rate of return on pension assets. At the level of underlying profit before tax ("UPBT"), the impact of this reduction in net return on pension schemes is mitigated by a £25 million reduction in service costs charged to operating profit. The net impact of these changes was therefore a £5 million reduction in UPBT compared with 2008.

Interest cover, excluding the net return on pension schemes, was 5.8 times (2008: 5.9 times).

Sainsbury's expects underlying interest costs excluding the net return on pension schemes to reduce by around £25 million in 2010 (from £(113) million in 2009) with lower interest rates on the Group's inflation-linked debt outweighing the impact of a small increase in average net debt.

Underlying net finance costs[1] for the 52 weeks to 21 March 2009	**2009** **£m**	2008 £m
Interest income	**28**	29
Net return on pension schemes	**24**	54
Underlying finance income	**52**	83
Interest costs	**(156)**	(136)
Capitalised interest	**15**	8
Underlying finance costs	**(141)**	(128)
Net underlying finance costs	**(89)**	(45)
Net underlying interest costs excluding net return on pension schemes	**(113)**	(99)

1 Finance income/costs pre-financing fair value movements.

Property disposals

The Group recorded a profit of £57 million on the sale of surplus properties during the year (including eight supermarkets where no further development was achievable, sold at an average yield of 5.2 per cent). This compares to a £7 million profit in 2008.

Taxation

The income tax charge was £(177) million (2008: £(150) million), with an underlying rate of 29.1 per cent (2008: 30.9 per cent) and an effective rate of 38.0 per cent (2008: 31.3 per cent).

The underlying rate is lower than last year due to a reduction in the statutory rate of corporation tax from 30 per cent to 28 per cent on 1 April 2008 and the resolution of a number of other items. Disallowable depreciation amounted to £73 million in 2009 (2008: £71 million).

Despite the reduction in the statutory rate, the effective rate is higher than in the previous year due to the £(124) million non-cash investment property fair value movements, which reduce profits, but for which no tax relief is available.

Underlying tax rate calculation for the 52 weeks to 21 March 2009	**Profit £m**	**Tax £m**
Profit before tax	466	(177)
Less: profit on sale of properties	(57)	21
Add: investment property fair value movements	124	-
Add: financing fair value movements	10	(2)
Underlying profit before tax	**543**	**(158)**
Underlying tax rate (%)		**29.1**

Sainsbury's expects the underlying rate of tax in 2010 to be broadly in line with 2009.

Earnings per share

Underlying basic earnings per share increased by 12.8 per cent from 19.6 pence in 2008 to 22.1 pence in 2009, reflecting the improvement in underlying profit after tax attributable to equity holders.

The weighted average number of shares in issue increased by 19.8 million due to the vesting of share option schemes during the year. However, the total number of shares for calculating diluted earnings per share decreased by four million in the same period, through the exercise or lapse of share options.

Basic earnings per share were down 13.1 per cent, at 16.6 pence (2008: 19.1 pence) as a result of the non-cash investment property fair value movements (which are disallowable for tax purposes).

Underlying earnings per share calculation for the 52 weeks to 21 March 2009	**2009 pence**	2008 pence
Basic earnings per share	**16.6**	19.1
Profit on sale of properties, net of tax	**(2.1)**	(0.4)
Investment property fair value movements, net of tax	**7.1**	-
Financing fair value movements, net of tax	**0.5**	0.2
Other one-off items, net of tax	**-**	0.7
Underlying basic earnings per share	**22.1**	**19.6**

Dividends

The Board proposes a final dividend of 9.6 pence per share (2008: 9.0 pence), which will be paid on 17 July 2009 to shareholders on the Register of Members at the close of business on 22 May, subject to approval. This will increase the full year dividend by 10.0 per cent, to 13.2 pence per share (2008: 12.0 pence per share).

The dividend is covered 1.67 times (2008: 1.63 times) by underlying earnings, in line with Sainsbury's policy of providing cover of between 1.50 and 1.75 times.

The proposed final dividend was recommended by the Board on 12 May 2009, and as such, has not been included as a liability as at 21 March 2009.

Net debt and cash flows

Sainsbury's net debt as at 21 March 2009 was £(1,671) million (2008: £(1,503) million), an increase of £168 million from the 2008 year-end position. The increase was driven primarily by core capital expenditure, weighted towards the first half of the financial year, the investment in the British Land JV, and increased outflows for taxation and interest.

Summary cash flow statement for the 52 weeks to 21 March 2009	**2009 £m**	**2008 £m**
Cash generated from operations	**1,206**	998
Net interest paid	**(118)**	(97)
Corporation tax paid	**(160)**	(64)
Cash flow before appropriations	**928**	837
Purchase of non-current assets	**(994)**	(986)
Investment in joint ventures	**(291)**	(31)
Disposal of non-current assets/operations	**390**	197
Proceeds from issuance of ordinary shares	**15**	43
Capital redemption	**-**	(10)
Proceeds from/(repayment of) borrowings	**165**	(36)
Net dividends paid	**(215)**	(178)
Decrease in cash and cash equivalents	**(2)**	(164)
(Increase)/decrease in debt	**(157)**	46
Other non-cash movements	**(9)**	(5)
Movement in net debt	**(168)**	(123)
Opening net debt	**(1,503)**	(1,380)
Closing net debt	**(1,671)**	(1,503)

This was partially offset by improved operational cash flows and disposals of £393 million.

Sainsbury's expects year-end net debt to increase to between £(1.7) billion and £(1.8) billion in 2010, following broadly the same profile as in 2009 with cash outflows weighted towards the first half.

Financing

Sainsbury's seeks to manage its financing by diversifying funding sources, configuring core borrowings with long-term maturities and maintaining sufficient stand-by liquidity.

Sainsbury's core funding is represented by two long-term loans entered into in March 2006 and secured over a portion of its property assets. The amortising loans comprise £1,130 million due 2018 and £872 million due 2031. During the year Sainsbury's also entered into a new £150 million bilateral bank loan maturing in May 2015. Short-term funding is maintained through two committed revolving credit facilities: £400 million due February 2012 and £163 million due May 2011. At 21 March 2009, there was no outstanding balance under these facilities (2008: £nil).

Since the year-end Sainsbury's has renewed its £35 million loan, due May 2009, at a level of £50 million and extended its term to May 2012. Additionally, it has put in place a new £50 million credit facility, maturing May 2012.

Capital expenditure

Core capital expenditure amounted to £863 million (2008: £850 million) in the full year, which included £386 million on new store development (2008: £308 million) and £385 million on extensions and refurbishments (2008: £424 million). During the year, a number of freehold properties of existing trading stores were acquired, in line with Sainsbury's plans to buy freeholds of trading sites where it believes there are potential long-term development opportunities. This expenditure totalled £392 million (2008: £168 million), including £274 million on the British Land JV. This expenditure has been offset by proceeds of £393 million in relation to property disposals (2008: £219 million).

On 4 March 2009, Sainsbury's announced the acquisition of 24 stores from the Co-operative Group. The financial impact of this acquisition is not reflected in the financial statements. Completion on these stores, of which only one store is awaiting OFT approval, commenced in May 2009.

Sainsbury's expects capital expenditure for 2010 of between £800 million and £900 million. This will bring its three-year expenditure to £2.5 billion, in line with the guidance provided in May 2007.

Capital expenditure for the 52 weeks to 21 March 2009	**2009 £m**	2008 £m
New store development	**386**	308
Extensions and refurbishments	**385**	424
Other – including supply chain and IT	**92**	118
Core retail capital expenditure	**863**	850
British Land JV investment	**274**	–
Acquisition of freehold properties	**118**	168
Proceeds from property transactions	**(393)**	(219)
Net capital expenditure	**862**	799

Working capital

Sainsbury's has continued to manage working capital carefully and cash generated from operations includes a year-on-year improvement in working capital of £167 million. This has been achieved through improved management of trade cash flows, supported by the growth of Sainsbury's supply chain financing platform, whilst reducing stock days.

Summary balance sheet

Shareholders' funds as at 21 March 2009 were £4,376 million (2008: £4,935 million), a reduction of £559 million, primarily as a result of the deterioration of the pension surplus into a deficit, which reduces net assets by £588 million. Gearing, which measures net debt as a percentage of total equity, increased to 38 per cent (2008: 30 per cent) as a result of the pension surplus moving into deficit.

Summary balance sheet at 21 March 2009	**2009 £m**	2008 £m
Non-current assets	**8,425**	8,010
Inventories	**689**	681
Trade and other receivables	**195**	206
Cash and cash equivalents	**627**	719
Debt	**(2,298)**	(2,222)
Net debt	**(1,671)**	(1,503)
Trade and other payables and provisions	**(3,040)**	(2,825)
Retirement benefit (obligations)/assets, net of deferred tax	**(222)**	366
Net assets	**4,376**	4,935

Pensions

The retirement benefit obligations as at 21 March 2009 have been calculated on a consistent basis with the previous year, with updates provided on market-based assumptions.

As at 21 March 2009, the present value of retirement benefit obligations less the fair value of plan assets was a deficit after deferred tax of £(222) million (2008: a surplus of £366 million). The movement into deficit mainly reflects the change in asset values in the year, in line with market performance.

Sainsbury's is currently commencing its 2009 triennial funding valuation, which will provide an updated estimate of funding obligations, for which the statutory completion date is June 2010.

Pensions at 21 March 2009	2009 £m	2008 £m
Present value of funded obligations	**(3,610)**	(3,668)
Fair value of plan assets	**3,310**	4,171
	(300)	503
Present value of unfunded obligations	**(9)**	(8)
Retirement benefit (obligations)/assets	**(309)**	495
Deferred income tax asset/(liability)	**87**	(129)
Net retirement benefit (obligations)/assets	**(222)**	366

Change in Accounting Reference Date

Sainsbury's will change its accounting reference date from 28 March to 20 March with effect from 2010, and will report its 2010 results for the 52 weeks to 20 March 2010. This change is to ensure that each half-year and full-year results includes one complete Easter period, and to avoid any volatility that might otherwise be caused by the variable timing of Easter.

Updated Pensions Accounting in 2010

The financing element of IAS 19 'Employee Benefits' pensions accounting generates significant volatility in the income statement. In line with the way in which external commentators and other companies view and prepare accounts, Sainsbury's will be removing the IAS 19 financing element from its UPBT in 2010.

The 2010 IAS 19 service charge (included in operating profit) will remain within UPBT. The charge in 2010 is expected to be similar to the £(53) million cost in 2009.

For reference, the effect of this accounting change on UPBT for 2009 and 2008 is shown below:

Impact on UPBT of pension accounting change for the 52 weeks to 21 March 2009	2009 £m	2008 £m	Change %
Reported UPBT	**543**	488	11.3
Less: IAS 19 financing element	**(24)**	(54)	(55.6)
Revised UPBT	**519**	434	19.6
Reported underlying basic earnings per share	**22.1p**	19.6p	12.8
Revised underlying basic earnings per share	**21.2p**	17.5p	21.1

Underlying profit before tax will now be defined as: profit before tax from continuing operations before any profit or loss on sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 net return on pension schemes and one-off items that are material and infrequent in nature.

Principal risks and uncertainties

The 'Making Sainsbury's Great Again' ("MSGA") plan continued to progress from recovery to focus on growth during the year. To support the growth plans and to fully consider both opportunities and risks, a new business strategy team has been established, and the risk management process has been enhanced. Risk is an inherent part of doing business. The system of risk management used to identify the principal risks the Group faces, and to develop and closely monitor key controls, is described on pages 31 to 32. The management of the risks is based on a balance of risk and reward determined through careful consideration of both the potential likelihood and impact. The principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority.

Business continuity and acts of terrorism
A major incident or act of terrorism could impact on the Group's ability to trade.

In the event of a potentially disruptive incident, detailed plans are in place to maintain business continuity. These plans are regularly updated and tested.

Business strategy
If the Board adopts the wrong business strategy or does not implement its strategies effectively, the business may be negatively impacted. Strategic risk needs to be properly understood and managed to deliver long-term growth for the benefit of all stakeholders.

A clear strategy is in place with five key areas of focus: great product at fair prices, accelerating the growth of complementary non-food ranges, reaching more customers through additional channels, growing supermarket space and active property management. Progress against these areas of focus and any risks to delivery are regularly reviewed by the Board and the overall strategy is reviewed at the annual two-day strategy conference. The Operating Board also holds regular sessions to discuss strategy. This activity is supported by a dedicated strategy team. To ensure that the strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, colleagues, customers and suppliers.

Colleague engagement, retention and capability
The Group employs around 150,000 colleagues who are critical to the success of our business. Maintaining good relations with colleagues and investing in their training and development is essential to the efficiency and sustainability of the Group's operations.

The Group's employment policies and remuneration and benefits packages are regularly reviewed and designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. Colleague surveys, performance reviews, communications with trade unions and regular communication of business activities are some of the methods the Group uses to understand and respond to colleagues' needs. Processes are also in place to identify talent and actively manage succession planning throughout the business.

Economic and market risks
The unprecedented economic slowdown and reducing joL security is resulting in an increasing demand for value from customers. Challenges to household disposable income, competitor pricing positions and product costs can affect the performance of the Group in terms of both sales and costs.

Focus continues on delivering quality products with universal appeal, at a range of price points ensuring value for all our customers. This is achieved through the continuous review of our key customer metrics, active management of price positions, development of sales propositions and increased promotion and marketing activity. While external cost pressures including oil-related costs and business rates affect our business, the Group continues to work hard to mitigate the impact of these cost pressures on customers and on our overall profitability through the delivery of cost savings.

Environment and sustainability
The key risk facing the Group in this area relates to reducing the environmental impact of the business with a focus on reducing packaging and new ways of reducing waste and energy usage across stores, depots and offices.

A number of initiatives are in place, which are being led by the Environmental Action team and the Corporate Responsibility Steering Group to reduce our environmental impact and to meet our customers' requirements in this area. Further details are included on pages 12 to 15.

Financial strategy and treasury risk
The main financial risks are the availability of short and long-term funding to meet business needs and fluctuations in interest and foreign currency rates, which are heightened by the turbulence in the financial markets and the downturn in the economic environment.

The central treasury function is responsible for managing the Group's liquid resources, funding requirements, and interest rate and currency exposures and the associated risks as set out in note 29 of the Annual Report and Financial Statements. This function has clear policies and operating procedures which are regularly reviewed by internal audit.

Fraud
The Group has a strong control framework in respect of potential fraud or other dishonest behaviour, which is regularly reviewed by internal audit. A set of policies are in place to provide colleagues with clear guidance on behaviour. In addition, there are 'whistle blowing' procedures in place to enable colleagues and suppliers to raise concerns about possible improprieties on a confidential basis. Internal audit undertakes detailed investigations and highlights its findings to the Audit Committee.

Health and safety
Prevention of injury or loss of life for both colleagues and customers is of utmost importance.

Clear policies and procedures are in place, which are aligned to all relevant regulations and industry standards and adherence to them is regularly monitored.

IT systems and infrastructure
The Group is reliant on its IT systems and operational infrastructure in order to trade efficiently. A failure in these systems could have a significant impact on our business.

The Group has extensive controls in place to maintain the integrity and efficiency of its systems including detailed recovery plans in the event of a significant failure. New innovations and upgrades to systems are ongoing to improve both the customer experience and colleague efficiency. Prior to introducing system changes rigorous testing is completed.

Pension risk
The Group operates a number of pension arrangements which includes two defined benefit schemes. These schemes are subject to risks in relation to their liabilities as a result of changes in life expectancy, inflation and future salary increases, and to risks regarding the value of investments and the returns derived from such investments.

An investment strategy is in place which has been developed by the pension trustees, in consultation with the Company, to mitigate the volatility of liabilities and to diversify investment risk.

Product safety
The quality and safety of our products is of the highest importance and any failure in standards would significantly affect the confidence of our customers.

There are stringent controls in place to ensure product safety and integrity. Food hygiene practices are taken very seriously and are monitored regularly to ensure compliance with standards. All aspects of product safety are governed through the Product Safety Committee. All suppliers are expected to conform to the Group's code of conduct for Socially Responsible Sourcing which launched in 1998 and covers fair terms of trading, protection of children, worker health and safety, equal opportunities, freedom of association, freedom of employment, hours of work and wages.

Regulatory environment
The Group's operations are subject to a broad spectrum of regulatory requirements particularly in relation to planning, competition and environmental issues, employment, pensions and tax laws and regulations over the Group's products and services.

There is an established governance process in place to monitor regulatory developments and to ensure that all existing regulations are complied with. Regular reviews are completed across the estate to ensure compliance and that training needs are addressed as required.

J Sainsbury plc: Board of Directors

Philip Hampton ✱
Chairman
Appointed Chairman on 19 July 2004. He was Group Finance Director of Lloyds TSB Group plc from 2002 to 2004, Group Finance Director of BT Group plc from 2000 to 2002, Group Finance Director of BG Group plc from 1997 to 2000, Group Finance Director of British Gas plc from 1995 to 1997, Group Finance Director of British Steel plc from 1990 to 1995, an Executive Director of Lazards from 1981 to 1990 and a Non-Executive Director of RMC Group plc from 2002 to 2005. He was appointed Non-Executive Chairman of The Royal Bank of Scotland Group plc on 3 February 2009 and is a Non-Executive Director of Belgacom S.A. (the Belgian telecom group). Age 55.

Justin King ♥
Chief Executive
Appointed Chief Executive Officer on 29 March 2004 and is also Chairman of the Operating Board. He has been a Non-Executive Director of Staples, Inc. since September 2007 and was appointed to the Board of the London Organising Committee of the Olympic Games and Paralympic Games in January 2009. He was formerly Director of Food at Marks & Spencer plc and from 1994 to 2001 he held a number of senior positions at ASDA/WalMart in Trading, HR and Retail. Justin was previously Managing Director of Häagen Dazs UK and spent much of his early career with Mars Confectionery and Pepsi International. Age 47.

Darren Shapland
Chief Financial Officer
Appointed Chief Financial Officer on 1 August 2005 and is also Chairman of Sainsbury's Bank plc. He was formerly Group Finance Director of Carpetright plc from 2002 to 2005 and Finance Director of Superdrug Stores plc from 2000 to 2002. Between 1988 and 2000, Darren held a number of financial and operational management roles at Arcadia plc including Joint Managing Director, Arcadia Home Shopping; Finance Director of Arcadia brands; Finance Director, Top Shop/Top Man (Burton Group) and Director of Supply Chain Programme (Burton Group). Age 42.

Mike Coupe
Trading Director
Appointed an Executive Director on 1 August 2007 and has been a member of the Operating Board since October 2004. He joined Sainsbury's from Big Food Group where he was a Board Director of Big Food Group plc and Managing Director of Iceland Food Stores. Mike previously worked for both ASDA and Tesco, where he served in a variety of senior management roles. Age 48.

Life President
Lord Sainsbury of Preston Candover KG

Key to Committee Members
- ◆ Remuneration Committee
- ● Audit Committee
- ✱ Nomination Committee
- ♥ Corporate Responsibility Committee
- ◆●✱♥ Denotes Chairman of Committee

Val Gooding ◆ ✱
Non-Executive Director
Appointed a Non-Executive Director on 11 January 2007. She was formerly Chief Executive of BUPA from August 1998 to May 2008, which she joined from British Airways, and is a Non-Executive Director of Standard Chartered Bank plc. Val is a member of the BBC's Executive Board, and the Advisory Board of the Warwick Business School. She is a Trustee of the British Museum, and a Non-Executive Director of the Lawn Tennis Association. She was formerly a Non-Executive Director of Compass Group plc and BAA plc. Age 58.

Gary Hughes ● ✱
Non-Executive Director
Appointed a Non-Executive Director on 1 January 2005. Gary is Chief Financial Officer of the Gala Coral Group. Formerly he was Chief Executive of CMP Information Limited – a division of United Business Media plc from 2006 to 2008, Group Finance Director of Emap plc from 2000 to 2005, Group Finance Director of SMG plc from 1996 to 2000, and Deputy Finance Director of Forte plc from 1994 to 1996. Prior to this Gary held a number of senior management positions with Guinness plc in the UK and in North America. Age 47.

Bob Stack ◆ ✱
Non-Executive Director
Appointed a Non-Executive Director on 1 January 2005. He was a Director of Cadbury plc until December 2008. He joined Cadbury Beverages in the US in 1990 and was first appointed to the Board of Cadbury Schweppes plc in May 1996 as Group Human Resources Director. In March 2000 he was appointed Chief Human Resources Officer and took on responsibility for communication and external affairs in addition to HR. Bob is Trustee and Non-Executive Director of Earthwatch International and also a Non-Executive Director of IMI plc and a Visiting Professor at Henley Management College. Age 58.

Dr John McAdam ● ✱
Senior Independent Director
Appointed a Non-Executive Director on 1 September 2005. He is Chairman of Rentokil Initial plc and United Utilities plc. He is also a Non-Executive Director of Rolls-Royce Group plc and Sara Lee Corporation. John joined Unilever as a management trainee in 1974 and went on to hold a number of senior positions in Birds Eye Walls, Quest and Unichema, before the sale of the Specialty Chemical Businesses to ICI in 1997. He was Chief Executive of ICI plc, until its sale to Akzo Nobel, and was formerly Non-Executive Director of Severn Trent plc from 2000 to 2005. Age 61.

Anna Ford ◆ ✱ ♥
Non-Executive Director
Appointed a Non-Executive Director on 2 May 2006. She retired from the BBC in 2006, after 32 years in News and Current Affairs. Anna is a Non-Executive Director of N Brown Group plc and has been a Trustee of the Royal Botanical Gardens in Kew, London; a Fellow of the Royal Geographical Society; a Trustee of Forum for the Future; and an Honorary Bencher of Middle Temple. Age 65.

Mary Harris ● ✱ ♥
Non-Executive Director
Appointed a Non-Executive Director on 1 August 2007. She is a member of the supervisory boards of TNT NV and Unibail-Rodamco S.A. Mary previously spent much of her career with McKinsey & Company, most recently as a partner, and her previous work experience included working for PepsiCo in Greece and the UK as a sales and marketing executive. Age 43.

The Operating Board

Justin King (1)
See page 24

Darren Shapland (2)
See page 24

Mike Coupe (3)
See page 24

1 2 3

4 5 6

7 8 9

10 11 12

Tim Fallowfield (4)
Company Secretary
Company Secretary since 2001. A member of the Operating Board. Tim joined from Exel plc, the global logistics company where he was Company Secretary and Head of Legal Services (1994-2001). Prior to this he worked at Clifford Chance and is a qualified solicitor.

Luke Jensen (5)
Strategy Director
Luke joined Sainsbury's in 2008 from the retail and consumer practice at the strategy consulting firm OC&C. In this role, he has advised the boards of many leading UK and international retail and FMCG companies and private equity groups. Previous roles include, 2004-2008: OC&C UK, Director/Partner and Head of FMCG, Consumer and Retail Practice; 2002-2003: M8 Group, UK, Founder and Group FD/Executive Director; 2001-2002: NAO, UK, Joint Managing Director and Chairman; 1992-2000: OC&C UK, Director/Partner; 1988-1991: Banque Paribas, Manager, Acquisition Finance. Joined the Operating Board in June 2008.

Angela Morrison (6)
IT and Change Director
Angela joined Sainsbury's from ASDA/Wal-Mart in March 2005 as IT Director. Joined the Operating Board in June 2008. At ASDA/Wal-Mart she held a number of roles including, 2001-2005: European Strategy Director; 1999-2001: IT Director; 1997-1999: Director of E-Commerce; 1996-1997: IT Strategy Manager.

John Rogers (7)
Property Director
John joined Sainsbury's in March 2005 as Director of Corporate Finance; from March 2007 to June 2008, he was Director of Group Finance. Joined the Operating Board in June 2008. Prior to Sainsbury's, John was Group Finance Director for Hanover Acceptances, a diversified corporation with wholly owned subsidiaries in the food manufacturing, real-estate and agri-business sectors. Previous roles include Senior Manager at Monitor Company and Manager at Arthur Andersen.

Gwyn Burr (8)
Customer Director
Joined the Operating Board in 2004. Director of Sainsbury's Bank plc. Gwyn has over 20 years' business experience, including five with Nestlé Rowntree and over 13 with ASDA/Wal-Mart. At ASDA, she held various Board level positions across Own Brand, Marketing, Customer Service and Retail.

Roger Burnley (9)
Retail and Logistics Director
Joined the Operating Board in March 2006 as Supply Chain Director and in April 2008 he assumed the new role of Retail & Logistics Director. Roger was previously Supply Chain Director at Matalan. He spent his early career in retail management and buying at B&Q before joining ASDA/Wal-Mart, where he held a number of positions before becoming Supply Chain Director in 2001.

Imelda Walsh (10)
HR Director
HR Director since October 2001. Joined the Operating Board when formed in May 2004. Before this was a member of the Board of Sainsbury's Supermarkets Ltd from March 2003. Director of Sainsbury's Bank plc. Prior to joining Sainsbury's, worked for Barclays Retail Financial Services, Coca-Cola and Schweppes Beverages. Author of the Flexible working review, published May 2008.

Dido Harding (11)
Convenience Director
Joined the Operating Board in March 2008. Dido joined Sainsbury's from Tesco where she held a variety of senior roles both in their UK and international businesses. Prior to this she worked at Kingfisher plc and Thomas Cook Ltd where she gained considerable retail experience. She began her career as a consultant with McKinsey.

Neil Sachdev (12)
Commercial Services Director
Joined Sainsbury's in March 2007 as Commercial Director following 28 years at Tesco, where he worked in a range of different business areas including, January 2000-August 2006: Stores Board Director UK Property/Operations; September 1999-January 2000: Supply Chain Director; September 1998-September 1999: Director, Competition Commission; February 1998-September 1998: Support Director; October 1994-July 1998: Retail Director. Joined the Operating Board in June 2008.

Directors' report

The Directors present their report and audited financial statements for the 52 weeks to 21 March 2009.

Principal activities
The Company's principal activities are grocery and related retailing.

Business review
The Business Review sets out a comprehensive review of the development and performance of the business for the 52 weeks ended 21 March 2009 and future developments. The Business Review is set out on pages 1 to 23 of this report. All the information detailed in these pages is incorporated by reference into this report and is deemed to form part of this report.

Dividends
The Directors recommend the payment of a final dividend of 9.6 pence per share (2008: 9.0 pence), making a total dividend for the year of 13.2 pence per share (2008: 12.0 pence), an increase of 10.0 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting ("AGM"), the dividend will be paid on 17 July 2009 to shareholders on the register at the close of business on 22 May 2009.

Changes to the Board
No changes were made to the Board in 2008/09.

Re-election of Directors
In accordance with the Articles of Association, Anna Ford, John McAdam and Darren Shapland will retire by rotation and seek re-election at the AGM.

Full biographical details of all of the current Directors are set out on pages 24 and 25.

Annual General Meeting
The AGM will be held on Wednesday, 15 July 2009 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am. The Chairman's letter and the Notice of Meeting accompany this report, together with notes explaining the business to be transacted at the meeting.

At the meeting, resolutions will be proposed to declare a final dividend, to receive the Annual Report and Financial Statements and approve the Remuneration Report, to elect Directors and to re-appoint PricewaterhouseCoopers LLP as auditors. In addition, shareholders will be asked to renew both the general authority of the Directors to issue shares and the authority to issue shares without applying the statutory pre-emption rights, and to authorise the Company to make market purchases of its own shares.
No such purchase has been made during the last financial year. Shareholders will also be asked to adopt new Articles of Association to reflect changes introduced by the provisions of the 2006 Companies Act and authorise Directors to hold general meetings at 14 days notice. A resolution to renew the authority to make 'political donations' as defined by Part 14 of the 2006 Companies Act will also be proposed.

Share capital and control
The following information is given pursuant to Section 992 of the Companies Act 2006.

Except as described below in relation to the Company's employee share schemes, there are no restrictions on the voting rights attaching to the Company's ordinary shares or the transfer of securities in the Company; no person holds securities in the Company carrying special rights with regard to control of the Company; and the Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights. Further details on the rights, restrictions and obligations attaching to the share capital of the Company, including voting rights, are contained in the Company's Articles of Association. The Articles of Association may only be changed with the agreement of shareholders.

Shares acquired through the Company's employee share schemes rank pari passu with shares in issue and have no special rights. Where, under the Company's All Employee Ownership Plan, participants are beneficial owners of the shares but the trustee is the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participants. The J Sainsbury Employee Benefit Trust waives its right to vote and to dividends on the shares it holds. Some of the Company's employee share plans include restrictions on transfer of shares while the shares are held within the plan.

At the AGM held in July 2008, the Company was authorised by shareholders to purchase its own shares, within certain limits and as permitted by the Articles of Association. The Company made no purchases of its own shares during the year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge.

All of the Company's employee share schemes contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Company's share schemes may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time.

The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

Ordinary shares
Details of the changes to the ordinary issued share capital during the year are shown on page 68. At the date of this report, 1,754,033,158 ordinary shares of 28⁴/₇ pence have been issued, are fully paid up and are listed on the London Stock Exchange.

Major interests in shares
As at 12 May 2009, the Company had been notified by the following investors of their interests in three per cent or more of the Company's shares. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5:

	Number of shares	% of voting rights
Crédit Agricole Cheuvreux International Limited	55,965,129	3.21
Judith Portrait (a trustee of various settlements, including charitable trusts)	71,332,495	4.09
Legal & General Group plc	69,825,844	4.00
Lord Sainsbury of Turville*	102,045,437	5.85
Qatar Holdings LLC	476,792,132	27.28

* Innotech Advisers Limited, an investment company 100 per cent owned by Lord Sainsbury of Turville, holds 92,000,000 shares in J Sainsbury plc.

Directors' interests
The beneficial interests of the Directors and their families in the shares of the Company are shown in the Remuneration Report on pages 33 to 40. The Company's Register of Directors' interests contains full details of Directors' interests, shareholdings and options over ordinary shares of the Company.

During the year, no Director had any material interest in any contract of significance to the Group's business.

Directors' indemnities
The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company has executed deeds of indemnity for the benefit of each Director in respect of liabilities which may attach to them in their capacity as Directors of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2008/09, which was renewed for 2009/10. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

Market value of properties
The Directors believe that the aggregate open market value of Group properties exceeds the net book value as set out in note 11 on page 58 and 59 of the financial statements.

Essential contracts
Sainsbury's 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 business of Sainsbury's.

Policy on payment of creditors
The policy of the Company and its principal operating companies is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms on the timely submission of satisfactory invoices. The Company is a holding company and therefore has no trade creditors. Statements on the operating companies' payment of suppliers are contained in their financial statements.

Corporate responsibility
Sainsbury's has a strong record in its commitment to corporate responsibility, which is an everyday part of how the Company does business. Details of the Company's principal corporate responsibility initiatives and activities are set out on pages 12 to 15. The Company's Corporate Responsibility Report, which will be published in July 2009 (www.j-sainsbury.co.uk/crreport2009), provides a comprehensive statement on corporate responsibility and describes the Company's policies and activities in relation to its five corporate responsibility principles: Best for Food and Health, Sourcing with Integrity, Respect for Our Environment, Making a Positive Difference to Our Community and A Great Place to Work.

As part of 'A Great Place to Work' the Company has well developed policies for fair and equal treatment of all colleagues, employment of disadvantaged persons and colleague participation. During their employment, the Company seeks to work with each individual, enabling them to reach and maximise their potential in the context of their own personal circumstances.

Under the banner of a new programme, 'You Can', the Company also actively works with a number of organisations which seek to promote inclusion within the workplace. These include Local Employment Partnerships, The Employers' Forum on Disability (Gold member), the Shaw Trust, Remploy and Mencap. The Company has also focused on the broader skills agenda and has set ambitious targets for enabling colleagues to achieve nationally recognised qualifications.

The Company's quarterly, interim and annual results are presented to all senior management and are communicated to all colleagues. Colleagues have always been encouraged to hold shares in the Company and over 45,000 colleagues are shareholders directly or through the Commitment Shares Plan Trust or the Sainsbury's Share Purchase Plan Trust.

Donations
During the year, cash and in-kind donations to charitable organisations and other community projects totalled £5.7 million (2008: £5.6 million). Sainsbury's colleagues, customers and suppliers raised £17.4 million (2008: £7.4 million) for charities through events supported by the Company, including Comic Relief and Fareshare, a charity specialising in food donation.

The Company made no political donations in 2009 (2008: £nil).

Post balance sheet events
Events after the balance sheet date are disclosed in note 38 on page 92 of the financial statements.

Financial risk management
The financial risk management and policies of the Group are disclosed in note 29 on pages 73 to 77 of the financial statements.

Going concern
As highlighted in the Financial Review on pages 16 to 21, the Group manages its financing by diversifying funding sources, configuring core borrowings with long-term maturities and maintaining sufficient stand by liquidity. Full details of the Group's financing arrangements can be found in note 20 on pages 64 and 65 of the financial statements.

The debt refinancing in March 2006 removed the Group's reliance on unsecured credit markets for medium and long-term finance and the Group's first significant refinancing exposure is not until 2018.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current challenging economic outlook. The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements which are shown on pages 43 to 92.

In addition, notes 29 and 30 on pages 73 to 79 of the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

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

Auditors
PricewaterhouseCoopers LLP have expressed their willingness to be reappointed as auditors of the Company. Upon the recommendation of the Audit Committee, resolutions to reappoint them as auditors and to authorise the Directors to determine their remuneration will be proposed at the AGM.

By order of the Board

Tim Fallowfield
Company Secretary
12 May 2009

Statement of corporate governance

Compliance
The following sections explain how the Company applies the principles and supporting principles of the Combined Code on Corporate Governance 2006 (the "Code"). During the year, the Company has complied with all the provisions of the Code.

The Board
The Board has been chaired since 2004 by Philip Hampton. It consists of three Executive Directors and six Non-Executive Directors. Dr John McAdam is the Senior Independent Director. The Directors' biographical details are set out on pages 24 and 25.

The Board is scheduled to meet eight times during the year, including a two-day strategy conference. The Chairman and Non-Executive Directors met during the year without the Executive Directors being present and the Non-Executive Directors also met during the year without the Executive Directors or the Chairman being present.

Division of responsibilities
There is a clear division of responsibilities between the Chairman and the Chief Executive which is set out in writing and has been approved by the Board. Philip Hampton is responsible for leadership of the Board, setting its agenda and monitoring its effectiveness. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors. He ensures that the Chief Executive develops a strategy which is supported by the Board as a whole. Justin King is responsible for executing the strategy, once agreed by the Board. He creates a framework of values, organisation and objectives to ensure the successful delivery of key targets, and allocates decision making and responsibilities accordingly. He takes a leading role, with the Chairman, in the relationship with all external agencies and in promoting Sainsbury's.

Independence/Non-Executive Directors
The Non-Executive Directors bring wide and varied commercial experience to Board and Committee deliberations. They are appointed for an initial three-year term, subject to election by shareholders at the first AGM after their appointment, after which their appointment may be extended for a second term, subject to mutual agreement and shareholder approval.

Philip Hampton satisfied the independence criteria of the Code on his appointment. From 25 November 2008 until 16 January 2009 he was appointed Non-Executive Chairman of UK Financial Investments Limited ("UKFI"), the company set up to manage the Government's investments in various UK banks. On 19 January 2009 he was appointed to the Board of The Royal Bank of Scotland Group plc ("RBS") and became its Non-Executive Chairman on 3 February 2009. The Board considered each role and concluded that he would continue to be able to fulfil his duties to the Company, notwithstanding each new appointment, noting that the roles at UKFI and RBS were Non-Executive and part time. The Board also concluded that there were no material conflicts resulting from the appointments.

All the Non-Executive Directors are considered to be independent according to the provisions of the Code. The Board is satisfied that there is no compromise to the independence of the Directors who have executive or non-executive roles with other companies.

From 1 October 2008, there has been a Companies Act requirement that Directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's Articles of Association permit. Shareholders approved the appropriate amendments to the Company's Articles at the 2008 AGM.

The Board has established procedures for the disclosure by Directors of any such conflicts, and also for the consideration and authorisation of these conflicts by the Board. In accordance with the Act, the Board considered and authorised each Director's reported potential conflicts of interest during the year. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

The Board's role
The Board is focused on delivering sustainable added value for shareholders. It regularly considers strategic issues, key projects and major investments and monitors performance against delivery of the agreed key targets. It approves the corporate plan and the annual budget and reviews performance against targets at every meeting. These and other key responsibilities are formally reserved powers of the Board.

During the year the Board received updates on the investor relations programme and feedback from major shareholders and reviewed the funding of the Company's pension plans and broader pension matters. Given the current economic climate it has received regular detailed reports on the Company's funding and liquidity position. It has also regularly reviewed Sainsbury's Bank's liquidity and the overall control of its financial position and cash management.

The Board delegates certain responsibilities to its principal committees. Through the Audit Committee, the Directors ensure the integrity of financial information, the effectiveness of the financial controls and the internal control and risk management systems. The Remuneration Committee sets the remuneration policy for Executive Directors and determines their individual remuneration arrangements. The Nomination Committee recommends the appointment of Directors and has responsibility for evaluating the balance of the Board and for succession planning at Board level. The Corporate Responsibility ("CR") Committee reviews key CR policy, taking into account the Company's CR objectives and the overall strategic plan. Further details are set out below.

Attendance
The table shows the attendance of Directors at scheduled Board and Committee meetings. The Board scheduled eight meetings during the year and ad hoc conference calls were also convened to deal with specific matters which required attention between scheduled meetings.

	Board	Audit Committee	CR Committee	Nomination Committee	Remuneration Committee
Mike Coupe	8(8)	–	–	–	–
Anna Ford	8(8)	–	2(2)	4(4)	5(5)
Val Gooding	8(8)	–	–	4(4)	5(5)
Philip Hampton	8(8)	–	–	4(4)	–
Mary Harris	8(8)	4(4)	2(2)	4(4)	–
Gary Hughes	7(8)	4(4)	–	4(4)	–
Justin King	8(8)	–	2(2)	–	–
John McAdam	8(8)	4(4)	–	4(4)	–
Darren Shapland	8(8)	–	–	–	–
Bob Stack	8(8)	–	–	4(4)	5(5)

(The number of meetings held during the year is shown in brackets)

Statement of corporate governance

Information and development
The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. The quality and supply of information provided to the Board is reviewed as part of the Board evaluation exercise.

The Company has a programme for meeting Directors' training and development requirements. Newly appointed Directors who do not have previous public company experience at Board level are provided with appropriate training on their role and responsibilities. New Directors participate in a comprehensive and tailored induction programme including store and depot visits and meetings with members of the Operating Board, senior management and external advisors. Subsequent training is available on an ongoing basis to meet any particular needs. During the year the Company Secretary, Tim Fallowfield, has provided updates to the Board on relevant governance matters, new legislation and on Directors' duties and obligations, whilst the Audit Committee regularly considers new accounting developments through presentations from management and the external auditors. The consultants to the Remuneration Committee advise the Committee on relevant trends in remuneration matters. The Board programme includes presentations from management which, together with site visits, increases the Non-Executive Directors' understanding of the business and the sector.

All Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that Board procedures are followed and for governance matters. The appointment and removal of the Company Secretary is one of the matters reserved for the Board. There is an agreed procedure by which members of the Board may take independent professional advice at the Company's expense in the furtherance of their duties.

Board evaluation
The Board agreed that this year's evaluation exercise should be conducted by Tim Fallowfield, the Company Secretary. Having agreed the key objectives with the Chairman, he prepared a detailed questionnaire and then met with each Director separately to discuss the Board's role and structure, process and relationships, and any emerging issues. The performance of the Board Committees was also reviewed. He then presented the findings to the Board, identifying what was working well and areas which could be improved or approached differently. The Board concluded that the action plan from the 2008 review had been implemented and it was satisfied with the progress that it had made during the year and that it was working effectively. An action plan was agreed to address the themes which emerged from this year's exercise; for instance the continuing training programme for the Non-Executive Directors will be updated.

The Senior Independent Director reviewed the Chairman's performance and subsequently met with him to provide feedback to him. The Chairman separately reviewed the contribution of each of the Directors with them.

Operating Board
Day-to-day management of the Company is delegated to the Operating Board, which is chaired by Justin King. The Operating Board held ten scheduled meetings during the year. Directors' responsibilities are set out on page 26. It has formal terms of reference setting out its key responsibilities. Minutes are copied to the Chairman and Non-Executive Directors. Operating Board members regularly attend and present at Board meetings as well as the strategy conference.

The Operating Board has delegated certain powers to the Trading Board, the Retail & Logistics Board and the Investment Board and receives regular reports from the Health and Safety Committee, the Product Safety Committee and the Corporate Responsibility Steering Group.

Board Committees
The Board has delegated certain responsibilities to the Nomination, Remuneration, Corporate Responsibility and Audit Committees.

Nomination Committee
The Nomination Committee is chaired by Philip Hampton and comprises each of the Non-Executive Directors. Justin King is not a member of the Committee although he is invited to attend meetings.

The Committee holds one meeting each year where it reviews succession planning and senior management development. During the year Philip Hampton informed the Board that, having completed five years as Chairman, he would be stepping down from the Board during 2009. The Committee is leading the recruitment process for his successor, chaired by John McAdam, the Senior Independent Director. Search consultants, Egon Zehnder International, have been instructed by the Committee in connection with this process. The Committee has considered the skills, knowledge, background and experience required for the role, and a job specification has been prepared. The Committee has also specified the time commitment expected of the role.

The Committee's terms of reference are available on the website (www.j-sainsbury.co.uk/governance) and set out the Committee's responsibilities. The Committee meets when necessary and in 2008/09 met on four occasions.

Remuneration Committee
The Committee is chaired by Bob Stack who was appointed a Non-Executive Director and Chairman of the Committee on 1 January 2005. The Remuneration Report is set out on pages 33 to 40.

Corporate Responsibility Committee
The Committee is chaired by Anna Ford, and Justin King and Mary Harris are its members. Philip Hampton attends each meeting. It met twice during the year. Formal meetings are supported by CR strategic meetings hosted by Anna Ford and Justin King. Each meeting is based around one of the five CR principles and key external stakeholders are invited to attend. During the year five meetings were held, relating to each of the five principles.

At operational level, Justin King chairs the CR Steering Group, attended by the four Operating Board Directors and Lawrence Christensen, Chairman for the Environment, who champion each of our five CR principles.

A summary of the Company's corporate responsibility priorities and activities are set out on pages 12 to 15. This year's Corporate Responsibility report will be published in July 2009.

The Association of British Insurers recommends that the Board considers material risks and control processes relating to corporate responsibility. The Board receives an annual update on health and safety and product safety, and relevant controls and governance, and any specific issues on these and other matters which might affect the Company's reputation are reported to the Board as they occur. In addition the Audit Committee's review of the system of internal controls and risk management processes referred to below includes corporate responsibility risks and the Committee considers any major corporate responsibility or brand reputation issues identified by the process, to the extent any such exist. The induction programme for new Board Directors includes a full review of corporate responsibility.

Audit Committee
The Committee is chaired by Gary Hughes with John McAdam and Mary Harris as its other members, all of whom are independent Non-Executive Directors. The Board has determined that Gary Hughes has recent and relevant financial experience. Philip Hampton, Justin King, Darren Shapland, Karen Whitworth, Director of Group Internal Audit, other senior members of the Finance Division and the external auditors are invited to attend Committee meetings. Tim Fallowfield is secretary to the Committee.

During the year the Committee met on four occasions, the agendas being organised around the Company's reporting cycle. It monitored the integrity of the financial statements and any formal announcements relating to the Company's financial performance and reviewed any significant financial judgements contained in them. The Committee has also reviewed the effectiveness of the Company's financial controls and the systems of internal control and risk management. Where any weaknesses were identified, the detailed actions for resolution are closely monitored through to completion.

Given the current economic climate, the Committee has regularly reviewed the Company's funding and liquidity position and has considered its impact on the Company's financial and operational capabilities. The Committee's detailed review of the year-end position assisted the Board in giving the going concern statement set out on page 28.

The Committee reviewed PricewaterhouseCoopers LLP's ("PwC") overall work plan and approved their remuneration and terms of engagement and considered in detail the results of the audit, PwC's performance and independence and the effectiveness of the overall audit process. The Committee recommended PwC's re-appointment as auditors to the Board and this resolution will be put to shareholders at the AGM.

The Committee has implemented the Company's policy which restricts the engagement of PwC in relation to non-audit services. The policy is designed to ensure that the provision of such services does not have an impact on the external auditors' independence and objectivity. It identifies certain types of engagement that the external auditors shall not undertake and others (such as tax planning and mergers and acquisitions advice) that can only be undertaken with appropriate authority from the Committee Chairman or the Committee, should non-audit fees exceed preset thresholds. The Committee receives a report at each meeting on the non-audit services being provided and the cumulative total of non-audit fees. In the event that cumulative non-audit fees exceed the audit fee then all subsequent non-audit expenditure must be approved by the Committee Chairman. The majority of the non-audit work undertaken during 2008/09 related to corporation tax advice and the 2009 pension funding valuation. The non-audit fees for the year were £0.9 million, and the audit fee for the year in respect of the Group, Company and its subsidiaries and the fee for the interim review totalled £0.8 million. The Committee is satisfied that the level of non-audit fees has no impact on the auditors' independence, noting that over each of the last three years audit fees have exceeded non-audit fees.

The Committee has regularly reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of its recommendations. Karen Whitworth, the Director of Group Internal Audit, has direct access to the Committee Chairman and Philip Hampton and has regular meetings with all Committee members. The Committee regularly met with PwC without management being present, and may meet the Director of Group Internal Audit separately if it deems necessary.

The Committee reviewed the Company's 'whistle blowing' procedures to ensure that arrangements are in place to enable colleagues and suppliers to raise concerns about possible improprieties on a confidential basis.

The Company has a fraud policy and has established a Serious Fraud Committee, which convenes in the event of serious incidents to oversee case management and ensure appropriate actions are taken. The Audit Committee receives an update at each meeting on all material frauds.

The Committee reviews the minutes of the meetings of the Sainsbury's Bank Audit Committee and receives a detailed update on any key matters. Given the economic climate it has particularly focused on the Bank's liquidity and cash flows, capital adequacy and risk management processes.

The Committee's terms of reference, which are available on the website (www.j-sainsbury.co.uk/governance), set out the Committee's responsibilities.

Internal control
The Board has overall responsibility for the system of internal controls, which is fully embedded into the operations of the Company and includes risk management. Certain of these responsibilities have been delegated to the Audit Committee. The Audit Committee has reviewed the effectiveness of the system of internal control and ensured that any required remedial action has or is being taken on any identified weaknesses. The system of internal controls has been in place throughout the year, up to the date of approval of the Annual Report and Financial Statements, and it accords with the Turnbull guidance and Section 1 of The Combined Code. It is designed to manage rather than eliminate the risk of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. It covers all controls including financial, operational and compliance controls and risk management procedures.

The processes used to assess the effectiveness of the internal control systems are ongoing, enabling a cumulative assessment to be made, and include the following:

- discussion and approval by the Board of the Company's strategic direction, plans and objectives and the risks to achieving them;
- review and approval by the Board of budgets and forecasts, including both revenue and capital expenditure;
- regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- regular reviews by management and the Audit Committee of the scope and results of internal audit work across the Company and of the implementation of recommendations. The scope of the work covers all key activities of the Company and concentrates on higher risk areas;
- reviews of the scope of the work of the external auditors by the Audit Committee and any significant issues arising;
- regular reviews by the Board and Audit Committee of identified fraudulent activity and any whistle blowing by colleagues or suppliers, and actions being taken to remedy any control weaknesses;
- reviews by the Audit Committee of accounting policies and levels of delegated authority; and
- consideration by the Board and by the Audit Committee of the major risks facing the Group and of the procedures in place to manage them.

Risk management
The risk management system has been enhanced and has been in place during the year and up to the date of approval of the Annual Report and Financial Statements. Accepting that risk is an inherent part of doing business, the system is designed to identify key risks and provide assurance that these risks are fully understood and managed. It is also supported by a risk policy and guidelines on how to apply the policy, which are communicated throughout the Company. The effectiveness of the process is reviewed twice a year by the Audit Committee which then reports to the Board.

The Operating Board maintains a risk register which is regularly reviewed and formally discussed twice a year with the Board. The register contains the key risks facing the Company and identifies the potential impact and likelihood of the risk at both a gross (pre mitigating controls) and a net (post mitigating controls) level. Where the net risk requires further actions, these are agreed with specific timelines. These actions are closely monitored until they are fully implemented. The principal risks are summarised on pages 22 and 23.

The risk management process is cascaded through each division and consists of:

- formal identification by the management of each division of the key risks to achieving their business objectives and the controls in place to manage them. This identification exercise is achieved through workshops which are facilitated by Internal Audit. The likelihood and potential impact of each risk is evaluated and actions necessary to mitigate them are identified. The risks and the robustness of the controls mitigating them are regularly reviewed by the management of each division as part of their normal business activities; and
- certification by management that they are responsible for managing the risks to their business objectives and that the internal controls are such that they provide reasonable but not absolute assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed.

The Operating Board reviews and challenges the output from the divisional risk process and updates the overall Company risk register if deemed necessary.

Internal Audit provides independent assurance as to the existence and effectiveness of the risk management activities described by management.

Investor relations
The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of Justin King, Darren Shapland and Elliot Jordan, Head of Investor Relations. The Chairman, Philip Hampton, is generally available to shareholders and meets with institutional and other large investors as required.

The Company regularly meets with its large investors and institutional shareholders who, along with sellside research analysts, are invited to presentations by the Company immediately after the announcement of the Company's interim and full year results. They are also invited to participate in conference calls following the announcement of the Company's trading statements. The content of these presentations and conference calls are webcast and are posted on the Company's website (www.j-sainsbury.co.uk/investors) so as to be available to all investors.

The Board regularly receives feedback on the views of major investors and the Investor Relations programme, and Makinson Cowell provide investor relations consultancy services to the Company and give an external analysis to the Board on the views of institutional investors and sellside analysts. Non-Executive Directors also receive regular market reports and broker updates from the Company's Investor Relations department.

Shareholders have the opportunity to meet and question the Board at the AGM, which will be held on 15 July 2009. There will be a display of various aspects of the Company's activities and Justin King will make a business presentation. A detailed explanation of each item of special business to be considered at the AGM is included with the Notice of Meeting which will be sent to shareholders at least 20 working days before the meeting. All resolutions proposed at the AGM will be taken on a poll vote. This follows best practice guidelines and enables the Company to count all votes, not just those of shareholders who attend the meeting.

Information on matters of particular interest to investors is set out on page 94 and on the Company's website (www.j-sainsbury.co.uk/investors).

Remuneration report

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report provides details of remuneration policy. The second part provides details of the remuneration, pensions and share plan interests of the Directors for the 52 weeks ended 21 March 2009. The Directors confirm that this report reflects the provisions of Schedule 7A of the Companies Act 1985.

A resolution will be put to shareholders at the Annual General Meeting ("AGM") on 15 July 2009 asking them to approve this report.

Remuneration Committee
The Remuneration Committee is chaired by Bob Stack. The Committee comprises Bob Stack, Anna Ford and Val Gooding, all of whom are independent Non-Executive Directors. The Committee met five times in 2008/09.

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. Philip Hampton, Justin King and Imelda Walsh, Human Resources Director, are invited to attend Committee meetings. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. They are not involved in discussions concerning their own remuneration.

The responsibilities of the Committee include:

- determining and agreeing with the Board the broad remuneration policy for the Chairman, Executive Directors and the Operating Board Directors;
- setting individual remuneration arrangements for the Chairman and Executive Directors;
- recommending and monitoring the level and structure of remuneration for those members of senior management within the scope of the Committee, namely the Operating Board Directors and any other executive whose salary exceeds that of any Operating Board Director; and
- approving the service agreements of each Executive Director, including termination arrangements.

The Committee's terms of reference are available on the Company's website (www.j-sainsbury.co.uk/governance).

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was advised by Deloitte LLP ("Deloitte") whose consultants attended four of the five Committee meetings and received copies of the relevant papers for all meetings. Deloitte also provided the Company with unrelated advice and consultancy on human resources systems development, direct tax and due diligence. Towers Perrin provided comparative data which was considered by the Committee in setting remuneration levels. Total Shareholder Return ("TSR") calculations are supplied by UBS, who provided broking and banking services to the Company during the year.

Remuneration policy
The Committee is proud of the ongoing growth and success of the Company during these very challenging market conditions. It continues to believe that the five areas of focus within the Company's strategy (as described in the Business Review) will generate good long-term growth. It is committed to ensuring that the management team is rewarded for continuing to deliver the Company's growth plans and long-term shareholder value.

It remains the Committee's intention, therefore, that Executive Directors' and Operating Board Directors' remuneration should be competitive, both in terms of base salary and total remuneration, taking into account the individual Director's role, performance and experience. This approach is designed to promote the Company's short and long-term success through securing and retaining high calibre executive talent. Basic salary is targeted around the median of the market with an opportunity to earn above median levels of total reward in return for exceptional performance. The Committee has regard to a number of factors as described below in determining Executive Directors' salaries, including the general level of salary increases awarded throughout the Company. A significant proportion of the total remuneration package is performance-related, aligning management's and shareholders' interests. Remuneration policies and practices are designed to create long-term value for shareholders through their alignment with the corporate strategy, key targets and objectives.

Remuneration review
At the AGM in 2006, shareholders approved an incentive framework which was designed to support the Company's business strategy over the medium to longer term. It was consistent with best practice and comprised the Deferred Annual Bonus Plan with a performance-related share match, and the Long-term Incentive Plan 2006 (the "Value Builder Share Plan").

The framework was developed in order to build on the sales-led recovery plan announced in 2004 by embedding key measures of financial and capital efficiency, as well as supporting strong performance of the core business by delivering quality earnings, growing profits and generating cash for future investments and/or return to shareholders.

In the 2008 Remuneration Report, the Committee indicated its intention to conduct a review of the remuneration policy during the year. This was to ensure that the policy continued to:

- support the Company's long-term strategic goals beyond the four-year business milestones announced in 2004;
- provide a common focus for the top 1,000 managers (from Chief Executive to supermarket store managers) on critical business measures and ensure appropriate alignment of pay and incentive plans from Executive Directors to store manager level; and
- deliver market competitive reward opportunities to a high performing management team.

In addition to the above, the Committee was mindful that total quantum levels should not increase in the current climate.

The review identified the need to revise several aspects of the remuneration framework to maintain its effectiveness.

Although none of the changes necessitates formal shareholder approval, detailed proposals were issued in advance to the Company's main investors and key institutions in respect of the Company's intentions to:

- reduce the combined potential that could previously have been earned through the annual bonus plan and the Deferred Annual Bonus Plan from 300 per cent to 250 per cent of salary for Justin King and from 180 per cent to 160 per cent of salary for Darren Shapland, Mike Coupe and Operating Board Directors, split equally between cash and share-based awards as set out below;
- for 2009/10, retain the performance measures and leave their relative weighting unchanged in respect of the annual bonus plan's cash-based element;

- replace the Deferred Annual Bonus Plan, which is conditional on a single TSR measure, with a deferred share-based award that is governed by a range of key financial and non-financial measures (including TSR) – these strategic measures contribute to the long-term, sustainable growth and success of the Company;
- for 2009/10, reduce awards granted under the Value Builder Share Plan from those made to Executive Directors since 2007, such that the award for Justin King is up to 200 per cent of salary (previously 250 per cent) and 160 per cent of salary for Darren Shapland and Mike Coupe (previously 200 per cent); and
- leave the performance matrix scale and performance conditions for 2009/10 Value Builder awards unchanged, but revise the way in which pension accounting costs are applied to the measurement of the Value Builder Share Plan's performance conditions to smooth out volatility and better reflect the level of cash generated by the Company.

The Committee has ensured that each of the above changes maintains a suitable degree of stretch within the incentive plans. In accordance with the Remuneration Policy, significant out-performance is still required in order for above median levels of reward to be earned. Further details on the above changes are set out in the relevant sections of this report.

Components of remuneration
The balance between the fixed (basic salary and pension) and variable (annual bonus and long-term incentive plan) elements of remuneration changes with performance, and the variable proportion of total remuneration increases significantly for increased levels of performance. For median performance, it is anticipated that broadly 60 per cent of total remuneration for Executive Directors will be performance-related in 2009/10.

The main remuneration components for the Executive Directors and Operating Board Directors comprising basic salary, incentive plans, pensions and benefits are set out below:

i) Basic salary
Basic salary for each Executive Director is determined by the Committee, taking account of the Director's performance, experience and responsibilities. The Committee also reviews Operating Board Directors' salaries taking similar factors into account. The Committee considers salary levels in comparable companies by referring to relevant pay data in the UK retail sector, in companies with annual sales revenues over £5 billion and also in companies with a market capitalisation of between £3 – £10 billion. This approach ensures that the best available benchmark for the Director's specific position is obtained. When determining Executive Directors' salaries, the Committee also has regard to economic factors, remuneration trends and the general level of salary increases awarded throughout the Company.

The Committee approved the following basic salaries for 2009/10:
- Justin King's basic salary was increased to £900,000 per annum (previously £872,000; 3.2 per cent uplift). This level of award is market aligned and is consistent with the percentage increases awarded for store colleagues and the wider management team.
- Darren Shapland continues to deliver an outstanding individual performance and contribution to the Company in a broad and demanding role and now takes responsibility for three additional areas of store development, procurement and corporate strategy, in addition to his 'normal' CFO duties. The Committee considered that his salary was no longer commensurate with his expanded role and increased experience, and in view of this, as well as market competitive practice, the Committee increased his basic salary to £560,000 per annum (previously £513,000; 9.2 per cent uplift).
- Mike Coupe has become a highly-valued member of and contributor to the Board since his appointment to it in August 2007. His role will expand in 2009/10. Accordingly, his basic salary was increased to £510,000 (previously £487,000; 4.7 per cent uplift).

By way of further context, Executive Directors' basic salaries increased by 2.5 per cent in 2008/09, consistent with the level applied to management and central non-management colleagues.

ii) Annual incentives
2008/09
All bonus plans across the Company are aligned under a set of common principles. For 2008/09, Board and management plans retained the same key targets based on profit and sales growth, product availability, plus an element for individual performance.

In 2008/09, a profit 'gateway' measure was introduced rather than a sales gateway as had been applied in prior years, reflecting the increasing emphasis on growing profit. In addition, a higher weighting was applied to the profit measure.

The profit, sales and availability targets were also shared across all store colleague bonus plans. Availability is measured across all stores on a regular basis by an independent third party, conducting random and unannounced store visits.

In determining bonus payments for 2008/09, the Committee took account of performance against each of the plan's measures in addition to individual targets. 2008/09 was a strong year financially for the Company: the profit gateway was exceeded, sales grew well in a challenging climate, and availability in our stores was improved. As such, a bonus ranging between 63 to 66 per cent of the maximum opportunity was awarded to Executive Directors in respect of 2008/09. This compares with a bonus range of 64 to 86 per cent of the maximum opportunity for 2007/08, reflecting the very stretching nature of the profit out performance targets set for 2008/09.

The 2008/09 bonus plan for store colleagues was based on the achievement of sales, availability and customer service targets measured in their individual stores, underpinned by a corporate profit target. As a result of store and corporate performance in 2008/09, around 120,000 colleagues will receive a bonus payment in respect of the 2008/09 financial year totalling around £60 million. This is a higher level of awards than was made in 2007/08, whereby around 117,000 colleagues received a bonus totalling around £47 million.

2009/10
Following the remuneration review, the Company's annual incentive arrangements for 2009/10 will comprise a cash-based element and, for Executive Directors and senior management, a share-based element which carries a further two-year deferral period. The share-based incentive replaces the Deferred Annual Bonus Plan, thereby maintaining the alignment of Directors' and shareholders' interests.

The cash-based element of the annual bonus plan will remain unchanged in terms of its measures and it will continue to incentivise the achievement of stretching profit, sales and availability targets as well as individual performance measures. The greatest weighting of the measures will remain profit and it will again act as the overall 'gateway' target. However, the maximum cash bonus potential that can be earned for 2009/10 will reduce from 150 per cent to 125 per cent of salary in respect of Justin King and from 100 per cent to 80 per cent of salary in respect of Darren Shapland and Mike Coupe.

The share-based element will be launched to cover the top levels of management. It has been designed to reward them for achieving stretching annual targets which contribute to building sustainable, long-term growth of the Company. Share-based awards will be made to participants subject to a basket of key strategic measures which will be aligned under four broad performance categories:

- financial performance;
- returns to shareholders;
- relative performance against peers; and
- strategic goals.

At least one half of the award will be based on the delivery of financial performance (e.g. profit) as well as returns to shareholders. The balance will be based on measures which will assess the Company's performance relative to its competitors (e.g. market share; relative sales growth) as well as key strategic/corporate goals (for 2009/10 these will be linked to the five areas of focus e.g. space targets). In addition, no shares will be awarded unless the profit gateway target (as applied to the cash annual bonus plan) is achieved.

Shares may be awarded with a value of up to 125 per cent of salary for Justin King and 80 per cent of salary for Darren Shapland and Mike Coupe. Performance will be measured over one financial year, but any shares awarded will be deferred for a further two years to ensure that management's interests continue to be aligned with returns to shareholders.

For reasons of commercial sensitivity, the specific details of the targets for the 2009/10 financial year cannot be disclosed in this Report, but further disclosure will be made in respect of these next year. The Committee will review the performance of the targets following the 2009/10 year-end and will confirm the resulting share-based awards. Share awards in respect of that cycle will not be released until after the end of the 2011/12 financial year, and they will be subject to forfeiture if the participant resigns from the Company or is dismissed for misconduct or cause during the two-year deferral period.

iii) Long-term incentives

Incentive arrangements for Executive Directors in respect of the 2008/09 financial year consisted of the Deferred Annual Bonus Plan and Value Builder Share Plan. Awards earned under each of the incentive plans are non-pensionable. This section describes these plans in detail, together with the J Sainsbury plc Share Plan 2005 (known as the 'Making Sainsbury's Great Again Plan'), which is now closed and no further grants will be made under it. From the 2009/10 grant cycle onwards, only annual grants under the Value Builder Share Plan will continue to be made.

Deferred Annual Bonus Plan 2006

Since its introduction, the Deferred Annual Bonus Plan has applied to the top levels of management including Executive Directors and currently comprises around 40 participants in total.

The first deferral took place in June 2007, in respect of the 2006/07 bonus awards and a second deferral was made in June 2008, in respect of the 2007/08 bonus awards. Whilst the Plan (which solely measures TSR performance relative to the peer group set out below) has merits which were supported by the Committee on its introduction in 2006, the Committee believes that these have been limited in the last two years by the takeover approaches in relation to the Company and by consolidation in the retail sector. Accordingly, as a result of the remuneration review the final deferral under the Plan will be made in June 2009, in respect of bonus awards earned for the 2008/09 financial year, and once this has occurred, no further deferrals will be made other than in exceptional circumstances.

Under the Plan, a percentage of the Executive Directors' earned annual bonuses is deferred into the Company's shares for a period of three years. The compulsory deferral for Justin King is 25 per cent of his bonus, with 20 per cent compulsory deferral for Darren Shapland and Mike Coupe. In addition, Executive Directors may elect to defer a further proportion of their annual bonus, provided it does not exceed their compulsory deferral level. In respect of the 2007/08 bonus award, Justin King decided to defer the maximum level of 25 per cent of his bonus on a voluntary basis. Darren Shapland deferred 20 per cent of his bonus, the maximum allowed on a voluntary basis.

The Plan measures the Company's TSR performance over a three-year period against a bespoke UK and European retail comparator group comprising: Ahold, Carrefour, Casino, Delhaize, DSG International, Home Retail Group, Kingfisher, Marks & Spencer, Metro, Morrisons, Next and Tesco.

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

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

Long-term Incentive Plan 2006

The top 1,000 managers in the Company participate in this Plan (known as 'the Value Builder Share Plan'), from the Chief Executive to supermarket store managers, and share common performance measures.

Under the Plan a core award of shares in the Company is granted to all participants, calculated as a percentage of their salaries and scaled according to grade. As set out below, dependent upon performance, core awards can grow by up to four times. No awards vest for performance below the threshold levels.

Following the remuneration review, the Committee has determined that for 2009/10, it will:

- reduce long-term incentive awards under the Plan from those made since 2007. A core award of 50 per cent of salary will be granted to Justin King and of 40 per cent of salary to both Darren Shapland and Mike Coupe. This is compared to core awards of 62.5 per cent and 50 per cent of salary allocated to Justin King, and Darren Shapland and Mike Coupe, respectively, in both 2007 and 2008;
- leave the performance matrix scale and performance conditions unchanged (subject to the revisions below); and
- calculate cash flow per share by using the actual cash contributions in respect of future service benefits that are made to its pension schemes (both defined contribution and defined benefit arrangements), rather than apply the non-cash IAS 19 driven actuarial numbers. Additionally, any pension surplus/deficit will be excluded from the calculation of capital employed. This approach will better reflect the level of cash generated by, and the capital base of, the Company, as well as mitigate any volatility.

As in prior years, the vesting of awards is based on the performance of two stretching co-dependent performance conditions: Return on Capital Employed ("ROCE") and a cash flow per share measure, both of which are assessed over a three-year performance period. There is no retesting.

These measures are designed to continue to build on the sales-led recovery plan and focus on creating further shareholder value. ROCE measures the efficiency with which new cash is invested and through which existing capital delivers profit, driving both cost savings and operational efficiencies. Cash flow per share captures the Company's operational efficiency as well as the Company's ability to generate cash for future investment or return to shareholders. The Plan's measures are key indicators of business success and therefore create a further direct link between the interests of management and shareholders.

No awards will vest unless threshold ROCE and cash flow per share targets are achieved. The performance measures are reviewed each year by the Committee, before a new grant is made, to ensure that they remain relevant and stretching.

ROCE is calculated based on shareholders' proportion of underlying operating profit for the business, including our share of underlying profit arising from joint ventures. The capital employed figure excludes the one-off impact of capital spend in the year the calculation is made.

Total cash flow per share is calculated at the end of the performance period from two components:

- the underlying cash operating profit or loss for the business before depreciation and amortisation, less interest and taxes (adjusted to strip out the impact of one-off items) in the final year of the performance period. This reflects the Company's improved ability to generate sustainable cash flows; plus
- the improvement in normalised working capital over the performance period. This reflects the Company's aggregate contribution to cash from improvements in working capital over the three-year period.

These components are then added and expressed as a per share figure. The improvement in total cash flow per share is expressed as a percentage of cash operating profit per share in the base year and is annualised.

The working capital element will be capped so as not to comprise more than one-third of the total cash flow per share figure (the two components being considered on an absolute basis).

Vesting is calculated by applying a performance multiplier to the core award on a sliding scale up to four times. The performance matrix applying to Value Builder awards that will be made in 2009 is set out below. Straight-line vesting will be carried out if performance falls between two points.

ROCE	Total cash flow per share percentage				
	3%	6%	9%	12%	15%
15%	1.5	2.5	3.0	3.5	4.0
14%	1.0	1.5	2.5	3.0	3.5
13%	0.5	1.0	1.5	2.5	3.0
12%	–	0.5	1.0	1.5	2.5
11%	–	–	0.5	1.0	1.5

Performance will be measured at the end of the performance period. If the required level of performance has been reached, 50 per cent of the award will be released at the end of year three. Subject to participants remaining in employment for a further year, the balance will then be released.

The Committee has discretion to make adjustments to the calculation of the performance measures (for instance for material acquisitions and disposals) to ensure it remains a true and fair reflection of performance. Dividends will accrue on the shares that vest in the form of additional shares.

Performance will be tested in May 2009 in respect of the Value Builder Share Plan grant made in 2006/07.

J Sainsbury plc Share Plan 2005

Following extensive investor consultation, the J Sainsbury plc Share Plan 2005 (known as the 'Making Sainsbury's Great Again Plan') was designed to reward strong growth in sales and profitability. It is a one-off, self-funded incentive arrangement and was closed to new entrants on 25 March 2006.

Over 1,000 colleagues received conditional core awards under this Plan, from the Chief Executive through to supermarket store managers, focused on identical targets. The levels of core award were scaled according to seniority; the maximum being 100 per cent of salary for the Chief Executive. In addition, all Executive Directors and Operating Board Directors committed to making a personal investment of 50 per cent of salary in the Plan – accordingly Justin King, Darren Shapland and Mike Coupe acquired 118,754, 70,224 and 73,891 shares respectively.

Performance is measured over a four-year period from the financial year ended 26 March 2005 until the year ending 21 March 2009. Awards would vest if two stretching and co-dependent performance conditions were achieved: growth in sales and earnings per share ("EPS"). No awards would vest unless threshold levels of growth in both sales and EPS were achieved.

The maximum award available under the Plan was targeted towards sales growth of £2.5 billion (using a base figure of £13,588 million), and compound annual growth in EPS of at least 21 per cent over a four-year period. There was an opportunity for partial vesting of up to half the award if accelerated performance targets had been met at the end of year three (the 52 weeks ended 22 March 2008).

Vesting is calculated by applying a performance multiplier to the core award and personal investment; this is on a sliding scale from one times to five times and is plotted in a matrix format, as set out on page 86. Dividends accrue on any shares that vest and will be released to participants in the form of additional shares at the point of vesting.

Performance was tested in May 2008 and each of the three-year targets was exceeded and, in accordance with the accelerated vesting provisions, half of the awards were available for exercise. The number of shares awarded to Justin King, Darren Shapland and Mike Coupe is set out on page 38.

The Plan's four-year performance targets will be tested in May 2009 covering the period to 21 March 2009. It is expected that full vesting will occur and, in accordance with its maturity vesting provisions, the remaining awards will be released in full.

iv) Other share plans

In order to encourage wider employee share ownership, the Company provides two all employee share plans for colleagues, namely the Savings Related Share Option Scheme ("SAYE") and the All Employee Share Ownership Plan. Executive Directors may participate in these plans in the same way as all other colleagues and Justin King and Darren Shapland currently participate in both plans. As these are all employee plans there are no performance conditions. The Committee approves the adoption or amendment of these plans and any awards under these plans to the Executive Directors.

The 2003 (five-year) SAYE reached maturity on 1 March 2009. Around 7,000 colleagues could use their savings and tax-free bonus to buy Sainsbury's shares at the 241.0 pence option price. The 2005 (three-year) SAYE matured at the same time and a further 3,000 colleagues could use their savings and tax-free bonus to buy Sainsbury's shares at the 231.0 pence option price. Using the market price on the date of the first exercise, the value of all the shares subject to the maturity was in excess of £20 million. The Company currently has over 25,400 colleagues participating in the SAYE with over 50,700 individual savings contracts.

In 2003, the Company awarded free shares under its All Employee Share Ownership Plan to all colleagues who had one financial year's service. These shares were held in a trust for five years and on 4 June 2008, 1.4 million shares were released to 39,600 colleagues. In August the Company introduced a matching element to the partnership element of the All Employee Share Ownership Plan on a buy four get one free basis for one year. These matching shares must be held for five years to receive all of the relevant tax benefits and will be forfeited if the individual resigns from the Company within the first three years. Justin King and Darren Shapland have received 75 matching shares during the year.

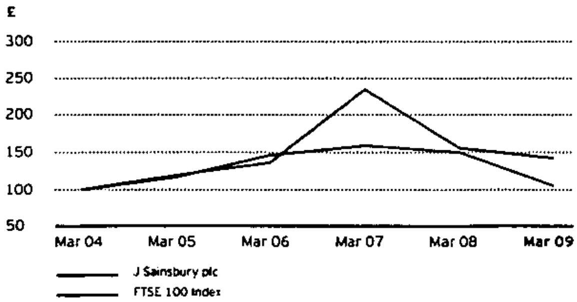
v) Pensions
The Company's Defined Benefit Pension Plan was closed on 31 January 2002 and, as such, Justin King, Darren Shapland and Mike Coupe do not participate in it. For 2008/09, Justin King and Mike Coupe received pension supplements of 30 per cent of salary and 25 per cent of salary, respectively, in lieu of pension plan participation.

Darren Shapland participated in the JS Self Invested Pension Plan, a defined contribution arrangement which is open to all senior management, until 10 August 2008. Prior to this date, he contributed five per cent of his salary up to the Company's earnings cap (2008: £117,600) whilst the Company contributed 12.5 per cent of salary up to the cap; a salary supplement equal to 25 per cent of his pensionable salary over the cap was paid to him. Upon his withdrawal from the Plan, he received a pension supplement equal to 25 per cent of his full salary.

vi) Benefits
Other benefits for Directors include the provision of company car benefits, life assurance, colleague discount and private medical cover.

Shareholding guidelines
To create greater alignment with the interests of shareholders and to be consistent with one of the objectives of the incentive framework, the Committee has proposed that all Executive Directors and Operating Board Directors should build up a shareholding in the Company over a five-year period starting from 2006/07 that is equal to their annual basic salary, and maintain it thereafter. At the year-end, Justin King held 548,962 shares, Darren Shapland held 442,355 shares and Mike Coupe 410,878 shares, in addition to their share scheme grants. At the year-end, based on the year-end share price, this represented 197 per cent, 270 per cent and 264 per cent of salary respectively.

Performance graph
The graph below shows the TSR performance of an investment of £100 in J Sainsbury plc shares over the last five years compared with an equivalent investment in the FTSE 100 Index. This has been selected to provide an established and broad based index.



Service contracts
Justin King has a service contract which can be terminated by either party by giving 12 months' written notice. If his service contract is terminated without cause, the Company can request that he works his notice period or takes a period of garden leave, or can pay an amount in lieu of notice equal to one times basic salary for the notice period plus 75 per cent of basic salary in lieu of all other benefits including pension and bonus. In addition, if he is dismissed within six months of a change of control the above sum will become payable. The contract contains restrictive covenants, which continue for 12 months after termination.

If Darren Shapland's or Mike Coupe's service contracts are terminated without cause, the maximum payment they would receive would be equal to one times basic salary for the 12 month notice period plus 50 per cent of basic salary in lieu of all other benefits. They are required to mitigate their losses and would receive phased payments, which would be reduced or terminated if they secured alternative employment during the notice period. Their contracts also contain restrictive covenants, which continue for 12 months after termination. The contracts do not contain any specific provisions relating to change of control.

The Executive Directors' service contracts became effective on the following dates:

	Contract date
Justin King	29 March 2004
Darren Shapland	1 August 2005
Mike Coupe	1 August 2007

Chairman
The Chairman does not have a service contract. His letter of appointment became effective on 19 July 2004. He was appointed for an initial term of three years renewable on a 12 month rolling basis thereafter by mutual consent. His appointment may be terminated at any time upon six months' written notice from either party. He devotes such time as is necessary to perform his duties. The Chairman's fees have remained unchanged since his appointment in 2004.

The Chairman does not participate in any performance related incentive plans.

Non-Executive Directors
Non-Executive Directors do not have service contracts. They are appointed for an initial three-year period, which may be extended for a further term by mutual consent. The initial appointments and any subsequent re-appointments are subject to election or re-election by shareholders. Their appointments may be terminated on three months' notice from either side.

Non-Executive Directors are paid a basic fee in cash of £50,000 per annum with additional fees of £10,000 per annum being payable to the Senior Independent Director and to the Chairmen of the Audit, Remuneration and Corporate Responsibility Committees. The fees are reviewed annually by a sub-committee of the Board, consisting of the Chairman and one or more Executive Directors, which takes into account market rates and the specific responsibilities and time commitments of the role within Sainsbury's and were last increased in March 2007. They will be reviewed in the autumn. Non-Executive Directors do not participate in any performance related incentive plans.

The Non-Executive Directors' letters of appointment became effective on the following dates:

	Appointment date
Anna Ford	2 May 2006
Val Gooding	11 January 2007
Mary Harris	1 August 2007
Gary Hughes	1 January 2005
John McAdam	1 September 2005
Bob Stack	1 January 2005

The following section provides details of the remuneration, pension and share plan interests of the Directors for the 52 weeks ended 21 March 2009 and has been audited.

i) Directors' remuneration

The remuneration of the Directors for the year was as follows:

	Note	Salary/fees £000	Bonus[3] £000	Pension supplement[4] £000	Benefits[5] £000	Total[6] 2009 £000	Total[6] 2008 £000
Justin King	1, 7	**872**	**869**	**262**	**45**	**2,048**	2,176
Mike Coupe	2	**487**	**311**	**122**	**17**	**937**	694
Darren Shapland		**513**	**321**	**117**	**16**	**967**	1,042
Philip Hampton		**395**	**–**	–	**1**	**396**	396
Anna Ford		**60**	**–**	**–**	–	**60**	60
Val Gooding		**50**	**–**	**–**	**–**	**50**	50
Mary Harris	2	**50**	**–**	**–**	**–**	**50**	33
Gary Hughes		**60**	**–**	**–**	**–**	**60**	60
John McAdam		**60**	**–**	**–**	**–**	**60**	60
Bob Stack		**60**	**–**	**–**	**–**	**60**	60
Payments made to Directors who left the Board before the start of the financial year						**–**	–
Total 2009		**2,607**	**1,501**	**501**	**79**	**4,688**	
Total 2008		2,379	1,773	423	56		4,631

1 Highest paid Director.
2 Appointed to the Board on 1 August 2007. Total remuneration in 2008 pro-rated accordingly.
3 Includes performance bonuses earned in the period under review but paid following the end of the financial year.
4 Justin King is not a member of the Company pension schemes and received 30 per cent of his basic salary as a cash pension supplement. In addition to this supplement, £3,000 (2008: £4,000) of interest has been earned on a notional fund during the year from his previous membership of the Executive Stakeholder Pension Plan. Mike Coupe is not a member of the Company pension schemes and received 25 per cent of his basic salary as a cash pension supplement. Darren Shapland was a member of the Executive Stakeholder Pension Plan until 10 August 2008. Contributions to the Stakeholder Plan by the Company in 2008/09 in respect of his membership were £5,650 (2008: £14,100). He received a cash pension supplement equal to 25 per cent of the amount by which his salary exceeded the Company's earnings cap (2008: £117,600) until that date, and a supplement of 25 per cent of his basic salary thereafter.
5 Benefits include company car benefits and private medical cover.
6 The totals for 2008 and 2009 (in the case of Darren Shapland) do not include deductions made from basic salary for Saving Money and Reducing Tax ("SMART") pensions.
7 The Company allows Executive Directors to take up one public company non-executive role outside the Company subject to a consideration of the role and the time commitment. Directors are entitled to retain the fees earned from such an appointment. Justin King was appointed a Non-Executive Director of Staples, Inc. on 17 September 2007. He received US$75,000 for his services during 2008/09. He received no stock options. In 2008 he received US$43,750 from Staples, Inc. He also received 6,414 restricted stock units which vest between March 2009 and December 2010. In addition he received 48,199 Stock Options, 16,699 of which vest in March 2009 with the remainder vesting 25 per cent per annum.

ii) Long-term incentive plans

J Sainsbury plc Share Plan 2005

The table below shows the conditional awards granted under this Plan, which would be released if the Company achieves maximum vesting.

	Date of grant	Core share award	Personal investment	Share price at date of award pence	Number of options released 14 May 2008[2]	Number of dividend shares allocated 20 May 2008[3]	Maximum share award to vest on 13 May 2009[1,2,4]	Second exercise date[2]	Last exercise date
Justin King	24.03.05	237,508	118,754	293.0	831,278	66,965	831,278	13.05.09	23.03.10
Darren Shapland	01.08.05	102,558	70,224	280.5	396,843	31,968	396,843	13.05.09	23.03.10
Mike Coupe	24.03.05	118,226	73,891	293.0	443,347	35,715	443,347	13.05.09	23.03.10

1 The maximum share award excludes the personal investment shares acquired by the Directors, which must be held for the duration of the Plan. It assumes full vesting.
2 Performance was tested against the accelerated performance targets in May 2008 and the awards vested in full and, in accordance with the accelerated provisions, half of the award vested. Performance will be measured in May 2009 and it is expected that awards will vest in full.
3 The value of the dividend which would have been received on newly available shares has been divided by a five-day average share price from 14 to 20 May 2008 to calculate the number of dividend shares to be allocated.
4 The performance conditions attaching to the award are sales and EPS targets. Further information is provided on page 86.
5 The J Sainsbury plc Share Plan 2005 is a nil cost option plan. The exercise price is nil.

The following table shows the options that vested in May 2008 as a result of the accelerated performance targets being met in full.

	Number of options released during the year	Number of options exercised during the year	Mid market price on date of exercise pence	Gains on option exercises £000	Lapsed during the year	Number of options held 21 March 2009	Exercise price pence	Date from which exercisable	Date of expiry
Justin King	898,243	–	–	–	–	898,243	nil	14.05.08	23.03.10
Darren Shapland	428,811	428,811	296.25	1,270	–	–	nil	–	–
Mike Coupe	479,062	479,062	298.5	1,430	–	–	nil	–	–

Darren Shapland retained 252,729 shares arising out of this release; the remainder was used to fund the income tax and national insurance charge relating to the release.
Mike Coupe retained 282,346 shares arising out of this release; the remainder was used to fund the income tax and national insurance charge relating to the release.
Market price on vesting date 374.5 pence.

Long-term Incentive Plan 2006
The table below shows the conditional awards granted under this Plan, which would be released if the Company achieves maximum vesting.

	Date of grant	Maximum share award[1]	Share price at date of award pence	First exercise date	Last exercise date
Justin King	13.07.06	390,424	334.0	13.05.09	12.05.11
	20.06.07	380,844	583.5	12.05.10	11.05.12
	28.05.08	630,876	352.0	11.05.11	10.05.13
Darren Shapland	13.07.06	188,480	334.0	13.05.09	12.05.11
	20.06.07	179,220	583.5	12.05.10	11.05.12
	28.05.08	296,916	352.0	11.05.11	10.05.13
Mike Coupe	13.07.06	186,384	334.0	13.05.09	12.05.11
	20.06.07	163,092	583.5	12.05.10	11.05.12
	28.05.08	281,868	352.0	11.05.11	10.05.13

1 The maximum share award assumes full vesting.
2 The performance conditions attaching to the award are return on capital employed and growth in cash flow per share. Further information is provided on page 87.
3 The Long-term Incentive Plan 2006 is a nil cost option plan. The exercise price is nil.
4 There were no exercises or lapses under this Plan during the year.

Deferred Annual Bonus Plan
The table below shows the maximum number of shares conditionally allocated to participants and what would be released to them in the form of nil cost options if the Company achieves maximum vesting.

	Date of grant	Deferred bonus share award	Maximum matching share award[1]	Share price at date of award pence	First exercise date	Last exercise date
Justin King	20.06.07	86,026	172,052	583.5	22.03.10	22.03.12
	20.06.08	158,042	316,084	325.75	21.03.11	21.03.13
Darren Shapland	20.06.07	29,033	58,066	583.5	22.03.10	22.03.12
	20.06.08	52,043	104,086	325.75	21.03.11	21.03.13
Mike Coupe	20.06.07	21,294	42,588	583.5	22.03.10	22.03.12
	20.06.08	18,292	36,584	325.75	21.03.11	21.03.13

1 The maximum matching share award is the maximum award that would become exercisable provided that the Company achieves first position within the comparator group of namely Ahold, Carrefour, Casino, Delhaize, DSG International, Home Retail Group, Kingfisher, Marks & Spencer, Metro, Morrisons, Next and Tesco. The Company's relative performance is determined by reference to total shareholder return.
2 There were no exercises or lapses under this Plan during the year.
3 The exercise price is nil.

iii) Saving Related Share Option Scheme ("SAYE")
At the end of the year, the Directors' SAYE share options were as follows:

	Number of options 23 March 2008	Number of options granted during the year	Number of options exercised during the year	Mid-Market price on date of exercise pence	Gains on option exercise £000	Number of options lapsed during the year	Number of options 21 March 2009	Weighted average exercise price pence	Date from which exercisable	Date of expiry
Justin King	6,969	–	–	–	–	–	6,969	231.0	01.03.11	31.08.11
Darren Shapland	2,881	–	–	–	–	–	2,881	328.0	01.03.10	31.08.10
Mike Coupe	4,047	–	4,047	293.5	3	–	–	231.0	–	–

The Savings Related Share Option Scheme is an all employee share option scheme and has no performance conditions as per HMRC Regulations.

In the period from 23 March 2008 to 21 March 2009, the highest mid-market price of the Company's share was 398.75 pence and the lowest mid-market price was 240.0 pence and at 21 March 2009 was 313.0 pence.

iv) Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown below:

	Ordinary shares[1] 23 March 2008	Ordinary shares[1] 21 March 2009	Ordinary shares 12 May 2009[4]
Mike Coupe	98,870	410,878	410,878
Justin King	390,383	548,962	549,051
Darren Shapland	137,253	442,355	442,443
Anna Ford	1,000	1,000	1,000
Val Gooding	1,320	1,320	1,320
Philip Hampton	25,000	25,000	25,000
Mary Harris	5,000	5,000	5,000
Gary Hughes	18,246	21,510	21,510
John McAdam	1,000	1,000	1,000
Bob Stack[3]	2,800	2,800	2,800

1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children. They also include the beneficial interests in shares which are held in trust under the Sainsbury's Share Purchase Plan.
2 The totals above for Justin King, Darren Shapland and Mike Coupe include the deferred annual bonus shares purchased under the Plan, which have to be held until the end of the performance period. See page 39 for further information.
3 Held in the form of 700 American Depository Receipts.
4 Includes shares purchased under the Sainsbury's Share Purchase Plan between 21 March 2009 and 12 May 2009.
5 The Executive Directors are potential beneficiaries of the Company's employee benefit trust, which are used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 9.7 million shares (2008: 22.4 million) held by the Trustees.

Approved by the Board on 12 May 2009

Bob Stack
Chairman of the Remuneration Committee

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company and the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 24 to 25 confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the Directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Tim Fallowfield
Company Secretary
12 May 2009

Statement of Directors' responsibilities

Independent Auditors' report to the members of J Sainsbury plc

We have audited the Group and Company financial statements (the 'financial statements') of J Sainsbury plc for the 52 weeks ended 21 March 2009 which comprise the Group income statement, the Group and Company Statements of recognised income and expense, the Group and Company Balance sheets, the Group and Company Cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes the information presented in the Business review that is cross referred from the Business review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Statement of corporate governance reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's statement, the Business review, the Directors' report, the Statement of corporate governance, the unaudited part of the Remuneration report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 21 March 2009 and of its profit and cash flows for the 52 weeks then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 21 March 2009 and of its cash flows for the 52 weeks then ended;
- the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
12 May 2009

Notes

(a) The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

for the 52 weeks to 21 March 2009

	Note	2009 £m	2008 £m
Revenue	3	**18,911**	17,837
Cost of sales		**(17,875)**	(16,835)
Gross profit		**1,036**	1,002
Administrative expenses		**(420)**	(502)
Other income		**57**	30
Operating profit	4	**673**	530
Finance income	5	**52**	83
Finance costs	5	**(148)**	(132)
Share of post-tax loss from joint ventures	14	**(111)**	(2)
Profit before taxation		**466**	479
Analysed as:			
Underlying profit before tax		**543**	488
Profit on sale of properties	7	**57**	7
Investment property fair value movements	7	**(124)**	-
Financing fair value movements	7	**(10)**	(4)
One-off items	7	**-**	(12)
		466	479
Income tax expense	8	**(177)**	(150)
Profit for the financial year		**289**	329
Earnings per share	9	**pence**	pence
Basic		**16.6**	19.1
Diluted		**16.4**	18.6
Underlying basic		**22.1**	19.6
Underlying diluted		**21.8**	19.1
Dividends per share	10	**pence**	pence
Interim		**3.60**	3.00
Proposed final (not recognised as a liability at balance sheet date)		**9.60**	9.00

Statements of recognised income and expense

for the 52 weeks to 21 March 2009

	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company restated 2008 £m
Actuarial (losses)/gains on defined benefit pension schemes	31	**(903)**	542	**-**	-
Available-for-sale financial assets fair value movements					
Group		**(16)**	(31)	**(1)**	-
Joint ventures		**-**	48	**-**	-
Cash flow hedges effective portion of fair value movements					
Group		**9**	2	**-**	-
Joint ventures		**(32)**	(58)	**-**	-
Tax on share-based payments recognised directly in equity	8	**-**	(10)	**-**	-
Deferred tax credit/(charge) on items recognised directly in equity	8	**257**	(152)	**-**	-
Net (expense)/income recognised directly in equity		**(685)**	341	**(1)**	-
Profit for the financial year		**289**	329	**165**	90
Total recognised (expense)/income for the financial year		**(396)**	670	**164**	90

Statements of recognised income and expense

Balance sheets

at 21 March 2009 and 22 March 2008

	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company restated 2008 £m
Non-current assets					
Property, plant and equipment	11	**7,821**	7,424	**42**	109
Intangible assets	12	**160**	165	**–**	–
Investments in subsidiaries	13	**–**	–	**7,262**	7,169
Investments in joint ventures	14	**288**	148	**91**	91
Available-for-sale financial assets	15	**97**	106	**7**	–
Other receivables	17	**45**	55	**1,050**	976
Derivative financial instruments	30	**31**	–	**31**	–
Deferred income tax asset	21	**–**	–	**1**	1
Retirement benefit asset	31	**–**	495	**–**	–
		8,442	8,393	**8,484**	8,346
Current assets					
Inventories	16	**689**	681	**–**	–
Trade and other receivables	17	**195**	206	**380**	359
Derivative financial instruments	30	**59**	4	**37**	–
Cash and cash equivalents	27	**627**	719	**460**	324
		1,570	1,610	**877**	683
Non-current assets held for sale	13	**21**	112	**–**	–
		1,591	1,722	**877**	683
Total assets		**10,033**	10,115	**9,361**	9,029
Current liabilities					
Trade and other payables	19	**(2,488)**	(2,280)	**(3,489)**	(3,334)
Borrowings	20	**(154)**	(165)	**(43)**	(88)
Derivative financial instruments	30	**(56)**	(6)	**(49)**	(6)
Taxes payable		**(202)**	(191)	**111**	21
Provisions	22	**(19)**	(10)	**(1)**	(2)
		(2,919)	(2,652)	**(3,471)**	(3,409)
Net current liabilities		**(1,328)**	(930)	**(2,594)**	(2,726)
Non-current liabilities					
Other payables	19	**(92)**	(89)	**(2,037)**	(1,803)
Borrowings	20	**(2,177)**	(2,037)	**–**	–
Derivative financial instruments	30	**(8)**	(18)	**–**	(18)
Deferred income tax liability	21	**(95)**	(321)	**–**	–
Provisions	22	**(57)**	(63)	**(27)**	(27)
Retirement benefit obligations	31	**(309)**	–	**–**	–
		(2,738)	(2,528)	**(2,064)**	(1,848)
Net assets		**4,376**	4,935	**3,826**	3,772
Equity					
Called up share capital	23	**501**	499	**501**	499
Share premium account	23	**909**	896	**909**	896
Capital redemption reserve	24	**680**	680	**680**	680
Other reserves	24	**(191)**	494	**(1)**	–
Retained earnings	25	**2,477**	2,366	**1,737**	1,697
Total equity	26	**4,376**	4,935	**3,826**	3,772

The financial statements were approved by the Board of Directors on 12 May 2009, and are signed on its behalf by:

Justin King Chief Executive
Darren Shapland Chief Financial Officer

Cash flow statements

for the 52 weeks to 21 March 2009

	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Cash flows from operating activities					
Cash generated from operations	27	**1,206**	998	**203**	(126)
Interest paid		**(128)**	(123)	**(57)**	(34)
Corporation tax paid		**(160)**	(64)	**(160)**	(64)
Net cash from operating activities		**918**	811	**(14)**	(224)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(966)**	(973)	**-**	-
Purchase of intangible assets		**(10)**	(6)	**-**	-
Proceeds from disposal of property, plant and equipment and other assets		**390**	198	**86**	1
Acquisition of and investment in subsidiaries and businesses, net of cash acquired		**(10)**	(7)	**-**	(3)
Investment in joint ventures		**(291)**	(31)	**-**	(15)
Investment in financial assets		**(8)**	-	**(8)**	-
Costs of disposal of operations		**-**	(1)	**-**	(1)
Interest received		**13**	29	**70**	116
Dividends received		**3**	-	**250**	250
Net cash from investing activities		**(879)**	(791)	**398**	348
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		**15**	43	**15**	43
Capital redemption		**-**	(10)	**-**	(10)
Proceeds from long-term borrowings		**152**	-	**-**	-
Proceeds from short-term borrowings		**43**	-	**35**	-
Repayment of long-term borrowings		**(30)**	(36)	**-**	(7)
Interest elements of obligations under finance lease payments		**(3)**	(3)	**-**	-
Dividends paid	10	**(218)**	(178)	**(218)**	(178)
Net cash from financing activities		**(41)**	(184)	**(168)**	(152)
Net (decrease)/increase in cash and cash equivalents		**(2)**	(164)	**216**	(28)
Opening cash and cash equivalents		**601**	765	**236**	264
Closing cash and cash equivalents	27	**599**	601	**452**	236

Cash flow statements

Notes to the financial statements

1 General information

J Sainsbury plc is a public limited company ("Company") incorporated in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 33 Holborn, London EC1N 2HT, United Kingdom.

The financial year represents the 52 weeks to 21 March 2009 (prior financial year 52 weeks to 22 March 2008). The consolidated financial statements for the 52 weeks to 21 March 2009 comprise the financial statements of the Company and its subsidiaries ("Group") and the Group's interests in joint ventures.

The Group's principal activities are grocery and related retailing.

2 Accounting policies

(a) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRICs") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRSs. The Company's financial statements have been prepared on the same basis and as permitted by Section 230(3) of the Companies Act 1985, no income statement is presented for the Company.

(b) Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million (£m) unless otherwise stated. They have been prepared under the historical cost convention, except for derivative financial instruments, investment properties and available-for-sale financial assets that have been measured at fair value.

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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2c.

New standards, interpretations and amendments to published standards

Effective for the Group in these financial statements:

- IFRIC 12 'Service Concession Arrangements'

The above interpretation to published standards has had no material impact on the results or the financial position of the Group for the 52 weeks to 21 March 2009.

Effective for the Group for the financial year beginning 22 March 2009:

- Revised IAS 1 'Presentation of financial statements', amendments to IAS 1 relating to the disclosure of puttable instruments and obligations arising on liquidation
- Revised IAS 27 'Consolidated and separate financial statements' relating to the cost of an investment on first time adoption
- Amendments to IAS 32 'Financial instruments: Presentation' relating to puttable instruments and obligations arising on liquidation
- Amendment to IFRS 2 'Share-based payment'
- Amendment to IFRS 7 'Financial Instruments: Disclosures'
- IFRS 8 'Operating Segments'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
- IFRIC 15 'Agreements for the Construction of Real Estate'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
- IFRIC 18 'Transfer of Assets from Customers'
- Amendments to various IFRSs and IASs arising from May 2008 Annual Improvements to IFRSs

The Group has considered the above new standards, interpretations and amendments to published standards that are not yet effective and concluded that except for the amendment to IFRS 2 'Share-based payment', they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements, apart from additional disclosures. The Group is currently assessing the potential effect of the amendment to IFRS 2 'Share-based payment'. This will only impact the Save-As-You-Earn schemes.

Effective for the Group for future financial years:

- Revised IFRS 3 'Business Combinations' and consequential amendments to IAS 27 'Consolidated and separate financial statements', IAS 28 'Investment in Associates' and IAS 31 'Interests in Joint Ventures'
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' relating to eligible hedged items, embedded derivatives when reclassifying financial instruments
- IFRIC 17 'Distributions of Non-cash Assets to Owners'
- Amendments to various IFRSs and IASs arising from April 2009 Annual Improvements to IFRSs

The accounting policies set out below have been applied consistently to all periods presented in the financial statements and have been applied consistently by the Group and the Company except as discussed below relating to investment properties.

Consolidation

The Group's financial statements include the results of the Company and all its subsidiaries, together with the Group's share of the post-tax results of its joint ventures.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The results of subsidiaries are included in the Group income statement from the date of acquisition, or in the case of disposals, up to the effective date of disposal. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets and liabilities acquired are measured at fair value at the acquisition date. The excess of cost over the fair value of the Group's share of identifiable assets and liabilities acquired is recorded as goodwill.

Joint ventures

Joint ventures are jointly controlled entities in which the Group has an interest. The Group's share of the results of its joint ventures are included in the Group income statement using the equity method of accounting. Where the Group transacts with a joint venture, profits and losses are eliminated to the extent of the Group's interest in the joint venture. Losses may provide evidence of an impairment of the assets transferred in which case appropriate provision is made for impairment.

Investments in joint ventures are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity, less any impairment in value.

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

2 Accounting policies continued

Foreign currencies

Foreign operations

On consolidation, assets and liabilities of foreign operations are translated into sterling at year-end exchange rates. The results of foreign operations are translated into sterling at average rates of exchange for the year. The functional currency of the Company is sterling.

Exchange differences arising from the retranslation at year-end exchange rates of the net investment in foreign operations, less exchange differences on foreign currency borrowings or forward contracts which are in substance part of the net investment in a foreign operation, are taken to equity and are reported in the statement of recognised income and expense.

Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Revenue

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

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

Interest income is recognised in the income statement for all instruments measured at amortised cost using the effective interest method. This calculation takes into account interest received or paid, fees and commissions received or paid, that are integral to the yield as well as incremental transaction costs.

Fees and commissions earned by Sainsbury's Bank, that are not integral to the yield, are recognised in the income statement as the service is provided. Where there is a risk of potential claw back, an appropriate element of the insurance commission receivable is deferred and amortised over the expected average life of the underlying loan.

Cost of sales

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

Property, plant and equipment

Land and buildings

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

Fixtures, equipment and vehicles

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

Depreciation

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

- Freehold buildings and leasehold properties – 50 years, or the lease term if shorter
- Fixtures, equipment and vehicles – 3 to 15 years
- Freehold land is not depreciated

Land and buildings under construction and non-current assets held for sale are not depreciated.

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

Intangible assets

Pharmacy licences

Pharmacy licences are carried at cost less accumulated amortisation and any impairment loss and amortised on a straight-line basis over their useful economic life of 15 years.

Computer software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of three to five years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. When the software is available for its intended use, these costs are amortised over the estimated useful life of the software.

Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is recognised as an asset on the Group's balance sheet in the year in which it arises. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less accumulated impairment losses.

Investment property

As a result of entering into our property joint venture with The British Land Company PLC ("British Land") during the period we have reviewed our investment property accounting policy and revised it from the historical cost to the fair value basis. No prior period restatements are required as the cost at 22 March 2008 was equal to the fair value.

Investment properties are those properties held for capital appreciation and/or to earn rental income. They are initially measured at cost, including related transaction costs. After initial recognition at cost, they are carried at their fair values based on market value determined by professional valuers at each reporting date. The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included within the income statement but is excluded from underlying profit in order to provide a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. Currently the only investment properties the Group holds are those contained within its joint ventures with Land Securities Group PLC ("Land Securities") and British Land.

Impairment of non-financial assets

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

2 Accounting policies continued

Any impairment charge is recognised in the income statement in the year in which it occurs. Where an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

Capitalisation of interest
Interest costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised to the cost of the asset, gross of tax relief.

Non-current assets held for sale
Non-current assets are classified as assets held for sale and stated at the lower of the carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

Leased assets
Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

Finance leases
Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement.

Operating leases
Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement.

Lease incentives
Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

Leases with predetermined fixed rental increases
The Group has a number of leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the term of the lease.

Operating lease income
Operating lease income consists of rentals from sub-tenant agreements and is recognised as earned.

Inventories
Inventories are valued at the lower of cost and net realisable value. Inventories at warehouses are valued on a first-in, first-out basis. Inventories at retail outlets are valued at calculated average cost prices. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Current taxation
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, in which case the current tax is also dealt with in equity.

Deferred taxation
Deferred tax is accounted for on the basis of temporary differences arising from differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all 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, in which case the deferred tax is also dealt with in equity.

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches, and joint ventures except where the Group 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.

Provisions
Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated.

Onerous leases
Provisions for onerous leases, measured net of expected rental income, are recognised when the property leased becomes vacant and is no longer used in the operations of the business. Provisions for dilapidation costs are recognised on a lease-by-lease basis.

Restructuring and disposal
Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Employee benefits
Pensions
The Group operates various defined benefit and defined contribution pension schemes for its employees. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension plan under which the Group pays fixed contributions into a separate entity.

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

2 Accounting policies continued

The income statement charge is split between an operating service cost and a financing charge, which is the net of interest cost on pension scheme liabilities and expected return on plan assets. Actuarial gains and losses are recognised in full in the period in which they arise, in the statement of recognised income and expense.

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

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

Share-based payments
The Group provides benefits to employees (including Directors) of the Group 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). This fair value is charged to the income statement over the vesting period of the share-based payment scheme, with the corresponding increase in equity.

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

The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustments made in equity and accruals.

Financial instruments
Financial assets
The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale ("AFS"). Purchases and sales of 'financial assets at fair value through profit or loss', and AFS investments are recognised on trade date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group has no intention of trading these loans and receivables. Subsequent to initial recognition, these assets are carried at amortised cost less impairment using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Trade receivables
Trade receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method less provision for impairment.

Financial liabilities
Interest-bearing bank loans and overdrafts are recorded initially at fair value, which is generally the proceeds received, net of direct issue costs. Subsequently, these liabilities are held at amortised cost using the effective interest method.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables
Trade payables are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Impairment of financial assets
An assessment of whether there is objective evidence of impairment is carried out for all financial assets or groups of financial assets at the balance sheet date. This assessment may be of individual assets ("individual impairment") or of a portfolio of assets ("collective impairment"). A financial asset or a group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For individual impairment the principal loss event is one or more missed payments, although other loss events can also be taken into account, including arrangements in place to pay less than the contractual payments, fraud and bankruptcy or other financial difficulty indicators. An assessment of collective impairment will be made of financial assets with similar risk characteristics. For these assets, portfolio loss experience is used to provide objective evidence of impairment.

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at amortised cost, the charge to the income statement reflects the movement in the level of provisions made, together with amounts written off net of recoveries in the year.

2 Accounting policies continued

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

Impairment losses recognised in the income statement on equity instruments are not reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Interest will continue to accrue on all financial assets, based on the written down balance. Interest is calculated using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. To the extent that a provision may be increased or decreased in subsequent periods, the recognition of interest will be based on the latest balance net of provision.

Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed in note 30.

Derivative financial instruments and hedge accounting

The Group's activities expose it to financial risks associated with movements in exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Group's treasury policies, as approved by the Board. The Group does not use derivative financial instruments for speculative purposes.

All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates.

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the exchange rate risk of future highly probable inventory purchases denominated in foreign currency. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability.

Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of a financial asset or liability due to movements in interest rates. The changes in fair value of the hedging instrument are recognised in the income statement.

The hedged item is also adjusted for changes in fair value attributable to the hedged risk, with the corresponding adjustment made in the income statement.

To qualify for hedge accounting, the Group documents at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Group also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will be highly effective on an ongoing basis.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as finance income or costs as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the period.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Non-GAAP performance measures

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

- Profit/loss on sale of properties – these can vary from year to year and therefore create volatility in reported earnings;
- Investment property fair value movements – these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount prior to remeasurement;
- Financing fair value movements – these fair value gains and losses relate to fair value adjustments on derivatives relating to financing activities and hedged items in fair value hedges. The underlying profit measure removes the volatility of these items within profit before tax;
- Impairment of goodwill; and
- One-off items – these are material and infrequent in nature, creating volatility in reported earnings which does not reflect Sainsbury's underlying performance.

(c) Judgements and estimates

The Group makes judgements and assumptions concerning the future that impact the application of policies and reported amounts. The resulting accounting estimates calculated using these judgements and assumptions will, by definition, seldom equal the related actual results but are based on historical experience and expectations of future events.

The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

Goodwill impairment

The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of its CGUs. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates as disclosed in note 12. Actual outcomes could vary from these estimates.

2 Accounting policies continued

Impairment of assets

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

Post-employment benefits

The Group operates various defined benefit schemes for its employees. The present value of the schemes' liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the schemes. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 31.

Provisions

Provisions have been made for onerous leases, dilapidations, restructuring and disposal costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Detail of the Group's and Company's provisions are set out in note 22.

Income taxes

The Group recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made. Detail of the tax charge and deferred tax are set out in notes 8 and 21 respectively.

Restatement of comparative financial statements – Company

During the year, it was identified that a sale of properties by the Company to a Group entity was incorrectly recognised in the financial statements for the 52 weeks to 25 March 2006.

The accounting for the transaction has now been corrected in the financial statements of the Company with the following impacts:

- the net book value of land and buildings at 25 March 2007 had been overstated by £132 million;
- the amounts due to Group entities at 25 March 2007 were overstated by £188 million;
- retained earnings as at 25 March 2007 were understated by £55 million; and
- the depreciation charge included in profit for the 52 weeks to 22 March 2008 was overstated by £1 million.

As required by IAS 8 'Accounting Policies, changes in accounting estimates and errors', the relevant financial statements and the related notes for the year to 22 March 2008 have been restated. The restatement has no impact on the consolidated financial statements.

3 Segment reporting

The Group's primary reporting format is business segments, with each segment representing a business unit that offers different products and serves different markets.

The businesses are organised into three operating divisions:

- Retailing (Supermarkets, Convenience and Online);
- Financial services (Sainsbury's Bank joint venture); and
- Property investments (British Land joint venture and Land Securities joint venture).

All material operations are carried out in the UK.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

3 Segment reporting continued

	Retailing £m	Financial services £m	Property investments £m	Group £m
52 weeks to 21 March 2009				
Segment revenue	**18,911**	**-**	**-**	**18,911**
Underlying operating profit	**616**	**-**	**-**	**616**
Underlying finance income	**52**	**-**	**-**	**52**
Underlying finance costs	**(141)**	**-**	**-**	**(141)**
Underlying share of post-tax profit from joint ventures	**-**	**4**	**12**	**16**
Underlying profit before tax	**527**	**4**	**12**	**543**
Profit on sale of properties	**57**	**-**	**-**	**57**
Investment property fair value movements	**-**	**-**	**(124)**	**(124)**
Financing fair value movements	**(7)**	**-**	**(3)**	**(10)**
Profit/(loss) before tax	**577**	**4**	**(115)**	**466**
Income tax expense				**(177)**
Profit for the financial year				**289**
Assets	**9,745**	**-**	**-**	**9,745**
Investment in joint ventures	**1**	**72**	**215**	**288**
Segment assets	**9,746**	**72**	**215**	**10,033**
Segment liabilities	**5,657**	**-**	**-**	**5,657**
Other segment items				
Capital expenditure[1]	**1,105**	**-**	**-**	**1,105**
Depreciation expense	**453**	**-**	**-**	**453**
Amortisation expense	**15**	**-**	**-**	**15**
Provision for impairment of receivables	**1**	**-**	**-**	**1**
Share-based payments	**40**	**-**	**-**	**40**
52 weeks to 22 March 2008				
Segment revenue	17,837	-	-	17,837
Underlying operating profit	535	-	-	535
Underlying finance income	83	-	-	83
Underlying finance costs	(128)	-	-	(128)
Underlying share of post-tax (loss)/profit from joint ventures	-	(3)	1	(2)
Underlying profit/(loss) before tax	490	(3)	1	488
Profit on sale of properties	7	-	-	7
Financing fair value movements	(4)	-	-	(4)
Fair value gain on other financial asset	22	-	-	22
Costs relating to approach from Delta Two	(7)	-	-	(7)
Costs associated with Office of Fair Trading dairy inquiry	(27)	-	-	(27)
Profit/(loss) before tax	481	(3)	1	479
Income tax expense				(150)
Profit for the financial year				329
Assets	9,967	-	-	9,967
Investment in joint ventures	1	89	58	148
Segment assets	9,968	89	58	10,115
Segment liabilities	5,180	-	-	5,180
Other segment items				
Capital expenditure[2]	1,006	-	-	1,006
Depreciation expense	463	-	-	463
Amortisation expense	18	-	-	18
Release of provision for impairment on receivables	(1)	-	-	(1)
Share-based payments	53	-	-	53

1 Capital expenditure consists of property, plant and equipment additions of £1,081 million, property, plant and equipment acquired through business combinations of £4 million, intangibles additions of £10 million and intangibles generated through business combinations of £10 million.

2 Capital expenditure consists of property, plant and equipment additions of £993 million, property, plant and equipment acquired through business combinations of £3 million, intangibles additions of £6 million and intangibles generated through business combinations of £4 million.

4 Operating profit

	2009 £m	2008 £m
Operating profit is stated after charging/(crediting) the following items:		
Employee costs (note 6)	**2,003**	1,957
Depreciation expense (note 11)	**453**	463
Amortisation expense (included within cost of sales) (note 12)	**15**	18
Profit on sale of properties (note 7)	**(57)**	(7)
Costs relating to approach from Delta Two (note 7)	**-**	7
Costs associated with Office of Fair Trading dairy inquiry (note 7)	**-**	27
Fair value gain on other financial asset (note 7)	**-**	(22)
Charges/(credits) relating to the impairment of receivables	**1**	(1)
Operating lease rentals – land and buildings	**344**	304
– other leases	**52**	51
– sublease payments received	**(39)**	(35)
Foreign exchange gains	**(10)**	(2)

Group	2009 £m	2008 £m
Auditors' remuneration		
Audit services		
Fees payable to the Company auditor for the audit of the Group and the Company financial statements	**0.2**	0.3
Audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.4
Audit-related services		
Interim review pursuant to legislation	**0.1**	0.1
Non-audit services		
Fees payable to the Company auditor and its associates for other services as detailed below:		
Tax services	**0.6**	0.5
All other services	**0.3**	0.2
	1.7	1.5

5 Finance income and finance costs

	2009 £m	2008 £m
Interest on bank deposits	**28**	29
Net return on pension schemes (note 31)	**24**	54
Finance income	**52**	83
Borrowing costs		
Bank loans and overdrafts	**(6)**	-
Other loans	**(146)**	(132)
Obligations under finance leases	**(3)**	(3)
Provisions – amortisation of discount (note 22)	**(1)**	(1)
	(156)	(136)
Interest capitalised – qualifying assets	**15**	8
Financing fair value losses	**(7)**	(4)
Finance costs	**(148)**	(132)

6 Employee costs

	2009 £m	2008 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**1,758**	1,682
Social security costs	**121**	116
Pension costs – defined contribution schemes	**31**	28
Pension costs – defined benefit schemes (note 31)	**53**	78
Share-based payments expense (note 32)	**40**	53
	2,003	1,957

	Number 000's	Number 000's
The average number of employees, including Directors, during the year were:		
Full-time	**49.7**	48.8
Part-time	**98.8**	99.1
	148.5	147.9
Full-time equivalent	**97.3**	96.6

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

7 Non-GAAP performance measures

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

	2009 £m	2008 £m
Underlying profit before tax	**543**	488
Profit on sale of properties	**57**	7
Investment property fair value movements	**(124)**	–
Financing fair value movements[1]	**(10)**	(4)
One-off items for the financial year comprised:		
Costs relating to approach from Delta Two	–	(7)
Costs associated with Office of Fair Trading dairy inquiry	–	(27)
Fair value gain on other financial asset	–	22
Total adjustments	**(77)**	(9)
Profit before tax	**466**	479

1 Financing fair value movements for the financial year comprised £(7) million for the Group (2008: £(4) million) and £(3) million for the joint ventures (2008: £nil).

8 Income tax expense

	2009 £m	2008 £m
Current tax expense		
Current year	171	173
Over provision in prior years	(25)	(9)
	146	164
Deferred tax expense		
Origination and reversal of temporary differences	24	(8)
Deferred tax rate change from 30% to 28%	–	(6)
Under provision in prior years	7	–
	31	(14)
Total income tax expense in income statement	177	150
Income tax expense on underlying profit[1]	158	151
Tax on items below:		
Profit on sale of properties	21	–
Financing fair value movements	(2)	(1)
Costs relating to approach from Delta Two	–	(2)
Fair value gain on other financial asset	–	2
Total income tax expense in income statement	177	150

1 Tax charge attributable to underlying profit before tax.

The effective tax rate of 38.0 per cent (2008: 31.3 per cent) is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2009 £m	2008 £m
Profit before taxation	466	479
Income tax at UK corporation tax rate of 28.05%[1] (2008: 30%)	131	144
Effects of:		
Disallowed depreciation on UK properties	20	21
Non-deductible expenses	9	18
Investment property fair value movements	35	–
Capital losses utilised	–	(10)
Deferred tax rate change from 30% to 28%	–	(8)
Over provision in prior years	(18)	(15)
Total income tax expense in income statement	177	150

1 The income tax rate of 28.05 per cent is slightly higher than the 28 per cent statutory tax rate due to the historic rate of 30 per cent applying between 23 March 2008 and 31 March 2008 inclusive.

From 1 April 2008, the UK corporate income tax rate applied to large companies changed to 28 per cent from 30 per cent.

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

	2009 £m	2008 £m
Share-based payment tax recognised directly in equity		
Current tax payable	(3)	(5)
Current tax prior year under provision	3	–
Deferred tax asset	2	19
Deferred tax prior year over provision	(2)	(13)
Deferred tax rate change from 30% to 28%	–	1
Deferred tax losses associated with share-based payment tax deduction	–	8
	–	10
Deferred tax on items recognised directly in equity		
Actuarial (losses)/gains on defined benefit pension schemes	(253)	161
Available-for-sale financial assets fair value movements	(4)	3
Deferred tax rate change from 30% to 28% – defined benefit pension scheme	–	(10)
Deferred tax rate change from 30% to 28% – available-for-sale financial assets	–	(2)
	(257)	152
	(257)	162

9 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan trusts (note 25), which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Underlying earnings per share is provided by excluding the effect of any gain or loss on the sale of properties, impairment of goodwill, investment property fair value movements, financing fair value movements and one-off items that are material and infrequent in nature. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance.

All operations are continuing for the periods presented.

	2009 million	2008 million
Weighted average number of shares in issue	**1,738.5**	1,718.7
Weighted average number of dilutive share options	**24.7**	48.5
Total number of shares for calculating diluted earnings per share	**1,763.2**	1,767.2

	£m	£m
Profit for the financial year	**289**	329
(Less)/add: profit on sale of properties, net of tax	**(36)**	(7)
investment property fair value movements, net of tax	**124**	–
financing fair value movements, net of tax	**8**	3
costs relating to approach from Delta Two, net of tax	**–**	5
fair value gain on other financial asset, net of tax	**–**	(20)
costs associated with Office of Fair Trading dairy inquiry, net of tax	**–**	27
Underlying profit after tax	**385**	337

	pence per share	pence per share
Basic earnings	**16.6**	19.1
Diluted earnings	**16.4**	18.6
Underlying basic earnings	**22.1**	19.6
Underlying diluted earnings	**21.8**	19.1

10 Dividend

	2009 pence per share	2008 pence per share	2009 £m	2008 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	**9.00**	7.35	**155**	126
Interim dividend of current financial year	**3.60**	3.00	**63**	52
	12.60	10.35	**218**	178

After the balance sheet date, a final dividend of 9.60 pence per share (2008: 9.00 pence per share) was proposed by the Directors in respect of the 52 weeks to 21 March 2009, resulting in a total final proposed dividend of £167 million (2008: £155 million). The proposed final dividend has not been included as a liability at 21 March 2009.

11 Property, plant and equipment

	Group Land and buildings £m	Group Fixtures and equipment £m	Group Total £m	Company restated[1] Land and buildings £m
Cost				
At 23 March 2008	7,068	4,677	11,745	117
Additions	626	455	1,081	–
Acquisition of subsidiaries	4	–	4	–
Disposals	(225)	(233)	(458)	(72)
Transfer to assets held for resale	(19)	(2)	(21)	–
At 21 March 2009	**7,454**	**4,897**	**12,351**	**45**
Accumulated depreciation and impairment				
At 23 March 2008	1,123	3,198	4,321	8
Depreciation expense for the year	113	340	453	1
Disposals	(28)	(212)	(240)	(6)
Transfer to assets held for resale	(2)	(2)	(4)	–
At 21 March 2009	**1,206**	**3,324**	**4,530**	**3**
Net book value at 21 March 2009	**6,248**	**1,573**	**7,821**	**42**
Capital work-in-progress included above	**428**	**121**	**549**	**–**
Cost				
At 25 March 2007	6,719	4,480	11,199	118
Additions	628	365	993	–
Acquisition of subsidiary	3	–	3	–
Disposals	(182)	(153)	(335)	(1)
Transfer to assets held for sale	(100)	(15)	(115)	–
At 22 March 2008	7,068	4,677	11,745	117
Accumulated depreciation and impairment				
At 25 March 2007	1,060	2,963	4,023	7
Depreciation expense for the year	89	374	463	1
Disposals	(19)	(133)	(152)	–
Part disposal of Sainsbury's Bank	(7)	(6)	(13)	–
At 22 March 2008	1,123	3,198	4,321	8
Net book value at 22 March 2008	5,945	1,479	7,424	109
Capital work-in-progress included above	398	63	461	–

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company restated[1] 2008 £m
The net book value of land and buildings comprised:				
Freehold land and building	**4,777**	4,502	**42**	64
Long leasehold	**951**	938	**–**	45
Short leasehold	**520**	505	**–**	–
	6,248	5,945	**42**	109

1 The restatement of certain comparative amounts is explained in note 2 on page 52.

Impairment of property, plant and equipment
In accordance with IAS 36 'Impairment of Assets', the Group has determined that for the purposes of impairment testing, each store is a cash-generating unit ("CGU"). CGUs are tested for impairment at each reporting date if there are indications of impairment.

The recoverable amounts for the CGUs are based on value in use which is calculated on the cash flows expected to be generated by the units using the latest budget and forecast data, the results of which are reviewed by the Board. The key assumptions in the value in use calculation are the discount rate, growth rates and expected changes in margin. Changes in income and expenditure are based on past experience and expectations of future changes in the market. The forecasts are extrapolated beyond five years based on estimated long-term growth rates of three per cent to four per cent. The discount rate is based on the Group's pre-tax weighted average cost of capital of ten per cent (2008: ten per cent).

Interest capitalised
Interest capitalised included in additions amounted to £15 million (2008: £8 million) for the Group and £nil (2008: £nil) for the Company. Accumulated interest capitalised included in the cost total above net of disposals amounted to £255 million (2008: £255 million) for the Group and £nil (2008: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.5 per cent (2008: 5.7 per cent).

11 Property, plant and equipment continued

Security

Property, plant and equipment of 128 (2008: 127) supermarket properties, with a net book value of £2,330 million (2008: £2,336 million) has been pledged as security for the long-term financing (note 20).

In addition, property, plant and equipment of a further six supermarket properties, with a net book value of £71 million (2008: £73 million) has been pledged as security to underpin the residual value guarantee given by the Group with regards to 16 supermarket properties sold in March 2000 and ten supermarket properties sold in July 2000.

Analysis of assets held under finance leases – Group

	2009 £m	2008 £m
Land and buildings		
Cost	**50**	51
Accumulated depreciation and impairment	**(21)**	(21)
Net book value	**29**	30

12 Intangible assets

	Goodwill £m	Pharmacy licences £m	Software £m	Total £m
Cost				
At 23 March 2008	114	36	121	271
Additions	-	-	10	10
Acquisition of subsidiaries and businesses	10	-	-	10
Disposals	(10)	(1)	-	(11)
At 21 March 2009	**114**	**35**	**131**	**280**
Accumulated amortisation and impairment				
At 23 March 2008	-	20	86	106
Amortisation expense for the year	-	3	12	15
Disposals	-	(1)	-	(1)
At 21 March 2009	**-**	**22**	**98**	**120**
Net book value at 21 March 2009	**114**	**13**	**33**	**160**
Cost				
At 25 March 2007	112	36	115	263
Additions	-	-	6	6
Acquisition of subsidiaries and businesses	4	-	-	4
Transfer to assets held for sale	(2)	-	-	(2)
At 22 March 2008	114	36	121	271
Accumulated amortisation and impairment				
At 25 March 2007	-	17	71	88
Amortisation expense for the year	-	3	15	18
At 22 March 2008	-	20	86	106
Net book value at 22 March 2008	114	16	35	165

The goodwill balance above relates to the Group's acquired subsidiaries – Bells Stores Ltd, Jacksons Stores Ltd, JB Beaumont Ltd, SL Shaw Ltd and Culcheth Provision Stores Ltd – and is allocated to the respective cash-generating units ("CGUs") within the retailing segment. The CGUs for this purpose are deemed to be the respective acquired retail chains of stores. The value of the goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU to the carrying value of its goodwill.

To calculate the CGU's value in use, Board approved cash flows for the following financial year are assumed to inflate at the long-term average growth rate for the UK food retail sector and are discounted at a pre-tax rate of ten per cent (2008: ten per cent) over a 25-year period. Changes in income and expenditure are based on past experience and expectations of future changes in the market. Based on the operating performance of the respective CGUs, no impairment loss was deemed necessary in the current financial year (2008: £nil).

13 Investments in subsidiaries

	2009 £m	2008 £m
Shares in subsidiaries – Company		
Beginning of year	**7,169**	7,166
Additions	**93**	–
Acquisition of subsidiaries	**–**	3
End of year	**7,262**	7,169

The Company's principal operating subsidiaries, all of which are directly owned by the Company, are:

	Share of ordinary allotted capital and voting rights	Country of registration or incorporation
JS Insurance Ltd	100%	Isle of Man
JS Information Systems Ltd	100%	England
Sainsbury's Supermarkets Ltd	100%	England
Swan Infrastructure Holdings Ltd	100%	England

All principal operating subsidiaries operate in the countries of their registration or incorporation, and have been consolidated up to and as at 21 March 2009. The Company has taken advantage of the exemption in s231 of the Companies Act 1985 to disclose a list comprising solely the principal subsidiaries. A full list of subsidiaries will be sent to Companies House with the next annual return.

14 Investments in joint ventures

On 26 March 2008, the Group made a cash investment of £274 million to create a 50:50 property joint venture with The British Land Company PLC.

In the financial period, a further capital contribution of £17 million was invested in the joint venture with Land Securities Group PLC.

	Group shares at cost £m	Group share of post-acquisition reserves £m	Group Total £m	Company shares at cost £m
At 23 March 2008	138	10	148	91
Additions in year	291	–	291	–
Share of retained loss				
Underlying profit after tax	–	16	16	–
Investment property fair value movements	–	(124)	(124)	–
Financing fair value movements	–	(3)	(3)	–
	–	(111)	(111)	–
Dividends received	–	(3)	(3)	–
Unrealised profit on disposal of property, plant and equipment	–	(5)	(5)	–
Movements in equity (note 24)	–	(32)	(32)	–
At 21 March 2009	**429**	**(141)**	**288**	**91**
At 25 March 2007	76	22	98	76
Additions in year	62	–	62	15
Share of retained loss	–	(2)	(2)	–
Movements in equity (note 24)	–	(10)	(10)	–
At 22 March 2008	138	10	148	91

14 Investment in joint ventures continued

The Group's principal joint ventures were:

	Year-end	Share of ordinary allotted capital	Country of registration or incorporation
BL Sainsbury Superstores Limited (property investment – UK)	31 March	50%	England
The Harvest Limited Partnership (property investment – UK)	31 March	50%	England
Sainsbury's Bank plc (financial services – UK)	31 December	50%	England

Where relevant, management accounts for the joint ventures have been used to include the results up to 21 March 2009.

The Group's share of the assets, liabilities, income and expenses of its joint ventures are detailed below:

	2009 £m	2008 £m
Non-current assets	**1,398**	1,069
Current assets	**1,494**	2,405
Current liabilities	**(1,800)**	(2,896)
Non-current liabilities	**(809)**	(430)
Net assets	**283**	148
Income	**239**	237
Expenses	**(350)**	(239)
Loss after tax	**(111)**	(2)

Investments in joint ventures at 21 March 2009 include £5 million of goodwill (2008: £nil).

15 Available-for-sale financial assets

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Non-current				
Unlisted equity investments	**–**	1	**–**	–
Interest bearing financial assets	**7**	–	**7**	–
Other financial asset	**90**	105	**–**	–
	97	106	**7**	–

The majority of available-for-sale financial assets are denominated in sterling.

The other financial asset represents the Group's beneficial interest in a commercial property investment pool. The fair value of other financial asset is based on discounted cash flows assuming a property rental growth rate of 2.8 per cent (2008: 2.8 per cent) and a weighted average cost of capital of ten per cent (2008: ten per cent). There were no disposals or impairment provisions on available-for-sale financial assets in either the current or the previous financial year (see note 29 for sensitivity analysis).

16 Inventories

	2009 £m	2008 £m
Goods held for resale	**689**	681

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 21 March 2009 was £14,490 million (2008: £13,557 million).

17 Receivables

Trade and other receivables

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Non-current				
Amounts due from Group entities	–	–	1,005	921
Other receivables	45	55	45	55
	45	55	1,050	976
Current				
Trade receivables	49	32	–	–
Amounts due from Group entities	–	–	369	358
Other receivables	88	83	11	1
	137	115	380	359
Prepayments and accrued income	58	91	–	–
	195	206	380	359

Non-current other receivables of £45 million (2008: £55 million) comprise £15 million of floating rate subordinated undated loan capital (2008: £25 million) and £30 million of floating rate subordinated dated loan capital due from Sainsbury's Bank plc (2008: £30 million) (note 34). Current other receivables include £10 million of floating rate subordinated undated loan capital due from Sainsbury's Bank plc (2008: £nil) (note 34).

Trade receivables are non-interest bearing and are on commercial terms. Current other receivables are generally non-interest bearing.

The Group'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 Group are credit checked by the accounts receivable credit control team prior to any invoices being raised, credit limits are determined on an individual basis.

The Group has trade and other receivables of £5 million (2008: £3 million) that are past due but not impaired. These relate to a number of independent receivables for whom there is no recent history of default. These have not been provided for as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

	2009 £m	2008 £m
Up to 8 weeks	5	3
Over 8 weeks	–	–
	5	3

Group trade and other receivables of £2 million (2008: £1 million) and Company amounts due from Group entities of £8 million (2008: £14 million) are impaired and provided for. The ageing of these receivables are as follows:

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Current	–	–	8	14
Up to 8 weeks	–	–	–	–
8 to 20 weeks	–	–	–	–
Over 20 weeks	2	1	–	–
	2	1	8	14

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

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
At beginning of year	1	2	14	14
Additional provision	1	–	–	–
Release of provision	–	(1)	(6)	–
End of year	2	1	8	14

17 Receivables continued

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

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Sterling	240	260	1,430	1,335
Euro	–	1	–	–
	240	261	1,430	1,335

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

	2009 Number of counterparties	2009 Balance £m	2008 Number of counterparties	2008 Balance £m
Trade receivables	1	8	1	9
Other receivables	1	18	2	30
Related parties	1	56	1	61

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

At 21 March 2009, major other receivables include amounts due from the National Health Service of £18 million. At 22 March 2008 major other receivables included amounts due from the National Health Service of £16 million for pharmacy sales, and loans to developers of £14 million for capital expenditure.

Related party receivables are from the Group's joint venture, Sainsbury's Bank plc. Loans are approved by the Investment Committee and are determined by the Financial Services Authority's capital funding requirements.

No major counterparty balances are considered overdue or impaired.

18 Non-current assets held for sale

Non-current assets held for sale of £21 million (2008: £112 million) consist of non-current assets relating to properties held in the retail operations division. Sale of these assets is expected to occur in the next financial year beginning 22 March 2009.

19 Payables

Trade and other payables

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company restated[1] 2008 £m
Current				
Trade payables	1,728	1,703	–	–
Amounts due to Group entities	–	–	3,479	3,324
Other payables	508	329	10	10
Accruals and deferred income	252	248	–	–
	2,488	2,280	3,489	3,334
Non-current				
Amounts due to Group entities	–	–	2,037	1,803
Accruals and deferred income	92	89	–	–
	92	89	2,037	1,803

1 The restatement of certain comparative amounts is explained in note 2 on page 52.

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

Deferred income relates to the accounting for leases with fixed rental increases and lease incentives on a straight-line basis over the term of the lease.

20 Borrowings

	Group 2009 Within one year £m	Group 2009 After one year £m	Group 2009 Total £m	Group 2008 Within one year £m	Group 2008 After one year £m	Group 2009 Total £m
Bank overdrafts	28	-	28	118	-	118
Bank loans	35	-	35	-	-	-
Secured loans						
Loan due 2018[1]	37	1,105	1,142	36	1,097	1,133
Loan due 2031[1]	33	872	905	11	891	902
Term loan due 2015	12	150	162	-	-	-
Loan notes	8	2	10	-	-	-
Obligations under finance leases	1	48	49	-	49	49
Total borrowings	154	2,177	2,331	165	2,037	2,202

	Company 2009 Within one year £m	Company 2009 After one year £m	Company 2009 Total £m	Company 2008 Within one year £m	Company 2008 After one year £m	Company 2008 Total £m
Bank overdrafts	8	-	8	88	-	88
Bank loans	35	-	35	-	-	-
Total borrowings	43	-	43	88	-	88

1 The financial statements for the 52 weeks to 22 March 2008 included all long-term borrowings within non-current liabilities. £47 million of the long-term borrowings (included in non-current borrowings) at 22 March 2008 were due within one year and have been reclassified within the comparative amounts.

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

Bank loans
On 9 May 2008, the Group entered a 12-month £35 million bilateral loan facility which bears interest at a spread above LIBOR.

Secured loans
Secured loans are secured on 128 (2008: 127) supermarket properties (note 11) and comprise loans from two finance companies:

- a fixed rate loan with an outstanding principal value of £1,130 million (2008: £1,159 million) at a weighted average rate of 4.97 per cent stepping up to 5.36 per cent from April 2013 (effective interest rate of 5.23 per cent and carrying amount of £1,142 million (2008: £1,133 million)) repayable over nine years; and
- an inflation linked loan with an outstanding principal value of £872 million (2008: £867 million) at a fixed real rate of 2.36 per cent where principal and interest are uplifted annually by RPI subject to a cap at five per cent and floor at nil per cent with a carrying amount of £905 million (2008: £902 million) repayable over 22 years.

The Group has entered into interest rate swaps to convert £211 million (2008: £602 million) of the £1,130 million (2008: £1,159 million) loan due 2018 from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 30). During the year, £391 million of the £602 million swaps accounted for as fair value hedges as at March 2008 were de-designated from their fair value hedging relationship. The fair value of the debt previously hedged by these swaps will be amortised over the remaining life of the loans, resulting in an amortisation charge to the income statement in the current financial year of £770,000 (2008: £136,000).

Term loans due 2015
On 23 May 2008, the Group entered into a £150 million seven-year term loan. The coupon on the loan comprises a fixed rate and a floating rate. The carrying amount of the loan is £162 million and the loan is repayable over six years.

Undrawn borrowing facilities

	Expiry of facility
£400 million revolving credit facility	February 2012
£163 million revolving credit facility[1]	May 2011

1 The £163 million revolving credit facility was entered into on 9 May 2008.

No amounts were drawn down on the facilities at either 21 March 2009 or 22 March 2008.

Subsequent to 21 March 2009, the Group entered into agreements to extend the £35 million bank loan to £50 million with an expiry date of May 2012 and to enter into a revolving credit facility of £50 million with an expiry date of May 2012.

20 Borrowings continued

Obligations under finance leases

	Minimum lease payments 2009 £m	Minimum lease payments 2008 £m	Present value of minimum lease payments 2009 £m	Present value of minimum lease payments 2008 £m
Amounts payable under finance leases:				
Within 1 year	**3**	3	**1**	–
Within 2 to 5 years inclusive	**12**	12	**1**	1
After 5 years	**177**	188	**47**	48
	192	203	**49**	49
Less: future finance charges	**(143)**	(154)		
Present value of lease obligations	**49**	49		
Disclosed as:				
Current	**1**	–		
Non-current	**48**	49		
	49	49		

Finance leases have effective interest rates of 4.30 per cent to 8.50 per cent (2008: 4.30 per cent to 8.50 per cent). The average remaining lease term is 77 years (2008: 77 years).

21 Deferred taxation

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

Group	Accelerated tax depreciation £m	Fair value gains £m	Other property[1] £m	Other £m	Total £m
Deferred income tax liabilities					
At 23 March 2008	(165)	(30)	(68)	(39)	(302)
Credit/(charge) to income statement	27	–	(25)	12	14
Credit to equity	–	4	–	–	4
At 21 March 2009	**(138)**	**(26)**	**(93)**	**(27)**	**(284)**
At 25 March 2007	(200)	(29)	(72)	(39)	(340)
Credit/(charge) to income statement	28	–	(2)	(2)	24
Charge to equity	–	(3)	–	–	(3)
Rate change adjustment to income statement	7	–	6	2	15
Rate change adjustment to equity	–	2	–	–	2
At 22 March 2008	(165)	(30)	(68)	(39)	(302)

	Provisions £m	Retirement benefit obligations £m	Share-based payment £m	Capital losses[1] £m	Tax losses £m	Total £m
Deferred income tax assets						
At 23 March 2008	11	(129)	31	68	–	(19)
(Charge)/credit to income statement	(8)	(37)	(4)	4	–	(45)
Credit to equity	–	253	–	–	–	253
At 21 March 2009	**3**	**87**	**27**	**72**	**–**	**189**
At 25 March 2007	14	48	30	72	8	172
(Charge)/credit to income statement	(3)	(26)	9	2	–	(18)
Charge to equity	–	(161)	(19)	–	(8)	(188)
Prior year adjustment to equity	–	–	13	–	–	13
Rate change adjustment to income statement	–	–	(1)	(6)	–	(7)
Rate change adjustment to equity	–	10	(1)	–	–	9
At 22 March 2008	11	(129)	31	68	–	(19)

Net deferred income tax liability	
At 21 March 2009	**(95)**
At 22 March 2008	(321)

1 In prior years, the deferred tax liability in relation to other property was offset by the deferred tax asset on capital losses. This year the balances have been disclosed separately, with the prior year values reclassified for comparative purposes.

Company	Other property[1] £m	Total £m
Deferred income tax liabilities		
At 23 March 2008	(65)	(65)
Charge to income statement	–	–
At 21 March 2009	**(65)**	**(65)**
At 25 March 2007	(70)	(70)
Charge to income statement	–	–
Rate change adjustment to income statement	5	5
At 22 March 2008	(65)	(65)

1 In prior years, the deferred tax liability in relation to other property was offset by the deferred tax asset on capital losses. This year the balances have been disclosed separately, with the prior year values reclassified for comparative purposes.

21 Deferred taxation continued

	Fair value losses £m	Capital losses[1] £m	Total £m
Deferred income tax assets			
At 23 March 2008	1	65	66
Charge to income statement	–	–	–
At 21 March 2009	**1**	**65**	**66**
At 25 March 2007	1	70	71
Charge to income statement	–	–	–
Rate change adjustment to income statement	–	(5)	(5)
At 22 March 2008	1	65	66
Net deferred income tax asset			
At 21 March 2009			**1**
At 22 March 2008			1

1 In prior years, the deferred tax liability in relation to other property was offset by the deferred tax asset on capital losses. This year the balances have been disclosed separately, with the prior year values reclassified for comparative purposes.

Deferred income tax assets have been recognised in respect of all income tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances on a net basis.

22 Provisions

	Group onerous leases £m	Group restructuring and disposal provisions £m	Group long service awards £m	Group total £m	Company onerous leases £m	Company disposal provision £m	Company total £m
At 23 March 2008	40	26	7	73	4	25	29
Charge to income statement							
Additional provisions	11	7	–	18	–	–	–
Unused amounts reversed	(8)	–	–	(8)	–	–	–
Utilisation of provision	(7)	(1)	–	(8)	–	(1)	(1)
Amortisation of discount	1	–	–	1	–	–	–
At 21 March 2009	**37**	**32**	**7**	**76**	**4**	**24**	**28**
At 25 March 2007	46	30	7	83	7	25	32
Charge to income statement							
Additional provisions	10	–	–	10	–	–	–
Unused amounts reversed	(4)	–	–	(4)	(2)	–	(2)
Utilisation of provision	(13)	(2)	–	(15)	(1)	–	(1)
Amortisation of discount	1	–	–	1	–	–	–
Transfer to retirement benefit obligations (note 31)	–	(2)	–	(2)	–	–	–
At 22 March 2008	40	26	7	73	4	25	29

	Group 2009 £m	Group 2008 £m	**Company 2009 £m**	Company 2008 £m
Disclosed as:				
Current	**19**	10	**1**	2
Non-current	**57**	63	**27**	27
	76	73	**28**	29

The onerous lease provision covers residual lease commitments of up to an average of 30 years (2008: 30 years), after allowance for existing or anticipated sublet rental income.

The restructuring provisions are expected to be utilised in the financial year beginning 22 March 2009. The disposal provisions relate to indemnities arising from the disposal of subsidiaries, the timing of utilisation of which is uncertain.

Long service awards are accrued over the period the service is provided by the employee.

23 Called up share capital and share premium account

	2009 million	2008 million	2009 £m	2008 £m
Group and Company				
Authorised share capital				
Ordinary shares of 28 4/7 pence each (2008: 28 4/7 pence)	**2,450**	2,450	**700**	700
Preference B shares of 35 pence each (2008: 35 pence)	**2,100**	2,100	**735**	735
Called up share capital				
Allotted and fully paid – ordinary shares	**1,753**	1,747	**501**	499
Share premium account				
Share premium			**909**	896

The movements in the called up share capital and share premium account are set out below:

	Ordinary shares million	Ordinary shares £m	Share premium £m
At 23 March 2008	1,747	499	896
Allotted in respect of share option schemes	6	2	13
At 21 March 2009	**1,753**	**501**	**909**
At 25 March 2007	1,734	495	857
Allotted in respect of share option schemes	13	4	39
At 22 March 2008	1,747	499	896

24 Capital redemption and other reserves

	Group and Company Capital redemption reserve £m	Group Currency translation reserve £m	Group Actuarial (losses)/ gains £m	Group Available-for-sale assets £m	Group Cash flow hedge reserve £m	Group Total other reserves £m	Company Other reserves £m
At 23 March 2008	680	(1)	427	124	(56)	494	–
Actuarial losses on defined benefit pension schemes (net of tax)	–	–	(650)	–	–	(650)	–
Available-for-sale financial assets fair value movements (net of tax)							
Group	–	–	–	(12)	–	(12)	(1)
Joint ventures (note 14)	–	–	–	–	–	–	–
Cash flow hedges effective portion of fair value movements (net of tax)							
Group	–	–	–	–	9	9	–
Joint ventures (note 14)	–	–	–	–	(32)	(32)	–
At 21 March 2009	**680**	**(1)**	**(223)**	**112**	**(79)**	**(191)**	**(1)**
At 25 March 2007	670	(1)	37	107	–	143	–
B shares redemption	10	–	–	–	–	–	–
Actuarial gains on defined benefit pension schemes (net of tax)	–	–	390	–	–	390	–
Available-for-sale financial assets fair value movements (net of tax)							
Group	–	–	–	(31)	–	(31)	–
Joint ventures (note 14)	–	–	–	48	–	48	–
Cash flow hedges effective portion of fair value movements (net of tax)							
Group	–	–	–	–	2	2	–
Joint ventures (note 14)	–	–	–	–	(58)	(58)	–
At 22 March 2008	680	(1)	427	124	(56)	494	–

Capital redemption reserve represents the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. 1,943,173,266 B shares were issued on 19 July 2004. Shareholders owning 320,050,073 B shares elected to receive the initial dividend payment of 35 pence each and these shares were subsequently converted to deferred shares. The remaining shares were redeemed at a later date for 35 pence each. The final redemption date for B Shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

24 Capital redemption and other reserves continued

Currency translation reserve represents the foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.

Actuarial gains/losses reserve represents the actuarial gains and losses on the defined benefit pension schemes operated by the Group.

Available-for-sale assets reserve represents the fair value gains and losses on the available-for-sale financial assets held by the Group.

Cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Group.

25 Retained earnings

	Group Own shares £m	Group Profit and loss account £m	Group Total retained earnings £m	Company Retained earnings restated[1] £m
At 23 March 2008	(79)	2,445	2,366	1,697
Profit for the year	–	289	289	165
Dividends paid	–	(218)	(218)	(218)
Share-based payment	–	40	40	–
Shares vested	45	–	45	–
Allotted in respect of share option schemes	–	(45)	(45)	93
At 21 March 2009	**(34)**	**2,511**	**2,477**	**1,737**
At 25 March 2007	(83)	2,267	2,184	1,795
Profit for the year	–	329	329	90
Dividends paid	–	(178)	(178)	(178)
Share-based payment	–	41	41	–
B shares redemption	–	(10)	(10)	(10)
Shares vested	4	–	4	–
Allotted in respect of share option schemes	–	(4)	(4)	–
At 22 March 2008	(79)	2,445	2,366	1,697

1 The restatement of certain comparative amounts is explained in note 2 on page 52.

Own shares held by Employee Share Ownership Plan ("ESOP") trusts
The Group owned 9,650,780 (2008: 22,497,295) of its ordinary shares of 28$^4/_7$ pence nominal value each. At 21 March 2009, the total nominal value of the own shares was £2.8 million (2008: £6.4 million).

As at 21 March 2009 none of the own shares are held by an ESOP trust on behalf of certain Directors and senior employees under the Group's Performance Share Plan (2008: 37,627). All shares (2008: 22,459,668) are held by an ESOP trust for the Executive Share Option Plan. The ESOP trusts waive the rights to the dividends receivable in respect of the shareholder under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 21 March 2009 was £30.2 million (2008: £74.9 million).

26 Reconciliation of movements in equity

Group	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Equity shareholders' funds £m
At 23 March 2008	499	896	1,174	2,366	4,935
Profit for the year	–	–	–	289	289
Dividends paid	–	–	–	(218)	(218)
Share-based payments	–	–	–	40	40
Actuarial losses on defined benefit pension schemes (net of tax)	–	–	(650)	–	(650)
Available-for-sale financial assets fair value movements (net of tax)					
Group	–	–	(12)	–	(12)
Joint ventures	–	–	–	–	–
Cash flow hedges effective portion of fair value movements (net of tax)					
Group	–	–	9	–	9
Joint ventures	–	–	(32)	–	(32)
Shares vested	–	–	–	45	45
Allotted in respect of share option schemes	2	13	–	(45)	(30)
At 21 March 2009	**501**	**909**	**489**	**2,477**	**4,376**
At 25 March 2007	495	857	813	2,184	4,349
Profit for the year	–	–	–	329	329
Dividends paid	–	–	–	(178)	(178)
Share-based payments	–	–	–	41	41
Actuarial gains on defined benefit pension schemes (net of tax)	–	–	390	–	390
Available-for-sale financial assets fair value movements (net of tax)					
Group	–	–	(31)	–	(31)
Joint ventures	–	–	48	–	48
Cash flow hedges effective portion of fair value movements (net of tax)					
Group	–	–	2	–	2
Joint ventures	–	–	(58)	–	(58)
B shares redemption	–	–	10	(10)	–
Shares vested	–	–	–	4	4
Allotted in respect of share option schemes	4	39	–	(4)	39
At 22 March 2008	499	896	1,174	2,366	4,935

Company	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings restated[1] £m	Equity shareholders' funds restated[1] £m
At 23 March 2008	499	896	680	1,697	3,772
Profit for the year	–	–	–	165	165
Dividends paid	–	–	–	(218)	(218)
Available-for-sale financial assets fair value movement (net of tax)	–	–	(1)	–	(1)
Allotted in respect of share option schemes	2	13	–	93	108
At 21 March 2009	**501**	**909**	**679**	**1,737**	**3,826**
At 25 March 2007	495	857	670	1,795	3,817
Profit for the year	–	–	–	90	90
Dividends paid	–	–	–	(178)	(178)
B shares redemption	–	–	10	(10)	–
Allotted in respect of share option schemes	4	39	–	–	43
At 22 March 2008	499	896	680	1,697	3,772

1 The restatement of certain comparative amounts is explained in note 2 on page 52.

27 Notes to the cash flow statements

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

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company restated[2] 2008 £m
Operating profit	**673**	530	**(18)**	(3)
Adjustments for				
Depreciation expense	**453**	463	**1**	1
Amortisation expense	**15**	18	**-**	-
Profit on sale of properties	**(57)**	(7)	**(21)**	-
Fair value gain on other financial asset	**-**	(22)	**-**	-
Foreign exchange differences	**(10)**	(2)	**-**	-
Share-based payments expense	**40**	53	**-**	-
Operating cash flows before changes in working capital	**1,114**	1,033	**(38)**	(2)
Changes in working capital				
Increase in inventories	**(8)**	(94)	**-**	-
Decrease/(increase) in trade and other receivables	**23**	(26)	**(60)**	19
Increase/(decrease) in trade and other payables	**148**	96	**301**	(141)
Increase/(decrease) in provisions and other liabilities	**4**	(7)	**-**	(2)
Adjustment for retirement benefit obligations[1]	**(75)**	(4)	**-**	-
Cash generated from operations	**1,206**	998	**203**	(126)

1 The adjustment for retirement benefit obligations reflects the difference between the service charges of £53 million (2008: £78 million) for the defined benefit schemes and the cash contributions of £128 million made by the Group to the defined benefit schemes (2008: £82 million).

2 The restatement of certain comparative amounts are explained in note 2 on page 52.

(b) Cash and cash equivalents

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

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Cash and cash equivalents	**627**	719	**460**	324
Bank overdrafts (note 20)	**(28)**	(118)	**(8)**	(88)
	599	601	**452**	236

28 Analysis of net debt

	23 March 2008 £m	Cash flow £m	Other non-cash movements £m	21 March 2009 £m
Non-current assets				
Interest bearing available-for-sale financial assets	–	8	(1)	**7**
Derivative financial instruments	–	–	31	**31**
	–	8	30	**38**
Current assets				
Cash and cash equivalents	719	(92)	–	**627**
Derivative financial instruments	4	–	55	**59**
	723	(92)	55	**686**
Current liabilities				
Bank overdrafts	(118)	90	–	**(28)**
Borrowings[1]	(47)	(13)	(65)	**(125)**
Obligations under finance leases	–	–	(1)	**(1)**
Derivative financial instruments	(6)	–	(50)	**(56)**
	(171)	77	(116)	**(210)**
Non-current liabilities				
Borrowings[1]	(1,988)	(152)	11	**(2,129)**
Obligations under finance leases	(49)	–	1	**(48)**
Derivative financial instruments	(18)	–	10	**(8)**
	(2,055)	(152)	22	**(2,185)**
Total net debt	(1,503)	(159)	(9)	**(1,671)**

1 The financial statements for the 52 weeks to 22 March 2008 included all long-term borrowings within non-current liabilities. £47 million of the long-term borrowings (included in non-current borrowings) at 22 March 2008 were due within one year and have been reclassified within the comparative amounts.

Net debt incorporates the Group's borrowings (including accrued interest), bank overdrafts, interest bearing available-for-sale financial assets, fair value of derivatives and obligations under finance leases, less cash and cash equivalents.

Reconciliation of net cash flow to movement in net debt

	2009 £m	2008 £m
Decrease in cash and cash equivalents	**(2)**	(164)
(Increase)/decrease in debt	**(157)**	39
Disposal of derivative financial instruments	**–**	7
Other non-cash movements	**(9)**	(5)
Increase in net debt in the year	**(168)**	(123)
Opening net debt at the beginning of the year	**(1,503)**	(1,380)
Closing net debt at the end of the year	**(1,671)**	(1,503)

29 Financial risk management

The Group's activities expose it to a variety of financial risks including liquidity risk, credit risk and market risk.

Funding and financial risk management are managed by a central treasury department in accordance with policies and guidelines approved by the Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying the various risks and setting appropriate risk limits and controls. The Finance Committee of the Board of Directors has responsibility for approving specific financial transactions. The Treasury Committee, chaired by the Chief Financial Officer, regularly reviews risk positions and monitors performance. The Group Audit Committee oversees management compliance with risk management policies and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted by Group Internal Audit who regularly review the Group's risk management controls and procedures.

The Group only uses derivative financial instruments to hedge exposures arising in respect of underlying business requirements and not for any speculative purpose.

Treasury operations in respect of Sainsbury's Bank are managed separately through Lloyds Banking Group, the Group's joint venture partner.

Liquidity risk

The Group's operational cash flow is largely stable and predictable, reflecting the low business risk profile of the food retail business. Cash flow forecasts are produced regularly to assist management in identifying future liquidity requirements.

The Group's liquidity policy requires that it maintains committed funding to cover cash flow requirements over an 18-month period. This is achieved by structuring core debt with long-term maturities, pre-funding operational cash flows and maturing debt obligations and maintaining a portfolio of committed standby credit facilities.

Core funding is mainly comprised of two long-term loans entered into in March 2006 and secured over property assets held in two subsidiary companies. The loans comprise £1,130 million with a legal maturity of April 2018 and £872 million with a legal maturity of 2031. During the year the Company also entered into a £150 million loan maturing 2015 and a £35 million bank loan maturing May 2009.

Short-term and seasonal funding is sourced from the wholesale inter-bank money market where interest is charged at various spreads over LIBOR. The Group also maintains a £35 million net overdraft facility under which debit and credit balances of the various subsidiary accounts covered by the facility are netted for the purpose of charging interest. The table below includes the gross overdrawn balances within this facility and the offsetting cash balances under this arrangement are included within cash and cash equivalents (see note 27b). Interest arising on any net overdraft balances is charged at a margin above bank base rate.

For standby purposes the Group maintains a £400 million committed revolving credit facility maturing February 2012 and a £163 million committed revolving credit facility maturing May 2011. Interest on drawings under these facilities is charged at margins above LIBOR. There are £nil drawings under the committed facilities as at 21 March 2009 (2008: £nil drawings).

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

29 Financial risk management continued

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 21 March 2009				
Notional overdraft	28	–	–	–
Borrowings				
Bank loan	35	–	–	–
Secured loan due 2018	85	85	224	1,221
Secured loan due 2031[1]	53	54	170	1,239
Term loan due 2015	13	12	37	175
Loan notes	8	2	–	–
Obligations under finance leases	3	3	9	177
Trade and other payables	2,487	–	–	–
At 22 March 2008				
Notional overdraft	118	–	–	–
Borrowings				
Secured loan due 2018	86	85	256	1,276
Secured loan due 2031[1]	52	53	170	1,302
Obligations under finance leases	3	3	9	188
Trade and other payables	2,272	–	–	–

Company	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 21 March 2009				
Notional overdraft	8	–	–	–
Bank loan	35	–	–	–
Amounts due to Group entities[2]	3,540	1,139	118	952
Other payables	10	–	–	–
At 22 March 2008				
Notional overdraft	88	–	–	–
Amounts due to Group entities[2]	3,761	1,135	113	946
Other payables	10	–	–	–

Assumptions

1 Cash flows relating to debt linked to inflation rates have been calculated at projected RPI.

2 Cash flows relating to debt bearing a floating interest rate have been calculated using the prevailing interest rates at 21 March 2009 and 22 March 2008.

The table below analyses the Group's net settled derivative financial instruments into relevant maturity groupings based on the period remaining from the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the net contractual undiscounted cash flows.

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 21 March 2009				
Commodity contracts				
Outflow	7	–	–	–
Interest rate swaps on secured loan due 2018				
Inflow[1]	(2)	(2)	(7)	(11)
Other interest rate swaps:				
(Inflow)[1]/outflow	(2)	(2)	(4)	6
At 22 March 2008				
Interest rate swaps on secured loan due 2018				
Outflow[1]	–	–	1	1
Other interest rate swaps				
Inflow	(1)	(1)	(1)	(7)

Assumption

1 The ten-year swap rate at 19 January 2009 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2008: 19 January 2008).

The Group holds commodity contracts, for which the outflow figures in the table above have been calculated. The commodity contracts are at fair values prevailing at the reporting dates. At 21 March 2009, £5 million relating to these financial instruments has been recognised in equity.

29 Financial risk management continued

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

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 21 March 2009				
Forward foreign exchange contracts – cash flow hedges				
Outflow	120	22	–	–
Inflow	(142)	(22)	–	–
At 22 March 2008				
Forward foreign exchange contracts – cash flow hedges				
Outflow	134	4	–	–
Inflow	(137)	(4)	–	–

The Group holds foreign exchange forward contracts, for which the inflow figures in the table above have been calculated by translating the foreign currency forward commitments at spot exchange rates prevailing at the reporting dates. At 21 March 2009, £17 million relating to these financial instruments has been recognised in equity (2008: £2 million).

Credit risk

The Group's exposures to credit risk arise from holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities and trade receivables (note 17).

The Group deposits surplus funds on the wholesale inter-bank money markets with approved banks or into pooled money market funds. The Group's credit policy limits investments to banks or liquid securities which carry minimum short-term credit ratings of A1 from Standard & Poor's and P1 from Moody's Investors Service or, in the case of money market funds, AAAm from Standard & Poor's and Aaa from Moody's Investors Service.

The table below analyses the Group's cash and cash equivalents by credit exposure excluding bank balances, store cash and cash in transit:

Counterparty	Rating	2009 £m	2008 £m
Financial institutions – Money Market Funds	AAAm/Aaa	410	300
Financial institutions – Money Market Deposits	A1+/P1	28	11

During the year there were no breaches of deposit limits and management does not expect any losses from non-performance of deposit counterparties.

Interest rate swaps and foreign exchange contracts are used by the Group to hedge interest rate and currency exposures. The table below analyses the fair value of the Group's derivative financial assets by credit exposure.

Counterparty	Short rating	Long rating	2009 £m	2008 £m
Interest rate swaps	A1/P1	A/A2	19	–
Interest rate swaps	A1/P1	A+/Aa2	37	–
FX forward contracts	A1+/P1	–	4	4
FX forward contracts	A1/P1	–	18	–

Market risk

(a) Currency risk

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

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

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

A 20 per cent change in the value of the US dollar versus sterling at the balance sheet date with all other variables held constant would have increased or decreased post-tax profit or loss for the year by £2 million (ten per cent change 2008: £20,000), as a result of gains or losses on translation of US dollar cash balances and US dollar denominated trade payables and receivables.

A 20 per cent change in the value of euro versus sterling at the balance sheet date with all other variables held constant would have increased or decreased post-tax profit or loss for the year by £1 million (ten per cent change 2008: £500,000), as a result of gains or losses on translation of euro cash balances and euro denominated trade payables and receivables.

29 Financial risk management continued

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

(b) Interest rate risk
The Group is exposed to interest rate risk on its portfolio of interest bearing borrowings and deposits. The Group's interest rate policy seeks to minimise interest expense and volatility by structuring the interest rate profile into a diversified portfolio of fixed rate, floating rate and inflation-linked liabilities.

Inflation-linked cash flows arising on the Group's long-term borrowings remain an effective source of diversification within the liability portfolio, a hedge of the Group's revenues as well as a means of reducing balance sheet risk. These cash flows arose as part of a general refinancing exercise undertaken in March 2006.

(i) Fair value sensitivity for fixed rate instruments
The Group holds £1,130 million of fixed rate debt (2008: £1,159 million), of which £211 million (2008: £602 million) has been swapped into floating rate debt with interest rate swaps. The remaining £919 million (2008: £557 million) portion of fixed rate debt is recorded at amortised cost and a change in interest rates at the reporting date would not affect the income statement.

(ii) Cash flow sensitivity for variable rate instruments
The £211 million portion of fixed rate debt swapped to floating rates (2008: £602 million) and the associated interest rate swaps have been designated as being in a hedging relationship. The interest rate swaps and the gain or loss on the hedged item attributable to the hedged risk are recognised at fair value through profit or loss.

The two movements in fair values on the underlying fixed rate debt and the interest rate swaps largely offset one another in the income statement. A change of 200 basis points in interest rates at the balance sheet date would have increased or decreased post-tax profit or loss by £3 million (a change of 100 basis points 2008: £4 million) representing the increased cost of the floating rate leg of the swaps.

For the year, the fair value movement in the interest rate swaps has resulted in a credit to the income statement of £35 million (2008: £25 million). The fair value movement in the underlying fixed rate debt has resulted in a charge to the income statement of £35 million (2008: £25 million). The net movement is a credit to the income statement of £691,000 which represents the ineffectiveness on the hedging relationship (2008: £282,000).

At the balance sheet date the Group held the following interest rate swaps not in a hedging relationship; a notional value of £256 million (2008: £75 million) of fixed rate borrowings into floating rates of interest and a notional value of £391 million (2008: £nil) of floating borrowings into fixed rates of interest. Interest rate swaps not held in a hedging relationship are recognised at fair value through profit or loss. An increase of 200 basis points in interest rates would have decreased post-tax profit or loss by £3 million (2008: £4 million). A decrease of 200 basis points in interest rates would have decreased post-tax profit or loss by £7 million (2008: £10 million) represented by a movement in the fair value and interest rates for the year.

For the year, the fair value movement in the interest rate swaps has resulted in a charge to the income statement of £6 million (2008: £4 million).

(iii) Cash flow sensitivity for inflation-linked variable instruments
The Group holds £872 million of inflation-linked debt (2008: £867 million) which is recorded at amortised cost. A change of 100 basis points in the RPI at the balance sheet date would have increased or decreased post-tax profit or loss by £6 million (a change of 50 basis points in the RPI 2008: £3 million).

(iv) Cash flow sensitivity for term loan due 2015
The Group holds £150 million of borrowings and associated swaps where the variable rate coupon is subject to a cap and floor. A change of 100 basis points in the coupon would have an immaterial impact on the post-tax income statement taking the loan and swaps as a whole.

(v) Fair value sensitivity for available-for-sale assets
Included within available-for-sale financial assets is £90 million (2008: £105 million) relating to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 2.8 per cent per annum (2008: 2.8 per cent) and a discount rate of ten per cent (2008: ten per cent), (see note 15).

A change of 0.8 per cent in the assumed rate of property rental growth to 2.0 per cent and 3.6 per cent, holding other assumptions constant, would result in values for this asset of £77 million (2008: £90 million) and £103 million (2008: £121 million) respectively. A change of one per cent in the discount rate to nine per cent and 11 per cent, holding other assumptions constant, would result in values of £103 million (2008: £121 million) and £79 million (2008: £92 million) respectively.

Commodity risk
The Group is exposed to commodity price risk on its own use consumption of electricity, gas and fuel.

The Group's Energy Price Risk Committee seeks to limit the impact of movements in commodity prices on Group income by requiring forecast purchases of power and fuel be hedged.

The Group uses financial derivatives to hedge fuel exposures on a layered basis using contracts for difference. A 20 per cent change in the fair value of the commodity price at the balance sheet date would have increased or decreased the cash flow equity reserve by £2 million.

The Group hedges electricity and gas exposures via forward purchases under flexible purchasing arrangements with the relevant suppliers.

29 Financial risk management continued

Capital risk management

The Board's policy is to maintain a strong capital structure consistent with the size and nature of the Group. The Group's current credit ratings comprise a Corporate Family rating of Baa3 from Moody's and a Corporate Credit rating of BBB- from Standard & Poor's.

The Board monitors a range of financial metrics including return on capital and gearing to measure the efficiency of the Group's capital structure, the returns for shareholders and benefits for other stakeholders.

The Board has a policy to maintain the underlying earnings cover for the ordinary dividend at a minimum of 1.50 times and to grow the dividend cover over time to between 1.50 and 1.75 times.

From time to time the Company purchases its own shares in the market for the purpose of issuing shares under the Group's share option programmes. Outside of this practice the Group does not have a defined share buy-back plan.

30 Financial instruments

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Derivative assets				
Current				
Foreign exchange forward contract – cash flow hedge	22	4	-	-
Interest rate swaps – fair value through profit or loss	37	–	37	-
	59	4	37	-
Non-current				
Contract for difference – fair value through profit or loss	12	–	12	–
Interest rate swaps – fair value hedge	19	–	19	–
	31	–	31	–
Derivative liabilities				
Current				
Commodity forward contract – cash flow hedge	(7)	–	–	-
Interest rate swaps – fair value through profit or loss	(49)	(6)	(49)	(6)
	(56)	(6)	(49)	(6)
Non-current				
Interest rate swaps – fair value through profit or loss	(8)	–	-	-
Interest rate swaps – fair value hedge	-	(18)	-	(18)
	(8)	(18)	-	(18)

Foreign exchange forward contracts – cash flow hedges

At 21 March 2009, the Group held a portfolio of foreign exchange forward contracts with a fair value of £22 million (2008: £4 million) to hedge its future foreign currency denominated trade purchases. The Group had purchased €55 million (2008: €144 million) and sold sterling at rates ranging from 0.78 to 0.94 (2008: 0.68 to 0.97) with maturities from March 2009 to March 2010 (2008: April 2008 to November 2008) and purchased US$161 million (2008: US$237 million) and sold sterling at rates ranging from 1.40 to 2.00 (2008: 1.93 to 2.05) with maturities from March 2009 to September 2010 (2008: April 2008 to May 2009).

At 21 March 2009, an unrealised gain of £17 million (2008: gain of £2 million) is included in equity in respect of the forward contracts. This gain will be transferred to the income statement over the next 18 months. During the year a credit to the profit or loss of £31 million was transferred from the cash flow equity reserve and included in cost of sales.

Commodity contracts – cash flow hedges

At 21 March 2009, the Group held a portfolio of commodity forward contracts with a fair value of £(7) million (2008: £nil) to hedge its future own use fuel consumption over the next 12 months.

At 21 March 2009, an unrealised loss of £5 million (2008: £nil) is included in equity in respect of these contracts. This loss will be transferred to the income statement over the next 12 months.

Interest rate swaps – fair value hedge

The Group holds a portfolio of £211 million of interest rate swaps (2008: £602 million) to hedge a portion of the fixed rate secured loan due in 2018. Under the terms of the swaps, the Group receives fixed interest and pays floating rate interest at a fixed spread above three-month LIBOR. The notional principal amount of the interest rate swaps amortises from £211 million to £111 million from April 2016 to April 2018.

Derivative financial instruments – fair value through profit and loss

At 21 March 2009, the Group held a portfolio of interest rate swaps at fair value through profit or loss which convert £256 million of the Group's floating rate obligations into fixed rates (2008: £75 million). Under the terms of these swaps the Group pays fixed rates of interest and receives three-month LIBOR for periods ranging from 19 April 2018 to 19 April 2031. Included in this portfolio is a £75 million swap under which the counterparty has a once only option to cancel the swap or double the notional principal value of the swap on 19 July 2010 and thereafter a recurring option to cancel the swap on quarterly dates through to August 2030.

30 Financial instruments continued

The Group holds a portfolio of non-designated interest rate swaps which convert £391 million of fixed rate borrowings into floating rates (2008: £nil). Under the terms of the swap the Group receives fixed rates of interest and pays interest at various spreads above three-month LIBOR until 19 April 2018.

The Group maintains a contract for difference with a fair value of £12 million (2008: £nil) and a non-current interest rate swap with a fair value of £(8) million (2008: £nil) which are related to the £150 million term loan due 2015.

Interest rate risk

Financial instruments where interest is repriced at intervals of less than one year or less are classified as floating rate. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.

Foreign currency risk

The Group has net euro denominated trade creditors of £9 million (2008: £12 million) and US dollar denominated trade creditors of £15 million (2008: £4 million).

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all financial instruments that are carried in the financial statements at amounts other than fair values. The fair value of financial assets and liabilities are based on prices available from the market on which the instruments are traded where available. The fair value of all other financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, receivables, overdrafts, payables and loans of a maturity of less than one year are assumed to approximate to their book values, and are excluded from the analysis below.

	Group Carrying amount £m	Group Fair value £m	Company Carrying amount £m	Company Fair value £m
2009				
Financial assets				
Amounts due from Group entities	-	-	**1,005**	**1,110**
Other receivables	**55**	**55**	**55**	**55**
Financial liabilities				
Amounts due to Group entities	-	-	**(2,037)**	**(2,087)**
Secured loans[1]	**(2,047)**	**(2,224)**	-	-
Term loan due 2015	**(162)**	**(191)**	-	-
Loan notes	**(10)**	**(10)**	-	-
Obligations under finance leases	**(48)**	**(48)**	-	-
2008				
Financial assets				
Amounts due from Group entities	–	–	921	860
Other receivables	55	55	55	55
Financial liabilities				
Amounts due to Group entities	–	–	(1,803)	(1,701)
Secured loans[1]	(2,035)	(1,782)	–	-
Obligations under finance leases	(49)	(49)	–	-

1 Includes £211 million accounted for as a fair value hedge (2008: £782 million).

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 21 March 2009 and 22 March 2008.

	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Group						
2009						
Cash and cash equivalents	**627**	-	-	-	-	**627**
Trade and other receivables	**187**	-	-	-	-	**187**
Available-for-sale financial assets	-	**97**	-	-	-	**97**
Trade and other payables	-	-	-	-	**(2,490)**	**(2,490)**
Current borrowings	-	-	-	-	**(154)**	**(154)**
Non-current borrowings	-	-	-	-	**(2,177)**	**(2,177)**
Derivative financial instruments						
Cash flow hedges[1]	-	-	-	**15**	-	**15**
Interest rate swaps[2]	-	-	**(20)**	**19**	-	**(1)**
Contract for difference	-	-	**12**	-	-	**12**
	814	**97**	**(8)**	**34**	**(4,821)**	**(3,884)**

1 Cash flow hedges are deferred through equity.
2 Interest rate swaps used for hedging are at fair value through profit or loss.

30 Financial instruments continued

	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
2008						
Cash and cash equivalents	719	–	–	–	–	719
Trade and other receivables	171	–	–	–	–	171
Available-for-sale financial assets	–	106	–	–	–	106
Trade and other payables	–	–	–	–	(2,274)	(2,274)
Current borrowings[1]	–	–	–	–	(165)	(165)
Non-current borrowings[1]	–	–	–	–	(2,037)	(2,037)
Derivative financial instruments						
Cash flow hedges[2]	–	–	–	4	–	4
Interest rate swaps[3]	–	–	(6)	(18)	–	(24)
	890	106	(6)	(14)	(4,476)	(3,500)

1 The financial statements for the 52 weeks to 21 March 2008 included all long-term borrowings within non-current liabilities. £47 million of the long-term borrowings (included in non-current borrowings) at 22 March 2008 were due within one year and have been reclassified within the comparative amounts.
2 Cash flow hedges are deferred through equity.
3 Interest rate swaps used for hedging are at fair value through profit or loss.

	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Company						
2009						
Cash and cash equivalents	**460**	**–**	**–**	**–**	**–**	**460**
Trade and other receivables	**1,430**	**–**	**–**	**–**	**–**	**1,430**
Trade and other payables	**–**	**–**	**–**	**–**	**(5,526)**	**(5,526)**
Current borrowings	**–**	**–**	**–**	**–**	**(43)**	**(43)**
Derivative financial instruments						
Interest rate swaps[1]	**–**	**–**	**(12)**	**19**	**–**	**7**
Contract for difference	**–**	**–**	**12**	**–**	**–**	**12**
	1,890	**–**	**–**	**19**	**(5,569)**	**(3,660)**
2008 restated[2]						
Cash and cash equivalents	324	–	–	–	–	324
Trade and other receivables	1,335	–	–	–	–	1,335
Trade and other payables	–	–	–	–	(5,137)	(5,137)
Current borrowings	–	–	–	–	(88)	(88)
Derivative financial instruments						
Interest rate swaps[1]	–	–	(6)	(18)	–	(24)
	1,659	–	(6)	(18)	(5,225)	(3,590)

1 Interest rate swaps used for hedging are at fair value through profit or loss.
2 The restatement of certain comparative amounts is explained in note 2 on page 52.

31 Retirement benefit obligations

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

The defined benefit schemes were subject to a triennial valuation carried out by Watson Wyatt, the schemes' independent actuaries, at March 2006 on the projected unit basis. The results of this valuation were approved by the schemes' trustees in June 2007. The retirement benefit obligations at 21 March 2009 have been calculated, where appropriate, on a basis consistent with this valuation.

A triennial valuation will be carried out at March 2009 by Watson Wyatt, the schemes' independent actuaries on the projected unit basis with a statutory completion date of June 2010.

The unfunded pension liability is 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.

The amounts recognised in the balance sheet are as follows:

	2009 £m	2008 £m
Present value of funded obligations	**(3,610)**	(3,668)
Fair value of plan assets	**3,310**	4,171
	(300)	503
Present value of unfunded obligations	**(9)**	(8)
Retirement benefit (obligations)/assets	**(309)**	495
Deferred income tax asset/(liability)	**87**	(129)
Net retirement benefit (obligations)/assets	**(222)**	366

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

(a) Income statement
The amounts recognised in the income statement are as follows:

	2009 £m	2008 £m
Current service cost – funded schemes	**(50)**	(74)
Current service cost – unfunded scheme	**(1)**	(2)
Past service cost	**(2)**	(2)
Included in employee costs (note 6)	**(53)**	(78)
Interest cost on pension scheme liabilities	**(249)**	(230)
Expected return on plan assets	**273**	284
Total included in finance income (note 5)	**24**	54
Total income statement expense	**(29)**	(24)

Of the expense recognised in operating profit, £48 million (2008: £70 million) is included in cost of sales and £5 million (2008: £8 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was a loss of £876 million (2008: a loss of £96 million).

(b) Equity
The amounts recognised in the statement of recognised income and expense are as follows:

	2009 £m	2008 £m
Net actuarial (losses)/gains recognised during the year	**(903)**	542
Cumulative actuarial (losses)/gains recognised	**(309)**	594

31 Retirement benefit obligations continued

(c) Valuations

The movements in the funded retirement benefit obligations are as follows:

	2009 £m	2008 £m
Beginning of year	**(3,668)**	(4,395)
Current service cost	**(50)**	(74)
Past service cost	**(2)**	(2)
Interest cost	**(249)**	(230)
Contributions by plan participants	**(7)**	(10)
Actuarial gains	**246**	922
Benefits paid	**120**	123
Transfer from provisions (note 22)	**-**	(2)
End of year	**(3,610)**	(3,668)

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

	2009 £m	2008 £m
Beginning of year	**4,171**	4,298
Expected return on plan assets	**273**	284
Actuarial losses	**(1,149)**	(380)
Contributions by employer	**128**	82
Contributions by plan participants	**7**	10
Benefits paid	**(120)**	(123)
End of year	**3,310**	4,171

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

	2009 %	2008 %
Equities	**39**	45
Bonds	**50**	46
Property	**3**	4
Other	**8**	5
	100	100

(d) Assumptions

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

	2009 %	2008 %
Discount rate	**6.5**	6.9
Inflation rate	**2.8**	3.5
Future salary increases	**2.8**	3.5
Future pension increases	**2.0-2.8**	2.4-3.5

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

The average expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward-looking view of the financial markets (as suggested by the yield available) and the views of investment organisations.

	2009 Fair value £m	2009 Expected return %	2008 Fair value £m	2008 Expected return %
Equities	**1,279**	**8.0**	1,893	8.0
Bonds	**1,662**	**5.1**	1,922	5.1
Property	**105**	**7.0**	160	7.0
Other	**264**	**4.0-7.0**	196	4.0-7.0
	3,310	**6.3**	4,171	6.6

31 Retirement benefit obligations continued

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

	2009 years	2008 years
Male pensioner	**21.7**	21.6
Female pensioner	**23.2**	23.1

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

(e) Sensitivities

A movement of 0.5 per cent in the discount rate would increase or decrease the retirement benefit obligations by £317 million.

A movement of 0.5 per cent in the inflation rate would increase or decrease the retirement benefit obligations by £321 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £64 million.

(f) Experienced gains and losses

The history of experience adjustments on the plans for the current and previous financial years is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of retirement benefit obligations	**(3,619)**	(3,676)	(4,401)	(4,368)	(3,512)
Fair value of plan assets	**3,310**	4,171	4,298	3,710	2,976
Retirement benefit (obligations)/assets	**(309)**	495	(103)	(658)	(536)
Experience gain/(loss) on plan liabilities	**171**	(79)	(236)	(27)	(6)
Experience (loss)/gain on plan assets	**(1,149)**	(380)	89	428	134

The expected contributions to defined benefit schemes for the next financial year beginning 22 March 2009 are £93 million (2008: £125 million).

32 Share-based payments

The Group recognised £40 million (2008: £53 million) of employee costs (note 6) related to share-based payment transactions made during the financial year. Of these, £nil (2008: £2 million) were cash-settled.

National insurance contributions are payable in respect of certain share-based payment transactions and are treated as cash-settled transactions. At 21 March 2009, the carrying amount of national insurance contributions payable was £13 million (2008: £13 million) of which £3 million (2008: £nil) was in respect of vested grants.

The Group operates various share-based payment schemes as set out below:

(a) Savings Related Share Option Scheme ("SAYE")

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 the SAYE scheme, participants remaining in the Group's employment at the end of the three-year or five-year savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price. Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

At 21 March 2009, UK employees held 21,416 five-year savings contracts (2008: 22,074) in respect of options over 22.0 million shares (2008: 20.6 million) and 29,281 three-year savings contracts (2008: 28,332) in respect of options over 18.1 million shares (2008: 15.3 million).

32 Share-based payments continued

A reconciliation of option movements is shown below:

	2009 Number of options million	2009 Weighted average exercise price pence	2008 Number of options million	2008 Weighted average exercise price pence
Outstanding at beginning of year	**35.9**	**278**	34.5	256
Granted	**15.7**	**224**	10.0	331
Forfeited	**(5.5)**	**292**	(3.4)	272
Exercised	**(6.1)**	**233**	(4.9)	233
Expired	**-**	**-**	(0.3)	266
Outstanding at end of year	**40.0**	**262**	35.9	278
Exercisable at end of year	**2.4**	**235**	2.0	227

The weighted average share price during the period for options exercised over the year was 293 pence (2008: 377 pence).

Details of options at 21 March 2009 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2009 million	Options outstanding 2008 million
3 January 2003 (5 year period)	31 August 2008	239	**-**	0.9
17 December 2003 (5 year period)	31 August 2009	241	**0.9**	2.8
15 December 2004 (3 year period)	31 August 2008	217	**-**	1.1
15 December 2004 (5 year period)	31 August 2010	217	**3.7**	4.0
15 December 2005 (3 year period)	31 August 2009	231	**1.5**	4.6
15 December 2005 (5 year period)	31 August 2011	231	**4.5**	5.0
15 December 2006 (3 year period)	31 August 2010	328	**3.2**	4.0
15 December 2006 (5 year period)	31 August 2012	328	**3.1**	3.7
20 December 2007 (3 year period)	31 August 2011	331	**4.3**	5.6
20 December 2007 (5 year period)	31 August 2013	331	**3.3**	4.2
17 December 2008 (3 year period)	31 August 2012	224	**9.1**	-
17 December 2008 (5 year period)	31 August 2014	224	**6.4**	-
			40.0	35.9

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:

		2009	2008
Share price at grant date (pence)		**280**	413
Exercise price (pence)		**224**	331
Expected volatility	– 3 year period (%)	**35.7**	23.5
	– 5 year period (%)	**30.4**	25.3
Option life	– 3 year period (years)	**3.2**	3.2
	– 5 year period (years)	**5.2**	5.2
Expected dividends (expressed as dividend yield %)		**3.6**	1.9
Risk-free interest rate	– 3 year period (%)	**3.8**	4.5
	– 5 year period (%)	**4.0**	4.7
Fair value per option	– 3 year period (pence)	**86**	122
	– 5 year period (pence)	**85**	144

The expected volatility is based on the standard deviation of the Group'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.

32 Share-based payments continued

(b) Colleague Share Option Plan ("CSOP")

The Colleague Share Option Plan operates under the rules of the HMRC Approved Discretionary Share Option Scheme. Under the CSOP, participants are granted options to purchase shares of the Company at a stated exercise price. The exercise of options is conditional upon participants remaining in the employment of the Group for a three-year period after date of grant. Colleagues leaving employment for certain reasons have six months from their leaving date to exercise their options.

At 21 March 2009, a total of 10,034 UK employees (2008: 10,547) participated in the plan and held options over 3.2 million shares (2008: 3.4 million). Options are exercisable between three and ten years from the date of the grant of option. It is intended that there will be no further options granted under this plan.

A reconciliation of option movements is shown below:

	2009 Number of options million	2009 Weighted average exercise price pence	2008 Number of options million	2008 Weighted average exercise price pence
Outstanding at beginning of year	**3.4**	**363**	5.7	365
Forfeited	**(0.2)**	**356**	(0.3)	352
Exercised	**-**	**-**	(2.0)	370
Outstanding at end of year	**3.2**	**363**	3.4	363
Exercisable at end of year	**3.2**	**363**	3.4	363

The weighted average share price during the period for options exercised over the year was 372 pence (2008: 553 pence).

Details of options at 21 March 2009 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2009 million	Options outstanding 2008 million
2 August 1999	1 August 2009	378	**2.7**	2.9
2 June 2000	1 June 2010	272	**0.5**	0.5
			3.2	3.4

(c) Executive Share Option Plan ("ESOP")

Under the Executive Share Option Plan, participants were granted options to purchase shares in the Company at a stated exercise price. The maximum annual option award was two times basic salary and the grants were agreed by the Remuneration Committee according to the assessed performance and potential of participants.

The exercise of options is conditional upon a performance target based on the growth in the Company's underlying earnings per share ("EPS") relative to inflation over a three-year period. EPS is measured against a fixed starting point over the performance period beginning with the year in which the option was granted. To the extent that the condition is not satisfied in full after three years, it will be retested on a fixed-point basis over four and then five financial years. To the extent the condition is not met after five financial years, the option will lapse.

Once the options vest, participants remaining in the Group's employment or leaving for certain reasons, are entitled to exercise the options between vesting date (normally at the end of the three-year performance period) and the option expiry date, which is ten years from date of grant.

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

A reconciliation of option movements is shown below:

	2009 Number of options million	2009 Weighted average exercise price pence	2008 Number of options million	2008 Weighted average exercise price pence
Outstanding at beginning of year	**4.1**	**411**	20.4	362
Forfeited	**(0.4)**	**356**	(6.3)	332
Exercised	**-**	**-**	(5.9)	405
Expired	**(1.3)**	**482**	(4.1)	294
Outstanding at end of year	**2.4**	**387**	4.1	411
Exercisable at end of year	**2.2**	**395**	3.5	437

The weighted average share price during the period for options exercised over the year was 321 pence (2008: 546 pence).

32 Share-based payments continued

Details of options at 21 March 2009 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2009 million	Options outstanding 2008 million
10 November 1998	9 November 2008	545	-	1.0
2 August 1999	1 August 2009	378	0.3	0.4
2 June 2000	1 June 2010	272	0.2	0.3
7 June 2001	6 June 2011	427	0.8	0.9
26 July 2001	25 July 2011	407	0.9	0.9
22 May 2003	21 May 2013	257	-	0.4
20 May 2004	19 May 2014	275	0.2	0.2
			2.4	4.1

(d) Performance Share Plan ("PSP")

The Performance Share Plan was a long-term incentive scheme through which shares were awarded to senior managers on a conditional basis. Under the PSP, participants remaining in the Group's employment or leaving for certain reasons, were entitled to receive a grant of options after a performance period of three years to acquire the shares awarded to them, at any time during the ten years following the date of grant.

The participant's entitlement to receive the grant depended on the Company's Total Shareholder Return ("TSR") – being the increase in the value of a share, including reinvested dividends, compared with a peer group of 11 companies (namely Ahold, Alliance Boots, Carrefour, Casino, DSG International, Kingfisher, Loblaw, Marks & Spencer, Morrisons, Next and Tesco), over the three-year performance period.

If the median performance of the TSR against the comparator group was not achieved at the end of the three-year performance period, the entitlement to receive the grant of options lapsed. At median level, shares to the value of 30 per cent of salary will be released and the award would be pro-rated at every position between the median and first position in the comparator group. The maximum allocation for Directors was a conditional grant of shares equal to 75 per cent of salary.

No further allocations will be made under this plan.

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

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	-	0.9
Released to participants	-	(0.7)
Lapsed	-	(0.2)
Outstanding at end of year	-	-

There were no shares conditionally allocated at 21 March 2009 and at 22 March 2008.

Conditional awards of shares that have fulfilled all conditions at the end of the performance period are represented by options granted to participants to acquire the shares awarded to them. Details of the options outstanding at year-end are set out below:

Date of grant	Date of expiry	Exercise price pence	2009 Options	2009 Shares in respect of options granted	2008 Options	2008 Shares in respect of options granted
16 May 2007	15 May 2017	-	-	-	2	37,627

(e) All-Employee Share Ownership Plan

(i) In June 2003, under the All-Employee Share Ownership Plan, free shares were awarded to UK employees with more than 12 months' continuous service. The free shares are being held in a trust on behalf of participants and will be forfeited if participants cease to remain in the Group's employment for a period of three years. Shares are released to participants within the first three years for certain reasons. After the three-year period, the shares continue to be held by the trust for a further holding period of two years, unless they are released to participants upon cessation of employment with the Group.

A reconciliation of shares held in the trust is shown below:

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	1.4	1.5
Released to participants	(1.0)	(0.1)
Outstanding at end of year	0.4	1.4

32 Share-based payments continued

(ii) From 18 September 2008, under the Sainsbury's share purchase plan, all employees were offered the opportunity to receive one free matching share for every four shares purchased through the savings share purchase plan. Under this scheme, 95,258 matching shares have been awarded, all of which are outstanding at 21 March 2009.

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

	2009	2008
Share price at grant date (pence)	292	–
Exercise price (pence)	–	–
Expected volatility (%)	26.8	–
Option life (years)	3.0	–
Expected dividends (expressed as dividend yield %)	2.6	–
Risk-free interest rate (%)	5.7	–
Fair value per option (pence)	271	–

The expected volatility is based on the standard deviation of the Group'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.

(f) J Sainsbury plc Share Plan 2005

Under the J Sainsbury plc Share Plan 2005, shares were awarded to participants on the conditional basis that the performance targets are achieved within the four-year performance period, from the financial year beginning 27 March 2005 until the financial year ending March 2009. The levels of awards are scaled according to seniority and there is an opportunity for Executive Directors and eligible Operating Board members to make a personal investment of up to 50 per cent of salary in the plan.

The awards will vest if stretching sales and earnings per share ("EPS") targets are achieved, as shown in table 1 below. The relevant performance multiplier, which is on a sliding scale up to a maximum of five times, will be calculated and applied to the core award of shares, as well as the personal investment of shares, i.e. shares acquired by Executive Directors and eligible Operating Board members. Further, there is an opportunity for partial vesting of up to half the award, if the accelerated performance targets have been met at the end of year three (i.e. financial year ending March 2008) as shown in table 2. No awards will vest unless threshold levels of growth in both sales and EPS are achieved.

Once performance targets have been achieved, options will be granted to participants remaining in the Group's employment or leaving for certain reasons to acquire the shares awarded to them, at nil cost. The options will expire within a year after the end of the four-year performance period. Dividends will accrue on the shares that vest in the form of additional shares.

In order to participate in the plan, participants agreed to surrender options granted to them under the Company's Executive Share Option Plan in 2002, 2003 and 2004.

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

4 year EPS growth (compound annual)						
Sales growth in £ billion	<5%	5%	10%	14%	17%	21%
2.50	0.0	1.0	2.0	3.0	4.5	5.0
2.25	0.0	1.0	1.5	2.5	4.0	5.0
2.00	0.0	0.0	1.5	2.0	3.0	4.5
1.75	0.0	0.0	1.5	2.0	2.5	4.0
1.50	0.0	0.0	1.0	1.5	2.0	3.0
1.25	0.0	0.0	0.0	1.0	1.5	2.5
1.00	0.0	0.0	0.0	0.0	1.0	2.0

Table 2 – Interim vesting (multiplier applied to 50 per cent of the shares)

3 year EPS growth (compound annual)						
Sales growth in £ billion	<5%	5%	10%	15%	20%	25%
2.50	0.0	1.0	2.0	3.0	4.5	5.0
2.25	0.0	1.0	1.5	2.5	4.0	5.0
2.00	0.0	0.0	1.5	2.0	3.0	4.5
1.75	0.0	0.0	1.5	2.0	2.5	4.0
1.50	0.0	0.0	1.0	1.5	2.0	3.0
1.25	0.0	0.0	0.0	1.0	1.5	2.5
1.00	0.0	0.0	0.0	0.0	1.0	2.0

32 Share-based payments continued

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

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	**6.1**	6.5
Forfeited	**(0.1)**	(0.4)
Outstanding at end of year	**6.0**	6.1

Details of shares conditionally allocated at 21 March 2009 are set out below:

Date of conditional award	Shares conditionally allocated 2009 million	Shares conditionally allocated 2008 million
13 July 2005	**6.0**	6.1

In March 2008, the three-year accelerated performance targets were met. In May 2008 a total number of 15.5 million shares were granted to employees as a result of achieving the performance target. During the year 12.4 million options were exercised. The weighted average share price during the period for options exercised was 332 pence.

A reconciliation of the number of shares is shown below:

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	**–**	–
Granted	**15.5**	–
Exercised	**(12.4)**	–
Expired	**(0.2)**	–
Outstanding at end of year	**2.9**	–

(g) Long-Term Incentive Plan 2006

Under the Long-Term Incentive Plan 2006, shares were conditionally awarded to the top 1,000 managers in the Company, from the Chief Executive to the supermarket store managers. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

The awards will vest if the threshold levels of two co-dependent performance conditions – Return on Capital Employed ("ROCE") and growth in cash flow per share, are achieved over the three-year performance period. 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.

To achieve the maximum multiplier of four, the following criteria are required to be met.

	Percentage increase to achieve maximum multiplier	
Date of conditional award	Cash flow per share %	Return on capital employed %
13 July 2006	18	14
20 June 2007	18	14
28 May 2008	15	15

Performance will be measured at the end of the three-year performance period. If the required level of performance has been reached, the awards vest and 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will then be released on the fourth anniversary of the date of award. Options granted to acquire the award of shares will expire two years from vesting date. Dividends will accrue on the shares that vest in the form of additional shares.

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

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year '	**4.5**	2.5
Conditionally allocated	**3.3**	2.1
Forfeited	**(0.4)**	(0.1)
Outstanding at end of year	**7.4**	4.5

32 Share-based payments continued

Details of shares conditionally awarded at 21 March 2009 are set out below:

Date of conditional award	Shares conditionally allocated 2009 million	Shares conditionally allocated 2008 million
13 July 2006	**2.3**	2.4
20 June 2007	**1.9**	2.1
28 May 2008	**3.2**	–
	7.4	4.5

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

	2009	2008
Share price at grant date (pence)	**346**	558
Exercise price (pence)	**–**	–
Expected volatility (%)	**38.8**	19.0
Option life (years)	**4.2**	4.2
Expected dividends (expressed as dividend yield %)	**–**	–
Risk-free interest rate (%)	**4.9**	5.6
Fair value per option (pence)	**346**	558

The expected volatility is based on the standard deviation of the Group'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.

(h) Deferred Annual Bonus Plan

The Deferred Annual Bonus Plan applies to the top levels of management including Executive Directors and currently comprises around 40 participants in total. The first deferral took place in June 2007, in respect of the bonus awards for the financial year ended 22 March 2008. The second deferral took place in June 2008, in respect of the bonus awards for the financial year ended 22 March 2008. The next deferral will take place in June 2009.

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

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

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

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

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	**0.6**	–
Granted during the year	**0.5**	0.6
Outstanding at end of year	**1.1**	0.6

Details of shares allocated at 21 March 2009 are set out below:

	Share conditionally allocated 2009 million	Share conditionally allocated 2008 million
20 June 2007	**0.6**	0.6
20 June 2008	**0.5**	–
	1.1	0.6

33 Acquisition of subsidiaries

On 20 August 2008, the Group acquired 100 per cent of the shares in Portfolio Investments Limited for a total consideration of £10 million. The carrying amount of the Company's net assets at the date of acquisition was £nil and the fair value adjustment on acquisition was made to increase the net assets to £2 million. Goodwill of £8 million was recognised on the acquisition.

On 18 February 2009, the Group acquired 100 per cent of the shares in Town Centre Retail (Bicester) Limited for a total consideration of £1. The carrying amount of the Company's net liabilities at the date of acquisition was £(1) million and a fair value adjustment on acquisition was made to increase the net liabilities to £(2) million. Goodwill of £2 million was recognised on the acquisition.

34 Related party transactions

Group

(a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc's Board of Directors and the Operating Board.

The key management personnel compensation is as follows:

	2009 £m	2008 £m
Short-term employee benefits	**11**	7
Post-employment employee benefits	**1**	1
Share-based payments	**10**	9
	22	17

Details of transactions, in the normal course of business, with the key management personnel are provided below. The transactions occured with Sainsbury's Bank plc. For this purpose, key management personnel include Group key management personnel and members of their close family.

	Credit card balances Number of key management personnel	Credit card balances £m	Saving deposit accounts Number of key management personnel	Saving deposit accounts £m
At 23 March 2008	4	–	2	(1)
Amounts advanced/(received)[1]	6	–	5	(1)
Interest earned	2	–	7	–
Amounts withdrawn	6	–	3	1
At 21 March 2009	**5**	**–**	**7**	**(1)**
At 25 March 2007	4	–	2	–
Amounts received[1]	3	–	4	(1)
Interest earned/(paid)	1	–	1	–
Amounts withdrawn[2]	4	–	3	–
At 22 March 2008	4	–	2	(1)

1 Includes existing balances of new appointments.
2 Includes existing balances of resignations.

Notes to the financial statements

34 Related party transactions continued

(b) Joint ventures

Transactions with joint ventures

For the 52 weeks to 21 March 2009, the Group entered into various transactions with joint ventures as set out below.

	2009 £m	2008 £m
Sales of inventories	**3**	6
Management services provided	**17**	20
Interest income received in respect of interest bearing loans	**3**	3
Sale of assets	**34**	74
Management services received	**(1)**	–
Rental expenses paid	**(67)**	(4)

Year-end balances arising from transactions with joint ventures

	2009 £m	2008 £m
Receivables		
Other receivables	**2**	7
Loans due from joint ventures		
Floating rate subordinated undated loan capital[1]	**25**	25
Floating rate subordinated dated loan capital[2]	**30**	30
Payables		
Loans due to joint ventures	**(48)**	(5)

1 The undated subordinated loan capital shall be repaid on such date as the Financial Services Authority shall agree in writing for such repayment and in any event not less than five years and one day from the dates of draw down. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 1.0 per cent per annum for the duration of the loan.

2 No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Financial Services Authority. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 0.6 per cent per annum for the duration of the loan.

Company

(a) Key management personnel

The key management personnel of the Company comprise members of the J Sainsbury plc's Board of Directors. The Directors do not receive any remuneration from the Company (2008: £nil) as their emoluments are borne by subsidiaries. The Company did not have any transactions with the Directors during the financial year (2008: £nil).

(b) Subsidiaries

The Company enters into loans with its subsidiaries at both fixed and floating rates of interest on a commercial basis. Hence, the Company incurs interest expense and earns interest income on these loans and advances. The Company also received dividend income from its subsidiaries during the financial year.

Transactions with subsidiaries

	2009 £m	2008 £m
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	**402**	284
Loans and advances repaid by subsidiaries	**(423)**	(360)
Interest income received in respect of interest bearing loans and advances	**119**	115
Dividend income received	**250**	250
Loans and advances received from subsidiaries		
Loans and advances received	**(944)**	(321)
Loans and advances repaid	**689**	202
Interest expense paid in respect of interest bearing loans and advances	**(201)**	(277)

34 Related party transactions continued

Year-end balances arising from transactions with subsidiaries

	2009 £m	2008 restated[1] £m
Receivables		
Loans and advances due from subsidiaries	**1,374**	1,279
Payables		
Loans and advances due to subsidiaries	**(5,516)**	(5,127)

1 The restatement of certain comparative amounts is explained in note 2 on page 52.

(c) Joint ventures

Transactions with joint ventures

For the 52 weeks to 21 March 2009, the Company entered into transactions with joint ventures as set out below.

	2009 £m	2008 £m
Services and loans provided to joint ventures		
Management services received	**(1)**	–
Interest income received in respect of interest bearing loans	**3**	3

Year-end balances arising from transactions with joint ventures

	2009 £m	2008 £m
Receivables		
Other receivables	**–**	1
Loans due from joint ventures		
Floating rate subordinated undated loan capital[1]	**25**	25
Floating rate subordinated dated loan capital[2]	**30**	30
Payables		
Loans due to joint ventures	**(5)**	(5)

1 The undated subordinated loan capital shall be repaid on such date as the Financial Services Authority shall agree in writing for such repayment and in any event not less than five years and one day from the dates of draw down. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 1.0 per cent per annum for the duration of the loan.

2 No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Financial Services Authority. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 0.6 per cent per annum for the duration of the loan.

35 Operating lease commitments

The Group leases various retail stores, offices, depots and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

	Land and buildings 2009 £m	Land and buildings 2008 £m	Other leases 2009 £m	Other leases 2008 £m
Commitments under non-cancellable operating leases payable as follows:				
Within 1 year	**348**	305	**48**	48
Within 2 to 5 years inclusive	**1,358**	1,187	**77**	82
After 5 years	**5,253**	4,686	**–**	2
	6,959	6,178	**125**	132

The Group sublets certain leased properties and the total future minimum sublease payments to be received under non-cancellable subleases at 21 March 2009 are £264 million (2008: £254 million).

The Company does not have any operating lease commitments (2008: £nil).

Notes to the financial statements

36 Capital commitments

During the current financial year, the Group entered into contracts of £327 million (2008: £316 million) for future capital expenditure not provided for in the financial statements.

The Company does not have any capital commitments (2008: £nil).

37 Contingent liabilities and financial commitments

Financial commitments

The financial commitments of Sainsbury's Bank plc, a 50 per cent joint venture of the Group, are set out below.

The amounts noted below indicate the volume of business outstanding at the balance sheet date in respect of the off-balance sheet financial instruments that commit Sainsbury's Bank plc to extend credit to customers.

	2009 £m	2008 £m
Commitments to extend credit	**25.5**	24.6

38 Post balance sheet events

The Group acquired 24 stores from the Co-operative Group comprising 22 Somerfield branded stores and two Co-operative branded stores. The stores will be purchased for £83 million and at the balance sheet date a £4 million deposit had been paid. Completion on these stores, for which one store is awaiting OFT approval, will commence in May 2009.

Five year financial record

	2009	2008	2007	2006	2005
Financial results (£m)					
Revenue[1]	**20,383**	19,287	18,518	17,317	16,573
Revenue (inc VAT) – continuing operations	**20,383**	19,287	18,518	17,317	16,364
Underlying operating profit					
Sainsbury's Supermarkets	**616**	535	429	352	308
Sainsbury's Bank	**–**	–	2	(10)	17
	616	535	431	342	325
Underlying net finance costs[2]	**(89)**	(45)	(51)	(75)	(88)
Share of post-tax profit/(loss) from joint ventures	**16**	(2)	–	–	1
Underlying profit from continuing operations[3]	**543**	488	380	267	238
(Decrease)/increase on previous year (%)	**11.3**	28.4	42.3	12.2	n/a
Underlying profit from discontinued operations	**–**	–	–	–	11
Underlying profit before tax	**543**	488	380	267	249
Increase on previous year (%)	**11.3**	28.4	42.3	7.2	n/a
Underlying operating profit margin excluding Sainsbury's Bank (%)	**3.26**	3.00	2.54	2.24	2.07
Earnings per share					
Underlying basic (pence)	**22.1**	19.6	14.7	10.5	8.3
Increase on previous year (%)	**12.8**	33.3	40.0	26.5	n/a
Proposed dividend per share (pence)[4]	**13.20**	12.00	9.75	8.00	7.80
Retail statistics for UK food retailing					
Number of outlets at financial year-end excluding checkout space[5]					
Sainsbury's Supermarkets					
over 55,000 sq ft sales area	**34**	24	20	15	15
40,001 – 55,000 sq ft sales area	**130**	130	124	116	110
25,001 – 40,000 sq ft sales area	**153**	161	167	177	182
15,000 – 25,000 sq ft sales area	**108**	100	98	92	83
under 15,000 sq ft sales area	**367**	408	379	352	337
	792	823	788	752	727
Sales area excluding checkout space (000 sq ft)					
Sainsbury's Supermarkets[5]	**16,703**	16,191	15,715	15,166	14,891
Net increase on previous year:					
Sainsbury's Supermarkets (%)[5]	**3.2**	3.0	3.6	1.8	5.4
New Sainsbury's Supermarkets openings[5]	**29**	35	40	34	36
Sainsbury's Supermarkets' sales intensity excluding checkout space (including VAT)[5,6]					
Per square foot (£ per week)	**20.01**[7]	19.69	19.30	18.40	17.99

1 Includes VAT at Sainsbury's Supermarkets and sales tax at Shaw's Supermarkets.
2 Net finance costs pre-financing fair value movements and one-off items that are material and infrequent in nature.
3 Profit before tax from continuing operations before any gain or loss on the sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements and one-off items that are material and infrequent in nature.
4 Total proposed dividend in relation to the financial year.
5 Includes all convenience stores and convenience acquisitions.
6 The 2009 figure has been adjusted for the effect of the VAT change from 17.5 per cent to 15 per cent on 1 December 2008 to ensure the data is presented on a like-for-like basis.
7 Adjusted for comparative purposes for the effect of the VAT change on 1 December 2008.

Additional shareholder information

End of year information at 21 March 2009

Number of shareholders:	**126,423** (2008: 123,214)
Number of shares in issue:	**1,753,155,824** (2008: 1,747,013,518)

By size of holding

	Shareholders % 2009	Shareholders % 2008	Shares % 2009	Shares % 2008
500 and under	**67.35**	67.90	**0.55**	0.54
501 to 1,000	**12.60**	12.64	**0.68**	0.66
1,001 to 10,000	**18.58**	18.13	**3.40**	3.15
10,001 to 100,000	**1.01**	0.90	**1.87**	1.68
100,001 to 1,000,000	**0.33**	0.28	**8.52**	6.96
Over 1,000,000	**0.13**	0.15	**84.98**	87.01
	100.00	100.00	**100.00**	100.00

By category of shareholder

	Shareholders % 2009	Shareholders % 2008	Shares % 2009	Shares % 2008
Individual and other shareholders	**95.21**	95.64	**12.38**	18.12
Insurance companies	**0.03**	0.04	**0.02**	0.02
Banks and Nominees	**4.38**	3.93	**78.13**	70.27
Investment Trusts	**0.03**	0.03	**0.01**	0.01
Pension Funds	**0.01**	0.01	**0.00**	0.08
Other Corporate Bodies	**0.34**	0.35	**9.46**	11.50
	100.00	100.00	**100.00**	100.00

Annual Report and Financial Statements
The Annual Report and Financial Statements is published on our website at www.j-sainsbury.co.uk/report2009 and has only been sent to those shareholders who have asked for a copy. Shareholders who have not requested a paper copy of the Annual Report have been notified of its availability on the website.

A paper copy of the Annual Report is available by writing to the Company Secretary, J Sainsbury plc, 33 Holborn, London EC1N 2HT or you can email your request to investor.relations2@sainsburys.co.uk.

Annual General Meeting ("AGM")
The AGM will be held at 11.00am on Wednesday, 15 July 2009 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report.

Company website
J Sainsbury plc Interim and Annual Reports and results announcements are available via the internet on our website (www.j-sainsbury.co.uk). As well as providing share price data and financial history, the site also provides background information about the Company, regulatory and news releases and current issues. Shareholders can receive email notification of results and press announcements as they are released by registering on the page called Email news service in the Investor section of the website.

Registrar
For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact: Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Telephone: 0870 702 0106 (www.computershare.com).

Dividend Reinvestment Plan ("DRIP")
The Company has a DRIP, which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. No new shares are allotted under this DRIP and some 32,562 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from the Registrars.

Key dates for the final dividend are as follows:

Last date for return or revocation of DRIP mandates	26 June 2009
DRIP shares purchased for participants	17 July 2009
DRIP share certificates issued	30 July 2009

Individual Savings Account ("ISA")
A corporate ISA is available from The Share Centre Ltd and offers a tax efficient way of holding shares in the Company. Both a Maxi and Mini ISA are available. For further information contact: The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or freephone 08000 282812 and quote 'Sainsbury's'.

Low cost share dealing service
The Company offers a low cost share dealing service for J Sainsbury plc ordinary shares through The Share Centre Ltd. For further information contact: The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or freephone: 08000 282812 and quote 'Sainsbury's'.

ShareGift
Shareholders who wish to donate shares to charity can do so through ShareGift, the independent charity share donation scheme (registered charity no. 1052686). Further information about ShareGift may be obtained from Computershare Investor Services PLC or from ShareGift on 020 7930 3737 or at www.sharegift.org. There are no implications for capital gains tax purposes (on gain or loss) on gifts of shares to charity and it is also possible to claim income tax relief.

Tax information – Capital Gains Tax ("CGT")
For CGT purposes, the market value of ordinary shares on 31 March 1982 adjusted for all capital adjustments was 91.99 pence and B shares 10.941 pence.

Share capital consolidation
The original base cost of shares apportioned between ordinary shares of $28\frac{4}{7}$ pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding comes into existence. The market value for CGT purposes of any share or security quoted on the Stock Exchange Daily Official List is generally the lower of the two quotations on any day plus one quarter of the difference between the values.

On Monday, 19 July 2004 the values were determined as follows:

New ordinary shares 257.5 pence
B shares 35 pence

Investor relations
For investor enquiries please contact: Elliot Jordan, Head of Investor Relations, J Sainsbury plc, Store Support Centre, 33 Holborn, London EC1N 2HT.

American Depositary Receipts ("ADRs")
The Company has a sponsored Level I ADR programme for which The Bank of New York acts as depositary.

The ADRs are traded on the over-the-counter ("OTC") market in the US under the symbol JSYNSY, where one ADR is equal to four ordinary shares.

All enquiries relating to ADRs should be addressed to:

The Bank of New York, Investor Relations, PO Box 11258, Church Street Station, New York, NY 10286-1258. Toll Free Telephone # for domestic callers: 1-888-BNY-ADRS
International callers can call: +1-610-382-7836
Email: shareowners@bankofny.com

General contact details
An audio tape of the Chairman's statement and the Business review can be obtained by calling: 01435 862 737.

Share price information is available on the Company's website, in the financial press and the Cityline service operated by the Financial Times (Telephone: 0906 003 3904).

For general enquiries about Sainsbury's Bank call: 0500 405 060.

For any customer enquiries please contact our Customer Careline by calling: 0800 636 262.

Financial calendar 2009/10

Dividend payments
Ordinary dividend

Ex-dividend date	20 May 2009
Record date	22 May 2009
Final dividend payable	17 July 2009
Interim dividend payable	January 2010

Other dates

Annual General Meeting – London	15 July 2009
Interim results announced	11 November 2009
Interim report available	November 2009
Annual General Meeting – London	14 July 2010

Registered office
J Sainsbury plc
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London EC1N 2HT
Registered number 185647

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London EC2Y 8HQ

Auditors
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Stockbrokers
UBS
1 Finsbury Avenue
London EC2M 2PP

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Electronic communications for shareholders

The Company has set up a facility for shareholders to take advantage of electronic communications.

If you would like to:

- view the Annual Report and Accounts on the day it is published
- receive electronic notification of the availability of future shareholder information (you must register your email for this service)
- check the balance and current value of your shareholding and view your dividend history
- submit your vote online prior to a general meeting

For more information, to view the terms and conditions and to register for the service, log on to www.j-sainsbury.co.uk/investors, click on 'Shareholder Services' and then follow the instructions on screen.

Alternatively, register by visiting www-uk.computershare.com/investor. For both methods, you will require your 11 character shareholder reference number which can be found on your share certificate or latest tax voucher.

Glossary

'Active Kids' – Our nationwide scheme to help inspire school children to take more exercise and to eat more healthily. Launched in 2005, Active Kids is open to all nursery, primary and secondary schools as well as Scouts and Girl Guides in the UK. **www.sainsburys.co.uk/activekids**

AGM – Annual General Meeting – This year the AGM will be held on Wednesday 15 July 2009 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, London SW1P 3EE at 11.00am.

B shares – Preference B shares issued on 12 July 2004 as part of the Return of Capital scheme in 2004/05.

'basics' – Sainsbury's entry level sub-brand range of products.

'BGTY' – 'Be Good to Yourself' – Sainsbury's healthier alternative sub-brand range of products. Products are either: those with less than three per cent fat or those with fewer calories, salt and saturated fat than standard lines.

CMBS – Commercial Mortgage Backed Securities.

Company – J Sainsbury plc.

CC – Competition Commission – An independent public body which conducts in-depth inquiries into mergers, markets and the major regulated industries. The CC has undertaken an investigation into the supply of groceries by retailers in the UK. **www.competition-commission.org.uk**

CR – Corporate responsibility – The need to act responsibly in managing the impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment.

'Different by design' – Sainsbury's general merchandise brand which mirrors the premium 'Taste the difference' food range.

'Different values' – Campaign launched in 2007 to emphasise the higher quality specifications and great value of Sainsbury's own brand products.

Dividend cover – Underlying profit after tax from continuing operations attributable to equity shareholders divided by total value of dividends declared during the year.

DRIP – Dividend Reinvestment Plan – Allows shareholders to reinvest their cash dividend in shares of the Company through a specially arranged share dealing service.

EBITDAR – Earnings before income tax, depreciation, amortisation and rent.

EPS – Earnings per share – Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year, excluding those held by ESOP trusts, which are treated as cancelled.

Easter adjustment – To adjust for the timing of Easter: 2008/09 included an Easter Sunday trading week. 2007/08 included two Good Friday trading weeks and an Easter Sunday trading week.

ESOP trusts – Employee Share Ownership Plan trusts.

Fairtrade – The Fairtrade label is an independent consumer label that guarantees a fair deal for marginalised workers and small scale farmers in developing countries. Producers receive a minimum price that covers the cost of production and an extra premium that is invested in the local community. **www.fairtrade.org.uk**

Fair value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

'freefrom' – Sainsbury's range of products guaranteed to be wheat, gluten or dairy free.

FSA – Food Standards Agency. **www.food.gov.uk**

FTSE4Good – The FTSE Group, an indexing company, runs the FTSE4Good index series to measure the performance of companies that meet CR standards, and to facilitate investment in those companies. **www.ftse.com/ftse4good**

GDAs – Guideline Daily Amounts.

Gearing – Net debt divided by total equity.

Group – The Company and its subsidiaries.

IFRIC – International Financial Reporting Interpretations Committee.

IFRS – International Financial Reporting Standard(s).

IGD – Institute of Grocery Distribution. **www.igd.com**

Income statement – Formerly known as the profit and loss account under UK GAAP.

ISA – Individual Savings Account.

JV – Joint venture – A business jointly owned by two or more parties.

Like-for-like sales – The measure of year on year same store sales growth.

LTIP – Long-Term Incentive Plan.

'Mtdd' – 'Make the difference days' – Launched in April 2007 to raise awareness and action around different social, environmental and ethical issues and working partnership with customers to make a sustained difference.

MTL – Multiple traffic lights – Nutritional labels which provide effective 'at-a-glance' information customers need to make healthier choices when shopping. Around 5,000 Sainsbury's products carry our Wheel of Health MTL label.

OFT – Office of Fair Trading.

Organic – Organic farming prohibits the use of artificial fertilisers, pesticides, growth regulators and additives in livestock feed. The International Federation of Organic Agriculture Movements (IFOAM) accredits national organic certifying bodies.

Pipeline – Sites which the Group has an interest in developing in the future.

ROCE – Return on Capital Employed.

RPI – Retail Price Index.

'Sainsbury's SO organic' – Sainsbury's organic sub-brand range of products.

SORIE – Statement of recognised income and expense.

TSR – Total Shareholder Return – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

'Ttd' – 'Taste the difference' – Sainsbury's premium sub-brand range of products.

'Try something new today' – The marketing campaign in support of Making Sainsbury's Great Again.

'TU' – Sainsbury's own label clothing range.

'TU home' – Sainsbury's sub-brand homeware range of products.

Underlying basic earnings per share – Profit after tax from continuing operations attributable to equity holders before any gain or loss on the sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements and one-off items that are material and infrequent in nature, divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the ESOP trusts, which are treated as cancelled.

Underlying profit before tax – Profit before tax from continuing operations before any gain or loss on the sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements and one-off items that are material and infrequent in nature.

Underlying operating profit/(loss) – Underlying profit before tax from continuing operations before underlying net finance costs and underlying share of post-tax profit or loss from joint ventures.

Notes

Notes

Did you spot the gorilla?

The average supermarket stocks approximately 30,000 products but customers tend to buy from the same 150 items each week. They don't seem to notice what's going on around them in store.

Sainsbury's tested this idea in 2005 by reworking research originally carried out in America*. We dressed someone in a gorilla suit and sent them into a store to see if customers noticed it. When we asked them if they had noticed anything unusual while doing their shopping most said they had not. The concept of 'sleep-shopping' was born.

We launched our 'Try Something New' strapline and campaign to inspire customers to think beyond their normal range of products. Innovation has been a constant theme throughout our 140 year history but the campaign provides simple ways to make small but significant changes to the food we buy and eat. The campaign has been incredibly well received by colleagues and customers. Simple ideas are available on 'tip cards' available in our stores. Customers now collect around 75 million tip cards a year, double the number collected in the previous year.

* The experiment asked volunteers to count the number of times a group of people in a video threw a basketball to each other, and then asked what else the volunteers had seen. A large number had not noticed a woman in a gorilla suit walking through the scene.

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