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**J Sainsbury plc  
Annual Report  
and Financial  
Statements  
2012**

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# **Welcome to our Annual Report and Financial Statements 2012**

**It's an exciting time for  
Sainsbury's. Our clear, long-term  
strategy continues to deliver for  
our customers, ensuring we are  
well positioned for future growth.**

**In recent years we have transformed  
our business, while remaining true to  
our 143 year heritage.**

**By offering universal appeal we are helping  
our customers *Live Well for Less*. We are  
delivering on our business strategy's five  
areas of focus and continue to outperform  
the market and gain share.**

**We know our colleagues, culture and  
values make us different and are central  
to our success.**

**Find out more at  
[j-sainsbury.co.uk](http://j-sainsbury.co.uk)**

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**Cover picture: Taken from  
the TV advertising campaign  
that helped launch *Live Well  
for Less* in September 2011.  
The advertisement achieved  
record ratings for likeability  
from customers.**

# About Sainsbury's

**Sainsbury's was founded in 1869 and today operates over 1,000 stores, including 440 convenience stores, and employs around 150,000 colleagues.**

**We put our customers at the heart of everything we do and have invested in our stores, our colleagues and our channels to offer the best possible shopping experience. Our strong culture and values are part of our identity and integral to our success.**

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## **Vision**

**To be the most trusted retailer where people love to work and shop.**

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## **Goal**

**To make all our customers' lives easier every day by offering great quality and service at fair prices.**

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## **143 years strong**

**Sainsbury's was founded in 1869 by John James Sainsbury and his wife Mary Ann Sainsbury in London, and has grown to become one of the UK's largest retailers.**

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<b>1869</b>	<b>1914</b>	<b>1950s</b>	<b>1970s</b>	<b>1989</b>	<b>1994</b>	<b>2004</b>	<b>2007</b>	<b>2009</b>	<b>2012</b>
First store opened on London's Drury Lane	Began recruiting women to work in stores during the First World War	First self service stores opened	Introduced the first bakeries fresh fish counters coffee shops and petrol stations	Introduced the first ever carrier bags made from recycled material	First major supermarket in the UK to sell Fairtrade food	Launched the TU fashion range	First major supermarket to switch to selling 100% Fairtrade bananas	First major retailer to stop selling eggs from caged hens	First ever Paralympics only sponsor and major partner of the Diamond Jubilee celebrations

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## Our business strategy for growth

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Our five areas of focus are underpinned by our values and operational excellence

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## Universal appeal helping customers *Live Well for Less*

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Strong own brand	Competitive pricing	Loyalty and insight	Our values make us different
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- |   |  |  |  |
|---|--|--|--|
| <ul style="list-style-type: none"><li>• <i>Taste the Difference</i> 8.7% sales growth</li><li>• <i>by Sainsbury's</i> 3.1% sales growth</li><li>• <i>basics</i> 6.8% sales growth</li></ul> | <ul style="list-style-type: none"><li>• Over half of <i>Brand Match</i> coupons show Sainsbury's is cheaper than Tesco or Asda</li><li>• 125 branded suppliers participating in coupon-at-till, across 650 campaigns</li></ul> | <ul style="list-style-type: none"><li>• UK's largest loyalty scheme</li><li>• Over 18.5 million members</li><li>• Almost £200 million of points redeemed over the year</li></ul> | <ul style="list-style-type: none"><li>• Sainsbury's 20 by 20 <i>Sustainability Plan</i> launched</li><li>• Highest performer relative to our sector in the FTSE4Good Index</li></ul> |
|---|--|--|--|
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## Financial highlights

### Sales

**+6.8%**

Sales (including VAT,  
including fuel)

### Underlying operating profit

**£789m**

Underlying operating  
profit up 6.9%

### Underlying profit before tax

**£712m**

Underlying profit  
before tax up 7.1%

### Return on capital employed

**11.1%**

Return on capital employed

### Underlying basic earnings

**28.1p**

Underlying basic earnings  
per share up 6.0%

## Financial summary

	2011/12 £m	2010/11 £m	Change £m
Sales (including VAT)	24,511	22,943	6.8%
Sales (excluding VAT)	22,294	21,102	5.6%
Underlying operating profit <sup>1</sup>	789	738	6.9%
Underlying profit before tax <sup>1</sup>	712	665	7.1%
Profit before tax	799	827	(3.4)%
Profit after tax	598	640	(6.6)%
Underlying basic earnings per share <sup>1</sup>	28.1p	26.5p	6.0%
Basic earnings per share	32.0p	34.4p	(7.0)%
Full year dividend per share	16.1p	15.1p	6.6%

<sup>1</sup> Refer to page 27 for a reconciliation from underlying operating profit to profit before tax

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## Chairman's letter

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**David Tyler**  
Chairman

**Dear shareholder,  
Your Board is pleased to report  
on what has been a good year for  
Sainsbury's. We have continued  
to outperform the market for a  
number of years by remaining  
true to our values of providing  
great quality, service and value  
to our customers.**

Underlying profit before tax was up 7.1 per cent to £712 million. Underlying earnings per share were up 6.0 per cent to 28.1 pence. This year, your Board recommends a final dividend of 11.6 pence per share, making a full-year dividend of 16.1 pence, which is an increase of 6.6 per cent over the previous year, covered 1.75 times by underlying earnings. Sainsbury's remains focused on delivering returns to shareholders. The Board plans to increase the dividend each year and now intends to build cover to two times over the medium term.

### **A winning team**

I would like to thank all of our colleagues for their efforts in providing excellent service to our customers. Our people are, of course, the face of Sainsbury's, and are central to our ongoing success. We continue to invest in their training and development, and in ensuring Sainsbury's is a great place to work. I am delighted that they share in a bonus of over £60 million this year, meaning that over the last five years we will have awarded over £300 million to colleagues in this way.

This year we have added strength and depth to our management team. In January 2012, Sarah Warby joined the Operating Board as Marketing Director, having previously been UK Marketing Director at Heineken. We also changed two roles on the Operating Board in March 2012. Helen Buck, previously Convenience Director, became Retail Director responsible for performance across our supermarket estate, and Roger Burnley, previously Retail and Logistics Director, became Managing Director, General Merchandise, Clothing and Logistics, leading our growing non-food business while retaining responsibility for logistics.

**Proposed full year  
dividend 16.1p, up  
6.6%, cover 1.75x**

**16.1p  
dividend**

**“Sainsbury's remains  
focused on delivering  
returns to shareholders.  
The Board plans to  
increase the dividend  
each year.”**

Business Review

In May 2012 we announced that Bob Stack has decided to stand down as a Non-Executive Director of our plc Board at the AGM in July 2012. I would like to thank Bob for his outstanding contribution since his appointment in January 2005, both as a valued member of the Board and as Chairman of our Remuneration Committee. During his tenure, the Remuneration Committee has progressively introduced a range of plans which have effectively incentivised management through the recovery and growth phases of the last seven and a half years, which has been very much in shareholders' best interests. Sainsbury's has developed a sound reputation for strong governance of remuneration while he has chaired the Committee.

Mary Harris will succeed Bob as Chairman of the Committee and we are currently conducting a search for a new Non-Executive Director to join the Board.

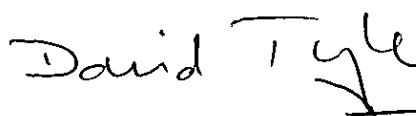
#### **The value of our values**

Our unique values and strong culture are at the heart of the Company's success. This remains as true today as it was 143 years ago. In October 2011, we published a new *20 by 20 Sustainability Plan* with bold targets. We believe they are key to the long-term sustainability of our business and can bring increased sales, deeper customer loyalty and greater efficiency, as well as improved colleague development and satisfaction, all ultimately contributing to shareholder value.

#### **Outlook**

The wider economic situation looks likely to remain uncertain, but by helping our customers make their money go further and *Live Well for Less*, we have demonstrated we can succeed against this backdrop. Furthermore, the business has some exciting growth opportunities including our multi-channel strategy to help our customers to shop the way they want, and our store space strategy which brings our great food, clothing and general merchandise to new customers.

We have laid strong foundations for growth. Your Board believes these will allow us to achieve our vision to be the most trusted retailer where people love to work and shop.



**David Tyler**  
Chairman

## Chief Executive's letter

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**Justin King**  
Chief Executive

### Opportunities for continuing growth

**Dear shareholder,**  
**Having achieved 29 quarters of like-for-like sales growth, Sainsbury's is not only a strong business with a successful core of food and non-food retailing, but also a business with real opportunities for further growth. We remain focused on doing a great job for customers and helping them *Live Well for Less*.**

Our market share is its highest for nearly a decade, driven by underlying market beating like-for-like sales growth of 2.1 per cent excluding fuel. In the business review you will see how we are building towards a future of continued success. We are confident that our investment plans will drive further growth, while contributing to additional improvements in returns.

#### Helping customers *Live Well for Less*

We believe in quality for everyone, in everything we do. We now have 22 million customer transactions a week, an increase of one million on last year. We have succeeded by understanding what our customers want and delivering universal appeal to help them *Live Well for Less*. They want a great deal, whether they are on a tight budget, have a bit more to spend or simply want to treat themselves. In *Brand Match* we now have the best and simplest tool in the market to help customers appreciate our great value. Similarly, our Nectar loyalty programme continues to be a key source of competitive advantage. The data enables us to understand our customers better and to offer them efficient, meaningful and targeted promotions, which in turn helps us increase customer loyalty.

#### Great food

Offering great food at fair prices remains at the heart of what we do. While price remains important, customers do not want to compromise on quality and demand great service. We have invested heavily in this over recent years and will continue to do so. One of our 20 by 20 *Sustainability Plan* commitments is to double the amount of British food we sell by 2020, and this year we sold more British produce than ever before. Our own label investment goes from strength to strength and we are seeing tangible results, with nearly nine per cent growth in *Taste the Difference*, over half of our *by Sainsbury's* products improved and re-launched, and *basics* now the second biggest supermarket value brand.



#### Compelling general merchandise and clothing

Our general merchandise and clothing businesses continue to grow faster than our food business and gain share in fiercely competitive markets. Direct sourcing, in particular, has helped us forge better relationships with our suppliers and provide better deals for our customers.

#### Complementary channels and services

Customers expect to shop whenever, wherever and however best suits them. We see the opportunities this provides and are integrating new technology, channels and services into our business to serve customers in new ways. We have the fastest-growing online business of any major food retailer. We have a convenience business of scale that is expanding by one to two stores a week, growing total and like-for-like sales well ahead of the market, and helping customers to shop locally and manage their weekly bills. We already have a *Click & Collect* facility in over 900 stores, one of the UK's largest networks, designed to make shopping easier and more flexible. We will continue to invest in these channels, and to find new ways to improve the customer experience.

#### Developing new business

We are also investing beyond our core and developing new business. By moving into areas that are a natural extension of our brand – such as banking, pharmacy and energy – we aim to grow value based on the trust people have in Sainsbury's, our colleagues and our values. Sainsbury's Bank has enjoyed another successful year with a 40 per cent increase in pre-tax operating profit. Our strategy of rewarding Sainsbury's shoppers with double Nectar points for choosing to bank with us has been a major factor in this growth.

#### Growing space and creating property value

Growing our UK sales space remains central to our strategy. This year we opened a further 1.4 million sq ft of space, adding 19 new supermarkets and 73 new convenience stores to our estate. We also extended 28 stores by an average of 18,000 sq ft, as we continue to bring our non-food ranges to more UK customers. There are areas of the country where we do not yet have a strong presence, and we continue to expand our coverage to reach them. At the same time we are also creating valuable property assets for our shareholders and our property estate is now valued at £11.2 billion, with development activity delivering £83 million property profits this year. We will continue to use these assets to help fund our growth.

#### Operational excellence

When we invest in new stores, technology or processes, we do so with strict control of the capital spent to ensure appropriate returns. By carefully managing costs we have improved operating margins yet further, with over £100 million of operational savings this year, contributing to almost £600 million of cost savings over five years. This is a result of improved productivity, ongoing procurement savings and simplification of in-store processes.

**“Our customers trust Sainsbury's to do the right thing and expect us to maintain high social, ethical and environmental standards across all aspects of our business.”**

#### Our values make us different

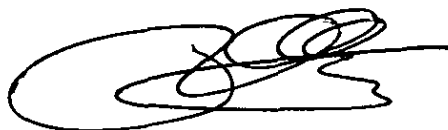
We have a clear vision – to be the most trusted retailer, where people love to work and shop. Our goal is to make all our customers' lives easier every day by offering great quality and service at fair prices. Our values are critical to achieving this. Our customers trust Sainsbury's to do the right thing and expect us to maintain high social, ethical and environmental standards across all aspects of our business. Our values are part of what make us different from other supermarkets, so we see this as a strength, as well as a responsibility. In October 2011, we published our *20 by 20 Sustainability Plan* to ensure we continue to lead in this aspect of business, and derive long-term, sustainable advantage from it.

One example of this is carbon – our absolute electricity consumption for supermarkets has reduced by 91 per cent over the past four years, despite an increase in space of 25 per cent. It is this approach which has led to Sainsbury's being rated the highest performer relative to our sector across all three pillars of environmental, social and governance practices in the internationally respected FTSE4Good Index.

#### Looking forward

As we look to the year ahead, we do so with the benefits of our clear strategy, customer insight and strong culture. We are demonstrating that delivering quality and value is a compelling offer for customers. The economic climate is likely to remain challenging and we are committed to helping customers *Live Well for Less*. However, in the year ahead, there are many reasons to be cheerful as a nation. We know our customers trust us to make their celebrations truly special and memorable – from national occasions like the Diamond Jubilee, Olympics and Paralympics, to more personal and family events.

We are focused on ensuring that we continue to succeed for our customers, our colleagues and, of course for you our shareholders, in what is set to be a year like no other.



**Justin King**  
Chief Executive

# Our marketplace

## The UK economic climate continued to be challenging for customers in 2011/12

Over the last three years inflation has increased faster than wages<sup>1</sup>, putting pressure on customers and affecting consumer confidence<sup>2</sup>

The economic downturn has changed how and what consumers buy, and these changes appear to be lasting. There has been a significant shift towards cooking more meals from scratch, shopping more frequently to manage waste and spend, and looking out for discounts and deals<sup>3</sup>

Although these trends have been developing since the beginning of the downturn, 2011/12 saw a further decline in food sales volumes. This change in customer behaviour, driven particularly by an increase in petrol prices to over £1.30 per litre, made delivering profitable sales growth more challenging than ever and, while inflation kept total sales growing, the profit pool delivered by the industry declined<sup>4</sup>

Succeeding and growing market share<sup>5</sup> in this environment requires better customer understanding than ever. Through our Nectar loyalty scheme we have a wealth of data about our customers' behaviour. We combine this with listening and engaging customers, across a broad range of channels, to create real insight.

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### <sup>1</sup>CEBR economic indicators

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### <sup>2</sup>Nationwide consumer confidence survey

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We believe our customer insight and understanding is best-in-class. This is what informed our *Live Well for Less* campaign, which we launched in the year. While many in the market thought that the economic environment meant low prices would be the primary motivator in supermarket choice, our research told us that customers were looking for real value – quality without compromise at good prices.

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We saw that customers were shopping more frequently and locally to reduce food waste, and pressed ahead with our convenience growth plans. We recognised that, more than ever, customers are looking for reasons to celebrate, and we helped them do so at the Royal Wedding, Halloween and Christmas, driving market outperformance. Despite the economic pressure customers face, we saw that they were not compromising on their values, donations to Sport Relief increased, and sales of fairly traded and higher animal welfare products continued to grow.

**Our *Live Well for Less* campaign demonstrates our understanding of today's savvy shopper**

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### <sup>3</sup>Coping behaviour data chart

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### <sup>4</sup>Grocery market sales and volume trends

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<sup>5</sup>**During the year, Sainsbury's grew its share of the market from 16.5 per cent to 16.6 per cent. The size of the UK grocery market was £138.2 billion.**

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## Key performance indicators

### Financial KPIs

Like-for-like sales <sup>1</sup> 2011/12 (%)	Total sales growth <sup>1</sup> 2011/12 (%)	Underlying EBITDAR <sup>2</sup> (%)
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Trading intensity per sq ft <sup>3,4</sup> (£ per week)	Underlying operating margin <sup>5</sup> (%)	Underlying profit before tax <sup>6</sup> (£m)
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### Non-financial KPIs:

### Delivering against our 20 by 20 Sustainability Plan

Our values	Commitments	Progress
<b>Best for food and health</b>	Healthiest baskets	Multiple traffic light nutritional labelling is helping customers make informed choices in store Product re-formulation continues to reduce salt, fats and sugar in our own brand products Signed all the Government's Public Health Responsibility Deal food pledges including salt and calorie reduction
	Lighter alcohol	Introduced new point of sale communication about responsible drinking 14% increase in sales of lighter alcohol wines
<b>Sourcing with integrity</b>	Sustainably sourced raw materials	Identified the top 30 raw materials in own brand products and reviewing sourcing plans Over 60 own brand products made with physically certified palm oil
	Deforestation	Over 825 000 trees planted with the Woodland Trust since 2004, planting one million more as part of the Jubilee Woods project Continuing to convert timber products to Forest Stewardship Council (FSC) standards Converted all baking paper and own brand tissue packaging to 100% FSC paper
	Sustainable fish	Over 100 fish products now carry the Marine Stewardship Council (MSC) certification Largest retailer of MSC certified sustainable seafood for the third year running with sales of £81 million
	No. 1 for fairly traded	Strong progress towards our goal of £1 billion sales of fairly traded products by 2020 World's largest Fairtrade retailer, sales of over £288 million, up 5% on last year, accounting for 22% of all UK Fairtrade sales
	Best for British	Working with over 3 000 British farmers to ensure we meet our target to double the amount of British food we sell Largest retailer of British apples and pears for the third season, doubled the size of our British asparagus market since 2007
	No. 1 for animal welfare	Leading retailer of cage free fresh eggs and only major retailer to use cage free eggs as ingredients in all own brand products Leading retailer of Freedom Food products (animals raised to strict RSPCA welfare standards) with sales of £380 million
	Supplier standards	Established eight Farm Development Groups across key agricultural categories, investing over £30 million since 2006 Round table engagement sessions with more than 50 suppliers in Kenya and South Africa

1 Sales including VAT, excluding fuel

2 Underlying EBITDAR, underlying profit before tax before underlying net finance costs, underlying share of post tax results from joint ventures, depreciation, amortisation and rent, divided by sales excluding VAT, including fuel

3 Trading intensity per sq ft, sales per week (including VAT, excluding fuel) divided by sales area

4 2008/09 and 2009/10 adjusted for comparative purposes to remove the dilutive effect of the temporary VAT reduction to 15 per cent between 1 December 2008 and 31 December 2009

5 Underlying operating margin, underlying profit before tax before underlying net finance costs and underlying share of post tax results from joint ventures, divided by sales excluding VAT, including fuel

6 Underlying profit before tax, profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing element and one-off items that are material and infrequent in nature

Operating cash flow (£m)	Pre-tax return on capital employed <sup>7</sup> (%)	Underlying basic earnings per share <sup>8</sup> (pence)
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Net capital expenditure (£m)	Gearing <sup>9</sup> (%)	Dividend per share <sup>10</sup> (pence)
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Our values	Commitments	Progress
<b>Respect for our environment</b>	Positive waste usage	Achieved zero food waste to landfill throughout our logistics and store operations Largest retail user of anaerobic digestion technology generating enough power to supply 2 500 houses
	Packaging	Continuous review of own brand packaging to reduce waste use recycled materials and/or ensure recyclability Removed 3 000 tonnes of packaging through specific own brand product design case studies
	Operational carbon emissions	91% absolute reduction in electricity use over the past four years in our supermarkets despite a 25% increase in space Became the largest multi site user of photovoltaic cells in the UK with 7MW of solar panels on 115 supermarkets
	Water stewardship	Further 10% reduction in our relative water consumption (currently tracking at 40% relative reduction against 2005/6) Part of the UK's Water Stewardship Group and a partner in the IMARISHA project Naivasha Kenya
	Supplier carbon emissions	Invested £2 million in Tamar Energy will produce 100MW of organic waste fuelled green power capacity over five years 48 000 tonnes of carbon saved since 2007 through our Farm Development Groups
<b>A positive difference to our community</b>	Active youth	First ever Paralympics only sponsor with over 2.4 million children signed up to our 1 Million Kids challenge David Beckham became our Active Kids ambassador Over £115 million worth of equipment donated to schools nurseries and sports clubs since 2005 £10 million invested in the Sainsbury's School Games competition over the next four years
	Community investment	£25.4 million contribution to over 1 000 local and national charities and community groups £21.2 million raised by colleagues customers and suppliers with over 7 000 days volunteered by colleagues
<b>A great place to work</b>	Commitment and engagement	4% points increase in colleague engagement year on year as measured in Talkback our annual colleague survey 3% points increase in colleagues who say they would recommend Sainsbury's as a great place to work
	New jobs and skills	Trained 18 000 colleagues in our bakery college and food colleges with 12 200 City & Guilds certificates awarded since 2009 Youth Can programme established to promote retail careers to young people
	Long service	Over 13 000 colleagues with 20 years or more employment with 94 having reached 40 years or more
	Sharing in success	19 500 colleagues participated in this year's Save As You Earn offer making 28 215 in total Over 11 000 colleagues shared a £26.5 million payout in savings and profit via two of our Sharesave schemes
	Disadvantaged groups	12 000 people employed via You Can work trial scheme partnership with Remploy Mencap and Job Centre Plus since 2008

<sup>7</sup> Return on capital employed: underlying profit before interest and tax, divided by the average of opening and closing capital employed (net assets before net debt)

<sup>8</sup> Underlying basic earnings per share: underlying profit net of attributable taxation, 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

<sup>9</sup> Gearing: net debt divided by net assets

<sup>10</sup> Dividend per share: total dividend divided by the weighted average number of shares in issue

# **Our strategy**

**We have a clear, long-term strategy to deliver our vision of being the most trusted retailer where people love to work and shop.**

**Our five areas of focus are underpinned by our strong values and culture, as well as our commitment to operational excellence. We put the customer at the heart of everything we do, aiming to make their lives easier every day by offering great quality and service at fair prices.**

**Find out more over the following pages.**

**Great food**

**Compelling  
general  
merchandise  
& clothing**

**Growing  
space &  
creating  
property  
value**

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**Developing  
new business**

**Complementary  
channels  
& services**

**Business review**  
**Great food**

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**Great food**

Apple harvesting at the Blackmoor Estate orchard in Hampshire takes place each year from August to October, supplying us with eight varieties. We are the largest retailer of British apples and pears, selling a third of all those bought in the UK.



**Fresh food remains central to our business and its success. It is a key battleground for UK supermarkets, with today's savvy shoppers having high expectations about the quality, value and integrity of their food, particularly fresh produce.**

**Over £288 million sales of fairly traded products this year**

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Investment in our supply chain ensures we are frequently the quickest to market on key fresh lines, with some British vegetables going from field to store in an industry-leading 48 hours. With Jersey Royal potatoes, for example, we wash and pack them on the island to ensure they arrive in store as quickly as possible.

Our focus on fresh food is closely related to our 20 by 20 commitment to double the amount of British food we sell by 2020. This will help develop British farming and protect livelihoods, while reducing food miles and delivering fresh, healthy, nutritious food to the table. Developing ever closer links with farmers is key to our continuing leadership in this area. For example, we are the largest retailer of British apples and pears, selling a third of all those bought in the UK. We are working to preserve traditional British varieties, as well as introducing new ones to the UK. This year our customers will see more British food in our stores than ever before, from early season lamb through to chillies grown in northern England and blueberries from Scotland.

We have also continued to expand and improve our fresh food service counters. We have trained 18,000 colleagues in our bakery college and six food colleges. Their service, skills and expertise have resulted in sales from our counters growing faster than at any other retailer. We were delighted in June 2011 when City & Guilds formally accredited the high standards of training available at these colleges, which includes bakery, fishmonger, butchery and delicatessen skills - the largest accreditation of its kind in the UK.

Customers are turning to our own brand items for quality and value, and shopping across the whole range. Our *Taste the Difference* and *basics* brands are both performing particularly well, and appear side-by-side in many baskets, showing that even within a single shopping trip customers are saving on some items to treat themselves on others. Our *basics* range is now the second biggest selling supermarket value brand, with sales growing 6.8 per cent in the year, driven by purchases of store cupboard essentials and ingredients for home cooking. *Taste the Difference* grew by 8.7 per cent, gaining market share in the premium tier, and was particularly popular at Christmas 2011. The re-launch of our core own label brand *by Sainsbury's*, is well under way. Over half way through the programme with 3,700 lines launched, re-introduced or refreshed, we are already seeing 3.1 per cent growth.

Ethically traded goods are also important to our business and we are the largest Fairtrade retailer in the world. Our customers expect us to do the right thing by our suppliers and source our products with integrity. We sold over £12 million of Fairtrade goods during Fairtrade Fortnight in February 2012, an 11 per cent increase on last year. We are well on the way to reaching our 20 by 20 commitment for sales of our fairly traded products to hit £1 billion by 2020, with over £288 million sales this year. We are the UK's leading retailer of Freedom Food products, which ensure animals are raised to rigorous and higher RSPCA welfare standards. We offer both the widest range of Freedom Food products with over 300 lines, and sell more than any other retailer, with over 50 per cent market share.

## **Business review**

### **Compelling general merchandise & clothing**

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## **Compelling general merchandise & clothing**

In October 2011 TV personality Gok Wan launched his debut collection for us - *Gok for TU*. Our *TU* brand is the UK's seventh largest clothing brand by volume

**Our general merchandise and clothing businesses continue to grow faster than our food business and continue to gain market share.**

**“We improved and re-branded our top tier cookshop items as *Cook's Collection*, increasing sales by 89 per cent.”**

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As we develop our store estate, we have expanded our ability to offer non-food. We now have 161 stores selling our larger non-food offer, 22 more than last year.

We have a clear strategy based on offering high street style at supermarket prices in a way which makes the most of our strength in great food. We focus first on giving customers the best possible food and then add our compelling range of general merchandise and clothing. We are also clear about which areas of non-food we focus on. Our 'hero' categories, which complement and add value to our core business, are womenswear, childrenswear, cookshop, home, papershop and seasonal.

In clothing, *TU* is the UK's seventh largest clothing brand by volume, and sixth for childrenswear. Last year, we announced a partnership with TV personality Gok Wan, to create a number of womenswear collections with us. We launched his debut range, *Gok for TU*, in October 2011 with the second collection launched just six weeks later in anticipation of the Christmas season, and the third in March 2012. It is available in over 200 stores with prices from £20. In childrenswear we saw record-breaking schoolwear sales, up 38 per cent on the year, and in our peak week we sold over 100,000 pairs of trousers and over 140,000 polo shirts.

In our home ranges, we improved and re-branded our top tier cookshop items as *Cook's Collection*, increasing sales by 89 per cent on its predecessor *Different by Design*. Our July 2011 home event was our biggest ever, with customers snapping up our great value *TU* cookshop and tableware ranges. Our range of cast iron casserole dishes and pans continues to be a best seller, with over 127,000 units sold since its introduction in autumn 2010. We also launched three cookery books, *Summer Recipe Collection*, *Classics Recipe Collection* and *Cook Britain*, with sales of own brand cookery books reaching almost 300,000 copies since initial launch.

We are increasing the amount of general merchandise products we source direct from suppliers, rather than through a third party, and now have sourcing offices in China, Hong Kong and Bangladesh. These closer relationships help us to secure better prices leading to better value for our customers. Direct sourcing also makes it easier to ensure our suppliers adhere to our rigorous ethical and quality standards. Buying more directly and on shorter lead times improves our flexibility and enables us to react quickly to sales and trends, a factor particularly important in clothing.

## **Business review**

### **Complementary channels & services**

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## **Complementary channels & services**

Emma Murray, a colleague from Sainsbury's Crayford, helps contribute to our record year for online grocery. We now deliver over 165,000 online grocery orders each week.

**Customers now have far more choice of how, when and where they buy. Our business is both influencing and benefiting from new and interrelated customer choices.**

**Our *Click & Collect* service allows customers to place general merchandise orders online by 2pm for collection the following day from over 900 stores**



At Sainsbury's, this could mean a large supermarket shopping trip balanced by more frequent and local top-ups, with the option of ordering online, from a range of devices, either for collection or delivery

Convenience continues to be a key driver of consumer behaviour. Over the year we met our target of opening new convenience stores at a rate of one to two a week, opening 73 to bring our total to 440. They are performing strongly, with £1.3 billion of sales reflecting the strength of our convenient fresh food offer and the growing trend for local top-up shopping, as customers look to reduce waste, conserve fuel and manage their budgets.

Our online grocery orders now exceed 165,000 a week, with an annual turnover of around £800 million placing us second in the market, and making us the fastest-growing major online grocery business in the UK. Our customer surveys show that quality of service, quality of food and ease of shop all play a part in this success.

Our general merchandise website now offers more than 6,000 branded and own brand products, spanning home and garden, appliances, technology, toys, games, sports and leisure.

Growing numbers of shoppers are taking advantage of our market-leading *Click & Collect* service. Currently available in over 900 stores, we offer one of the UK's largest collection networks. This allows customers to place general merchandise orders online by 2pm for next day collection from the store of their choice. Customers use *Click & Collect* for about half of all online general merchandise orders – a figure which rose to 75 per cent for the week before Christmas 2011 – and they tell us it makes shopping easier and more convenient.

## Convenience (% growth)

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## Online (% growth)

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## **Business review**

### **Developing new business**

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## **Developing new business**

A major factor in the growth of Sainsbury's Bank, with pre-tax operating profit up 40 per cent, has been our strategy of rewarding shoppers with double Nectar points for choosing to bank with us

**We are exploring a range of new opportunities beyond our core business, looking to grow value based on the trust customers have in Sainsbury's.**

### Pharmacy services

**Following the roll-out of over 250 pharmacies in store, we have also introduced five GP and five dental surgeries, as well as our first hospital outpatient pharmacy**

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Sainsbury's Bank has enjoyed another successful year, with pre-tax operating profit up 40 per cent. Our strategy of rewarding Sainsbury's shoppers with double Nectar points for choosing to bank with us has been a major factor in this growth, with the offer now available on six key products. In particular we have used Nectar with great success for our new home and car insurance products, offering preferential pricing and double Nectar points. Nectar also plays a vital role in the Bank's marketing activity.

Following a successful re-launch, our sales of car insurance increased by almost 150 per cent year-on-year. We also introduced an online ordering service for travel money, and now have 122 in-store travel money bureaux. Travel money turnover grew by almost 85 per cent year-on-year.

Once again, the Bank was recognised by a number of high-profile consumer and industry awards including Best Low Rate Credit Card Provider (Money.net 2012), Best Personal Loan Provider (Moneyfacts 2011 and Consumer Moneyfacts 2012), Best Direct Home Insurance Provider (Your Money Direct 2011) and Best Overall Online Provider (Your Money Direct 2011).

We are now expanding our pharmacy offer. Our research shows that many people are more likely to discuss common or minor ailments with a pharmacist than with their GP. Many are already using our pharmacy services, with flu vaccinations at Sainsbury's up over 40 per cent on last year and cholesterol testing up over 150 per cent. This year we have trained our pharmacists as healthy eating advisors, to provide free tailored information to customers. We also believe our convenient locations and parking facilities make our stores potentially excellent locations for GP surgeries, to complement our pharmacies.

In January 2012, Newton Abbot became our fifth store to have a GP surgery, while five of our stores also host dental surgeries. In addition, we were delighted to open our first hospital outpatient pharmacy, at James Cook University Hospital in South Tees.

Sainsbury's Energy has over 120 experts in store each day offering customers energy deals, products like solar panels and insulation, and advice such as home energy assessments. Sainsbury's Energy online launched this year and has been well received by customers, with over a third of sales now generated through this channel.

As the UK's leading retail user of anaerobic digestion ('AD'), which converts organic waste into energy, we became a strategic partner and investor in Tamar Energy Ltd in February 2012. Tamar plans to develop a network of over 40 AD plants to generate 100MW of green electricity over the next five years, enough to power 200,000 homes. By investing in this technology we not only ensure sustainable solutions for our own waste streams and energy requirements, but also offer our suppliers the same, as part of our 20 by 20 commitments.

In October 2011, we acquired online entertainment company Global Media Vault Limited to support our drive into the growing online and digital entertainment market, retailing games, music, films and books via our Sainsbury's Entertainment website.

## **Business review**

### **Growing space & creating property value**

# **Growing space & creating property value**

Our Dawlish store is made entirely of timber from sustainable sources and, thanks to its environmental features, the store uses 50 per cent less energy from the national grid than a standard supermarket

**IMAGE REMOVED  
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**We achieved our target of opening 1.4 million sq ft of gross new space during the year, across 19 new supermarkets, 28 extensions and 73 convenience stores.**

**“Our new space programme has increased the value of our property to an estimated £11.2 billion.”**

**Property value  
£11.2bn**

Our strategy for growing space has three principal strands: convenience stores, extensions and new supermarkets. Our convenience stores help grow our market share and deliver a particularly good return. Many of our supermarkets lend themselves to extensions, notably those with large car parks acquired at a time when land was cheaper. By extending these stores, particularly in the south-east, we can bring our clothing and general merchandise ranges to more customers. Around 25 per cent of the UK population is not within a 15 minute drive of a Sainsbury's. Therefore our focus for new store openings is the North, the West, Wales, Scotland and Northern Ireland – areas in which Sainsbury's has historically been under-represented and capital costs per sq ft are typically lower. This gives us the opportunity to expand our store estate and drive growth. By approaching our development in this way, focusing on these opportunities, and with clear control of capital sign-off, we ensure that all our investments, individually and overall, deliver good returns.

Our investments over the past three years are delivering ahead of expectations, above our investment hurdle rate. Following our fundraising in 2009, we stepped up both our development activity and investment pipeline. Next year, we plan to return to space growth of around five per cent per annum. We'll continue to open a mix of convenience stores, supermarkets and extensions and to ensure that our core estate is kept up-to-date and competitive through our refurbishment programme. We have a healthy future pipeline of space ready for development, including planning consents for almost 70 supermarket extensions and we will continue to manage our portfolio with discipline.

We also work with joint venture partners to add property value and trading space. We completed five extensions within our British Land joint venture, as well as securing planning consent for one further extension. On other projects, contractors are due to start work on our Fulham Wharf regeneration project

in summer 2012, and our joint venture with Land Securities continues to make good progress, submitting planning applications for 180,000 sq ft of supermarket space and a further 500,000 sq ft of commercial floor space. Works to extend our Wandsworth store for mixed use development have started, and we have exchanged occupational agreements for leases on new stores in Salisbury and Selly Oak, Birmingham.

This year, we opened our most northerly store, in Nairn, Scotland on the same day as we opened our latest environmental store, in Dawlish, Devon, 600 miles away. In December 2011 we opened our 1,000th store, in Irvine, Scotland.

Our new space programme has increased the value of our property to an estimated £11.2 billion. When stores are fully developed, we review them for potential sale and lease back, to release capital to reinvest in profitable growth. This has been a source of cash in each of the last few years, and this year we generated a profit of £83 million on the disposal of properties.

### Property portfolio

**572**

Supermarkets

**440**

Convenience stores

### Varied store portfolio

This year we opened

**19**  
Supermarkets

**28**  
Extensions

**73**  
Convenience stores

Total new space  
**1.4m**  
sq ft

## **Operational excellence**

Our Waltham Point distribution centre is the largest of 21 depots, making around 2,000 deliveries a week to 83 stores. World class systems, updated with sales data every 15 minutes, ensure we know exactly what to deliver and where.

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**Remaining commercially competitive is crucial. When we invest, we do so with strict controls on the capital spent to ensure appropriate returns.**

**Brand Match is communicating the reality of price competitiveness at Sainsbury's**

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We have achieved over £100 million of operational cost savings over the year, taking the total to almost £600 million of cost savings over five years. This is a result of improved productivity, ongoing procurement savings and simplification of in-store processes. For example, in logistics we continue to make improvements in vehicle efficiency, load and fuel efficiency, and route optimisation. In addition, we have recently introduced new warehouse technology which enables colleagues to work more efficiently, help improve product availability and reduce waste.

#### 5 year savings, £m

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*Brand Match* is a great example of how we are using technology to deliver for customers and for shareholders. It price checks over 14,000 branded goods against Tesco and Asda in a fraction of a second. Importantly, this includes offers and promotions. The immediate issue of a voucher, either confirming the savings made or offering the difference for the customer to spend on their next visit, is a fundamental part of the power of *Brand Match*. We issue millions of coupons each week, more than half of which tell customers that their shopping at Sainsbury's was cheaper than it would have been at Tesco or Asda. Our research shows that the number of customers who agree that Sainsbury's sells brands at the same price as other supermarkets has risen from 68 per cent to 80 per cent since the trial of *Brand Match* in August 2011.

#### Savings breakdown

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Nectar is the UK's largest and most popular loyalty programme and Sainsbury's has 11.5 million active Nectar card users. With its data, we can reward customers directly at the till with points, and relevant rewards and promotions. Coupon-at-till in particular achieves great returns on our marketing investment and, because of its effectiveness, is widely supported by our suppliers. We also use Nectar data to identify potential store locations and help determine which goods customers in that area are likely to buy. A record number of people used their Nectar cards to do their Christmas 2011 shopping with us, with £100 million worth of points redeemed. We have signed a new long-term contract with Nectar to ensure we retain this source of customer insight – a key competitive advantage.

**Business review**  
**Our values make us different**

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**Our values  
make us  
different**

Thousands of children from around the UK are taking part in sports and other activities thanks to the equipment and experiences provided through our *Active Kids* programme

**We have a strong culture, and focus on ensuring our values make us different. This underpins our business, and is interwoven into our strategy.**

**Our 20 by 20 Sustainability Plan strengthens and further integrates corporate responsibility into our business**

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You will find examples of how our values are being integrated into our business throughout this report

Highlights include

- *Best for food and health* Customers continue to recognise our colour-coded multiple traffic light nutritional labelling system as the easiest way to make informed choices in store. We display point of sale communication about responsible drinking to help customers understand the number of units in the alcoholic drinks they buy, and we have increased awareness with sales of lighter alcohol wines up 14 per cent.
- *Sourcing with integrity* We were the first – and remain the number one – major retailer to only use cage-free fresh eggs, including those used as ingredients, in our own brand products. We are the world's largest retailer of Fairtrade products, and were the largest retailer of British apples and pears for the third consecutive season.
- *Respect for our environment* We achieved zero food waste to landfill and became the UK's largest retail user of anaerobic digestion technology. Our absolute electricity consumption for supermarkets over the past four years has reduced by 91 per cent, despite an increase in space of 25 per cent. We were the first supermarket to announce a change to labelling guidance to encourage freezing up to the product's use by date, helping customers to waste less food.
- *A positive difference to our community* We donated £25.4 million to good causes over the past year, with £5.5 million raised for Sport Relief 2012. In a new initiative with FareShare, over 1.2 million meals were donated by the Company and our customers, to support disadvantaged families in the UK in the run up to Christmas 2011.
- *A great place to work* We have trained 18,000 colleagues in our bakery college and six food colleges. Over 13,000 colleagues now have 20 years or more service, and we also instigated a new *Youth Can* initiative to help young people start and build their careers in retail.

We involved a wide range of external organisations in the creation of our new *20 by 20 Sustainability Plan*, published in October 2011. The response to this has been very positive, both within Sainsbury's and outside.

Our customers recently rated Sainsbury's joint first among our peers for taking our social and environmental responsibilities seriously, above Waitrose, Morrisons, Tesco and Asda.

Talkback, our regular survey of colleague opinion over a wide range of measures, tells us that our colleagues increasingly trust Sainsbury's to do the right thing for them and for the world we live in.

Amongst industry experts, our approach has been recognised through our inclusion in the globally respected Dow Jones Sustainability Index. We have retained our listing in the FTSE4Good Index, which rated us the highest performer relative to our sector across all three pillars of environmental, social and governance practices. We have also retained our Platinum Plus status in the Business in the Community Corporate Responsibility Index, the highest external accolade in the UK and maintained our Investors in People Gold status.

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**John Rogers**  
Chief Financial  
Officer

**Dear shareholder,**  
**In a challenging year for**  
**retailers, Sainsbury's continued**  
**to grow sales (including VAT)**  
**by 6.8 per cent to £24,511 million**  
**(2010/11: £22,943 million),**  
**outperforming the market**  
**and growing market share.**

This performance is rooted in helping our customers *Live Well for Less*. In particular the introduction of *Brand Match* is reassuring our customers that they are paying either the same or less with us for their branded goods. This, combined with coupon-at-till, has improved price perception while retaining the benefits of Sainsbury's heritage in quality and service.

We continued to manage inflationary pressures on costs through tight control, achieving over £100 million of savings during the year. Our underlying operating profit increased by 6.9 per cent to £789 million (2010/11: £738 million), representing an operating margin improvement of 4 basis points, and 10 basis points at constant fuel prices. Underlying profit before tax improved by 7.1 per cent to £712 million (2010/11: £665 million).

Sainsbury's continues to benefit from cash generated from operations, up 13.4 per cent year-on-year, facilitated in part by an overall improvement in working capital. This cash continues to be invested in long-term return-enhancing growth opportunities. During the year, core capital expenditure amounted to £1,240 million (2010/11: £1,138 million) and we are pleased that the investments made over the past few years continue to deliver an expected return above our required hurdle rate.

In June 2009, we decided to accelerate our investment in new space taking advantage of the relatively low cost of land and higher availability at that time. We have since established a strong property pipeline for future stores, targeting sales growth in areas where we can generate high returns, including those areas where we are under-represented in the market and across our convenience business. Our increased investment in space over recent years has helped both our sales and property value grow, although new space has an initially dilutive impact on profits due to opening costs and the sales build up curve. Having delivered the promised acceleration in space growth we will now return to space growth of around five per cent a year. This will reduce our capital expenditure and improve our cash flow and our overall returns, as sales from these new stores mature.

The return on average capital employed ('ROCE') of 11.1 per cent remains in line with last year's performance, held back by the cumulative effect of our accelerated investment in space growth since June 2009.

During the year, funds were generated through the selective sale and leaseback of supermarkets that have no further development potential, taking advantage of very competitive market pricing. We generated £303 million of cash through property transactions (2010/11: £275 million), delivering a property profit of £83 million (2010/11: £108 million). The estimated market value of our overall property portfolio increased by £0.7 billion, to £11.2 billion (19 March 2011: £10.5 billion).

The balance sheet remains robust and the business has funding in place of over £3 billion, including a revolving credit facility of £0.7 billion that remained un-drawn at the year end. Net debt ended the year at £2 billion in line with expectations.

Underlying basic earnings per share increased to 28.1 pence (2010/11: 26.5 pence), up 6.0 per cent. Basic earnings per share decreased by 7.0 per cent to 32.0 pence (2010/11: 34.4 pence), as a consequence of reduced property profits year-on-year.

The Board has proposed a final dividend of 11.6 pence (2010/11: 10.8 pence), making a full year dividend of 16.1 pence, up 6.6 per cent year-on-year (2010/11: 15.1 pence) and covered 1.75 times by underlying earnings, at the upper end of our policy of covering 1.50 to 1.75 times. We plan to increase the dividend each year and now intend to build cover to two times over the medium term.

Sainsbury's is in good shape to benefit from the opportunities ahead. Having accelerated investment in growth over the past few years, our priority is to drive returns from these investments by further improving operational cash flow, tight cost control and working capital management and a return to five per cent space growth a year.



**John Rogers**  
Chief Financial Officer

Summary income statement 52 weeks to 17 March 2012	2012 £m	2011 £m	Change %
<b>Sales (including VAT)<sup>1</sup></b>	<b>24,511</b>	<b>22,943</b>	<b>6.8</b>
<b>Sales (excluding VAT)</b>	<b>22,294</b>	<b>21,102</b>	<b>5.6</b>
<b>Underlying operating profit</b>	<b>789</b>	<b>738</b>	<b>6.9</b>
Underlying net finance costs <sup>2</sup>	(109)	(97)	(12.4)
Underlying share of post-tax profit from JVs <sup>3</sup>	32	24	33.3
<b>Underlying profit before tax</b>	<b>712</b>	<b>665</b>	<b>7.1</b>
Profit on disposal of properties	83	108	(23.1)
Investment property fair value movements	-	39	(100.0)
Financing fair value movements	(16)	7	(328.6)
IAS 19 pension financing credit	17	3	466.7
One-off items	3	5	(40.0)
<b>Profit before tax</b>	<b>799</b>	<b>827</b>	<b>(3.4)</b>
Income tax expense	(201)	(187)	(7.5)
<b>Profit for the financial period</b>	<b>598</b>	<b>640</b>	<b>(6.6)</b>
<b>Underlying basic earnings per share</b>	<b>28.1p</b>	<b>26.5p</b>	<b>6.0</b>
<b>Basic earnings per share</b>	<b>32.0p</b>	<b>34.4p</b>	<b>(7.0)</b>
<b>Dividend per share</b>	<b>16.1p</b>	<b>15.1p</b>	<b>6.6</b>

<sup>1</sup> The standard rate of VAT increased from 17.5 per cent to 20.0 per cent on 4 January 2011.

<sup>2</sup> Net finance costs before financing fair value movements and the IAS 19 pension financing element.

<sup>3</sup> The underlying share of post-tax profits from joint ventures is stated before investment property fair value movements, financing fair value movements and profit on disposal of properties.

#### Sales (including VAT) and space

Sales (including fuel) increased by 6.8 per cent to £24,511 million (2010/11: £22,943 million).

This includes a 2.3 per cent contribution from new space (excluding extensions and replacements) and like-for-like ('LFL') sales growth of 4.5 per cent.

Sales growth (including VAT, including fuel) 52 weeks to 17 March 2012	2012 %	2011 %
Like-for-like sales (including fuel)	4.5	4.7
New space (excluding extensions and replacements)	2.3	2.4
<b>Total sales growth</b>	<b>6.8</b>	<b>7.1</b>

Sales (excluding fuel) grew by 4.5 per cent, with LFL growth of 2.1 per cent, lower than the sales including fuel number due to the impact of high fuel price inflation, and below Sainsbury's medium-term planning objective of between three and four per cent. This was ahead of the market, with Sainsbury's market share for the year to 17 March 2012 growing to 16.6 per cent (as measured by Kantar).

LFL sales growth (excluding fuel) was 1.9 per cent in the first half, and 2.3 per cent in the second half. The second half performance reflected a strong third quarter, with a market beating performance over Christmas, followed by an improvement on last year's quarter four performance.

The contribution from net new space (excluding extensions and replacements) of 2.4 per cent was in line with Sainsbury's expectations.

The overall non-food market was very challenging during the year, although we continue to grow well ahead of the market. Convenience and online are also growing ahead of the market as our multi-channel offer means customers can do more of their shopping with Sainsbury's. Convenience is now a £1.3 billion business and online, growing at 20 per cent per year, is now a £0.8 billion business.

Sales growth (including VAT, excluding fuel)	2012	2011
52 weeks to 17 March 2012	%	%
Like-for-like sales <sup>1</sup>	2.1	2.3
New space (excluding extensions and replacements)	2.4	2.6
Total sales growth	4.5	4.9

1 This includes 1.1 per cent growth from stores extended in 2011/12, net of disruptions.

Average trading intensity ('TI') excluding fuel declined to £19.47 per sq ft per week (2010/11: £20.04 per sq ft), caused by, the increased proportion of stores not trading at maturity, the higher proportion of space dedicated to general merchandise and clothing which trades less intensively than food, an increasing presence in those parts of the country where trading intensity is likely to be lower (albeit capital costs are also lower), and the disruption caused at the 32 supermarkets replaced or extended in the year (2010/11: 29 replacements or extensions). Convenience TIs continue to grow benefiting from formats adapted to meet local catchments and located to help our customers top-up their weekly shopping.

New space, excluding extensions and replacements, contributed a net 2.4 per cent to the sales growth of 4.5 per cent. Sainsbury's added a gross 1,401,000 sq ft of selling space in the year (including replacements and extensions), an increase of 7.3 per cent since the start of the year (2010/11: 8.4 per cent). Including the impact of closures, this translated into net space growth of 1,239,000 sq ft, an increase of 6.5 per cent since the start of the year (2010/11: 7.7 per cent).

Growth in new supermarkets continued through opening 19 new stores, adding 750,000 sq ft including four replacements (net 623,000 sq ft). There were no other closures, apart from the replaced stores. Sainsbury's continued to open space in under-represented areas, with strong growth in Scotland, Wales, and

North West England. These stores typically bring higher returns due to lower build costs, although ultimate TI is lower than in other parts of the country.

We also continued to grow through 28 extensions, adding 492,000 sq ft to our estate, and growing strongly in the South East, especially in non-food, where we continue to grow market share.

We increased our investment in the convenience estate, adding 73 stores during the year (2010/11: 47 stores) and refurbishing 28 stores, adding 160,000 sq ft to our estate.

In March 2012, around one year after opening, we chose to close our trial of Fresh Kitchen, a new Sainsbury's format in the competitive lunchtime food-to-go market. While performance of the store was satisfactory, we concluded that the market opportunity was smaller than anticipated, and decided, for the time-being, not to roll out this offer. In addition, three other convenience stores were closed, and six petrol filling station sites are no longer included within the convenience stores space analysis.

Store numbers and retailing space at 17 March 2012	Supermarkets		Convenience		Total	
	Number	Area 000 sq ft	Number	Area 000 sq ft	Number	Area 000 sq ft
At 20 March 2011	557	18,199	377	909	934	19,108
New stores	19	750	73	160	92	910
Disposals/closures	(4)	(127)	(10)	(35)	(14)	(162)
Extensions/downsizes/refurbishments	-	498	-	(7)	-	491
<b>At 17 March 2012</b>	<b>572</b>	<b>19,320</b>	<b>440</b>	<b>1,027</b>	<b>1,012</b>	<b>20,347</b>
Memorandum						
Extensions	28	492	-	-	28	492
Refurbishments/downsizes	7	6	28	(7)	35	(1)
<b>Total projects</b>	<b>35</b>	<b>498</b>	<b>28</b>	<b>(7)</b>	<b>63</b>	<b>491</b>



We expect the market to remain tough, and forecast LFLs in 2012/13 similar to those in 2011/12

In 2012/13, Sainsbury's expects gross space growth of around 5 per cent, while we expect net new store space, excluding extensions and replacements, to contribute around 2 per cent to total sales growth (excluding fuel)

#### Underlying operating profit

Underlying operating profit increased by 6.9 per cent to £789 million (2010/11 £738 million), reflecting a good sales performance and continued cost savings of over £100 million in the year

Underlying operating margin improved by 4 basis points to 3.54 per cent (2010/11 3.50 per cent), which was a 10 basis point improvement at constant fuel prices. Underlying EBITDAR margin was 7.80 per cent, a 12 basis point improvement at constant fuel prices

Underlying operating profit 52 weeks to 17 March 2012				Change at constant fuel prices
	2012	2011	Change	
Underlying operating profit (£m) <sup>1</sup>	789	738	6.9%	
Underlying operating margin (%) <sup>2</sup>	3.54	3.50	4bps	10bps
Underlying EBITDAR (£m) <sup>3</sup>	1,740	1,649	5.5%	
Underlying EBITDAR margin (%) <sup>4</sup>	7.80	7.81	(1)bp	12bps

<sup>1</sup> Underlying earnings before interest tax and Sainsbury's share of post-tax profits from joint ventures

<sup>2</sup> Underlying operating profit divided by sales excluding VAT

<sup>3</sup> Underlying operating profit before rent depreciation and amortisation

<sup>4</sup> Underlying EBITDAR divided by sales excluding VAT

Sainsbury's expects cost inflation in 2012/13 at the upper end of our two to three per cent range. We expect cost savings of around £100 million in 2012/13, to offset the effect of cost inflation

#### Sainsbury's Bank joint venture ('JV')

Sainsbury's share of Sainsbury's Bank post-tax profit amounted to £16 million (2010/11 £11 million). The bank has continued to perform strongly with profit growth coming from steady income growth, particularly in personal loans and pet, car and home insurance, as well as tight control over costs and bad debts

The Sainsbury's Bank JV is expected to contribute a further step-up in trading profit in 2012/13

#### Property joint ventures

Sainsbury's underlying share of post-tax profit from the JV with British Land was £14 million (2010/11 £11 million). Its underlying share of post-tax profit from its JV with Land Securities was £2 million (2010/11 £2 million)

At the year end, there was no surplus on revaluation recognised within the share of post-tax profit from the JVs in the income statement (2010/11 £39 million). Due to disposals during the year, the average yield on the properties within these JVs increased to 5.0 per cent (2010/11 4.9 per cent)

Sainsbury's expects the Property JVs to make a similar level of profit in 2012/13

#### Underlying net finance costs

Underlying net finance costs increased by £12 million to £109 million (2010/11 £97 million), mainly as a result of the increase in RPI rate, which increased the rate on Sainsbury's inflation-linked debt

Underlying net finance costs 52 weeks to 17 March 2012		
	2012 £m	2011 £m
Underlying finance income <sup>1</sup>	18	19
Interest costs	(162)	(143)
Capitalised interest	35	27
Underlying finance costs <sup>1</sup>	(127)	(116)
Underlying net finance costs <sup>1</sup>	(109)	(97)

<sup>1</sup> Finance income/costs pre-financing fair value movements and IAS 19 pension financing element

We expect underlying net finance costs in 2012/13 to increase by £5 to £10 million, principally due to the higher forecast average net debt balance, partly offset by a decrease in RPI rate on the component of the Group's inflation-linked debt. The interest rate on the inflation-linked debt resets annually in April, by reference to the RPI rate (capped at five per cent) prevailing in January

#### Taxation

The tax charge was £201 million (2010/11 £187 million), with an underlying tax rate of 26.1 per cent (2010/11 26.0 per cent) and an effective tax rate of 25.2 per cent (2010/11 22.6 per cent). The underlying rate is slightly higher than last year, due to the reduction in corporation tax rates in the current year not quite offsetting the benefit to last year's charge of the resolution of the historical tax exposures with HMRC. These factors, in addition to the non-taxable profit on disposal of properties partially offset by the change in deferred tax rate, result in the effective tax rate being lower than the statutory rate

Underlying tax rate calculation 52 weeks to 17 March 2012			
	Profit £m	Tax £m	Rate %
Profit before tax, and tax thereon	799	201	25.2
Adjustments (and tax thereon) for			
Profit on disposal of properties	(83)	(3)	
Financing fair value movements	16	3	
IAS 19 pension financing element	(17)	(4)	
One-off items	(3)	-	
Revaluation of deferred tax balances	-	(11)	
Underlying profit before tax, and tax thereon	712	186	26.1

Sainsbury's expects the underlying tax rate to be around 23 per cent in 2012/13, principally due to the impact of the reduction in the statutory corporation tax rate

#### Earnings per share

Underlying basic earnings per share increased by 6.0 per cent to 28.1 pence (2010/11 26.5 pence), reflecting the improvement in underlying profit, partially offset by the effect of the additional shares issued during the year

The weighted average number of shares in issue was 1,870.3 million (2010/11 1,858.7 million), an increase of 11.6 million shares or less than one per cent. Basic earnings per share decreased to 32.0 pence (2010/11 34.4 pence) due to lower non-underlying profits.

Underlying earnings per share calculation 52 weeks to 17 March 2012	2012 pence per share	2011 pence per share
<b>Basic earnings per share</b>	<b>32.0</b>	<b>34.4</b>
Adjustments (net of tax) for		
Profit on disposal of properties	(4.3)	(5.6)
Investment property fair value movements	-	(2.1)
Financing fair value movements	0.7	(0.2)
IAS 19 pension financing element	(0.7)	(0.1)
One-off items	(0.2)	(0.3)
Revaluation of deferred tax balances	0.6	0.4
<b>Underlying basic earnings</b>	<b>28.1</b>	<b>26.5</b>

#### Dividends

The Board has recommended a final dividend of 11.6 pence per share (2010/11 10.8 pence), which will be paid on 13 July 2012 to shareholders on the Register of Members at the close of business on 18 May 2012, subject to approval. This will increase the full year dividend by 6.6 per cent to 16.1 pence per share (2010/11 15.1 pence).

The dividend is covered 1.75 times by underlying earnings (2010/11 1.75 times), 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 8 May 2012 and, as such, has not been included as a liability as at 17 March 2012.

Sainsbury's remains focused on delivering returns to shareholders. The Board plans to increase the dividend each year and now intends to build cover to two times over the medium term.

#### Return on capital employed

The return on average capital employed ('ROCE') over the 52 weeks to 17 March 2012 was 11.1 per cent (2010/11 11.1 per cent), a year-on-year movement of (2) basis points.

ROCE growth was held back by the cumulative effect of Sainsbury's accelerated investment in space growth since June 2009. This has an initially dilutive impact on profits as the stores mature, while increasing the value of capital employed.

Pre-tax return on capital employed at 17 March 2012	2012	2011
Underlying operating profit (£m)	789	738
Underlying share of post-tax profit from joint ventures (£m)	32	24
Underlying profit before interest and tax (£m)	821	762
Average capital employed (£m) <sup>1</sup>	7,424	6,877

<b>Return on average capital employed (%)</b>	<b>11.1</b>	<b>11.1</b>
52 week movement to 17 March 2012	(2) bps	

<sup>1</sup> Average of opening and closing net assets before net debt.

#### Net debt and cash flows

Sainsbury's net debt as at 17 March 2012 was £1,980 million (2010/11 £1,814 million), a year-on-year increase of £166 million. The increase came primarily from investment in estate development, partially offset by cash generated from sale and leasebacks.

There was continued strong operating cash flow generation of £1,067 million (2010/11 £854 million) representing 150 per cent of underlying profit before tax (2010/11 128 per cent). Working capital improved by £53 million, mainly due to increased trade and other payables, which are £182 million higher than at 19 March 2011, partially offset by an increase in inventories of £126 million from the prior year.

Summary cash flow statement 52 weeks to 17 March 2012	2012 £m	2011 £m
<b>Operating cash flow before changes in working capital</b>	<b>1,238</b>	<b>1,216</b>
Decrease/(increase) in working capital	53	(78)
<b>Cash generated from operations</b>	<b>1,291</b>	<b>1,138</b>
Interest paid	(142)	(126)
Corporation tax paid	(82)	(158)
<b>Net cash from operating activities</b>	<b>1,067</b>	<b>854</b>
Net cash used in investing activities	(883)	(902)
Proceeds from issue of shares	14	17
Receipt of new debt	391	45
Repayment of borrowings	(65)	(79)
Dividends paid	(285)	(269)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>239</b>	<b>(334)</b>
(Increase)/decrease in debt	(386)	71
Fair value and other non-cash movements	(19)	(2)
<b>Movement in net debt</b>	<b>(166)</b>	<b>(265)</b>

Sainsbury's expects net debt to be around £2.2 billion at the end of 2012/13, driven by higher tax cash flows given this year's benefit brought about by a prior year overpayment, and slightly lower assumed property proceeds, offset in part by a reduction in core capital expenditure.

#### Financing

Sainsbury's seeks to manage its financing by diversifying funding sources, minimising refinancing risk and maintaining sufficient stand-by liquidity. Sainsbury's has drawn debt facilities of £2.7 billion and an un-drawn committed credit facility of £0.7 billion at its disposal.

The principal elements of Sainsbury's core funding comprise two long-term loans of £1,036 million, due 2018, and £843 million, due 2031, both secured over property assets. In addition, Sainsbury's has unsecured loans of £499 million due between 2012 and 2017, a convertible bond in public issue totalling £190 million due July 2014, and finance leases of £143 million.

The Group maintains a £690 million syndicated revolving credit facility due October 2015 for liquidity standby purposes. There were £nil drawings under the facility as at 17 March 2012 (2011 £nil drawings).

**Capital expenditure**

Core capital expenditure increased by £102 million to £1,240 million (2010/11 £1,138 million) due to Sainsbury's extensions and convenience opening programme, with 28 extensions (2010/11 24 extensions) and 73 new convenience stores (2010/11 47 new convenience stores). Core capital expenditure as a percentage of sales (including fuel, excluding VAT) was 5.6 per cent (2010/11 5.4 per cent).

Sainsbury's took advantage of continued good property yields to increase its sale and leaseback activity of mature stores with no further property development potential, generating proceeds of £303 million (2010/11 £275 million), which contributed £83 million to a total profit on disposal of properties (2010/11 £108 million). Net capital expenditure was £962 million (2010/11 £880 million).

<b>Capital expenditure</b> 52 weeks to 17 March 2012	2012 £m	2011 £m
New store development	599	547
Extensions and refurbishments	478	470
Other - including supply chain and IT	163	121
<b>Core capital expenditure</b>	<b>1,240</b>	<b>1,138</b>
Acquisition of freehold and trading properties	25	17
Proceeds from property transactions	(303)	(275)
<b>Net capital expenditure</b>	<b>962</b>	<b>880</b>

In 2012/13, Sainsbury's expects core capital expenditure of around £1 billion. As well as continuing to grow our estate through new stores in areas in which we are under-represented, we plan to step up the refurbishment of existing stores as well as invest in our IT infrastructure to support future online growth. We expect core capital expenditure as a percentage of sales to fall to below 5 per cent in 2012/13.

**Summary balance sheet**

Shareholders' funds as at 17 March 2012 were £5,629 million (19 March 2011 £5,424 million), an increase of £205 million. This is mainly attributable to the continued profitable growth of the underlying business, continued investment in space to support future growth, offset by an increase in the net retirement benefit obligations and net debt.

Property, plant and equipment assets have increased by £545 million, as a result of increased space growth.

Net debt is £166 million higher than at 19 March 2011 due to an investment in property, plant and equipment, with additional debt partly offset by slightly higher cash balances at year-end as a result of improved working capital management.

Gearing increased year-on-year to 35.2 per cent (2010/11 33.4 per cent), as a result of the higher net debt. Our interest cover moved to 7.5 times (2010/11 7.9 times), while fixed charge cover was in line with last year at 3.1 times (2010/11 3.1 times), as was adjusted net debt to EBITDAR at 4.1 times (2010/11 4.1 times).

<b>Summary balance sheet</b> at 17 March 2012	2012 £m	2011 £m	Movement £m
Land and buildings (freehold and long leasehold)	6,802	6,440	362
Land and buildings (short leasehold)	648	622	26
Fixtures and fittings	1,879	1,722	157
Property, plant and equipment	9,329	8,784	545
Other non-current assets	911	842	69
Inventories	938	812	126
Trade and other receivables	286	303	(17)
Cash and cash equivalents	739	501	238
Debt	(2,719)	(2,315)	(404)
<b>Net debt</b>	<b>(1,980)</b>	<b>(1,814)</b>	<b>(166)</b>
Trade and other payables and provisions	(3,400)	(3,262)	(138)
Retirement benefit obligations, net of deferred tax	(455)	(241)	(214)
<b>Net assets</b>	<b>5,629</b>	<b>5,424</b>	<b>205</b>

**Key financial ratios**

<b>Adjusted net debt to EBITDAR<sup>1</sup></b>	<b>4.1 times</b>	4.1 times
<b>Interest cover<sup>2</sup></b>	<b>7.5 times</b>	7.9 times
<b>Fixed charge cover<sup>3</sup></b>	<b>3.1 times</b>	3.1 times
<b>Gearing<sup>4</sup></b>	<b>35.2%</b>	33.4%

1 Net debt plus capitalised lease obligations (5.5% NPV) divided by EBITDAR

2 Underlying profit before interest and tax divided by underlying net finance costs

3 EBITDAR divided by net rent and underlying net finance costs

4 Net debt divided by net assets

As at 17 March 2012, Sainsbury's estimated market value of properties rose by £0.7 billion to £11.2 billion (19 March 2011 £10.5 billion), driven by property value added of £1.0 billion, partly offset by sale and leasebacks of £0.3 billion. The property value is based on a yield of 4.9 per cent and includes a 50 per cent share of properties held within its property joint ventures.

**Pensions**

At 17 March 2012, the post-tax pension deficit was £455 million (19 March 2011 £241 million). The increase in the deficit is the result of a 0.5 per cent reduction in the real discount rate used to value the liabilities, partially offset by a 13 per cent increase in the value of plan assets.

The IAS 19 pension service cost included within UPBT was £59 million, £4 million higher than last year.

Sainsbury's expects this service cost to be around £60 million in 2012/13.

<b>Retirement benefit obligations</b> at 17 March 2012	2012 £m	2011 £m
Present value of funded obligations	(5,654)	(4,945)
Fair value of plan assets	5,192	4,614
Pension deficit	(462)	(331)
Present value of unfunded obligations	(9)	(9)
Retirement benefit obligations	(471)	(340)
Deferred income tax asset	16	99
<b>Net retirement benefit obligations</b>	<b>(455)</b>	<b>(241)</b>

# J Sainsbury plc: Board of Directors

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Governance

**1 David Tyler Chairman \***

Appointed to the Board on 1 October 2009, David became Chairman on 1 November 2009. He is Non Executive Chairman of Logica plc and a Non-Executive Director of Experian plc and Burberry Group plc, where he also chairs the Remuneration Committee. He was previously Finance Director of GUS plc (1997-2006) and has held senior financial and general management roles with Christie's International plc (1989-96), County NatWest Limited (1986-89) and Unilever PLC (1974-86). He was also Chairman of 3i Quoted Private Equity plc from 2007 to 2009 and a Non-Executive Director of Reckitt Benckiser Group plc over the same period. Age 59

**2 Justin King Chief Executive ♥**

Appointed Chief Executive Officer on 29 March 2004, Justin 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 is a member of the CBI President's Committee, is a member of the Prime Minister's Business Advisory Group, and is a Visiting Fellow of Oxford University's Centre for Corporate Reputation. Justin was formerly Director of Food at Marks and Spencer Group plc and prior to this held a number of senior positions at ASDA/WalMart and Häagen Dazs UK. He spent much of his early career with Mars Confectionery and Pepsi International. Age 50

**3 Mike Coupe Group Commercial Director**

Appointed Group Commercial Director on 19 July 2010 and is responsible for Trading, Marketing, IT and Online. He has been a member of the Operating Board since October 2004 and an Executive Director since 1 August 2007. 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. He previously worked for both ASDA and Tesco, where he served in a variety of senior management roles. He is also a member of the board of ECR Europe, a Non-Executive Director at Greene King plc and a member of the supervisory board of GSI UK. Age 51

**4 John Rogers Chief Financial Officer**

Appointed Chief Financial Officer on 19 July 2010. John is also a member of the Board of Sainsbury's Bank plc. John joined Sainsbury's in November 2005 as Director of Corporate Finance and then became Director of Group Finance from March 2007 to July 2008. In July 2008 he was appointed to the Operating Board as Property Director. 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. Age 43

**5 Gary Hughes Non-Executive Director • \***

Appointed to the Board on 1 January 2005, Gary is a Director of the Scottish Exhibition Centre Limited and an advisor to Ibis Capital plc. Previously he was Chief Financial Officer of the Gala Coral Group (2008-11), Chief Executive of CMP Information Limited - a division of United Business Media plc (2006-08), Group Finance Director of Emap plc (2000-05), Group Finance Director of SMG plc (1996-2000), and Deputy Finance Director of Forte plc (1994-96). Prior to this Gary held a number of senior management positions with Guinness plc in the UK and in North America. Age 50

**6 Bob Stack Non-Executive Director ♦ ♦ \***

Appointed to the Board on 1 January 2005, Bob was a Director of Cadbury plc until December 2008, having 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 and Chairman of the Remuneration Committee of IMI plc. Age 61

**7 John McAdam Non-Executive Director • \***

Appointed to the Board on 1 September 2005, John is the Senior Independent Director. He is Chairman of Rentokil Initial plc and United Utilities Group PLC and also a Non-Executive Director of Rolls Royce Group plc and Sara Lee Corporation. John joined Unilever PLC 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 a Non-Executive Director of Severn Trent plc (2000-05). Age 64

**8 Anna Ford Non-Executive Director ♦ ♦ ♥**

Appointed to the Board on 2 May 2006, Anna retired from the BBC in 2006, after 32 years in News and Current Affairs. She 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, Chancellor of Manchester University and an Honorary Bencher of Middle Temple. Age 68

**9 Mary Harris Non-Executive Director ♥ ♦ ♦ \***

Appointed to the Board on 1 August 2007. Mary is a member of the supervisory boards of TNT Express NV and Unibail-Rodamco SE. She 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 46

**10 Matt Brittin Non-Executive Director • \***

Appointed to the Board on 27 January 2011, Matt is Google's Vice President - Northern & Central Europe. Previously he was Managing Director of Google in the UK & Ireland. Before joining Google at the start of 2007, Matt spent much of his career in media and marketing, with particular interests in strategy, commercial development and sales performance. This included Commercial and Digital leadership roles in UK media. He is also a Director of two charities, The Climate Group and The Media Trust. Age 43

**Key to Committee members**

- ♦ Remuneration Committee
- Audit Committee
- \* Nomination Committee
- ♥ Corporate Responsibility Committee
- ♦ ♦ ♥ ♦ ♦ Denotes Chairman of Committee

**Life President**

Lord Sainsbury of Preston Candover KG

# Operating Board

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Governance

**1 Justin King Chief Executive** See page 33

**2 John Rogers Chief Financial Officer** See page 33

**3 Mike Coupe Group Commercial Director** See page 33

**4 Helen Buck Retail Director**

Helen was appointed to the Operating Board on 19 July 2010 as Convenience Director and was appointed Retail Director in March 2012. Helen joined Sainsbury's in 2005 and, after spending four years running Brand Communications, moved to Trading as Business Unit Director, Grocery in 2009. Before joining Sainsbury's, Helen held a number of senior positions at Marks & Spencer, Woolworths and Safeway and was a senior manager at McKinsey & Company. Since December 2011 Helen has been a Non-Executive Director of LSL Property Services plc.

**5 Roger Burnley Managing Director, General Merchandise, Clothing and Logistics**

Roger joined the Operating Board in March 2006 as Supply Chain Director before assuming the role of Retail and Logistics Director (2008-12) and was appointed the Managing Director of General Merchandise, Clothing and Logistics in March 2012. He was previously Supply Chain Director at Matalan. Roger spent his early career in retail management and buying at B&Q before joining ASDA/WalMart where he held a number of positions before becoming their Supply Chain Director in 2001. He is currently Vice President of the Chartered Institute of Logistics and Transport (UK).

**6 Gwyn Burr Customer Service and Colleague Director**

Gwyn joined the Operating Board of Sainsbury's in 2004 as the Customer Director responsible for Marketing, Own Brand, Communications and Customer Service. In 2010 she took on the role of Customer Service and Colleague Director with responsibility for Human Resources, Customer Service, Sponsorship, Corporate Responsibility and Corporate Communications. In 2007 Gwyn became a Non-Executive Director of Sainsbury's Bank plc and in 2011 she joined the board of the Financial Ombudsman Service as a Non-Executive Director and was appointed a Non-Executive Director of Wembley Stadium in April 2012. Gwyn has nearly 30 years' business experience including five with Nestlé Rowntree and over 13 with ASDA/WalMart where she held various board level positions. Between 2003 and 2006 Gwyn was a Non-Executive Director for the Principality Building Society. She is currently Chair of the Business in the Community Community Investment Leadership team.

**7 Tim Fallowfield Company Secretary and Corporate Services Director**

Tim joined Sainsbury's in 2001 as Company Secretary and is a member of the Operating Board. In addition to his role as Company Secretary, Tim is responsible for Corporate Services comprising Legal Services, Insurance, Safety, Central Security and Shareholder Services. Tim joined Sainsbury's 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 the international law firm Clifford Chance for six years and is a qualified solicitor.

**8 Rob Fraser IT Director**

Rob joined the Operating Board as IT Director in July 2009, bringing many years of both IT and retail experience to the role. Rob was previously Vice President, Retail, Consumer & Transport at CSC, and spent ten years at Boots where he undertook a variety of IT roles including Group IT Director. He was also a member of the Boots Executive Committee and has worked for Rank Xerox and Marks & Spencer.

**9 Luke Jensen Group Development Director**

Luke joined Sainsbury's and the Operating Board in June 2008 as Director of Strategy. He was appointed to the position of Managing Director Non-Food in 2009 with responsibility for Clothing, General Merchandise and Entertainment. He was appointed Group Development Director in September 2011. In this role he is responsible for driving Sainsbury's growth through the New Business Development, Digital and Strategy divisions. Previous roles include Director/Partner and Head of the Consumer and Retail Practice of OC&C Strategy Consultants (2004-08) and Founder and Group FD/Executive Director of M8 Group (internet and mail order specialist retailer) (2002-04).

**10 Neil Sachdev Property Director**

Neil was appointed Property Director in July 2010 and is also responsible for Sainsbury's environmental strategy. He joined the Company as Commercial Director in 2007, where he helped drive the growth of the Company as well as reduce running costs. Neil has a wealth of retail experience following 28 years at Tesco. He was appointed to the Joint Advisory Board of the Grantham Institute for Climate Change in 2010 and since 2008 has been a member of the Business in the Community Mayday Leadership team focusing on the climate change sector. Neil is also a Non-Executive Director, Chairman of Remuneration Committee and member of the Audit Committee of Capital Shopping Centres Group PLC. Currently, Neil is Chairman of the IGD Board, a Director of the board of IGD Services Limited and a member of the Business Innovation and Skills Board on Green Construction.

**11 Sarah Warby Marketing Director**

Sarah joined Sainsbury's and the Operating Board on 30 January 2012 as Marketing Director. She has full responsibility for all Sainsbury's marketing activity including Brand Communications, Non-Food Marketing, Customer Insights and Loyalty. Sarah previously held a number of senior positions at Heineken and was their UK Marketing Director, where she was responsible for a number of the UK's most high-profile FMCG brands. Prior to this she was Innovation Director at Heineken where she led the combined technical and marketing team. Earlier in her career Sarah worked for several marketing agencies, and was a graduate at Unilever PLC.

# Directors' report

The Directors present their report and audited financial statements for the 52 weeks to 17 March 2012

## 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 17 March 2012 and future developments. The Business review is set out on pages 1 to 31 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.

## Corporate governance statement

The corporate governance statement as required by the Disclosure and Transparency Rules 7.2.1 is set out on pages 38 to 51 and is incorporated by reference into this report.

## Dividends

The Directors recommend the payment of a final dividend of 11.6 pence per share (2011: 10.8 pence), making a total dividend for the year of 16.1 pence per share (2011: 15.1 pence) – an increase of 6.6 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting (AGM), the dividend will be paid on 13 July 2012 to shareholders on the register at the close of business on 18 May 2012.

## Changes to the Board

On 13 July 2011 Darren Shapland stood down from his position as a Director. He remains with Sainsbury's as Non-Executive Chairman of Sainsbury's Bank. Val Gooding, Non-Executive Director, also stepped down from the Board on 13 July 2011, to take up the position of Chairman of Premier Farnell plc.

In May we announced that Bob Stack had decided to stand down from his position as a Non-Executive Director with effect from the AGM on 11 July 2012.

## Re-election of Directors

The UK Corporate Governance Code provides for all directors of FTSE companies to stand for election or re-election by shareholders every year. Accordingly all members of the Board will retire and seek re-election at this year's AGM. Full biographical details of all of the current Directors are set out on page 33.

## Annual General Meeting

The AGM will be held on Wednesday, 11 July 2012 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 re-elect all of the Directors other than Bob Stack, 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 to authorise the Directors to issue shares without applying the statutory pre-emption rights. In this regard the Company will continue to adhere to the provisions in the Pre-emption Group's Statement of Principles.

Shareholders will be asked to authorise the Company to make market purchases of its own shares. Shareholders will also be asked to authorise the Directors to hold general meetings at 14 clear days' notice (where this flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole). A resolution to renew the authority to make 'political donations' as defined by Part 14 of 2006 Companies Act, will also be proposed.

## Share capital and control

The following information is given pursuant to Section 992 of the 2006 Companies Act.

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 of 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 plans rank *pari passu* with shares in issue and have no special rights. Where under the Company's All Employee Share 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 Trusts waive their right to vote and to dividends on the shares they hold which are unallocated. 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 2011, 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 plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Company's share plans 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 95. At the date of this report, 1,884,064,677 ordinary shares of 28<sup>1</sup>/<sub>2</sub> pence have been issued, are fully paid up and are listed on the London Stock Exchange.

## Major interests in shares

As at 9 May 2012, the Company had been notified by the following investors of their interests in 3 per cent or more of the Company's shares. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5.

	% of voting rights
Judith Portrait (a trustee of various settlements, including charitable trusts)	3.92
Legal and General Group plc	3.99
Lord Sainsbury of Turville	4.99
M1 Capital Limited	3.02
Qatar Holdings LLC	25.99

## Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown in the Remuneration Report on page 65. 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 2011/12, which has been renewed for 2012/13. 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 86 to 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 continues its strong commitment to corporate responsibility, which is an everyday part of how the Company does business. Sainsbury's company values underpin our goal to make all of our customers' lives easier everyday by offering great quality and service at fair prices. In October, we announced our *20 by 20 Sustainability Plan* a new cornerstone of our business strategy designed to accelerate Sainsbury's commitment to social and environmental responsibility and excellence. This year, we have further integrated the reporting of corporate responsibility into this Annual Report and Financial Statements to illustrate how our values underpin and influence our broader business strategy.

The Company's Corporate Responsibility Report will be issued later in the year and will provide an update on our *20 by 20 Sustainability Plan*. This report will be available online ([www.j-sainsbury.co.uk/cr](http://www.j-sainsbury.co.uk/cr)). We have five key 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'. Each of our *20 by 20 Sustainability Plan* commitments is aligned under one of these principles.

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. It is our policy that people with disabilities are given full and just consideration for all vacancies and over the year we have conducted a number of training sessions to raise awareness and understanding of our customers and colleagues with disabilities and how we can better support them. Under the banner of *You Can*, the Company also actively works with a number of organisations which seek to promote employment for disadvantaged persons and inclusion within the workplace and has made one of our *20 by 20 Sustainability Plan* commitments that by 2020 we will provide 30,000 people from disadvantaged groups with work opportunities. These include JobCentre Plus, A Fairer Chance, the Shaw Trust, Remploy and Mencap. Further details of Sainsbury's diversity policy can be found at [www.j-sainsbury.co.uk/diversity](http://www.j-sainsbury.co.uk/diversity).

The Company's quarterly trading statements, 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.

#### Donations

Sainsbury's is committed to making a positive difference to the communities in which it operates. We support many charitable organisations and community projects through either donating cash, making in-kind donations or through colleague volunteering.

During the year, Sainsbury's colleagues, customers and suppliers raised £25.4 million (2011: £22.9 million) for charities through events supported by the Company, including Sport Relief. Cash and in-kind donations totalled £4.2 million (2011: £2.1 million).

The Company made no political donations in 2012 (2011: £nil).

#### Post balance sheet events

There are no post balance sheet events.

#### Financial risk management

The financial risk management and policies of the Group are disclosed in note 28 on pages 99 to 104 to the financial statements.

#### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 1 to 31. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial review on pages 26 to 31. The Group manages its financing by diversifying funding sources, maintaining core borrowings with long-term maturities and sufficient standby liquidity. Full details of the Group's financing arrangements can be found in note 20 on pages 92 and 93 to the financial statements. In addition, notes 28 and 29 on pages 99 to 108 to 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.

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 re-financing exposure is not until 2014.

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 have a reasonable expectation 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 68 to 118.

#### Disclosure of information to auditors

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

#### 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  
8 May 2012

# Corporate governance statement

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FROM HERE

**David Tyler**  
Chairman

**Dear shareholder,  
Your Board is committed to  
effective governance and we  
believe that we have established  
a strong track record over  
a number of years.**

The governance agenda for the UK's largest companies has continued to attract attention since I last wrote to you in our 2011 Annual Report. This is the first year that companies are required to report on their compliance against the standards of the new UK Corporate Governance Code (the 'Code'). We have also seen specific aspects of governance maintaining a high profile, particularly board diversity and directors' remuneration and performance related pay.

The Code emphasises the need for well balanced, effective boards, strong oversight of risk management, alignment of remuneration policies with shareholder interests, and sound shareholder relations.

The following pages explain how we apply these principles in order to help create long-term, sustainable growth in value for shareholders. I can confirm that Sainsbury's has complied with all provisions of the Code during the last financial year.

In January 2011, a thorough review of your Board's performance was completed by Manchester Square Partners, a board evaluation consultancy. This confirmed that the Board was seen as being effective, with a number of specific strengths as regards ethics, organisation, information, decision making and culture. This year, the Board agreed that we should carry out an internal review and this is described in detail on pages 40 to 41. This exercise showed that we had made satisfactory progress with the priorities that we identified last year as a result of the Manchester Square Partners review. In particular, we have placed even greater emphasis on our strategic debate and I believe that this has been particularly important against the background of the challenging economic and market conditions that we have faced, and has helped to deliver the pleasing financial results that have been achieved during the year.

One of our strengths continues to be our diversity which is the result of a high proportion of women having been appointed on merit throughout the organisation. Although Val Gooding stepped down from the Board during the year to take up the role of Chairman at Premier Farnell plc, I am pleased to report that we continue to benefit from the very able contributions of Mary Harris and Anna Ford on our Board and Committees. In addition, during the year, we have increased the number of women who hold the most senior executive positions in the Company. We have 16 women in our 46 most senior executive positions, and overall 54 per cent of our 150,000 colleagues are female.

Earlier this year, we responded to the report "Women on Boards" by Lord Davies of Abersoch CBE and confirmed that we anticipate that we will maintain and, over time, increase these high proportions of women in board and senior positions and be at least in line with the Davies recommendations, including the aspirational target that 25 per cent of board positions at FTSE 100 companies should be filled by women by 2015. Appointments, however, will continue to be made on merit.

Directors' remuneration continues to attract much focus - we believe that we have a good track record in this regard. Our Directors' salary increases have been in line with our wider colleague population for a number of years and that remains the case with the below inflation increases for 2012/13. We have regularly consulted with our key investors when we have proposed any material changes to our remuneration policy and this has helped us to develop a range of incentive plans which create a very strong link between Company performance and Directors' pay, thereby aligning management and shareholders' interests. We have received strong support from shareholders over recent years for the policies and procedures that the Remuneration Committee has applied. Our Remuneration Report is set out on pages 52 to 65 and describes both the principles and the actual amounts earned by Directors during the year.

**David Tyler**  
Chairman

### Compliance

The following sections explain how the Company applies the main principles of Section 1 of the UK Corporate Governance Code (the Code). The Board is committed to strong governance and, during the year, the Company has complied with all the provisions of the Code.

### The role of the Board

The Board is chaired by David Tyler and, at the year-end, there were three Executive Directors and six Non-Executive Directors. John McAdam is the Senior Independent Director. The Directors' biographical details are set out on page 33.

The Board's key focus in helping to create long-term sustainable value for shareholders is on strategic leadership, performance management, investor relations, risk management and governance and succession planning, each of which is described below. We have a scheduled forward programme of Board meetings to ensure that the Board can allocate sufficient time to each of these key areas. This enables us to plan Board and Committee meetings appropriately and use the time most effectively. There is sufficient flexibility in the programme to enable specific items to be added to any particular agenda and this ensures that the Board can focus on the key matters relating to the business at the appropriate time. Our annual Board evaluation exercise enables us to review whether board meetings are structured with a clear focus on the key issues facing the Company, with a full and open debate before major decisions are taken. We ensure that all Directors are aware of the key discussions and decisions of each of the four principal Committees – the Chairman of each Committee provides a detailed summary to all Directors at the Board meeting following the relevant Committee meeting. Minutes of Board and Committee meetings are circulated to Directors shortly after those meetings take place. The Board has a schedule of formally reserved powers (which it reviews each year) and receives a number of in-depth presentations during the year on other key matters including pensions, treasury, brand management, values and governance.

During the year we increased the number of informal meetings of the Board, which was an agreed action from a previous Board evaluation. These enable all the Directors to spend more time together and to discuss specific areas of the business with individual Operating Board members.

The Board continued to focus on strategic matters during the year. We hold a two day Strategy Conference in the autumn, with the Operating Board Directors in attendance for the first day. This enables the Board to conduct an in-depth review of relevant economic factors and their likely impact on customers and the market, to evaluate key opportunities and threats, consider the draft budget and corporate plan and agree the strategic goals for the short-term and longer term perspectives. The Board receives a detailed half-year update on progress against the agreed priorities and then, to complete the cycle in July, agrees the objectives and principal areas of focus for the next conference. Specific projects are considered at other meetings during the year as necessary. Our 2012 Board Evaluation exercise concluded that the Board had made real progress in driving the strategic debate during the year.

Performance management against delivery of the agreed key targets is reviewed at every meeting with particular reference to the detailed management accounts. The Chief Executive, Group Commercial Director and Chief Financial Officer comment on the market and current trading at each meeting.

During the year the Board was fully engaged in the development and launch of our new brand, *Live Well for Less*, as well as the planning and roll out of *Brand Match*. The Board also reviewed Sainsbury's 20 by 20 Sustainability Plan described in the Business review.

The Board reviews the Company's principal risks on an annual basis, in addition to receiving regular updates on risk management and internal controls from the Chairman of the Audit Committee after each committee meeting. The Board also receives an annual update on all matters relating to safety, supported by regular quarterly updates, together with updates on relevant controls and governance. Any specific issues on these and other matters which might affect the Company's reputation are reported to the Board as they occur. The Board also reviewed Sainsbury's business continuity and crisis management processes and governance.

Turning to investor relations, the Board receives an annual independent survey at the Strategy Conference which reports on the views of major shareholders and analysts, together with updates at each Board meeting on the IR programme and feedback from major shareholders, particularly following each major announcement of the Company's results.

Succession plans and management development are considered by the Nomination Committee each year at the time of the Strategy Conference with specific follow up and updates thereafter as necessary. The Nomination Committee also reviews succession to the Board.

### 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. The Chairman is responsible for leadership of the Board ensuring its effectiveness and setting its agenda to enable the Board to fulfil all aspects of its role. As set out above, we ensure that the Board has sufficient time to allocate to its key areas of focus throughout the annual cycle of Board meetings. The Chairman ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates the contribution of the Non-Executive Directors through a culture of openness and debate, and ensures constructive relations between the Executive and Non-Executive Directors.

The Chief Executive is responsible for the day-to-day management of the Company, and executing the strategy, once agreed by the Board. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, 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

The Non-Executive Directors bring wide and varied commercial experience to Board and Committee deliberations. On appointment they confirm that they will have sufficient time available to be able to discharge their responsibilities effectively. 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. All members of the Board will retire by rotation and seek re-election by shareholders at this year's AGM in accordance with the Code.

The Companies Act 2006 provides 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. Whenever a Director takes on additional external responsibilities, the Board considers any potential conflicts that may arise and whether the Director continues to have sufficient time to fulfil his or her role as a Director of the Company. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

The Chairman satisfied the independence criteria of the Code on his appointment to the Board in October 2009 and all the Non-Executive Directors are considered to be independent according to the provisions of the Code. The Board has specifically considered the executive or non-executive roles that some of the Non-Executive Directors have with companies who may be in competition with, or suppliers to Sainsbury's. The Board is satisfied that the independence of the Directors who have executive or non-executive roles with other companies is not compromised and that they all have sufficient time available to devote to the Company.

During the year the Board considered Mike Coupe's proposed appointment as a Non-Executive Director of Greene King plc - in approving the appointment the Board concluded that there was limited potential for conflict with a small supplier and that, in any event, there were appropriate safeguards in place to manage any conflicts that might arise. Moreover, joining the board of another listed company would provide a valuable development opportunity for Mike Coupe and thereby benefit Sainsbury's.

The Board also considered a potential conflict for Justin King, whose son, Jordan King, is one of the country's top young racing drivers. His recent success is attracting interest from potential sponsors. Current sponsors include high net-worth individuals and companies with established interests in motor sport. Some of the sponsors are also suppliers to Sainsbury's. Jordan King arranges his sponsorships through his company, 42 Racing Ltd. The Board has satisfied itself that Justin King has no direct involvement in the trading relationship between Sainsbury's and any supplier who may have an interest in 42 Racing Ltd. It is satisfied that the governance of all supplier relationships is robust and that there is therefore no conflict of interest regarding these arrangements.

### 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 conclusion from this year's evaluation was that Board meetings and processes were very effective.

We have 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 detailed training on their role and responsibilities. All new Directors participate in a comprehensive and tailored induction programme including store and depot visits and meetings with other members of the Board, members of the Operating Board, senior management and external advisors. The induction programme includes a full review of corporate responsibility. Subsequent training is available on an ongoing basis to meet any particular needs. Matt Brittin's induction programme has addressed all of these aspects since his appointment to the Board in January 2011.

During the year the Company Secretary, Tim Fallowfield, has provided updates to the Board on relevant governance matters, Directors' duties and obligations, and new legislation and its impact on the Company, such as the 2011 Bribery Act. 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 governance and trends in remuneration. The Board programme includes regular presentations from management and informal meetings which increase the Non-Executive Directors' understanding of the business and the sector. During the year the Board held a Board meeting at our Coventry Store Support Centre and received presentations from members of the general merchandise and clothing management teams. Directors have visited stores and other sites as part of their continuing engagement with the business.

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 the 2011 evaluation exercise should be facilitated by Manchester Square Partners (who had no other relationship with Sainsbury's). The key objectives agreed with the Chairman were to ask the Board to assess itself by defining its own objectives and analyse how it was performing against these objectives across number of dimensions. The review was conducted through a discussion framework circulated in advance to Directors, followed by one-to-one in depth interviews with all Directors and the Company Secretary and a review of relevant papers. The performance of the Board Committees was also reviewed, and Directors provided feedback on each others' contributions.

Manchester Square Partners' report concluded that the Board was working effectively across many dimensions. The Board identified actions to develop some aspects of Board succession and management transition, and to strengthen further the focus on strategic initiatives.

Following last year's external evaluation, the Board agreed that this year's review should be carried out by the Company Secretary, and that the key objectives were to determine whether progress had been made on last year's action points to identify any emerging themes and to consider whether the Board and its committees were working effectively. A questionnaire was circulated to all Directors seeking their evaluation of a number of subject matters, including strategy, management transition, succession, Board culture and balance, meetings and processes, investor relations, risk management and board committees. This was followed up in separate discussions with each of the Directors to take their detailed feedback on any emerging themes. The Company Secretary then presented the principal conclusions to the Board at a meeting convened for that purpose, and the Board discussed the key points and agreed certain actions.

The Board agreed that good progress has been made on the action points from the 2011 evaluation, especially as regards the focus on the strategic debate which has become particularly important against the background of a challenging and changing market. Steps have also been taken to develop the transition plans at Operating Board level culminating in the new roles for Roger Burnley and Helen Buck, and a number of internal promotions. The Board concluded that it was working well as a team and was benefiting from a broad range of skills and diversity, with a strong and open culture.

Various actions were agreed from this year's exercise, including finding more opportunities for the Non-Executive Directors to meet other members of the management team and to learn more about them and their roles.

As part of the Board evaluation exercise, the Senior Independent Director reviewed the Chairman's performance with the other Directors and subsequently met him to provide feedback. The Chairman provided feedback to each Director on their individual contribution to the Board and considered their development priorities with each of them.

#### Attendance

The table shows the attendance of Directors at scheduled Board and Committee meetings. The Board scheduled eight meetings during the year, including the two-day Strategy Conference, and additional 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
Matt Brittin	7(8)	4(4)	-	4(4)	-
Mike Coupe	8(8)	-	-	-	-
Anna Ford	8(8)	-	2(2)	4(4)	4(4)
Val Gooding	2(3)	-	-	1(1)	1(1)
Mary Harris	8(8)	1(1)	2(2)	4(4)	3(3)
Gary Hughes	8(8)	4(4)	-	4(4)	-
Justin King	8(8)	-	1(2)	-	-
John McAdam	8(8)	4(4)	-	4(4)	-
John Rogers	8(8)	-	-	-	-
Darren Shapland	3(3)	-	-	-	-
Bob Stack	8(8)	-	-	4(4)	4(4)
David Tyler	8(8)	-	-	4(4)	-

The maximum number of meetings held during the year that each Director could attend is shown in brackets.

As referred to above there were a number of informal meetings during the year when Directors met individual members of the Operating Board to receive updates on their specific areas of responsibility. In addition, the Chairman and Non-Executive Directors met without the Executive Directors being present, and the Non-Executive Directors also met without the Executive Directors or the Chairman being present.

#### Investor relations

The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of Justin King, John Rogers and Adam Wilson Katsibas, Head of Investor Relations. The Chairman is generally available to shareholders and meets with institutional and other large investors, the Senior Independent Director is also available as required.

The Company regularly meets with its large investors and institutional shareholders who, along with sell-side 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](http://www.j.sainsbury.co.uk/investors)) so as to be available to all investors. During the year the Investor Relations department met with members of The UK Small Shareholders' Association.

The Board regularly receives feedback on the views of major investors and the IR programme. In addition, Makinson Cowell provide investor relations consultancy services to the Company and give an external analysis to the Board at the strategy conference on the views of institutional investors and sell-side 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 this year will be held on 11 July 2012. 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 pages 120 to 122 and on the Company's website ([www.j.sainsbury.co.uk/investors](http://www.j.sainsbury.co.uk/investors)).

## **Board Committees**

**The Board delegates certain responsibilities to its principal committees: The Audit Committee; Remuneration Committee; Nomination Committee; and Corporate Responsibility Committee. Further details are set out over the following pages.**

## Board Committees

The Audit Committee ensures 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 reviews succession planning at Board and Operating Board levels. The Corporate Responsibility (CR) Committee reviews key CR policies, taking into account the Company's CR objectives and the overall strategic plan. Further details are set out below.

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### Operating Board

Day-to-day management of the Group is delegated to the Operating Board, which is chaired by Justin King. The Operating Board held ten scheduled meetings during the year and each Director's responsibilities are set out on page 35. It has formal terms of reference setting out its key responsibilities. Minutes are copied to the Chairman and Non-Executive Directors.

The Operating Board has delegated certain powers to the Trading Board, the Retail & Logistics Board, the Investment Board, the Group Safety Committee and the Corporate Responsibility Steering Group, each of which has approved terms of reference setting out its areas of responsibility.

### Nomination Committee

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

As referred to above, the Board evaluations considered the balance, skills and diversity of the Board as part of the review of whether it is working effectively. This assists with succession planning. Our diversity is described in more detail on page 37 of the Directors' report and in the Chairman's statement above.

During the year Darren Shapland decided to step down from the Board but agreed to remain Non-Executive Chairman of Sainsbury's Bank. The Committee was fully engaged in the change in responsibilities in July 2011 which resulted from Darren's decision.

In May 2012 we announced that Bob Stack had decided to stand down from the Board with effect from our AGM in July. Mary Harris will then take over as chair of the Remuneration Committee. The Nomination Committee has instructed search consultants Egon Zehnder in connection with the recruitment of a new Non-Executive Director. The Committee has considered the balance of skills, experience and diversity on the Board in determining the types of candidate who might best fit the specification of this role.

The Committee also conducted reviews of succession plans for the Operating Board, Departmental Director development, talent management and the graduate programme at the time of the Strategy Conference. The Committee was engaged in the changes made to the Operating Board in March 2012 which saw Roger Burnley become Managing Director, General Merchandise, Clothing and Logistics after four years as Retail and Logistics Director, and Helen Buck became Retail Director after 18 months as Convenience Director.

The Committee's terms of reference are available on the website ([www.j-sainsbury.co.uk/governance](http://www.j-sainsbury.co.uk/governance)) and set out the Committee's responsibilities. The Committee meets on such further occasions as are necessary and in 2011/12 held four meetings in total.

### Audit Committee

The Committee is chaired by Gary Hughes with John McAdam, and Matt Brittin as its other members, all of whom are independent Non-Executive Directors. See page 46 for further details.

### Remuneration Committee

The Committee is chaired by Bob Stack, with Anna Ford and Mary Harris as its other members. Mary joined the Committee in July 2011. The Remuneration Report is set out on pages 52 to 65.

### Corporate Responsibility Committee

The Committee is chaired by Anna Ford, and Justin King and Mary Harris are its members. David Tyler attends each meeting. It met twice during the year. These formal committee 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 such meetings were held relating to each of the five principles, framed within our *20 by 20 Sustainability Plan* which was launched in October 2011.

The Committee is supported by an internal corporate responsibility governance structure whereby members of the Operating Board have responsibility for each of our five values and sit on our Corporate Responsibility Steering Group, which meets quarterly and is chaired by Justin King. The members of the Steering Group are shown on page 45.

This year's Corporate Responsibility Report will be published later in the year.

**Anna Ford**

Chair, Corporate  
Responsibility  
Committee

**Corporate Responsibility Committee**

**Dear shareholder,**  
**With 22 million customer visits every week, employing around 150,000 colleagues and 2,000 direct suppliers in over 70 countries, Sainsbury's operates a significant economic, social and environmental value chain.**

Corporate responsibility ('CR') is an integral part of Sainsbury's business, with our five values critical to our goal of making all our customers' lives easier every day by offering great quality and service at fair prices. They are also key to achieving our vision to be the most trusted retailer where people love to work and shop.

As chair of the Corporate Responsibility Committee, I report to the Board twice a year on our plans and on the progress we have made against each of these values. I've chaired the work of the Committee for six years and have seen a significant development in the Company's approach in that time. While our values remain constant, the level of organisation and activity has become increasingly sophisticated with a sharp focus on ensuring our values also provide value for customers, colleagues and shareholders.

In October 2011 we launched our *20 by 20 Sustainability Plan* to strengthen and further integrate corporate responsibility into our business. We created the plan by working closely with over 40 stakeholders and specialists, ranging from the National Farmers' Union to the World Wildlife Fund. It has been well received by colleagues, customers and experts. We continued our external engagement during the year, meeting 35 key stakeholders through five corporate responsibility discussions. Each focused on one of our five values looking at topics such as youth engagement, water stewardship, community activities, sustainable living and how we can break down

the barriers to healthy eating. In addition we have met with a number of sustainable or socially responsible investors.

Our major highlights over the past year are noted on pages 8 to 9 as well as being outlined in the business review on page 25. This track record has been recognised by numerous awards and sustainability indices, a selection of which is listed on these pages with others noted on our corporate website.

We hold Gold class status in the Dow Jones Sustainability Index, which we first joined in 2003, and were recognised as a sector leader in this globally-recognised Index. We have retained our high rating in the FTSE4Good Index, which we have been part of since its inception in 2001. Within FTSE4Good we were rated the highest performer relative to our sector across all three pillars of environmental, social and governance practices. These are the two most respected indices which enable financial institutions to benchmark companies' performance in corporate responsibility and sustainability. We also retained our Platinum Plus status in the Business in the Community Corporate Responsibility Index, as well as being recognised for our performance on a range of specific issues including energy, marine stewardship and animal welfare.

Perhaps most importantly, our customers voted Sainsbury's joint first among our peers for taking social and environmental responsibilities seriously. I find it particularly heartening that in challenging economic times we see that Sainsbury's customers continue to look to us to help them live their values.

The Company remains focused on ensuring our values make us different and benefit our customers, colleagues and shareholders. We will be providing a full update in our Corporate Responsibility Report later this year. This will be published to coincide with the anniversary of Sainsbury's *20 by 20 Sustainability Plan*. In the meantime I encourage you to find out more about this important aspect of our business at [www.j-sainsbury.co.uk/cr](http://www.j-sainsbury.co.uk/cr).

**Anna Ford**  
Chair, Corporate Responsibility Committee



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**Our 20 by 20 Sustainability Plan**

In many ways the commitments encapsulated in our *20 by 20 Sustainability Plan* are not new to Sainsbury's. We have sought throughout our 143-year history to lead in matters of business responsibility and ethics. Examples of our contribution over the past decade include transforming the market for fairly traded products and sustainable seafood, improving animal welfare, and championing community investment.

With our *20 by 20 Sustainability Plan*, we formalise our action against those values, as well as recognising the new and changing issues which today's world faces.

In developing the plan we undertook a detailed auditing and materiality process. This encompassed listening to our customers, suppliers and opinion formers to make sure we have the most relevant and effective agenda, leverage the knowledge and experience of experts, and remain at the forefront of sustainability between now and 2020.

With the clarity of purpose that the *20 by 20 Sustainability Plan* brings, we are focused on its delivery, whilst also ensuring we continue to engage and look beyond 2020.

**Awards**

Our CR achievements this year are recognised by a number of awards, including

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**Gary Hughes**

Chairman,  
Audit Committee

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## Audit Committee

**Dear shareholder,**  
**As part of the Board's overall responsibility for risk, supervision of Sainsbury's internal controls and risk management is clearly delegated to the Audit Committee. We have a good balance of skills and experience amongst the Committee members, supported by a strong Internal Audit function and a management team who have instilled a strong culture throughout the business.**

The Committee is satisfied that there is transparency and clear lines of accountability so that the identification and management of risks is embedded throughout the business, with strong oversight by the Operating Board. Risks are actively managed and reviewed with focus on specific areas of change. In addition to reviewing the overall processes, the Committee regularly receives updates on the specific areas of risk from the relevant members of the management team.

We believe that governance of risk at Sainsbury's is strong and this view has been supported by recent annual Board and Committee evaluations, which reviewed the overall approach to risk management. The Internal Audit function plays a vital role in the governance structure and the Committee was therefore pleased with the review of the function conducted and presented to the Committee by Deloitte during the year. The overall assessment was that it is a high performing function which is well respected by its key stakeholders, compliant with the requirements of the Institute of Internal Auditors standards and achieving performance levels which were considered to be leading practice in many key areas. The team has strong complementary skills and there has been significant improvement since the last external review which was conducted five years ago.

**Gary Hughes**  
Chairman, Audit Committee

The Audit Committee is chaired by Gary Hughes with John McAdam, and Matt Brittin as its other members, all of whom are independent Non-Executive Directors. Mary Harris attended one meeting of the Committee before she joined the Remuneration Committee in July. The Board has determined that Gary Hughes has recent and relevant financial experience. The Chairman, Justin King, John Rogers, Susannah Hall (Director of 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.

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

#### Principal activities during the year

During the year the Committee met on four occasions, the agendas being organised around the Company's reporting cycle. The Committee regularly met with the external auditors without management being present. 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 a calendar of standard items within its remit.

	Standard items
<b>September</b>	Accounting update PwC performance review Litigation report Internal controls framework and fraud update Risk management update Sainsbury's Bank report PwC audit plan, audit strategy and fees Terms of reference update
<b>November</b>	Half-year accounting update PwC Interim review report Draft interim statement Litigation report Internal controls framework and fraud update Sainsbury's Bank report Update on PwC management letter Non-audit fees
<b>March</b>	Accounting update Litigation report Internal controls framework and fraud update Risk management update Internal audit charter Principal risks and uncertainties PwC internal controls report PwC report on auditor independence Non-audit fees Sainsbury's Bank report
<b>May</b>	Year-end accounting update, including going concern review Litigation report Annual Report and Financial Statements Non-audit fees PwC year-end report and required communications External auditors' appointment Internal controls framework and fraud update Sainsbury's Bank report

In addition, the Committee reviewed a number of specific presentations and updates during the year. For instance, it reviewed a new store audit approach which will be implemented over the coming year and an update on the Company's IT change framework and an external independent review on IT security.

The Committee has regularly reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of its recommendations. Susannah Hall reports to the Committee Chairman and has direct access to all members of the Committee and the Chairman. She meets the Committee separately after each meeting without management being present. She has regular meetings with all Committee members. The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter. The Committee reviews the Charter annually. During the year the independent review of the Internal Audit function described above was conducted and presented to the Committee by Deloitte.

As described in detail below, the Committee has also reviewed:

- the effectiveness of the Company's financial controls and the systems of internal control by approving the Internal Audit plans twice yearly and reviewing the findings quarterly, and by reviewing the scope of work and reports of the external auditors. The detailed actions for resolution of any identified weaknesses are closely monitored by the Committee through to completion, and
- the management of risk by reviewing the risk assessment process and corporate and divisional risk maps and registers twice yearly. The risk registers outline the key risks faced by the business including their impact and likelihood, along with the relevant mitigating controls, assurance providers and actions, and they form the basis of the Internal Audit planning process.

The Committee also regularly reviews 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 making the going concern statement set out on page 37.

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. PwC have been the Company's auditors since 1995. PwC are required to rotate the audit partner responsible for the Group and subsidiary audits every five years. Richard Hughes, the current audit partner, was appointed in July 2010. The Committee recommended PwC's re-appointment as auditors to the Board and this resolution will be put to shareholders at the AGM.

In order to ensure their independence, the Committee has implemented the Company's policy which restricts the engagement of PwC in relation to non-audit services. The majority of the non-audit work undertaken by PwC during 2011/12 related to a segregation of duties review in relation to a systems upgrade. The non-audit fees for the year were £0.1 million and the audit fee for the year in respect of the Group, Company and its subsidiaries (including the fee for the interim review) totalled £0.8 million. The policy was reviewed during the year and is consistent with the Auditing Practices Board's Ethical Standards No 5 – 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, including internal audit and actuarial services relating to the preparation of accounting estimates for the financial statements. It also requires that individual engagements above a certain fee level may only be undertaken with appropriate authority from the Committee Chairman or the Committee.

The policy also recognises that there are some types of work, such as accounting and tax advice, where a detailed understanding of the Company's business is advantageous. The policy is designed to ensure that PwC is only appointed to provide a non-audit service where it is considered to be the most suitable supplier of the service. 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 Company's 'whistleblowing' procedures ensure that arrangements are in place to enable colleagues and suppliers to raise concerns about possible improprieties on a confidential basis. All issues raised have been investigated and appropriate actions taken. Any significant issues would be highlighted to the Audit Committee.

The Company has a fraud policy and 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 a fraud update at each meeting.

The Committee receives an update at each meeting about matters discussed at the Sainsbury's Bank Audit Committee and on any other key matters. Given the economic climate it has continued to focus on the Bank's liquidity and cash flows, capital adequacy and risk management processes.

#### Grocery Supply Code of Practice

In February 2010, a new Grocery Supply Code of Practice ('GSCOP') was implemented following the recommendation of the Competition Commission. Each grocery retailer to which it applies had to appoint a Code Compliance Officer whose duties include hearing disputes between suppliers and the relevant retailer. Sainsbury's has appointed the Director of Internal Audit as its Code Compliance Officer.

GSCOP requires that each grocery retailer to which it applies must deliver an annual compliance report to the Office of Fair Trading which has been approved by the chair of the Audit Committee. Furthermore a summary of the compliance report must be included in our Annual Report and Financial Statements.

#### Summary Annual Compliance Report

Sainsbury's has invested significant time and resource in providing comprehensive training to all relevant colleagues as required under GSCOP. This training is reinforced by online knowledge testing and further supported by training and reference materials on our intranet. Sainsbury's has also dedicated internal legal resource to provide all relevant colleagues with day-to-day advice and guidance.

A small number of alleged breaches of GSCOP has been received in the reporting period, all of which either have been or are in the process of being resolved to the supplier's satisfaction within the Trading Division using our standard internal escalation procedure. The resolution of one alleged breach was facilitated by the Code Compliance Officer in accordance with GSCOP.

#### Risk management and internal controls

The Board has overall responsibility for risk management and the system of internal controls and for reviewing their effectiveness. Certain of these responsibilities have been delegated to the Audit Committee as outlined on page 47. The system 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.

The risk management process and the system of internal controls have been in place for the whole year, up to the date of approval of the Annual Report and Financial Statements, and accord with the Turnbull guidance and the UK Corporate Governance Code.

The Audit Committee has reviewed the effectiveness of the system of internal controls and has ensured that any required remedial action on any identified weaknesses has been, or is being taken.

#### Risk management

Accepting that risk is an inherent part of doing business, the risk management system is designed to identify key risks and to provide assurance that these risks are fully understood and managed. The effectiveness of the process is reviewed twice a year by the Audit Committee. The Board carries out an annual review of the significant risks facing the business.

The Operating Board maintains an overall corporate risk register which is reviewed twice yearly by the Audit Committee and formally discussed with the Board. The risk register contains the significant risks faced by the business and identifies the potential impact and likelihood at both a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). This gives the Board the opportunity to review the level of risk that the business is prepared to accept. The register also contains the assurance provided over current key mitigating controls. Where further actions have been identified to mitigate risks to a level deemed acceptable, these are agreed with specific timelines for delivery and are monitored closely until fully implemented.

The risk management process is cascaded from the Operating Board through to each of the operating divisions of the business as follows:

- the divisional operating management teams are responsible for managing the risks to their business objectives and for identification and implementation of internal controls so as to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed,
- this divisional risk process is achieved through twice yearly workshops (in January/August) held by the divisional management and facilitated by Internal Audit. Each divisional management team produces and maintains a divisional key risk register. The likelihood and impact of each key risk is evaluated and actions deemed necessary to mitigate them are identified. In addition, the risks and the robustness of the mitigating controls are regularly reviewed by divisional management as part of their normal business activities,
- management certify annually (in May) that they are responsible for managing 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 (in February/August) and challenges the output of the divisional risk process and then updates the overall corporate risk register as appropriate,
- Game-Changer risk workshops are held (in June/July) to focus on external and unknown risks,
- the corporate and divisional risk registers form the basis of the risk-based plan of Internal Audit for the subsequent half-year period (in March/September),
- Internal Audit provides independent assurance to management and the Audit Committee as to the existence and effectiveness of the risk management process, and
- The Board reviews, in May, the risk process, corporate risks and approves the Company's Principal Risks and Uncertainties.

## Corporate governance statement continued

The risk management process is illustrated below

Company's strategy, plans and objectives

DIAGRAM REMOVED  
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Governance

### Internal controls

The system of internal control encompasses all controls including those relating to financial reporting processes (including the preparation of the consolidated Group accounts), operational and compliance controls, and those relating to risk management processes. It also includes the controls over Sainsbury's interests in Sainsbury's Bank and property joint ventures.

The Audit Committee assesses the effectiveness of the internal controls systems on an ongoing basis, enabling a cumulative assessment to be made. The processes used during the year to support this assessment are as follows:

- discussion and approval by the Board of the Company's strategy, plans and objectives, and the risks to achieving them,
- review and approval by the Board of budgets and forecasts, including those for both revenue and capital expenditure,
- regular reviews by management of the risks to achieving objectives and mitigating controls and actions,
- regular reviews by management and the Audit Committee of the scope and results of the work of Internal Audit across the Company and of the implementation of their recommendations,
- regular reviews by the Audit Committee of the scope and results of the work of the external auditors and of any significant issues arising,
- regular reviews by the Audit Committee of accounting policies and levels of delegated authority, and
- regular reviews by the Board and the Audit Committee of material fraudulent activity and any significant whistleblowing by colleagues or suppliers, and actions being taken to remedy any control weaknesses.

## Principal risks & uncertainties

The risk management process is closely aligned to accelerating our growth plan, which focuses on growing the business through the addition of new range, space, business development, channels to market and property management. 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 page 48. The management of these risks is based on a balance of risk and reward determined through careful assessment of both the potential likelihood and impact. Consideration is given to both reputational as well as financial impact, recognising the significant commercial value attributable to the Sainsbury's brand. The principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority.

### Business continuity and major incidents response

#### Risk

A major incident or catastrophic event could impact on the Group's ability to trade.

#### Mitigation

Sainsbury's has detailed plans in place, supported by senior representatives who are trained in dealing with major incidents and have the authority levels to make decisions in the event of a potentially disruptive incident.

The Business Continuity Steering Group meets quarterly to ensure that the business continuity ('BC') policy and strategy is fit for purpose. In addition, it oversees the mitigation of all risks associated with BC and IT disaster recovery. In the event of any unplanned or unforeseen events, the Business Continuity Management Team is convened at short notice to manage any associated risk to the business.

All key strategic locations have secondary backup sites which would be made available within pre-defined timescales and are regularly tested.

### Business strategy

#### Risk

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

#### Mitigation

A clear strategy remains in place with five key areas of focus:

- Great food,
- Compelling general merchandise and clothing,
- Complementary channels and services,
- Developing new business, and
- Growing space and creating property value.

Progress against these areas of focus and any risks to delivery, such as the availability of suitable new store sites, are regularly reviewed by the Board and the overall strategy is reviewed at the 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 the strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, colleagues, customers and suppliers on a continual basis.

### Colleague engagement, retention and capability

#### Risk

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

#### Mitigation

The Group's employment policies and remuneration and benefits packages are regularly reviewed and are 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.

### Data security

#### Risk

It is essential that the security of customer, colleague or company confidential data is maintained. A major breach of information security could have a major impact on the business.

#### Mitigation

Various information security policies and standards are in place which focus on encryption, network security, access controls, system security, data protection and information handling. A review of key contractors across the organisation who hold sensitive customer or colleague data is ongoing, and progress is monitored by the Information Security Risk Committee. A risk-based security testing approach across Sainsbury's IT infrastructure and applications is in place to identify and remediate ongoing vulnerabilities.

### Environment and sustainability

#### Risk

Environment and sustainability are core to Sainsbury's values. 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.

#### Mitigation

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' expectations in this area. Further details are included in the Corporate Responsibility review on pages 44 to 45.

### Financial strategy and treasury risk

#### Risk

The main financial risks are the availability of short and long-term funding to meet business needs, counterparty liabilities and fluctuations in interest and foreign currency rates which continue to be impacted by the turbulence in the financial markets.

#### Mitigation

The Group 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 28 on pages 99 to 104. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.

## Health and safety – people and product

### Risk

Prevention of injury or loss of life for both colleagues and customers is of utmost importance. In addition it is paramount to maintaining the confidence our customers have in our business.

### Mitigation

Clear policies and procedures are in place detailing the controls required to manage health and safety and product safety risks across the business and comply with all applicable regulations. These cover the end-to-end operation from the auditing and vetting of construction contractors to the health and safety processes in place in our depots, stores and offices to the controls in place to ensure people and product safety and integrity.

Process compliance is supported by external accreditation and internal training programmes, which are aligned to both health and safety laws and Sainsbury's internal policies. In addition, resource is dedicated to manage the risk effectively, in the form of the Group Safety Committee and specialist teams including Convenience Risk Managers and Logistics and Commercial Safety Specialists.

## IT systems and infrastructure

### Risk

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

### Mitigation

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

### Risk

The Group operates a number of pension arrangements which includes a defined benefit scheme. This scheme is subject to risks in relation to its 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.

### Mitigation

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

## Regulatory environment

### Risk

The Group's operations are subject to a broad spectrum of regulatory requirements. Key areas subject to regulation include planning, competition and environmental issues, employment, pensions and tax laws and regulations over the Group's products and services.

Failure to comply with laws and regulations could lead to civil and/or criminal legal prosecution and fines or imprisonment imposed on Sainsbury's or our colleagues. In addition, a breach could lead to reputational damage.

### Mitigation

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

Processes for monitoring and embedding training for key new legislation are in place and Sainsbury's also has a dedicated internal legal department to provide the relevant colleagues impacted by the regulations with advice and guidance.

## Trading environment

### Risk

Effective management of the trading account is key to the achievement of performance targets. The continued challenging economic environment and competitive retail pressure could affect the performance of the Group in terms of sales, costs and operations, through:

- the ongoing challenges to household disposable income,
- competitor pricing positions,
- the reduction of the industry profit pool in the last year, and
- commodity costs driving up the cost of goods.

There is also a risk of supplier or other counterparty failure, with possible operational or financial consequences for the Group.

### Mitigation

We continue to focus 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, monitoring of current market trends and price points across competitors, active management of price positions, development of sales propositions and increased promotion and marketing activity. While external cost pressures including oil-related costs, commodity pricing 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. Sainsbury's undertakes credit checks on suppliers and maintains regular, open dialogue with key suppliers concerning their ability to trade.

# Remuneration report

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Governance

**Bob Stack**

Chairman,  
Remuneration  
Committee

**Dear shareholder,  
Since I became Chairman of the Remuneration Committee in 2005, the remuneration policy has gradually evolved alongside our business strategy. Throughout this process we have continued to place significant emphasis on ensuring that executive remuneration is weighted towards performance-related elements and directed towards creating sustainable long-term shareholder value.**

During the year, the Committee took the opportunity to review the long-term incentive plan ('LTIP') framework which was originally implemented in 2006. The purpose of the review was to ensure that our performance targets retained a strong alignment with the longer term business plans of the Company and, in particular, to ensure that our growth is delivered in a profitable way. We wanted to bring in an additional measure so that the plan would focus on what we see as being the important success factors over the coming years. The changes made this year will also make the performance measurement more transparent for participants and shareholders. As part of the review, we consulted with our major shareholders. The dialogue was informative and constructive, and we have used the feedback in determining our final design.

We have not made any changes to award levels as a result of the review. Therefore maximum opportunities under the three incentive plans for Executive Directors shall remain unchanged from last year.

Sainsbury's continues to deliver good performance and this has been achieved despite the continued weakness within the retail sector and the wider economy. The vesting of this year's cash annual bonus and the 2009/10 long-term incentive plan is lower than the awards which vested last year, and this is a function of the stretching targets that were set at the start of the relevant performance period. The Deferred Share Award is our medium-term incentive plan, and the vesting outcome for 2011/12 reflects the positive actions taken by management to build the long-term growth of the Company.

In order to help shareholders to understand how pay is linked to performance, we have included a new section in this year's Remuneration Report, which summarises the payout for the Chief Executive from the different elements of the package as they relate to performance in 2011/12.

The remuneration policy for the coming year is set out in greater detail in the main body of the report.



## Remuneration report continued

### Key points include

- In keeping with our long standing approach, pay awards made to the Executive Directors at the start of the 2012/13 financial year were consistent with the approach taken across the wider Company. Justin King's salary was increased by 2.17 per cent.
- During the year the Company achieved year-on-year growth in both sales and profit. The outcome under the annual bonus plan reflects the highly stretching targets which were set at the start of the year.
- The maximum opportunities for Executive Directors under the Annual Bonus, Deferred Share Award and Long-Term Incentive Plan are unchanged from last year.
- As a result of the review of the long term incentives and following shareholder consultation, the Committee has decided that for the 2012/13 grant, awards will be based on a combination of return on capital employed ('ROCE'), cumulative underlying cash flow from operations and relative sales performance.
- These changes will focus management on efficient use of our capital base, generating cash flow through increased profitability and achieving sales growth more successfully than our peers.
- In recognition of the recent developments in best practice and the concerns of shareholders generally, we are also introducing a claw-back provision for future long-term incentive awards. This will further strengthen our formal governance in line with our existing philosophy.

The remuneration policy and framework as detailed in this Remuneration Report provide a platform to incentivise, motivate, retain and reward our leadership team. We are confident that our consistent efforts to ensure a direct link between pay and performance in the areas most valued by our shareholders have significantly contributed to building a focused leadership team.



**Bob Stack**  
Chairman, Remuneration Committee

### Summary of performance for 2011/12

Under the leadership of our experienced Executive team, we continue to deliver strong performance relative to our peers and this has been achieved despite the continued weakness within the retail sector and the wider economy. This highlights our continued improvement in performance across all key areas.

The charts below demonstrate the sustained performance and the value that we have delivered to our shareholders over an extended period.

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## Remuneration report continued

### Chief Executive Pay Summary

In order to provide shareholders with greater clarity as to how performance is linked to pay levels, the following table shows a breakdown of remuneration for the Chief Executive for 2011/12 and for 2010/11

The table shows variable remuneration elements which are linked to performance in 2011/12. Shareholders will note that the Deferred Share Award is subject to a further two-year deferral period from the date of the award and that one half of the Value Builder award is subject to a further one-year deferral period

		Chief Executive (£'000s)	
		2011/12	2010/11
<b>Base salary</b>	• Paid in the year	920	900
<b>Pension and benefits</b>	• Paid in the year	306	301
<b>Annual Bonus<sup>1,2</sup></b>	• Based on performance over one year	514	520
<b>Deferred Share Award<sup>3,4</sup></b>	• Based on performance over one year • Full award deferred for further two years	897	934
<b>Long Term Incentive Plan<sup>5</sup></b>	• Based on performance over the last three years • Half of the award shown here will be deferred for a further year	735	1,052
<b>Total</b>		<b>3,372</b>	<b>3,707</b>

- 1 Annual bonus payouts are based on profit, sales and customer focused targets plus performance against individual objectives
- 2 The bonuses awarded to the Executive Directors for 2011/12 averaged 46 per cent of the maximum bonus opportunity, reflecting the highly stretching performance targets that were set at the start of the financial year
- 3 The Deferred Share Award demonstrates the link between Sainsbury's strategic goals and its incentive plan framework
- 4 Awards made under the third plan cycle, covering 2011/12, recognised the progress that has been made on the annual targets that are firmly focused on building long term, sustainable success. Most of the targets set were either achieved or exceeded, further contributing to the creation of shareholder value, and awards will be made to all participants at 78 per cent of the maximum available under the plan
- 5 The fourth cycle of the Value Builder plan was based on growth in ROCE and cash flow per share, with performance measured over the three financial years to 17 March 2012. Over the period the Company made substantial improvements in both cash generation and the returns achieved on our assets. Awards vested at 43 per cent of the maximum opportunity, one half of the shares to vest become exercisable in May 2012, and the balance will be exercisable in May 2013

#### Note

- The Deferred Annual Bonus Plan is a dormant plan described on page 61. No matching shares vested in respect of the 2009 grant which was tested at the end of the financial year. 143,818 matching shares were awarded in March 2011 in respect of the 2008 grant which was tested at the end of the 2010/11 financial year

### This report

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report sets out the remuneration policy, while the second part details the remuneration, pensions and share plan interests of the Directors for the 52 weeks to 17 March 2012. The Directors confirm that this report has been prepared in accordance with the Companies Act 2006 and reflects the provision of Schedule 8 of the Large & Medium sized Companies and Groups (Accounts & Reports) Regulations 2008.

A resolution will be put to shareholders at the Annual General Meeting ('AGM') on 11 July 2012 asking them to approve this report.

### Remuneration Committee

The Remuneration Committee comprises Bob Stack (Chairman), Anna Ford and Mary Harris. Mary joined the Committee in July 2011, replacing Val Gooding. All members of the Committee are independent Non-Executive Directors. Mary Harris will become Chairman of the Committee when Bob Stack steps down from the Board in July 2012.

### Role and responsibilities of the Committee

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
- considering the achievement of the performance conditions under annual bonus and long term incentive plans, 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](http://www.j-sainsbury.co.uk/governance))

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. David Tyler, Justin King and Gwyn Burr, Customer Service and Colleague Director, are invited to attend Committee meetings, in addition to Diana Breeze, Director of Corporate HR. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. Individuals who attend Remuneration Committee meetings do not participate in discussions concerning their own remuneration.

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 supported by its appointed advisers, Deloitte LLP ('Deloitte'), whose consultants attended all of the Committee meetings. Deloitte provided the Company with unrelated advice and consultancy regarding information technology, online strategy, and a range of taxation matters. Towers Watson provided comparative data which was considered by the Committee in setting remuneration levels and it also provided actuarial services in the year. Total Shareholder Return ('TSR') calculations are supplied by UBS, who provided broking and banking services to the Company during the year.

## Remuneration report continued

### Principal activities and matters addressed during 2011/12

The Committee has a calendar of standard items within its remit and in addition it held in-depth discussions on specific topics during the year. The Committee typically meets four times each year.

The table below shows the items considered at each meeting, leading up to the meeting in May where the key decisions regarding vesting outcomes and grants for the coming year are determined.

	Standard Items	2011/12 Topics
September	<ul style="list-style-type: none"> <li>• Review of dilution under Company share plans</li> <li>• Summary of share grants</li> <li>• Performance update under outstanding incentive plans</li> </ul>	<ul style="list-style-type: none"> <li>• Review of Chairman's fee</li> <li>• Corporate governance and market update review</li> <li>• Initiate LTIP review</li> </ul>
January	<ul style="list-style-type: none"> <li>• Initial salary review</li> <li>• Initial proposals for forward looking incentive plan designs</li> <li>• Performance update under outstanding incentive plans</li> </ul>	<ul style="list-style-type: none"> <li>• LTIP review</li> <li>• Competitive review of Directors' total remuneration packages</li> <li>• Corporate governance update</li> </ul>
March	<ul style="list-style-type: none"> <li>• Develop proposals for forward looking incentive plan designs</li> <li>• Directors' salary review decisions</li> <li>• Performance update under outstanding incentive plans</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder consultation process for revised LTIP</li> </ul>
May	<ul style="list-style-type: none"> <li>• Review of performance and vesting under Annual Bonus and Deferred Share Award</li> <li>• Review of performance and vesting under LTIP</li> <li>• Determine incentive structure for coming year including finalisation of targets</li> <li>• Remuneration report</li> </ul>	<ul style="list-style-type: none"> <li>• Finalise LTIP design</li> </ul>

### Remuneration Policy

The Committee considers that the Remuneration Policy should drive performance and complement the overall strategy of the Company. It believes that the ongoing growth and success of the Company during challenging market conditions is testament to this approach. It is committed to ensuring that the management team is rewarded for continuing to deliver the Company's growth plans and is appropriately aligned with the creation of long-term shareholder value.

The Company's current arrangements, therefore, incorporate performance metrics which link to the business strategy, and specifically the five areas of focus (as described in the Business review) which are directed towards generating good long-term growth.

### The Company's Remuneration Policy is as follows

It remains the Committee's intention that Directors' remuneration should be competitive, both in terms of base salary and total remuneration. This approach is designed to promote the Company's short and long-term successes through the securing of high calibre executive talent. This, in turn, is one of the key ways in which shareholder value can be further created and strengthened.

- Basic salaries should be market competitive, determined by drawing on a range of factors. The Committee considers the individual's experience, potential, performance, job size and scope, along with data that takes into account the remuneration of comparable executive roles in similar companies. The Committee also has regard to the external business environment and the general level of increases applied across the Company.

- The design and scale of pension provision and other employment benefits should be in line with wider market practice, placing a particular emphasis on the retail sector.
- Incentive plans should be linked to stretching performance measures and targets, covering a mix of financial and non-financial measures. The measures are reviewed and monitored to ensure that they do not drive unacceptable behaviours or encourage excessive risk-taking. Incentive plan awards are not pensionable.
- A significant proportion of the total remuneration package is performance-related, aligning management's and shareholders' interests. Exceptional levels of performance will be rewarded with exceptional levels of total reward.
- The Committee expects the Executive Directors and Operating Board Directors to acquire and maintain a shareholding in the Company sufficient to align their interests with those of shareholders.

When reviewing or amending remuneration arrangements, the Committee considers any impact on the cost to the Company, employee behaviour, pay practices across the Company, stakeholders (including shareholders, governance bodies and employees), share dilution, best practice corporate governance and market competitiveness, particularly within the retail sector.

## Remuneration report continued

### Components of remuneration

The main remuneration components for the Executive Directors and Operating Board Directors comprise basic salary, pensions and benefits and awards under variable incentive plans

#### Fixed pay

Element	Purpose	Policy
Salary and benefits	Core element of remuneration paid for doing the expected day to-day job to a good standard	Consideration given to a number of internal and external factors. Benefits may include the provision of company car benefits, life assurance, colleague discount and private medical cover.
Pension	Market competitive pension, or cash contribution in lieu, provides an income following retirement	Combination of defined contribution and pension supplements. Defined benefit plan closed to new participants.

#### Variable pay

Element	Purpose	Timeframe	Performance metrics
Annual Bonus	Incentivise performance on an annual basis against key financial and non-financial targets and individual objectives	One-year	Profit, sales and customer-focused measures plus individual objectives
Deferred Share Award	Recognise and reward for delivery of short-term objectives which contribute towards long-term sustainable growth. Balance with Annual Bonus to ensure management remain mindful of long-term consequences of short-term actions.	One-year performance period plus two year deferral	Basket of metrics, covering: <ul style="list-style-type: none"> <li>• financial performance,</li> <li>• returns to shareholders,</li> <li>• relative performance against peers, and</li> <li>• strategic goals</li> </ul>
Long-Term Incentive Plan	Recognise and reward for delivery of Company performance and shareholder value over the longer-term.	Three-year performance period	For 2012/13 awards: <ul style="list-style-type: none"> <li>• ROCE (50%),</li> <li>• cumulative underlying cash flow from operations (30%) and</li> <li>• relative sales (20%)</li> </ul>
	Share-based to provide greater alignment with shareholder interests	Half of the award is deferred for a further year	

The relative proportion of the remuneration package that these elements represent at target performance are set out in the diagram below

Chief Executive

Other Executive Directors

CHARTS REMOVED  
FROM HERE

The balance between the fixed pay (basic salary, pension and benefits) and variable pay (Annual Bonus, Deferred Share Award and Long Term Incentive Plan) changes with performance, and the variable proportion of total remuneration increases significantly for increased levels of performance.

Around 60 per cent of the package is delivered through variable pay at on-target performance and this proportion increases to around three-quarters of the package at stretch levels of performance.

The Committee believes that it is important to align the interests of both management and shareholders and therefore a significant proportion of the Executive Directors' remuneration is made in the form of shares.

Overall, the Committee considers that the overall package structure is balanced, from the perspective of the breakdown between fixed and

variable elements, cash and shares and the phased delivery of rewards over time.

The sections below describe each component of the Executive Directors' remuneration package.

#### 1) Fixed remuneration

##### Basic salary

Basic salary for each Executive Director is determined by the Committee, taking account of a number of elements, including the Director's performance, experience, responsibilities and job size and scope, as well as external pay data. Furthermore, the Committee considers such information as economic factors, remuneration trends and focuses in particular on the general level of salary increases awarded throughout the Company. The Committee uses the same approach when reviewing the salaries of the Operating Board Directors.

## Remuneration report continued

The external pay data provided to the Committee is sourced from relevant roles within the UK retail sector, in companies with annual sales revenues over £5 billion and also in companies with a market capitalisation ranging from £3-£10 billion. This approach ensures that the most appropriate available benchmark for the Director's specific position is obtained, however, in line with best practice the Committee applies judgement when considering market data.

The Committee reviewed the Executive Directors' salaries for the start of the 2012/13 financial year. In the context of another good year, the Committee agreed salary increases for 2012/13 that were in line with the range of awards applied to management and non-management central colleagues (2 per cent). The hourly paid retail colleague award for 2011/12 was 2.7 per cent.

- An increase in Justin King's basic salary of £20,000, from £920,000 to £940,000
- Increases in John Rogers' and Mike Coupe's basic salaries of £10,000 each, from £500,000 to £510,000 and from £565,000 to £575,000, respectively
- In aggregate their total salaries have increased by £40,000, in line with the overall budget of 2 per cent of their combined 2011/12 basic salaries

### Pensions

The Company's Defined Benefit Pension Plan was closed to new members on 31 January 2002 and none of the Executive Directors participates in it.

In lieu of pension plan participation, Justin King receives a pension supplement of 30 per cent of salary whilst Mike Coupe receives a pension supplement of 25 per cent of salary.

John Rogers participates in the JS Self Invested Pension Plan, a defined contribution arrangement which is open to all senior management. In return for contributing five per cent of his salary the Company contributes 12.5 per cent of his salary up to an internal earnings cap (£129,600 for 2011/12). He receives a pension supplement of 25 per cent of the pensionable salary he was paid in excess of the earnings cap.

### Benefits

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

### ii) Variable remuneration – current plans

#### Annual bonus plan

All bonus plans across the Company are aligned under a set of common principles. For 2011/12, Board and management plans retained the same key metrics based on profit and sales growth, customer-focused measures, plus an element for individual performance.

Bonus awards are weighted to the achievement of profit, and it continues to act as the overall 'gateway' measure for the plan, reflecting the emphasis on growing profit. For Executive Directors at least half of the bonus is based on profit, and the remainder is based on sales, customer-focused targets and the achievement of individual objectives.

The customer-focused measures for 2011/12 were revised to be based on: (i) availability, which is measured across all stores on a regular basis by an independent third party, conducting random and unannounced store visits, and (ii) a customer service measure which is also assessed by an independent third party. Individual performance objectives are set annually for each Executive Director and are reviewed by the Committee. These objectives cover a variety of financial and operational targets that contribute to the achievement of longer-term strategic goals. Some of these objectives relate either directly or indirectly, to the Company's values.

The maximum cash bonus that could have been earned for 2011/12 was 125 per cent of salary in respect of the Chief Executive and 90 per cent of salary in respect of the other Executive Directors. The Committee

assessed performance against the performance targets at the start of the year, and for guidance, the outcome is as follows:

	Profit	Sales	Customer-focused	Individual performance
Above target			•	•
Target	•			
Threshold				
Below threshold		•		

During the year the Company achieved year on year growth in sales and profit but the sales performance was below the threshold level. The bonus outcome reflects the highly stretching targets which were set across all elements of the plan at the start of the year. Based on the above performance outcomes, the bonus payments for 2011/12 will be 55.9 per cent of salary for Justin King, 43.7 per cent of salary for John Rogers and 42.2 per cent of salary for Mike Coupe.

The 2011/12 bonus plan for store colleagues was based on the achievement of a corporate sales target as well as customer service targets measured in their individual stores. The Company's performance has enabled around 125,000 colleagues to earn awards from a bonus pool totalling over £60 million.

For 2012/13, the bonus measures will remain unchanged and the targets will be set to incentivise stretching year-on-year growth. The maximum annual bonus award opportunities will also remain unchanged at 125 per cent of basic salary for the Chief Executive and 90 per cent of basic salary for the other Executive Directors.

### Deferred Share Award

The Deferred Share Award (DSA) is intended to drive performance against a diverse range of business-critical financial and non-financial scorecard measures. These are intended to reward Directors for achieving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company.

The DSA covers broadly the top 40 managers in the Company, including Executive Directors. Share-based awards are made to participants subject to performance against a basket of key strategic measures which are aligned under four broad categories:

1. financial performance,
2. returns to shareholders,
3. relative performance against peers, and
4. strategic goals

At least 50 per cent of the award will be based on the delivery of financial performance (e.g. profit, earnings per share and sales) and returns to shareholders (e.g. TSR and dividend yield). The balance will be based on measures which will assess the Company's performance relative to its competitors (e.g. market share) as well as key strategic/corporate goals, linked to the five areas of focus. In addition, no shares will be awarded unless the profit gateway target (as applied to the annual bonus plan) is achieved.

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

When developing the DSA, the Committee gave careful consideration to the selection of its performance measures and targets, as well as to the robustness of the plan design. In reviewing the plan, the Committee has agreed that appropriate corporate responsibility targets would be included within the strategic goals category.

During the year, the Committee conducted an interim appraisal to gauge the progress of performance and the plan's effectiveness based on half-year results.

The Company has performed well in 2011/12, and this has flowed through to the basket of measures that the Committee considered for the purposes of making awards under the DSA. Although some of the specific measures and targets are commercially sensitive, the sections below present a selection of performance highlights within each of the four categories.

## Financial performance

Underlying profit before tax improved by 7.1 per cent to £712 million. Underlying operating margin improved by four basis points to 3.54 per cent, or ten basis points at constant fuel prices. Underlying basic earnings per share increased by 6.0 per cent to 28.1 pence.

## Return to shareholders

The Company saw its seventh consecutive year of like-for-like sales growth, with like-for-like sales (including VAT, excluding fuel) of 2.1 per cent. Our strong sales performance helped us to maintain a strong balance sheet, with return on capital employed of 11.1 per cent. This has enabled the Company to maintain a good level of returns to shareholders. The recommended full year dividend increased 6.6 per cent to 16.1 pence, covered 1.75 times by underlying earnings. Our dividend yield and price/earnings ratio remain amongst the highest in the sector. TSR was assessed on both a relative and absolute basis over one, three and five-year periods.

## Relative performance

Our sales grew ahead of the market, with market share increasing to 16.6 per cent despite the continuing difficult consumer environment. For the 46 weeks from 20 March 2011 to 4 February 2012 we outperformed the IGD pool by 0.6 per cent (source: IGD Market Track - in compliance with the Market Track 12 week exclusion rule). We grew our customer numbers by a further one million to 22 million per week, demonstrating our universal customer appeal and ability to reach more customers through our store opening programme and multichannel offer. We won the top award in the Retail Industry Awards 2011 for the second time in three years and for a second year running won the Convenience Chain of the Year award. Since the trial of *Brand Match* in August 2011, research has shown that the number of customers that agree that Sainsbury's sells brands at the same price as other supermarkets has risen from 68 per cent to 80 per cent.

## Strategic goals

The Company's strategy continues to centre on our five areas of focus. These are underpinned by Sainsbury's strong heritage and brand which consistently set it apart from major competitors. Further details on the corporate objectives can be found in the Business review, and details of the corporate responsibility commitments are summarised on pages 8 to 9.

- We made good progress with our Great Food programme, rolling this out across 333 stores. We successfully re-launched our core own label by Sainsbury's brand, with 3,700 products new or improved. We further improved our customer offer by introducing a Bakery College and six Food Colleges to equip our colleagues with the ability to deliver consistently great products to our customers, training 18,000 colleagues. We were proud to receive City & Guilds accreditation for the Colleges.
- Our compelling general merchandise and clothing ranges continued to grow significantly faster than food, driven by our focus on category champions and, in clothing, by the launch of a number of *Gok for Tu* ladieswear collections with the celebrity designer, Gok Wan. We continued to make it easier for our customers to shop for general merchandise by increasing our *Click & Collect* offer to over 900 stores across the country. We also continued to expand our online presence, with the acquisition of Global Media Vault Limited building our online entertainment capability.
- We continued the development of our multi-channel offer. Strong growth in the Convenience business, which now generates sales of £1.3 billion, was supported by the opening of a further 73 stores in the year, in line with our plans to open one to two stores per week. We were also proud to receive the Convenience Chain of the Year award at the 2011 Retail Industry Awards. Our online offer has continued to expand and grew at 20 per cent year-on-year, delivering sales of £0.8 billion. Sainsbury's Bank has performed strongly in the year, with Sainsbury's share of underlying post-tax profits up over 45 per cent.

- During the year, we continued to develop new businesses, including the launch of Sainsbury's Energy in partnership with British Gas and our first hospital outpatient pharmacy at the James Cook Hospital in South Tees. By moving into areas that are a natural extension of our brand we aim to grow value based on the trust people have in Sainsbury's, our colleagues and our values.
- Expanding and developing the store estate continued to be at the heart of the Company's strategy. During the year, we added 1.4 million sq ft of gross space achieved through the opening of 19 new or replacement supermarkets, the extension of 28 supermarkets and the opening of 73 new convenience stores. Our investments made over the past few years continue to deliver returns above our required hurdle and have helped to deliver sales growth and drive property value. Our return on capital employed was 11.1 per cent, a year-on-year movement of (2) basis points. ROCE growth was held back by the cumulative effect of our accelerated investment in our space growth programme. The Company still has a strong pipeline of sites for future development, both for new stores and extensions.
- The market value of the Company's freehold property portfolio increased by £0.7 billion to £11.2 billion as a result of £1.0 billion from investment and development activity offset by £0.3 billion from sales of properties. By taking advantage of competitive market pricing on these dry assets, the Company generated £83 million of property profits.
- The Company's corporate responsibility commitments have moved on significantly during the year. In October, we launched a £1 billion plan to ensure the Company remains at the forefront of sustainability between now and 2020. The Sainsbury's 20 by 20 Sustainability Plan sets out 20 sustainability targets to be achieved by 2020. Our industry-leading approach has also been recognised through our inclusion in the globally respected Dow Jones Sustainability Index, for a number of years. We have also retained our Platinum Plus status in the Business in the Community Corporate Responsibility Index, the highest external accolade in the UK. In December 2011, we pledged our support for Comic Relief and Sport Relief for another six years, which will see the total raised by colleagues and customers pass £100 million. This year's Sport Relief total was £5.5 million.

Following the year-end, the Committee conducted a rigorous assessment of performance. Consistent with the underlying principles of the DSA, the Committee assessed achievements in the round, and also considered the manner in which these strategic goals had been delivered, in particular how the overall performance of the Company had contributed to its future, sustainable growth and success.

The Committee agreed that for 2011/12, awards would be made at 78 per cent of the maximum level. This translates into a share award of 98 per cent of salary for Justin King and 70 per cent of salary for the other Executive Directors.

The Committee has reviewed the DSA's performance framework for 2012/13, the four performance categories and metrics will remain consistent with those agreed for 2011/12. The maximum DSA award opportunities will also remain unchanged at 125 per cent of basic salary for the Chief Executive and 90 per cent of basic salary for the other Executive Directors.

## Long-term Incentive Plan 2006

At its launch in 2006, this plan covered the Company's core management from the Chief Executive to supermarket store managers. From 2011/12, awards have covered around 200 of the Company's top leaders only, including the Executive Directors. An alternative reward framework was designed for supermarket store managers and other managers of an equivalent grade, which incentivises them against a range of operational and financial measures that are closely aligned to their roles.

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. Vesting of core awards is dependent upon performance against specific measures tested at the end of a three-year performance period. No awards vest for performance below threshold levels of performance and core awards can grow by up to four times at stretch levels of performance. There is no re-testing. The performance measures and the targets are common for all participants.

## Remuneration report continued

The performance measures are reviewed each year by the Committee, before a new grant is made, to ensure that they remain relevant and stretching

Awards granted under the new framework described below are referred to as Future Builder awards. Awards granted between 2006 and 2011 under the previous framework were referred to as Value Builder awards

### Future Builder – review for 2012/13 awards

During the course of 2011/12 the Remuneration Committee undertook an in-depth review of the performance metrics which would apply to awards granted under the Long-Term Incentive Plan for the 2012/13 cycle

The previous structure had been in operation since 2006, and therefore the Committee considered it appropriate to review the extent to which the performance targets supported the corporate ambitions of the Company during the next phase of development. Specifically, the intention was to ensure that awards complement the Company's future strategy as outlined in the Business review which would be achieved by delivering long-term sustainable performance in three key areas

- Improving the returns from our existing supermarkets business (both food and non-food),
- Driving growth through value adding new stores and extensions, and
- Creating new business growth through investing further in our existing convenience and online channels, building our presence in financial services, and pursuing new opportunities for example Energy and Pharmacy

The Committee determined that it was in the interests of both the Company and shareholders that the long-term incentives complement these strategic goals. The measures for the 2012/13 awards will focus on sustainable long-term growth while also improving visibility and transparency for both management and shareholders. As part of the design process the Committee consulted with major shareholders. The feedback received from shareholders was taken into account during the design process and influenced the final design.

The review primarily focused on performance metrics and strategic alignment, and therefore the maximum award levels for executive directors remain unchanged from last year.

For 2012/13 awards, vesting will be subject to three performance criteria: ROCE, cumulative underlying cash flow from operations and relative sales performance.

Element	Performance metrics
<b>ROCE</b>	<ul style="list-style-type: none"> <li>• ROCE reflects the value we gain from our assets, and as such is a critical measure of the quality of our business activity and the efficiency of capital use, and is therefore retained from the previous structure. To increase the transparency around this measure and bring greater consistency with published results, we propose to adjust the definition to reflect externally reported ROCE more closely, by removing the effect of the Group pension scheme.</li> <li>• In particular, an adjustment was previously made to the calculation for capital investments in the final year of the performance period. In line with our reported results, this adjustment will not be made in future years. Subsequently, the targets have been re-articulated to relate to the new definition. The Committee considers that the revised targets are of comparable stretch to the previous targets, taking into account the additional investment built into the business plan over the performance period.</li> </ul>
<b>Cumulative underlying cash flow from operations</b>	<ul style="list-style-type: none"> <li>• The definition of cash flow used under previous schemes had become highly complex and opaque for both participants and shareholders.</li> <li>• Therefore, for future awards the target will be based on cumulative underlying cash flow from operations over the performance period after adding back net rent and cash pension costs.</li> <li>• The Committee is of the view that this definition of cash flow provides a better measure of both cash flow and underlying profitability than the previous definition. In addition a cumulative target is also inherently more stretching than a point-to-point growth measure.</li> </ul>
<b>Relative sales</b>	<ul style="list-style-type: none"> <li>• This is an important metric used across the retail sector. Outperforming our direct peers on sales will be a key source of value for our shareholders, and therefore the Committee believes that this should be incentivised within the LTIP. Like-for-like sales are also the biggest driver for profitability and returns.</li> <li>• Since any profitable growth will primarily arise from outperforming in the UK market, it is proposed to measure sales performance against the Institute of Grocery Distribution ('IGD') Index on a like-for-like basis. The IGD Index measures growth in like-for-like sales (excluding fuel) across the market based on the performance of all of the Company's key competitors. This is an independently audited index of sales efficiency, which is viewed as a robust reference point for performance across the food retail sector. To retain visibility of vesting levels, shareholders will be provided with details of how the Company has performed against the index at the end of the period.</li> <li>• The growth targets have been set taking into account our current competitive position and longer term sustainable growth aspirations. Threshold vesting requires the Company to at least match the index over the period with full vesting requiring outperformance of the index.</li> </ul>

The relative sales objective is fully aligned with the core strategy of the business, and the Committee is satisfied that the presence of ROCE and cash flow targets will ensure management are incentivised towards efficient and profitable sales growth.

The vesting of all elements of the plan will be subject to delivery of a 'profit gateway'. This provides consistency with our Annual Bonus and Deferred Share Award, and is intended to provide shareholders with additional comfort that the underlying profitability of the business must be sound for payouts to occur. For the 2012 award, no element of the award will vest if compound EPS growth equivalent to at least four per cent per annum is not achieved across the performance period.

## Remuneration report continued

The performance conditions attached to the 2012/13 awards are summarised in the table below

Component	Weighting	Threshold (1.0x core award)	Maximum (4.0x core award)
Return on Capital Employed	50%	10.75%	12%
Cash flow <sup>1</sup>	30%	£5,500m	£6,500m
Relative Sales v IGD Index	20%	Meet index	Index + 1.0% per annum
EPS Gateway	No part of the award will be eligible to vest if compound EPS growth equivalent to 4% per annum is not achieved		

<sup>1</sup> Cumulative underlying cash flow from operations after adding back net rent and pension costs

Straight-line vesting will operate between the threshold and maximum targets shown above

The Committee retains the discretion to make adjustments to the calculation of the performance measures (for instance for material acquisitions and disposals) to ensure they remain true and fair reflections of performance

The Committee considers that the stretch of the targets set for 2012/13 awards is comparable to awards granted in previous years, and that delivery of stretch targets would result in significant shareholder value creation

As noted above, the other key features of the plan shall remain unchanged. The quantum for executive directors is unchanged from last year. Accordingly for 2012/13 the Chief Executive will be granted a core award of 55 per cent of salary. The remaining Executive Directors will each be granted a core award of 50 per cent of salary. The performance period shall continue to be measured over three financial years with half of the award deferred for a further year.

### Claw-back

As part of the review, the Remuneration Committee was also mindful of recent developments in best practice. Subsequently, in order to strengthen our formal governance in line with our existing philosophy, and in recognition of shareholders' current concerns around executive remuneration, the Committee has introduced a claw back (malus) clause on the 2012/13 awards. This clause is intended to apply to all future awards under the LTIP.

The circumstances in which the clause may be invoked have been defined as follows:

Financial Accounts	<ul style="list-style-type: none"> <li>Material mis-statement of our financial statements</li> </ul>
Actions / Conduct of Participant	<ul style="list-style-type: none"> <li>Serious Reputational Damage</li> <li>Serious Misconduct</li> <li>Fraud</li> </ul>

Should the Committee consider such events to have occurred, it will have discretion to:

- reduce the number of shares under an unvested award,
- cancel an unvested award in full, or
- impose further conditions on an unvested award

The Committee believes that this provision is consistent with the principles underpinning our existing approach to governance and is therefore a positive development for both the Company and shareholders.

### Previous Long Term Incentive Plan Cycles ('Value Builder' awards)

Awards made under the plan between 2006 and 2011 were subject to three-year performance against two stretching co-dependent measures: ROCE and cash flow per share. For the 2006-2011 awards, the capital employed figure used to calculate ROCE was adjusted for one-off impact of capital spend in the year in which the calculation is made.

The performance period for the 2009/10 Value Builder grant ended in March 2012, and its performance conditions were assessed against the following matrix:

2009/10 and 2010/11 Pre-tax adjusted ROCE	Cash flow per share				
	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

### Note

• Full definitions of ROCE and cash flow per share can be found in the 2010/11 Annual Report and Accounts.

The Committee determined a final performance multiplier of 1.7 times, based on adjusted ROCE of 13.2 per cent and cash flow per share ('CFPS') of 9.0 per cent. This represents 43 per cent of the maximum award opportunity. When assessing ROCE and CFPS performance for the purposes of the plan, adjustments were made to take into account capital investment in the final year of the performance period and certain limited one-off investments.

One half of the award becomes exercisable in May 2012, with the remaining portion exercisable in May 2013.

The 2010/11 award will be tested for performance against the ROCE and CFPS targets in March 2013, and is subject to the matrix above.

The 2011/12 award will be tested for performance against the ROCE and CFPS targets in March 2014. The matrix was considered and agreed by the Committee prior to these awards to ensure the degree of challenge inherent in the targets was commensurate with internal and external performance expectations at the time of grant, and is presented below:

2011/12 Pre-tax adjusted ROCE	Cash flow per share				
	4%	6%	8%	10%	12%
15%	2.5	3.0	3.5	4.0	4.0
14.5%	2.0	2.5	3.0	3.5	4.0
14%	1.5	2.0	2.5	3.0	3.5
13.5%	1.0	1.5	2.0	2.5	3.0
13%	0.5	1.0	1.5	2.0	2.5
12.5%	-	0.5	1.0	1.5	2.0

Performance was assessed in May 2011 in respect of the Value Builder Share Plan awards granted in 2008/09. Pre-tax adjusted ROCE of 13.4 per cent and CFPS of 9.9 per cent were achieved over the three-year performance period, which gave rise to a performance multiplier of 1.9 out of a maximum four times. This performance outcome led to the vesting of 48 per cent of the total award for all plan participants, including the Executive Directors. One half of the award became exercisable in May 2011, with the remaining portion exercisable in May 2012. The number of shares awarded from this grant cycle to the Executive Directors is set out on page 63.



## III) Variable remuneration - dormant share plan

### Deferred Annual Bonus Plan 2006

The Deferred Annual Bonus Plan previously applied to the top levels of management, including Executive Directors. Its purpose was to incentivise growth in relative TSR. The plan is now dormant and the last deferral took place in June 2009 using the bonus awards earned for 2008/09.

Following the year-end, performance was tested in respect of the deferral made in 2009 and this resulted in no matching shares vesting. Details of the Executive Directors' awards under this incentive plan are set out in the table on page 64.

### IV) All employee 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 Plan ('SAYE') and the All Employee Share Ownership Plan. Executive Directors may participate in these plans in the same way as all other colleagues. Justin King and John Rogers currently participate in both plans. Mike Coupe participates in the SAYE. As these are all employee plans there are no performance conditions. The Committee approves the adoption or amendment of these plans and awards to Executive Directors.

The 2006 (five-year) SAYE reached maturity on 1 March 2012. Around 3,300 colleagues could use their savings and a tax-free bonus to buy Sainsbury's shares at a 328 pence option price. The 2008 (three-year) SAYE matured at the same time covering around 7,700 colleagues who could use their savings and a tax-free bonus to buy Sainsbury's shares at a 224 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 nearly £26.5 million. The Company currently has over 26,000 colleagues participating in the SAYE with around 63,000 individual savings contracts.

In August 2008, 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. This arrangement ceased in August 2010. 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.

### Shareholding guidelines

The Committee introduced shareholding guidelines in 2006/07 to create greater alignment of the Directors' interests with those of shareholders, which is a key objective within the remuneration policy. The guidelines are as follows: Chief Executive 2.5x salary, Executive Directors 1.5x salary, Operating Board Directors 1x salary, in each case within five years of appointment. These guidelines were last updated in 2010/11.

The table below sets out the Executive Directors' shareholdings as at the year end on 17 March 2012.

	Shareholding	Valuation (£000) <sup>1</sup>	Percentage of salary <sup>2</sup>
Justin King	825,519	£2,501	272%
Mike Coupe	866,411	£2,625	465%
John Rogers	192,496	£583	117%

<sup>1</sup> The valuation is calculated against the closing mid-market share price on 17 March 2012 of 303.0 pence.

<sup>2</sup> The percentage of salary figures have been calculated using the salaries earned as at 17 March 2012.

### Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines so that dilution from employee share awards does not exceed ten per cent of the Company's issued share capital for all-employee share plans and five per cent in respect of executive share plans in any ten-year rolling period. The Company monitors dilution levels on a regular basis and the Committee reviews these at least once a year. Up to 17 March 2012, an estimated 7.8 per cent of the Company's issued share capital has been allocated for the purposes of its all-employee share plans over a ten-year period, including an estimated 3.7 per cent over five years in respect of its executive share plans.

### 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.

CHART REMOVED  
FROM HERE

In March 2007 the Group share price was materially affected by speculation surrounding a possible takeover bid. To exclude the impact of this short-term share price increase, we have presented below a graph which shows the TSR performance over seven years.

CHART REMOVED  
FROM HERE

### 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 elements of remuneration, except share plans. 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 the service contract of Mike Coupe is terminated without cause, the maximum payment he 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 elements of remuneration, except share plans. He is required to mitigate his losses and would receive phased payments, which would be reduced or terminated if he secured alternative employment during the notice period. His contract also contains restrictive covenants, which continue for 12 months after termination. It does not contain any specific provisions relating to change of control.

In 2010, the Committee agreed that the termination provisions within future Executive Directors' service agreements would state that any severance payments would be limited to one year's salary and benefits, be made on a phased basis and be subject to mitigation. As is the current practice, if 'good leaver' status is given, long-term incentive awards that vest following a director's employment termination will continue to be pro-rated for time and performance. Bonus awards will also be paid subject to time and performance for the financial year in which office is held if the individual is considered to be a 'good leaver'. The service contract under which John Rogers was appointed as Chief Financial Officer follows these provisions in full; in addition, there are no specific terms relating to change of control.

As disclosed in last year's report, Darren Shapland ceased to be a director on 13 July 2011 and was subsequently appointed to the position of Non-Executive Chairman of Sainsbury's Bank for a fixed annual fee of £150,000 per annum plus benefits, and in this capacity earned a salary of £107,308 in 2011/12. Darren did not receive either a severance payment or an ex gratia payment as a result of the change in his employment status.

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

Justin King	29 March 2004
Mike Coupe	1 August 2007
John Rogers	19 July 2010

### External appointments

The Company's normal practice is that Executive Directors may 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 appointments. Details of the Executive Directors' external fees are set out on page 63.

### Chairman

The Chairman does not have a service contract; his letter of appointment became effective on 1 October 2009 and he became Chairman on 1 November 2009. He was appointed for an initial term of three years, renewable on a 12-month rolling basis and thereafter by mutual consent. His appointment may be terminated at any time upon the serving of six months' written notice by either party.

David Tyler was appointed as Chairman on a basic fee of £450,000 per annum. His fee was reviewed by the Remuneration Committee for the first time since his appointment at the half year in 2011/12 and it was increased to £470,000 per annum. He devotes such time as is necessary to perform his duties. He does not participate in any performance-related incentive plans and he does not receive any benefits except for an annual medical assessment and a colleague discount card.

### 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 by the serving of three months' notice by either party.

Non-Executive Directors receive a basic annual cash fee; additional fees are paid to the Senior Independent Director and to the Chairmen of the Audit, Remuneration and Corporate Responsibility Committees. Non-Executive Directors do not participate in any performance-related incentive plans and receive no benefits other than a colleague discount card.

The Non-Executive Directors' fees were last increased in September 2009; they were reviewed by a sub-committee of other members of the Board during 2011/12 and were increased to the following levels:

<b>Basic fee</b>	£60,000 (from £55,000)
Senior Independent Director fee	£15,000 (unchanged)
Chairman of Remuneration Committee fee	£15,000 (unchanged)
Chairman of Audit Committee fee	£15,000 (unchanged)
Chairman of Corporate Responsibility Committee fee	£12,500 (from £10,000)

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

Matt Brittin	27 January 2011
Anna Ford	2 May 2006
Mary Harris	1 August 2007
Gary Hughes	1 January 2005
John McAdam	1 September 2005
Bob Stack	1 January 2005

## Remuneration report continued

The following section provides details of the remuneration, pension and share plan interests of the Directors for the 52 weeks ended 17 March 2012 and has been audited

### i) Directors' remuneration

The remuneration of the Directors for the year was as follows

Cash components and benefits								
	Note	Salary/fees £000	Bonus <sup>3</sup> £000	Pension supplement <sup>4</sup> £000	Benefits <sup>5</sup> £000	Total cash and benefits 2012 £000	Deferred share award <sup>1</sup> £000	Total 2012 £000
Justin King	2,9	920	514	276	30	1,740	897	2,637
Mike Coupe	9	565	238	141	17	961	397	1,358
John Rogers	7	484	219	89	17	809	351	1,160
David Tyler		459	-	-	1	460	-	460
Matt Brittin	3	57	-	-	-	57	-	57
Anna Ford		68	-	-	-	68	-	68
Mary Harris		57	-	-	-	57	-	57
Gary Hughes		72	-	-	-	72	-	72
John McAdam		72	-	-	-	72	-	72
Bob Stack		72	-	-	-	72	-	72
Val Gooding	4	18	-	-	-	18	-	18
Darren Shapland	4,9	161	-	40	5	206	-	206
<b>Total 2012</b>		<b>3,005</b>	<b>971</b>	<b>546</b>	<b>70</b>	<b>4,592</b>	<b>1,645</b>	<b>6,237</b>
<b>Total 2011</b>		<b>3,133</b>	<b>1,105</b>	<b>597</b>	<b>77</b>	<b>4,912</b>	<b>1,960</b>	<b>6,872</b>

- The deferred share award is an award of shares with the value shown above. These shares are retained by the Company for two financial years and will not become exercisable by the participants until after the year end in 2014.
- Highest paid Director
- Appointed to the Board on 27 January 2011
- Resigned from the Board on 13 July 2011. In his capacity as Non-Executive Chairman of Sainsbury's Bank, Darren Shapland earned a salary of £107,308 in 2011/12 following his resignation from the Board of J Sainsbury plc.
- Includes performance bonuses earned in the period under review but paid following the end of the financial year.
- Justin King is not a member of the Company's pension plans and received 30 per cent of his basic salary as a cash pension supplement. In addition to this supplement, £440 (2011: £440) of interest has been earned on a notional fund during the year from his previous membership of the Executive Stakeholder Pension Plan. Neither Darren Shapland nor Mike Coupe are members of the Company's pension plans - each received 25 per cent of basic salary as a cash pension supplement. John Rogers is a member of the Company's JS Self Invested Pension Plan. Contributions to the JS Self Invested Pension Plan by the Company in 2011/12 in respect of his membership were £16,200 (2010/11: £15,450). He received a cash supplement equal to 25 per cent of the amount by which his salary exceeded the Company's earnings cap (2011/12: £129,600) (2010/11: £123,600).
- The totals for 2012 and 2011 in the case of John Rogers do not include deductions made from basic salary for Saving Money and Reducing Tax (SMART) pensions.
- Benefits include a combination of cash and non-cash benefits. Non-cash benefits for John Rogers, Darren Shapland and Mike Coupe include car allowance and private medical cover. Justin King received non-cash benefits which include company car benefits and private medical cover.
- Directors are entitled to retain the fees earned from non-executive appointments outside the Company. Justin King was appointed a Non-Executive Director of Staples Inc. on 17 September 2007. He received US \$75,000 for his services during 2011/12 (2010/11: \$75,000). During the year, 8,653 (2010/11: 11,540) of restricted Staples stock was released to Justin and a further award over 11,372 shares was granted (2010/11: 8,653 restricted shares awarded). Justin King is also a Director of Olympic Games and Paralympic Games Limited and a member of the London Organising Committee of the Olympic and Paralympic Games. Justin received £10,500 (2010/11: £12,000) during the year for his services which after deductions for National Insurance was donated directly to charity. Mike Coupe was appointed a Non-Executive Director of Greene King plc on 26 July 2011 and received £29,604 for his services. Darren Shapland was appointed a Non-Executive Director of Ladbrokes plc on 18 November 2009 and received £25,000 for his services up to his resignation from the Board of J Sainsbury plc on 13 July 2012 (2010/11: £58,800).

### ii) Long-term incentive plans

#### Long-term Incentive Plan 2006

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

	Date of grant	Maximum share award <sup>1</sup>	Share price at date of award pence	Lapsed dividend shares during the year	Number of dividend shares allocated 19 May 2011 <sup>2</sup>	Number of options released	First exercise date	Last exercise date
Justin King	20 06 07	380,844	583.5	-	26,011	178,349	12 05 10	11 05 12
	28 05 08	630,876	352.0	331,210	19,951	169,784	11 05 11	10 05 13
	24 06 09	570,984	314.0	-	-	-	10 05 12	09 05 14
	21 06 10	611,488	329.3	-	-	-	09 05 13	08 05 15
	19 05 11	570,748	343.0	-	-	-	08 05 14	07 05 16
Mike Coupe	20 06 07	163,092	583.5	-	11,138	76,375	12 05 10	11 05 12
	28 05 08	281,868	352.0	147,981	8,913	75,856	11 05 11	10 05 13
	24 06 09	258,844	314.0	-	-	-	10 05 12	09 05 14
	21 06 10	315,008	329.3	-	-	-	09 05 13	08 05 15
	19 05 11	318,648	343.0	-	-	-	08 05 14	07 05 16
John Rogers	20 06 07	22,581	583.5	-	3,855	26,436	12 05 10	11 05 12
	28 05 08	144,696	352.0	75,966	4,575	38,940	11 05 11	10 05 13
	24 06 09	137,036	314.0	-	-	-	10 05 12	09 05 14
	21 06 10	191,476	329.3	-	-	-	09 05 13	08 05 15
	19 05 11	250,972	343.0	-	-	-	08 05 14	07 05 16

- The maximum share award assumes full vesting.
- The performance conditions attaching to the award are return on capital employed and growth in cash flow per share. Further information is provided on pages 113 to 114. The performance of the award made in June 2008 was tested in May 2011 and a multiplier of 1.9 was achieved. The number of shares between the maximum multiplier (4.0) and the multiplier achieved have been lapsed. Half of the achieved award vested in May 2011 whilst the remainder of the achieved award will vest in May 2012. The number of dividend shares which have been received on vested shares was determined by a five-day average share price from 12 to 18 May 2011.

#### Note

- The Long-term Incentive Plan 2006 is a nil cost option plan. The exercise price is nil.

## Remuneration report continued

The following table shows the options that were exercised during the year

	Date of grant	Number of options released during the year	Number of options exercised during the year	Mid market price on date of exercise pence	Notional gain on option exercises £000	Lapsed during the year	Number of options held 17 March 2012	Exercise price pence
Justin King	20 06 07	178,349	178,349	304.1	542	-	-	nil
	28 05 08	169,784	169,784	304.1	516	-	-	nil
Mike Coupe	20 06 07	76,375	76,375	343.2	262	-	-	nil
	28 05 08	75,856	75,856	343.2	260	-	-	nil
John Rogers	20 06 07	26,436	26,436	316.4	84	-	-	nil
	28 05 08	38,940	38,940	316.4	123	-	-	nil

### Note

- Some of the shares were sold to fund the participants' income tax and National Insurance liabilities: all of the remaining shares were retained

### Deferred Share Award

The table below shows the number of deferred shares awarded to participants in May 2010 and 2011. There are no further performance measures attached to the awards

	Date of grant	Deferred share award	Share price at date of award pence	First exercise date	Last exercise date
Justin King	20 05 10	298,570	316.6	23 03 12	22 03 20
	19 05 11	263,436	343.0	22 03 13	21 03 21
Mike Coupe	20 05 10	108,281	316.6	23 03 12	22 03 20
	19 05 11	104,855	343.0	22 03 13	21 03 21
John Rogers	20 05 10	57,325	316.6	23 03 12	22 03 20
	19 05 11	79,578	343.0	22 03 13	21 03 21

### Notes

- There were no exercises or lapses under this Plan during the year
- The Deferred Share Award is a nil cost option plan. The exercise price is nil

### 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 the performance targets for maximum vesting

	Date of grant	Deferred bonus share award	Maximum matching share award <sup>1</sup>	Share price at date of award pence	Matching share award lapsed during the year	Number of dividend shares allocated 19 May 2011	Number of options released	First exercise date	Last exercise date
Justin King	20 06 08	158,042	316,084	325.75	172,266	9,575	81,484	21 03 11	21 03 13
	24 06 09	81,319	275,658	314.00				20 03 12	20 03 14
Mike Coupe	20 06 08	18,292	36,584	325.75	19,939	1,108	9,430	21 03 11	21 03 13
	24 06 09	23,280	78,920	314.00				20 03 12	20 03 14
John Rogers	20 06 08	7,513	15,026	325.75	8,189	455	3,873	21 03 11	21 03 13

<sup>1</sup> 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 Aldi, 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.

### Notes

- A number of the shares deferred in June 2008 have been sold to fund the participant's income tax and National Insurance liabilities. The remainder were released to participants on 25 March 2011.
- The performance of the awards granted in June 2008 was tested and matching shares of 0.91 times an individual's deferral was achieved. Half of the achieved award vested in May 2011 whilst the remainder of the achieved award will vest in May 2012. The number of dividend shares on the first vesting was determined by a five day average share price from 12 to 18 May 2011.
- The 2009 deferral was made on a net post tax basis.
- The exercise price is nil.

The following table shows the options that were exercised during the year

	Number of options held 19 March 2011	Number of options released during the year	Number of options exercised during the year	Mid market price on date of exercise pence	Notional gain on option exercises £000	Lapsed during the year	Number of options held 17 March 2012	Exercise price pence
Justin King	-	81,484	81,484	304.1	248	-	-	nil
Mike Coupe	-	9,430	9,430	343.2	32	-	-	nil
John Rogers	-	3,873	3,873	316.4	12	-	-	nil

### Note

- Some of the shares were sold to fund the participants' income tax and National Insurance liabilities: all of the remaining shares were retained

## Remuneration report continued

### III Savings-Related Share Option Plan ('SAYE')

At the end of the year, the Directors' SAYE share options were as follows

	19 March 2011	Number of Options					17 March 2012	Date		
		Granted during the year	Exercised during the year	Mid market price on date of exercise pence	Gains on option exercise £000	Lapsed during the year		Exercise price pence	From which exercisable	Of expiry
Justin King	3,030	-	-	-	-	-	3,030	297 0	01 03 14	31 08 14
Mike Coupe	3 324	-	-	-	-	-	3,324	273 0	01 03 13	31 08 13
John Rogers	-	6,302	-	-	-	-	6,302	238 0	01 03 17	31 08 17

#### Note

- The SAYE Plan is an all employee share option plan and has no performance conditions as per HMRC Regulations

In the period from 19 March 2011 to 17 March 2012, the highest mid-market price of the Company's shares was 362 8 pence and the lowest mid-market price was 263 5 pence. At 17 March 2012 the Company's share price was 303 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 <sup>3</sup>		
	19 March 2011	17 March 2012	08 May 2012 <sup>2</sup>
Justin King	1,399,878	825,519	825,593
Mike Coupe	798,285	866,411	866,411
John Rogers	145,998	192,496	192,571
David Tyler	50 000	50 000	50 000
Matt Brittin	-	1,000	1,000
Anna Ford	1,000	1,000	1,000
Mary Harris	5 686	11 037	11 037
Gary Hughes	26 480	30,071	30 071
John McAdam	1,000	1,000	1,000
Bob Stack <sup>1</sup>	2,800	2,800	2,800

<sup>1</sup> Held in the form of 700 American Depositary Receipts

<sup>2</sup> The total includes shares purchased under the Sainsbury's Share Purchase Plan between 17 March 2012 and 8 May 2012

<sup>3</sup> 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

#### Note

- The Executive Directors are potential beneficiaries of the Company's employee benefit trust which is used to satisfy awards under the Company's employee share plans and they are therefore treated as interested in the 5.9 million shares (2011: 6.1 million) held by the Trustees

Approved by the Board on 8 May 2012

Bob Stack

Chairman, 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 Group and Company financial statements in accordance with International Financial Reporting Standards ( IFRSs ) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 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 page 33 confirm that, to the best of their knowledge:

- the Group financial statements, which have been 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
- 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 Group, together with a description of the principal risks and uncertainties that it faces

By order of the Board

  
Tim Fallowfield  
Company Secretary

8 May 2012

# Independent Auditors' report to the members of J Sainsbury plc

We have audited the financial statements of J Sainsbury plc for the 52 weeks ended 17 March 2012 which comprise the Group income statement, the Group and Company Statements of comprehensive income, the Group and Company Balance sheets, the Group and Company Cash flow statements, the Group and Company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006

## Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 17 March 2012 and of the Group's profit and Group's and Company's cash flows for the 52 weeks then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006  
In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

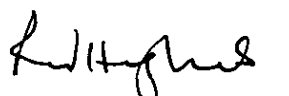
We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 37, in relation to going concern,
- the parts of the Statement of Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration.



**Richard Hughes (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
8 May 2012

# Group income statement

for the 52 weeks to 17 March 2012

	Note	2012 £m	2011 £m
<b>Revenue</b>	4	<b>22,294</b>	21,102
Cost of sales		(21,083)	(19,942)
<b>Gross profit</b>		<b>1,211</b>	1,160
Administrative expenses		(419)	(417)
Other income		82	108
<b>Operating profit</b>	5	<b>874</b>	851
Finance income	6	35	32
Finance costs	6	(138)	(116)
Share of post-tax profit from joint ventures	14	28	60
<b>Profit before taxation</b>		<b>799</b>	827
Analysed as			
Underlying profit before tax		712	665
Profit on disposal of properties	3	83	108
Investment property fair value movements	3	-	39
Financing fair value movements	3	(16)	7
IAS 19 pension financing credit	3	17	3
One-off items	3	3	5
		<b>799</b>	827
Income tax expense	8	(201)	(187)
<b>Profit for the financial period</b>		<b>598</b>	640
<b>Earnings per share</b>	9	<b>pence</b>	pence
Basic		32 0	34 4
Diluted		31 5	33 8
Underlying basic		28 1	26 5
Underlying diluted		27 8	26 1

The notes on pages 74 to 118 form an integral part of these consolidated financial statements



# Statements of comprehensive income

for the 52 weeks to 17 March 2012

	Note	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
<b>Profit for the financial period</b>		<b>598</b>	<b>640</b>	<b>260</b>	<b>280</b>
<b>Other comprehensive income/(expense):</b>					
Net actuarial (losses)/gains on defined benefit pension scheme	30	(222)	29	-	-
Available-for-sale financial assets fair value movements					
Group		1	14	(5)	2
Joint ventures		2	2	-	-
Cash flow hedges effective portion of fair value movements					
Group		-	(8)	-	-
Joint ventures		2	2	-	-
Current tax on items recognised directly in other comprehensive income	8	59	(1)	1	(1)
Deferred tax on items recognised directly in other comprehensive income	8	11	(5)	-	-
<b>Total other comprehensive (expense)/income for the financial period (net of tax)</b>		<b>(147)</b>	<b>33</b>	<b>(4)</b>	<b>1</b>
<b>Total comprehensive income for the financial period</b>		<b>451</b>	<b>673</b>	<b>256</b>	<b>281</b>

The notes on pages 74 to 118 form an integral part of these consolidated financial statements

# Balance sheet

At 17 March 2012 and 19 March 2011

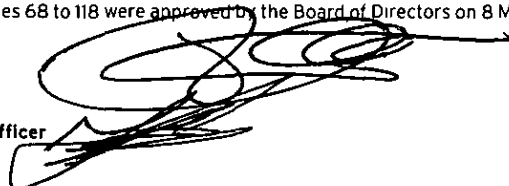
	Note	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
<b>Non-current assets</b>					
Property, plant and equipment	11	9,329	8,784	17	42
Intangible assets	12	160	151	-	-
Investments in subsidiaries	13	-	-	7,285	7,309
Investments in joint ventures	14	566	502	91	91
Available-for-sale financial assets	15	178	176	31	36
Other receivables	17	38	36	1,312	1,181
Derivative financial instruments	29	37	29	33	25
Deferred income tax asset	21	-	-	1	1
		<b>10,308</b>	<b>9,678</b>	<b>8,770</b>	<b>8,685</b>
<b>Current assets</b>					
Inventories	16	938	812	-	-
Trade and other receivables	17	286	343	1,099	1,069
Derivative financial instruments	29	69	52	65	43
Cash and cash equivalents	26b	739	501	408	169
		<b>2,032</b>	<b>1,708</b>	<b>1,572</b>	<b>1,281</b>
Non-current assets held for sale	18	-	13	-	-
		<b>2,032</b>	<b>1,721</b>	<b>1,572</b>	<b>1,281</b>
<b>Total assets</b>		<b>12,340</b>	<b>11,399</b>	<b>10,342</b>	<b>9,966</b>
<b>Current liabilities</b>					
Trade and other payables	19	(2,740)	(2,597)	(4,494)	(4,443)
Borrowings	20	(150)	(74)	(72)	(17)
Derivative financial instruments	29	(88)	(59)	(84)	(51)
Taxes payable		(149)	(201)	-	(15)
Provisions	22	(9)	(11)	(1)	(1)
		<b>(3,136)</b>	<b>(2,942)</b>	<b>(4,651)</b>	<b>(4,527)</b>
<b>Net current liabilities</b>		<b>(1,104)</b>	<b>(1,221)</b>	<b>(3,079)</b>	<b>(3,246)</b>
<b>Non-current liabilities</b>					
Other payables	19	(137)	(120)	(874)	(861)
Borrowings	20	(2,617)	(2,339)	(565)	(338)
Derivative financial instruments	29	(1)	-	(1)	-
Deferred income tax liability	21	(286)	(172)	-	-
Provisions	22	(63)	(62)	(18)	(19)
Retirement benefit obligations	30	(471)	(340)	-	-
		<b>(3,575)</b>	<b>(3,033)</b>	<b>(1,458)</b>	<b>(1,218)</b>
<b>Net assets</b>		<b>5,629</b>	<b>5,424</b>	<b>4,233</b>	<b>4,221</b>
<b>Equity</b>					
Called up share capital	23	538	535	538	535
Share premium account	23	1,061	1,048	1,061	1,048
Capital redemption reserve	24	680	680	680	680
Other reserves	24	(365)	(213)	14	23
Retained earnings	25	3,715	3,374	1,940	1,935
<b>Total equity</b>		<b>5,629</b>	<b>5,424</b>	<b>4,233</b>	<b>4,221</b>

The notes on pages 74 to 118 form an integral part of these consolidated financial statements

The financial statements on pages 68 to 118 were approved by the Board of Directors on 8 May 2012, and are signed on its behalf by

Justin King Chief Executive

John Rogers Chief Financial Officer



## Cash flow statements

for the 52 weeks to 17 March 2012

	Note	Group		Company	
		2012 £m	2011 £m	2012 £m	2011 £m
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	26	1,291	1,138	(68)	(535)
Interest paid		(142)	(126)	(59)	(66)
Corporation tax paid		(82)	(158)	-	-
<b>Net cash generated from/(used in) operating activities</b>		<b>1,067</b>	<b>854</b>	<b>(127)</b>	<b>(601)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(1,227)	(1,136)	(2)	(36)
Purchase of intangible assets		(25)	(15)	-	-
Proceeds from disposal of property plant and equipment		314	282	30	36
Acquisition of and investment in subsidiaries net of cash acquired		(1)	(1)	(5)	-
Increase in loans to joint ventures		(1)	-	-	-
Investment in joint ventures	14	-	(2)	-	-
Investment in financial assets		(1)	(50)	-	(10)
Proceeds from disposal of financial assets		40	-	-	-
Interest received		18	19	84	87
Dividends received		-	1	250	251
<b>Net cash (used in)/generated from investing activities</b>		<b>(883)</b>	<b>(902)</b>	<b>357</b>	<b>328</b>
<b>Cash flows from financing activities</b>					
Proceeds from issuance of ordinary shares		14	17	14	17
Repayment of short-term borrowings		-	(11)	-	-
Proceeds from long-term borrowings		391	45	298	45
Repayment of long-term borrowings		(51)	(61)	(18)	(20)
Repayment of capital element of obligations under finance lease payments		(9)	(3)	-	-
Interest elements of obligations under finance lease payments		(5)	(4)	-	-
Dividends paid	10	(285)	(269)	(285)	(269)
<b>Net cash generated from/(used in) financing activities</b>		<b>55</b>	<b>(286)</b>	<b>9</b>	<b>(227)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>239</b>	<b>(334)</b>	<b>239</b>	<b>(500)</b>
Net opening cash and cash equivalents		500	834	169	669
<b>Net closing cash and cash equivalents</b>	26b	<b>739</b>	<b>500</b>	<b>408</b>	<b>169</b>

The notes on pages 74 to 118 form an integral part of these consolidated financial statements

## Group statement of changes in equity

for the 52 weeks to 17 March 2012

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
<b>At 20 March 2011</b>		<b>535</b>	<b>1,048</b>	<b>467</b>	<b>3,374</b>	<b>5,424</b>
Profit for the financial period		-	-	-	598	598
Other comprehensive (expense)/income						
Actuarial losses on defined benefit pension scheme (net of tax)	24	-	-	(154)	-	(154)
Available-for-sale financial assets fair value movements (net of tax)						
Group	24	-	-	3	-	3
Joint ventures	24	-	-	2	-	2
Cash flow hedges effective portion of changes in fair value (net of tax)						
Joint ventures	24	-	-	2	-	2
<b>Total comprehensive (expense)/income for the 52 weeks ended 17 March 2012</b>		<b>-</b>	<b>-</b>	<b>(147)</b>	<b>598</b>	<b>451</b>
Transactions with owners						
Dividends paid	10	-	-	-	(285)	(285)
Amortisation of convertible bond equity component	24 25	-	-	(5)	5	-
Share-based payment (net of tax)	25	-	-	-	26	26
Allotted in respect of share option schemes	23 25	3	13	-	(3)	13
<b>At 17 March 2012</b>		<b>538</b>	<b>1,061</b>	<b>315</b>	<b>3,715</b>	<b>5,629</b>
<b>At 21 March 2010</b>		<b>532</b>	<b>1,033</b>	<b>438</b>	<b>2,963</b>	<b>4,966</b>
Profit for the financial period		-	-	-	640	640
Other comprehensive income/(expense)						
Actuarial gains on defined benefit pension scheme (net of tax)	24	-	-	26	-	26
Available-for-sale financial assets fair value movements (net of tax)						
Group	24	-	-	11	-	11
Joint ventures	24	-	-	2	-	2
Cash flow hedges effective portion of changes in fair value (net of tax)						
Group	24	-	-	(8)	-	(8)
Joint venture	24	-	-	2	-	2
<b>Total comprehensive income/(expense) for the 52 weeks ended 19 March 2011</b>		<b>-</b>	<b>-</b>	<b>33</b>	<b>640</b>	<b>673</b>
Transactions with owners						
Dividends paid	10	-	-	-	(269)	(269)
Amortisation of convertible bond equity component	24	-	-	(4)	4	-
Share-based payment (net of tax)	31	-	-	-	37	37
Allotted in respect of share option schemes	23 25	3	15	-	(1)	17
<b>At 19 March 2011</b>		<b>535</b>	<b>1,048</b>	<b>467</b>	<b>3,374</b>	<b>5,424</b>

The notes on pages 74 to 118 form an integral part of these consolidated financial statements

## Company statement of changes in equity

for the 52 weeks to 17 March 2012

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
<b>At 20 March 2011</b>		<b>535</b>	<b>1,048</b>	<b>703</b>	<b>1,935</b>	<b>4,221</b>
Profit for the financial period		-	-	-	260	260
Other comprehensive income/(expense)						
Available-for-sale financial assets fair value movements (net of tax)	24	-	-	(4)	-	(4)
<b>Total comprehensive (expense)/income for the 52 weeks ended 17 March 2012</b>		<b>-</b>	<b>-</b>	<b>(4)</b>	<b>260</b>	<b>256</b>
Transactions with owners						
Dividends paid	10	-	-	-	(285)	(285)
Amortisation of convertible bond equity component	24 25	-	-	(5)	5	-
Allotted in respect of share option schemes	23 25	3	13	-	27	43
Utilised in respect of share option schemes	23 25	-	-	-	(2)	(2)
<b>At 17 March 2012</b>		<b>538</b>	<b>1,061</b>	<b>694</b>	<b>1,940</b>	<b>4,233</b>
<b>At 21 March 2010</b>		<b>532</b>	<b>1,033</b>	<b>706</b>	<b>1,886</b>	<b>4,157</b>
Profit for the financial period		-	-	-	280	280
Other comprehensive income/(expense)						
Available-for-sale financial assets fair value movements (net of tax)	24	-	-	1	-	1
<b>Total comprehensive income/(expense) for the 52 weeks ended 19 March 2011</b>		<b>-</b>	<b>-</b>	<b>1</b>	<b>280</b>	<b>281</b>
Transactions with owners						
Dividends paid	10	-	-	-	(269)	(269)
Amortisation of convertible bond equity component		-	-	(4)	4	-
Allotted in respect of share option schemes	23 25	3	15	-	35	53
Utilised in respect of share option schemes	25	-	-	-	(1)	(1)
<b>At 19 March 2011</b>		<b>535</b>	<b>1,048</b>	<b>703</b>	<b>1,935</b>	<b>4,221</b>

The notes on pages 74 to 118 form an integral part of these consolidated financial statements

# Notes to the financial statements

## 1 General information

J Sainsbury plc is a public limited company (the '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 17 March 2012 (prior financial year 52 weeks to 19 March 2011). The consolidated financial statements for the 52 weeks to 17 March 2012 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post tax results of its 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 2006 applicable to companies reporting under IFRSs. The Company's financial statements have been prepared on the same basis and, as permitted by Section 408(3) of the Companies Act 2006, 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 on a going concern basis 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

- IAS 24 'Related Party Disclosures' revised definition of related parties
- IFRIC 19 'Extinguishing financial liabilities with equity instruments'
- Amendments to certain IFRSs and IASs arising from the April 2010 Annual Improvements to IFRS by the International Accounting Standards Board ('IASB')
- Amendments to IFRIC 14 'Prepayments of a minimum funding requirement'

The Group has considered the above interpretations, revisions and amendments to published standards that are effective and concluded that 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.

#### Effective for the Group for the financial year beginning 18 March 2012

- Amendments to IFRS 7 'Financial Instruments: Transfers of Financial Assets' \*

- Amendments to IAS 12 'Income Taxes, Deferred tax accounting for investment property at fair value'
- Amendments to IFRS 1, Severe hyperinflation and removal of fixed dates for first time adopters
- Amendments to IAS 1 'Presentation of financial statements' on other comprehensive income
- IAS 1 Other comprehensive income

\* These standards and interpretations have been endorsed by the EU

The Group has considered the above amendments to published standards that are not yet effective and concluded that 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 following standards and revisions will be effective for future periods

- IFRS 10 'Consolidated financial statements' \*
- IFRS 11 'Joint arrangements' \*
- IFRS 12 'Disclosure of interests in other entities' \*
- IFRS 13 'Fair value measurement' \*
- Amendments to certain IFRSs and IASs arising from the April 2011 Annual Improvements to IFRS by the International Accounting Standards Board ('IASB')
- Amendment to IAS 32 'Offsetting Financial Assets and Liabilities' ^
- IAS 19 (Revised) 'Employee benefits' \*
- IFRS 9 'Financial Instruments' ^
- IAS 27 (Revised) 'Separate Financial Statements' \*
- IAS 28 (Revised) 'Associates and Joint Ventures' \*

\* These standards are effective for accounting periods starting on or after 1 January 2013

^ This standard is effective for accounting periods starting on or after 1 January 2015 and beyond

The Group has considered the impact of the above standards and revisions and has concluded that they will not have a significant impact on the Group's financial statements, apart from additional disclosures.

The accounting policies set out below and in note 3 have been applied consistently to all periods presented in the financial statements by the Group and the Company.

### 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 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.

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

### Joint ventures

Joint ventures are jointly controlled entities in which the Group has an interest. The Group's share of the post tax results of its joint ventures are included in the 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.

## 2 Accounting policies continued

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 provision for impairment

Investments in joint ventures are carried in the Company balance sheet at cost less any provision for impairment

Sainsbury's Bank's fees and commissions, that are not integral to the effective interest rate calculation, are recognised in the income statement as services are provided. Where in the case of insurance commissions the income comprises an initial commission and profit share both are recognised on completion of the service to the extent reliably measurable. Where there is a risk of potential claw-back, an appropriate element of the commission receivable is deferred and amortised over the life of the underlying loan or period of claw-back.

Investment properties held by the Group are those contained within its joint ventures with Land Securities Group PLC and The British Land Company PLC. These are 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 the Group's ongoing business for shareholders.

### Revenue

Revenue consists of sales through retail outlets and excludes Value Added Tax. Sales through retail outlets are shown net of returns, the cost of Nectar reward points issued and redeemed, colleague 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 goods and services have been passed to the buyer and it can be measured reliably.

The cost of Nectar points is treated as a deduction from sales and part of the fair value of the consideration received is deferred and subsequently recognised over the period that the awards are redeemed. The fair value of the points awarded is determined with reference to the fair value to the customer.

### Finance income

Finance 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 and fees and commissions received or paid that are integral to the yield as well as incremental transaction costs.

### 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.

Supplier incentives, rebates and discounts are recognised within cost of sales as they are earned. The accrued value at the reporting date is included in prepayments and accrued income.

### Property, plant and equipment

#### Land and buildings

Land and buildings are stated at cost less accumulated depreciation and any recognised provision for impairment. Properties in the course of construction are held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs incurred attributable to bringing the asset to its working condition for intended use. This includes capitalised borrowing costs.

### Fixtures and equipment

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

### 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

Buildings under construction 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 recognised provision for impairment and amortised on a straight-line basis over the licence period of up to 15 years within cost of sales.

#### Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of five to seven 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 within administrative expenses.

#### Other

Other intangible assets are carried at cost less accumulated amortisation and any provision for impairment. They are amortised on a straight-line basis over their contractual useful economic lives within cost of sales.

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

### Impairment of non-financial assets

Annually and again whenever indicators of impairment are detected, the Group reviews the carrying amounts of its property, plant and equipment 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 property, plant and equipment 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, or its original carrying value if lower.

### 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. Non-current assets held for sale are not depreciated.

### 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 on a straight-line basis over the lease term.

### Sale and leaseback

A sale and leaseback transaction is one where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction and whether or not the sale was made at the asset's fair value.

For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the income statement.

Following initial recognition, the lease treatment is consistent with those principles described above.

### 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 comprise of goods held for resale and properties held for, or in the course of, development and are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. 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 in hand, demand deposits, investments in money market funds and deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. 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 or other comprehensive income, in which case the current tax is also dealt with in equity or other comprehensive income respectively.

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

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

### 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.



## 2 Accounting policies continued

In respect of the defined benefit pension scheme, 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.

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 comprehensive income.

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.

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.

### 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 comprehensive income.

#### Foreign currency transactions

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

## Financial Instruments

### Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss ('FVTPL'), loans and receivables, and available-for-sale ('AFS'). AFS investments are initially measured at fair value including transaction costs. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed.

'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 fair value 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 at fair value plus transaction costs, 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 at fair value plus transaction costs, these assets are recorded at fair value with the movements in fair value recognised in other comprehensive income until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income 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 in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured.

## Notes to the financial statements continued

### 2 Accounting policies continued

Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

#### 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.

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 29.

#### Derivative financial instruments and hedge accounting

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 other comprehensive income 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 other comprehensive income 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 other comprehensive income 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 other comprehensive income 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.

#### (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.

## 2 Accounting policies continued

### 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.

### 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 using suitable discount rates and includes management assumptions and estimates of future performance.

### Post-employment benefits

The Group operates a defined benefit scheme for its employees. The present value of the scheme's 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 scheme. Other key assumptions within this calculation are based on market conditions or estimate of future events, including mortality rates, as set out in note 30.

### Provisions

Provisions have been made for onerous leases, dilapidations, 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. Details of 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.

### 3 Non-GAAP performance measures

Certain items recognised in reported profit before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. The Directors believe that the underlying profit before tax ('UPBT') 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. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the adjusted profit measures of other companies. The adjusted items are:

- Profit/loss on disposal of properties,
- 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 at the previous reporting date,
- Financing fair value movements - these are fair value gains and losses on non-derivative financial assets and liabilities carried at amortised cost, on derivatives relating to financing activities and on hedged items in fair value hedges
- Impairment of goodwill,
- The financing element of IAS 19 'Employee Benefits', and
- One-off items - these are items which are material and infrequent in nature and do not relate to the Group's underlying performance

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

	2012 £m	2011 £m
<b>Underlying profit before tax</b>	<b>712</b>	<b>665</b>
Profit on disposal of properties <sup>1</sup>	83	108
Investment property fair value movements	-	39
Financing fair value movements <sup>2</sup>	(16)	7
IAS 19 pension financing credit	17	3
One-off items	3	5
<b>Total adjustments</b>	<b>87</b>	<b>162</b>
<b>Profit before tax</b>	<b>799</b>	<b>827</b>

<sup>1</sup> Profit on disposal of properties for the financial year comprised of £82 million for the Group (2011: £108 million) and £1 million for the property joint ventures (2011: £nil)

<sup>2</sup> Financing fair value movements for the financial year comprised a £(11) million loss for the Group (2011: £10 million gain) and £(5) million loss for the joint ventures (2011: £(3) million loss)

#### One-off items

The £3 million one-off item relates to the release of a provision in respect of the Office of Fair Trading dairy inquiry which was settled in full in October 2011. The £5 million one-off item in the prior financial year relates to the release of a disposal provision which was no longer required.

Both of these items were initially recorded as one-off items outside underlying profit before tax.

### 4 Segment reporting

The Group's businesses are organised into three operating segments:

- Retailing (Supermarkets and Convenience),
- Financial services (Sainsbury's Bank joint venture), and
- Property investments (The British Land Company PLC joint venture and Land Securities PLC joint venture)

Management have determined the operating segments based on the information provided to the Operating Board (the Chief Operating Decision Maker for the Group) to make operational decisions on the management of the Group. All material operations and assets are in the UK. The business of the Group is not subject to highly seasonal fluctuations although there is an increase in trading in the period leading up to Christmas.

The Group has continued to include additional voluntary disclosure analysing the Group's Financial services and Property investment joint ventures into separate reportable segments.

Revenue from operating segments is measured on a basis consistent with the income statement. All revenue is generated by the sale of goods and services.

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.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. The reconciliation provided below reconciles underlying operating profit from each of the segments disclosed to profit before tax.

## Notes to the financial statements continued

### 4 Segment reporting continued

52 weeks to 17 March 2012	Retailing £m	Financial services £m	Property investments £m	Group £m
<b>Segment revenue</b>	<b>22,294</b>	<b>-</b>	<b>-</b>	<b>22,294</b>
Underlying operating profit	789	-	-	789
Underlying finance income	18	-	-	18
Underlying finance costs	(127)	-	-	(127)
Underlying share of post-tax profit from joint ventures	-	16	16	32
<b>Underlying profit before tax</b>	<b>680</b>	<b>16</b>	<b>16</b>	<b>712</b>
Profit on disposal of properties	82	-	1	83
Financing fair value movements	(11)	-	(5)	(16)
IAS 19 pension financing credit	17	-	-	17
One-off item	3	-	-	3
<b>Profit before tax</b>	<b>771</b>	<b>16</b>	<b>12</b>	<b>799</b>
Income tax expense	-	-	-	(201)
<b>Profit for the financial period</b>				<b>598</b>
<b>Assets</b>	<b>11,774</b>	<b>-</b>	<b>-</b>	<b>11,774</b>
Investment in joint ventures	-	134	432	566
<b>Segment assets</b>	<b>11,774</b>	<b>134</b>	<b>432</b>	<b>12,340</b>
<b>Segment liabilities</b>	<b>(6,711)</b>	<b>-</b>	<b>-</b>	<b>(6,711)</b>
<b>Other segment items</b>				
Capital expenditure <sup>1</sup>	1,287	-	-	1,287
Depreciation expense	486	-	-	486
Amortisation expense	13	-	-	13
Share-based payments	27	-	-	27

<sup>1</sup> Capital expenditure consists of property, plant and equipment additions of £1,265 million and intangibles additions of £22 million

52 weeks to 19 March 2011	Retailing £m	Financial services £m	Property investments £m	Group £m
<b>Segment revenue</b>	<b>21,102</b>	<b>-</b>	<b>-</b>	<b>21,102</b>
Underlying operating profit	738	-	-	738
Underlying finance income	19	-	-	19
Underlying finance costs	(116)	-	-	(116)
Underlying share of post-tax profit from joint ventures	-	11	13	24
<b>Underlying profit before tax</b>	<b>641</b>	<b>11</b>	<b>13</b>	<b>665</b>
Profit on disposal of properties	108	-	-	108
Investment property fair value movements	-	-	39	39
Financing fair value movements	10	-	(3)	7
IAS 19 pension financing credit	3	-	-	3
One-off item	5	-	-	5
<b>Profit before tax</b>	<b>767</b>	<b>11</b>	<b>49</b>	<b>827</b>
Income tax expense	-	-	-	(187)
<b>Profit for the financial period</b>				<b>640</b>
<b>Assets</b>	<b>10,897</b>	<b>-</b>	<b>-</b>	<b>10,897</b>
Investment in joint ventures	-	115	387	502
<b>Segment assets</b>	<b>10,897</b>	<b>115</b>	<b>387</b>	<b>11,399</b>
<b>Segment liabilities</b>	<b>(5,975)</b>	<b>-</b>	<b>-</b>	<b>(5,975)</b>
<b>Other segment items</b>				
Capital expenditure <sup>2</sup>	1,319	-	-	1,319
Depreciation expense	468	-	-	468
Amortisation expense	14	-	-	14
Share-based payments	35	-	-	35

<sup>2</sup> Capital expenditure consists of property, plant and equipment additions of £1,297 million and intangibles additions of £22 million

## Notes to the financial statements continued

### 5 Operating profit

	2012 £m	2011 £m
Operating profit is stated after charging/(crediting) the following items		
Employee costs (note 7)	2,173	2,119
Depreciation expense (note 11)	486	468
Amortisation expense (note 12)	13	14
Profit on disposal of properties (note 3)	(82)	(108)
Operating lease rentals - land and buildings	426	405
- other leases	55	57
- sublease payments received	(29)	(33)
Foreign exchange (gains)/losses	(6)	5
One-off items (note 3)	(3)	(5)

Group	2012 £m	2011 £m
<b>Auditors' remuneration</b>		
<b>Audit and audit related services</b>		
Fees payable to the Company's auditor for the audit of the Group and the Company financial statements	0.2	0.2
Audit of the Company's subsidiaries pursuant to legislation	0.5	0.5
Audit related services pursuant to legislation	0.1	0.1
	0.8	0.8
<b>Non-audit services</b>		
Fees payable to the Company's auditor and its associates for other services	0.1	0.2
	0.9	1.0

### 6 Finance income and finance costs

	2012 £m	2011 £m
Interest on bank deposits and other financial assets	18	19
Financing fair value gains <sup>1</sup>	-	10
IAS 19 pension financing credit (note 30)	17	3
<b>Finance income</b>	<b>35</b>	<b>32</b>
<b>Borrowing costs</b>		
Secured borrowings	(108)	(97)
Unsecured borrowings	(46)	(39)
Obligations under finance leases	(5)	(4)
Provisions - amortisation of discount (note 22)	(2)	(3)
Other	(1)	-
	(162)	(143)
<b>Other finance costs</b>		
Interest capitalised - qualifying assets	35	27
Financing fair value losses <sup>1</sup>	(11)	-
	24	27
<b>Finance costs</b>	<b>(138)</b>	<b>(116)</b>

<sup>1</sup> Fair value gains and losses relate to fair value adjustments on non-derivative financial assets and liabilities carried at amortised cost and on derivatives relating to financing activities and hedged items in fair value hedges

## Notes to the financial statements continued

### 7 Employee costs

	2012 £m	2011 £m
Employee costs for the Group during the year amounted to		
Wages and salaries, including bonus and termination benefits	1,923	1,859
Social security costs	124	132
Pension costs - defined contribution schemes	39	37
Pension costs - defined benefit scheme (note 30)	60	56
Share-based payments expense (note 31)	27	35
	<b>2,173</b>	<b>2,119</b>

	Number 000 s	Number 000 s
The average number of employees, including Directors, during the year were		
Full-time	48.8	48.1
Part-time	103.2	100.3
	<b>152.0</b>	<b>148.4</b>
Full-time equivalent	<b>101.9</b>	<b>99.3</b>

Details of key management compensation can be found in note 32 and within the Remuneration report on pages 52 to 65

### 8 Income tax expense

	2012 £m	2011 £m
Current tax expense		
Current year	105	214
Over provision in prior years	(28)	(51)
	<b>77</b>	<b>163</b>
Deferred tax expense		
Origination and reversal of temporary differences	110	9
Under provision in prior years	20	15
Effect of change in tax rate	(6)	-
<b>Total deferred tax (note 21)</b>	<b>124</b>	<b>24</b>
<b>Total income tax expense in income statement</b>	<b>201</b>	<b>187</b>

The effective tax rate of 25.2 per cent (2011: 22.6 per cent) is lower than (2011: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2012 £m	2011 £m
Profit before taxation	799	827
Income tax at UK corporation tax rate of 26.07% (2011: 28.0%)	208	232
Effects of underlying items		
Disallowed depreciation on UK properties	30	28
Over provision in prior years	(12)	(35)
Revaluation of deferred tax balances	(17)	(7)
Other	(1)	1
Effects of non-underlying items		
Profit on disposal of properties	(23)	(27)
Investment property fair value movements	-	(11)
Revaluation of tax balances	11	7
Under provision in prior years	4	-
Other	1	(1)
<b>Total income tax expense in income statement</b>	<b>201</b>	<b>187</b>

On 23 March 2011, the Chancellor announced that the main rate of UK corporation tax would reduce from 28.0 per cent to 26.0 per cent for the financial year commencing 1 April 2011 and to 25.0 per cent with effect from 1 April 2012. The change to 25.0 per cent was substantively enacted on 5 July 2011 and hence the effect of the change on the deferred tax balances has been included in the figures above.

## Notes to the financial statements continued

### 8 Income tax expense continued

In addition to this, a number of further changes to the UK corporation tax system were announced in the 21 March 2012 UK Budget Statement. A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax to 24.0 per cent from 1 April 2012. Legislation to reduce the main rate of corporation tax from 24.0 per cent to 23.0 per cent from 1 April 2013 is expected to be included in the Finance Act 2012. Further reductions to the main rate are proposed to reduce the rate by one per cent per annum to 22.0 per cent by 1 April 2014. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, their effect is not included in the financial statements.

The effect of a one per cent reduction in the corporation tax rate on the deferred tax balances at the balance sheet date would reduce the deferred tax liability by £11 million which is primarily recognised in other comprehensive income.

As part of the funding plan agreed with the Pension Scheme's Trustees, in June 2010 Sainsbury's established the Sainsbury's Property Scottish Partnership with the Scheme and properties with a value of £757 million were transferred to the Partnership. The Government recently announced law changes in relation to such asset backed pension contributions. Draft legislation published in November 2011 and amended in February and March 2012 which is expected to be included in Finance Act 2012, restricts the relief to the total amount of payments an employer makes to the pension scheme directly or through the Partnership. These changes have not been substantively enacted so have not been included in the figures above.

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

	Share based payments £m	Pension scheme £m	Fair value movements £m	Total £m
<b>52 weeks to 17 March 2012</b>				
Current tax recognised in equity	-	(58)	(1)	(59)
Deferred tax recognised in equity	1	-	2	3
Revaluation of deferred tax balances	-	(10)	(3)	(13)
<b>Income tax charged/(credited) to equity</b>	<b>1</b>	<b>(68)</b>	<b>(2)</b>	<b>(69)</b>
<b>52 weeks to 19 March 2011</b>				
Current tax recognised in equity	(1)	-	1	-
Deferred tax recognised in equity	(1)	8	3	10
Revaluation of deferred tax balances	-	(5)	(1)	(6)
<b>Income tax (credited)/charged to equity</b>	<b>(2)</b>	<b>3</b>	<b>3</b>	<b>4</b>

The current and deferred tax in relation to the Group's defined benefit pension scheme's actuarial gains and losses and available for sale fair value movements have been charged or credited through other comprehensive income.



# 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 earnings attributable to the ordinary shareholders are adjusted by the interest on the convertible bonds (net of tax). The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially 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 and the number of shares that would be issued if all convertible bonds are assumed to be converted

Underlying earnings per share is provided by excluding the effect of any profit or loss on disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing element 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

	2012 million	2011 million
Weighted average number of shares in issue	1,870.3	1,858.7
Weighted average number of dilutive share options	13.6	16.9
Weighted average number of dilutive convertible bonds	45.6	45.4
Total number of shares for calculating diluted earnings per share	1,929.5	1,921.0

	£m	£m
Profit for the financial period	598	640
Add interest on convertible bonds, net of tax	10	10
Diluted earnings for calculating diluted earnings per share	608	650

	£m	£m
Profit for the financial period attributable to equity holders of the parent	598	640
(Less)/add (net of tax)		
Profit on disposal of properties	(80)	(105)
Investment property fair value movements	-	(39)
Financing fair value movements	13	(4)
IAS 19 pension financing credit	(13)	(2)
One-off items	(3)	(5)
Revaluation of deferred tax balances	11	7
Underlying profit after tax	526	492
Add interest on convertible bonds, net of tax	10	10
Diluted underlying profit after tax	536	502

	pence per share	pence per share
Basic earnings	32.0	34.4
Diluted earnings	31.5	33.8
Underlying basic earnings	28.1	26.5
Underlying diluted earnings	27.8	26.1

## Notes to the financial statements continued

### 10 Dividend

	2012 pence per share	2011 pence per share	2012 £m	2011 £m
Amounts recognised as distributions to equity holders in the year				
Final dividend of prior financial year	10 80	10 20	201	189
Interim dividend of current financial year	4 50	4 30	84	80
	15 30	14 50	285	269

After the balance sheet date, a final dividend of 11 60 pence per share (2011: 10 80 pence per share) was proposed by the Directors in respect of the 52 weeks to 17 March 2012, resulting in a total final proposed dividend of £218 million (2011: £201 million). The proposed final dividend has not been included as a liability at 17 March 2012.

### 11 Property, plant and equipment

	Group Land and buildings £m	Group Fixtures and equipment £m	Group Total £m	Company Land and buildings £m
<b>Cost</b>				
At 20 March 2011	8,460	5,105	13,565	45
Additions	742	523	1,265	2
Disposals	(284)	(288)	(572)	(28)
<b>At 17 March 2012</b>	<b>8,918</b>	<b>5,340</b>	<b>14,258</b>	<b>19</b>
<b>Accumulated depreciation and impairment</b>				
At 20 March 2011	1,398	3,383	4,781	3
Depreciation expense for the year	137	349	486	-
Disposals	(67)	(271)	(338)	(1)
<b>At 17 March 2012</b>	<b>1,468</b>	<b>3,461</b>	<b>4,929</b>	<b>2</b>
<b>Net book value at 17 March 2012</b>	<b>7,450</b>	<b>1,879</b>	<b>9,329</b>	<b>17</b>
<b>Capital work-in-progress included above</b>	<b>364</b>	<b>137</b>	<b>501</b>	<b>-</b>
<b>Cost</b>				
At 21 March 2010	7,927	5,129	13,056	45
Additions	749	487	1,236	36
Acquisition of subsidiaries	61	-	61	-
Disposals	(264)	(509)	(773)	(36)
Transfer to assets held for sale	(13)	(2)	(15)	-
<b>At 19 March 2011</b>	<b>8,460</b>	<b>5,105</b>	<b>13,565</b>	<b>45</b>
<b>Accumulated depreciation and impairment</b>				
At 21 March 2010	1,309	3,544	4,853	3
Depreciation expense for the year	138	330	468	-
Disposals	(47)	(490)	(537)	-
Transfer to assets held for sale	(2)	(1)	(3)	-
<b>At 19 March 2011</b>	<b>1,398</b>	<b>3,383</b>	<b>4,781</b>	<b>3</b>
<b>Net book value at 19 March 2011</b>	<b>7,062</b>	<b>1,722</b>	<b>8,784</b>	<b>42</b>
<b>Capital work-in-progress included above</b>	<b>380</b>	<b>102</b>	<b>482</b>	<b>-</b>

#### Impairment of property, plant and equipment

In accordance with IAS 36 'Impairment of Assets', property, plant and equipment is only tested for impairment in the event that a triggering event is identified. The Group has determined that for the purposes of impairment testing, following a triggering event, each store is a cash-generating unit ('CGU').

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 for the UK food retail sector. The discount rate is based on the Group's pre-tax weighted average cost of capital of ten per cent (2011: ten per cent).

Non-store assets are also tested for impairment in the event that a triggering event is identified. When an impairment is required, the carrying value of the asset is compared to its value in use using a methodology consistent with that described above.

**11 Property, plant and equipment continued****Interest capitalised**

Interest capitalised included in additions amounted to £35 million (2011 £27 million) for the Group and £nil (2011 £nil) for the Company. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £302 million (2011 £273 million) for the Group and £nil (2011 £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.7 per cent (2011 five per cent).

**Security**

Property, plant and equipment of 131 (2011 130) supermarket properties, with a net book value of £2,288 million (2011 £2,323 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 £68 million (2011 £69 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.

On 17 June 2010 property, plant and equipment comprising eight supermarket properties, with a net book value of £167 million were transferred to the Sainsbury's Property Scottish Partnership ('the partnership'). On 25 March 2011 a further 13 properties with a net book value of £345 million were transferred to the partnership (see note 30).

**Analysis of assets held under finance leases**

Group	2012 Land and buildings £m	2012 Fixtures and equipment £m	2012 Total £m	2011 Land and buildings £m	2011 Fixtures and equipment £m	2011 Total £m
Cost	50	15	65	48	15	63
Accumulated depreciation and impairment	(24)	(7)	(31)	(22)	(4)	(26)
Net book value	26	8	34	26	11	37

**12 Intangible assets**

Group	Goodwill £m	Computer software £m	Other £m	Total £m
<b>Cost</b>				
At 20 March 2011	100	152	46	298
Additions	-	19	2	21
Acquisition of subsidiaries	-	1	-	1
<b>At 17 March 2012</b>	<b>100</b>	<b>172</b>	<b>48</b>	<b>320</b>
<b>Accumulated amortisation and impairment</b>				
At 20 March 2011	-	117	30	147
Amortisation expense for the year	-	6	7	13
<b>At 17 March 2012</b>	<b>-</b>	<b>123</b>	<b>37</b>	<b>160</b>
<b>Net book value at 17 March 2012</b>	<b>100</b>	<b>49</b>	<b>11</b>	<b>160</b>
<b>Cost</b>				
At 21 March 2010	100	141	36	277
Additions	-	11	10	21
Acquisition of subsidiaries	1	-	-	1
Disposals	(1)	-	-	(1)
<b>At 19 March 2011</b>	<b>100</b>	<b>152</b>	<b>46</b>	<b>298</b>
<b>Accumulated amortisation and impairment</b>				
At 21 March 2010	-	109	24	133
Amortisation expense for the year	-	8	6	14
<b>At 19 March 2011</b>	<b>-</b>	<b>117</b>	<b>30</b>	<b>147</b>
<b>Net book value at 19 March 2011</b>	<b>100</b>	<b>35</b>	<b>16</b>	<b>151</b>

## Notes to the financial statements continued

### 12 Intangible assets continued

Other intangibles are primarily comprised of pharmacy licences

The goodwill balance above relates primarily to the Group's acquisitions of Bells Stores Ltd, Jacksons Stores Ltd, JB Beaumont Ltd, SL Shaw Ltd, Culcheth Provision Stores Ltd, Town Centre Retail (Bicester) Ltd, SW Dewsbury Ltd and Portfolio Investments 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 (2011: 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 identified in the current financial year (2011: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill.

### 13 Investments in subsidiaries

	2012 £m	2011 £m
<b>Shares in subsidiaries - Company</b>		
Beginning of year	7,309	7,276
Additions	32	35
Disposal of subsidiaries	(56)	-
Provision for diminution in value of investment	(1)	(4)
Release of provision for diminution in value of investment	1	2
<b>End of year</b>	<b>7,285</b>	<b>7,309</b>

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

All principal operating subsidiaries operate in the countries of their registration or incorporation, and have been consolidated up to and as at 17 March 2012. The Company has taken advantage of the exemption in s410 of the Companies Act 2006 only 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.

During the year, a corporate simplification exercise resulted in the liquidation of a number of subsidiary companies of the Group with a carrying value of £56 million (2011: £nil).

During the year, a provision of £1 million was made against investments in subsidiaries where the carrying value exceeded the recoverable amount (2011: £4 million).

The Group has an interest in two partnerships, Sainsbury's Property Scottish Partnership and Sainsbury's Property Scottish Limited Partnership, which are fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 and has therefore not appended the accounts of these qualifying partnerships to these accounts. Separate accounts for these partnerships are not required to be, and have not been, filed at Companies House.

## 14 Investments in joint ventures

	Group shares at cost £m	Group share of post- acquisition reserves £m	Group Total £m	Company shares at cost £m
At 20 March 2011	433	69	502	91
Share of retained profit				
Underlying profit after tax	-	32	32	-
Financing fair value movements	-	(5)	(5)	-
Share of profit on disposal of properties	-	1	1	-
	-	28	28	-
Unrealised loss on disposal of properties	-	20	20	-
Realised profit on disposal of properties	-	12	12	-
Movements in other comprehensive income (note 24)	-	4	4	-
<b>At 17 March 2012</b>	<b>433</b>	<b>133</b>	<b>566</b>	<b>91</b>
At 21 March 2010	431	18	449	91
Additions in year	2	-	2	-
Release of provision for diminution in value of investment	-	1	1	-
Share of retained profit				
Underlying profit after tax	-	24	24	-
Investment property fair value movements	-	39	39	-
Financing fair value movements	-	(3)	(3)	-
	-	60	60	-
Dividends received	-	(1)	(1)	-
Unrealised profit on disposal of properties	-	(13)	(13)	-
Movements in other comprehensive income (note 24)	-	4	4	-
<b>At 19 March 2011</b>	<b>433</b>	<b>69</b>	<b>502</b>	<b>91</b>

The Group's principal joint ventures were

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

Where relevant management accounts for the joint ventures have been used to include the results up to 17 March 2012. The Group's share of the assets, liabilities, income and expenses of its principal joint ventures are detailed below

	2012 £m	2011 £m
Non-current assets	1,526	1,487
Current assets	1,471	1,767
Current liabilities	(1,549)	(1,848)
Non-current liabilities	(887)	(909)
<b>Net assets</b>	<b>561</b>	<b>497</b>
Income	201	196
Expenses	(173)	(175)
Investment property fair value movements	-	39
<b>Profit after tax</b>	<b>28</b>	<b>60</b>

Investments in joint ventures at 17 March 2012 include £5 million of goodwill (2011: £5 million)

## Notes to the financial statements continued

### 15 Available-for-sale financial assets

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
<b>Non-current</b>				
Unlisted equity investments	1	-	-	-
Interest bearing financial assets	31	36	31	36
Other financial asset	146	140	-	-
	<b>178</b>	<b>176</b>	<b>31</b>	<b>36</b>

The other financial asset represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of three per cent (2011: 3.2 per cent) and a weighted average cost of capital of ten per cent (2011: 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 28 for sensitivity analysis).

### 16 Inventories

	2012 £m	2011 £m
Goods held for resale	916	812
Development properties	22	-
	<b>938</b>	<b>812</b>

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 17 March 2012 was £17,000 million (2011: £16,053 million).

### 17 Trade and other receivables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
<b>Non-current</b>				
Amounts owed by Group entities	-	-	1,277	1,146
Other receivables	38	36	35	35
	<b>38</b>	<b>36</b>	<b>1,312</b>	<b>1,181</b>
<b>Current</b>				
Trade receivables	110	93	-	-
Amounts owed by Group entities	-	-	1,076	1,045
Other receivables	115	188	20	20
	<b>225</b>	<b>281</b>	<b>1,096</b>	<b>1,065</b>
Prepayments and accrued income	61	62	3	4
	<b>286</b>	<b>343</b>	<b>1,099</b>	<b>1,069</b>

Non-current other receivables of £38 million (2011: £36 million) comprise £5 million of floating rate subordinated undated loan capital (2011: £5 million) and £30 million of floating rate subordinated dated loan capital due from Sainsbury's Bank (2011: £30 million) (note 32).

Trade receivables are non-interest bearing and are on commercial terms. Current other receivables are generally non-interest bearing, other than the £20 million of floating rate subordinated undated loan capital due from Sainsbury's Bank (2011: £20 million) (note 32) and also include a fixed term interest-bearing deposit of £nil (2011: £40 million). The carrying amounts of trade and other receivables are denominated in sterling.

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 prior to invoices being raised and credit limits are determined on an individual basis.

## Notes to the financial statements continued

### 17 Trade and other receivables continued

Major counterparties are identified as follows

	2012 Number of counterparties	2012 Balance £m	2011 Number of counterparties	2011 Balance £m
Trade receivables	2	28	3	34
Other receivables	1	16	2	58
Related parties	1	56	1	56

Significant trade receivables identified above relate to amounts receivable from credit card companies and balances due from external suppliers

At 17 March 2012, significant other receivables identified were amounts due from the National Health Service of £16 million (2011: £18 million) and in the prior year, an interest-bearing deposit of £40 million

Related party receivables are from the Group's joint venture, Sainsbury's Bank. 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

There were no non-current assets held for sale in the current year. In prior year, there were £13 million of non-current assets relating to properties held in the Retailing segment. Sale of these assets occurred during the current financial year

### 19 Trade and other payables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
<b>Current</b>				
Trade payables	1,903	1,836	-	-
Amounts owed to Group entities	-	-	4,442	4,421
Other payables	580	511	52	22
Accruals and deferred income	257	250	-	-
	<b>2,740</b>	<b>2,597</b>	<b>4,494</b>	<b>4,443</b>
<b>Non-current</b>				
Amounts owed to Group entities	-	-	874	861
Other payables	-	3	-	-
Accruals and deferred income	137	117	-	-
	<b>137</b>	<b>120</b>	<b>874</b>	<b>861</b>

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	2012 Current £m	2012 Non-current £m	2012 Total £m	2011 Current £m	2011 Non-current £m	2011 Total £m
<b>Secured loans</b>						
Loan due 2018	41	1,028	1,069	40	1,047	1,087
Loan due 2031	14	860	874	10	860	870
<b>Unsecured loans</b>						
Bank overdrafts	-	-	-	1	-	1
Bank loan due 2012	50	-	50	-	50	50
Bank loan due 2014	-	25	25	-	-	-
Bank loans due 2015	23	230	253	20	152	172
Bank loans due 2016	1	42	43	-	-	-
Bank loans due 2017	-	108	108	-	-	-
Convertible bond due 2014	2	177	179	-	176	176
Other loans due 2015	-	23	23	-	-	-
Finance lease obligations	19	124	143	3	54	57
<b>Total borrowings</b>	<b>150</b>	<b>2,617</b>	<b>2,767</b>	<b>74</b>	<b>2,339</b>	<b>2,413</b>

Company	2012 Current £m	2012 Non-current £m	2012 Total £m	2011 Current £m	2011 Non-current £m	2011 Total £m
Bank loan due 2012	50	-	50	-	50	50
Bank loan due 2014	-	25	25	-	-	-
Bank loans due 2015	19	190	209	17	112	129
Bank loans due 2016	1	42	43	-	-	-
Bank loans due 2017	-	108	108	-	-	-
Convertible bond due 2014	2	177	179	-	176	176
Other loans due 2015	-	23	23	-	-	-
<b>Total borrowings</b>	<b>72</b>	<b>565</b>	<b>637</b>	<b>17</b>	<b>338</b>	<b>355</b>

**Secured loans**

Secured loans are secured on 131 (2011: 130) supermarket properties (note 11) and comprise loans from two finance companies

- a fixed rate amortising loan with an outstanding principal value of £1,036 million (2011: £1,069 million) at a weighted average rate of 4.98 per cent stepping up to 5.36 per cent from April 2013 with an effective interest rate of 5.28 per cent and carrying amount of £1,069 million (2011: £1,087 million) with a final repayment date of July 2018 and
- an inflation linked amortising loan with an outstanding principal value of £843 million (2011: £840 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 £874 million (2011: £870 million) with a final repayment date of April 2031

The Group has entered into interest rate swaps to convert £211 million (2011: £211 million) of the £1,036 million (2011: £1,069 million) loan due 2018 from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 29). In previous years, £572 million of swaps accounted for as fair value hedges were de-designated from their fair value hedging relationship. The fair value adjustment 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 £1 million (2011: £1 million).

In September 2011, the Group entered into inflation linked swaps to convert £250 million (2011: £nil) of the £843 million (2011: £840 million) loan due 2031 from RPI linked interest to fixed rate interest for the period from April 2012 to April 2017. These transactions have been accounted for as cash flow hedges.

**Bank overdrafts**

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

**Bank loan due 2012**

A £50 million loan due May 2012 at floating rates of interest subject to a cap.

**Bank loan due 2014**

A £25 million loan due July 2014 at floating rates of interest.

**Bank loans due 2015**

A £72 million loan due May 2015 at floating rates of interest, a £20 million loan due March 2015 at floating rates of interest, a £40 million loan due May 2015 at floating rates of interest subject to a cap, a €50 million loan due March 2015 at floating rates of interest swapped into a £45 million floating rate loan, a US\$69 million loan due March 2015 at floating rates of interest swapped into a £44 million floating rate loan and a €40 million loan due March 2015 at floating rates of interest swapped into a £34 million floating rate loan.



## Notes to the financial statements continued

### 20 Borrowings continued

#### Bank loans due 2016

A €50 million loan due September 2016 at floating rates of interest. The €50 million loan has been swapped into a £44 million floating rate loan via a cross currency swap.

#### Bank loans due 2017

A £45 million loan due February 2017 at floating rates of interest and a US\$100 million loan due March 2017 at floating rates of interest. The US\$100 million loan has been swapped into a £63 million fixed rate loan via a cross currency swap. The US\$100 million loan and associated cross currency swap have been accounted for as a cash flow hedge with fair value movements in future interest payments deferred through the cash flow hedge reserve.

#### Convertible bond due 2014

In July 2009, the Group issued £190 million of unsecured convertible bonds due July 2014. The bonds pay a coupon of 4.25 per cent payable semi-annually. Each bond is convertible into ordinary shares of J Sainsbury plc at any time up to 9 July 2014 at a current conversion price of 413.0 pence.

The £190 million of fixed rate convertible bonds have been swapped into floating rates of interest for the period to July 2012. These transactions have been accounted for as fair value hedges (note 29).

The net proceeds of the convertible bond have been split into a liability component of £166 million and an equity component of £24 million. The equity component represents the fair value of the embedded option to convert the bond into ordinary shares of the Company.

	2012 £m	2011 £m
Liability component as at the beginning of the financial period	176	172
Interest expense	14	13
Interest paid	(8)	(8)
Other <sup>1</sup>	(3)	(1)
Liability component as at the end of the financial period	179	176

<sup>1</sup> Other relates to fair value movements and fees.

#### Other loans due 2015

Three institutional fixed rate loans due March 2015 totalling €28 million swapped into a £23 million floating rate loan. These transactions have been accounted for as fair value hedges (note 29).

#### Borrowing facilities

The Group maintains a £690 million syndicated revolving credit facility maturing in October 2015 for standby liquidity purposes. At 17 March 2012, no advance had been made under the borrowing facility (2011: £nil) and all conditions precedent had been met as at that date.

The facility incurs commitment fees at market rates and would provide funding at floating rates.

#### Obligations under finance leases

	Minimum lease payments 2012 £m	Minimum lease payments 2011 £m	Present value of minimum lease payments 2012 £m	Present value of minimum lease payments 2011 £m
Amounts payable under finance leases				
Within 1 year	20	7	19	3
Within 2 to 5 years inclusive	82	21	71	10
After 5 years	177	168	53	44
	279	196	143	57
Less: future finance charges	(136)	(139)		
Present value of lease obligations	143	57		
Disclosed as				
Current	19	3		
Non-current	124	54		
	143	57		

Finance leases have effective interest rates ranging from 3.80 per cent to 9.00 per cent (2011: 4.30 per cent to 9.00 per cent). The average remaining lease term is 7.2 years (2011: 6.2 years).

## Notes to the financial statements continued

### 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 capital allowances £m	Capital losses £m	Fair value gains £m	Other £m	Other property £m	Retirement benefit obligations £m	Share based payment £m	Total £m
At 20 March 2011	(185)	53	(38)	(29)	(89)	99	17	(172)
(Charge)/credit to income statement	(23)	9	-	(14)	(20)	(79)	(3)	(130)
Charge to equity	-	-	(2)	-	-	-	(1)	(3)
Rate change adjustment to income statement	15	(5)	-	3	8	(14)	(1)	6
Rate change adjustment to equity	-	-	3	-	-	10	-	13
<b>At 17 March 2012</b>	<b>(193)</b>	<b>57</b>	<b>(37)</b>	<b>(40)</b>	<b>(101)</b>	<b>16</b>	<b>12</b>	<b>(286)</b>
At 21 March 2010	(177)	49	(36)	(27)	(84)	118	13	(144)
(Charge)/credit to income statement	(15)	5	-	(3)	(8)	(7)	4	(24)
(Charge)/credit to equity	-	-	(3)	-	-	(8)	1	(10)
Rate change adjustment to income statement	7	(1)	-	1	3	(9)	(1)	-
Rate change adjustment to equity	-	-	1	-	-	5	-	6
At 19 March 2011	(185)	53	(38)	(29)	(89)	99	17	(172)

Group	2012 £m	2011 £m
Total deferred income tax liabilities	(371)	(341)
Total deferred income tax assets	85	169
<b>Net deferred tax liabilities</b>	<b>(286)</b>	<b>(172)</b>

Company	Capital losses £m	Fair value losses £m	Other property £m	Total £m
At 20 March 2011	34	1	(34)	1
Rate change adjustment to income statement	(2)	-	2	-
<b>At 17 March 2012</b>	<b>32</b>	<b>1</b>	<b>(32)</b>	<b>1</b>
At 21 March 2010	35	1	(35)	1
Rate change adjustment to income statement	(1)	-	1	-
At 19 March 2011	34	1	(34)	1

Company	2012 £m	2011 £m
Total deferred income tax liabilities	(32)	(34)
Total deferred tax assets	33	35
<b>Net deferred tax assets</b>	<b>1</b>	<b>1</b>

Deferred income tax assets have been recognised in respect of all income tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered. 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 disposal provisions £m	Group long service awards £m	Group total £m	Company onerous leases £m	Company disposal provision £m	Company total £m
At 20 March 2011	49	17	7	73	3	17	20
Charge/(credit) to income statement							
Additional provisions	11	-	-	11	-	-	-
Unused amounts reversed	(7)	-	-	(7)	-	-	-
Utilisation of provision	(7)	-	-	(7)	(1)	-	(1)
Amortisation of discount	2	-	-	2	-	-	-
At 17 March 2012	48	17	7	72	2	17	19
At 21 March 2010	49	23	7	79	3	22	25
Charge/(credit) to income statement							
Additional provisions	13	-	-	13	2	-	2
Unused amounts reversed	(1)	(5)	-	(6)	-	(5)	(5)
Utilisation of provision	(15)	(1)	-	(16)	(2)	-	(2)
Amortisation of discount	3	-	-	3	-	-	-
At 19 March 2011	49	17	7	73	3	17	20

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Disclosed as				
Current	9	11	1	1
Non-current	63	62	18	19
	72	73	19	20

The onerous lease provision covers residual lease commitments of up to an average of 26 years (2011: 29 years) after allowance for existing or anticipated sublet rental income.

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

Group and Company	2012 million	2011 million	2012 £m	2011 £m
<b>Authorised share capital</b>				
Ordinary shares of 28 $\frac{1}{2}$ pence each (2011: 28 $\frac{1}{2}$ pence)	2,450	2,450	700	700
Preference B shares of 35 pence each (2011: 35 pence)	2,100	2,100	735	735
<b>Called up share capital</b>				
Allotted and fully paid - ordinary shares	1,883	1,871	538	535
<b>Share premium account</b>				
Share premium			1,061	1,048

The movements in the called up share capital and share premium accounts are set out below.

	Ordinary shares million	Ordinary shares £m	Share premium account £m
At 20 March 2011	1,871	535	1,048
Allotted in respect of share option schemes	12	3	13
At 17 March 2012	1,883	538	1,061
At 21 March 2010	1,860	532	1,033
Allotted in respect of share option schemes	11	3	15
At 19 March 2011	1,871	535	1,048

24 Capital redemption and other reserves

Group	Capital redemption reserve £m	Currency translation reserve £m	Actuarial (losses)/ gains £m	Available for sale assets £m	Cash flow hedge reserve £m	Convertible bond reserve £m	Total other reserves £m
At 20 March 2011	680	(1)	(322)	102	(9)	17	(213)
Actuarial (losses) on defined benefit pension scheme (net of tax)	-	-	(154)	-	-	-	(154)
Available-for-sale financial assets fair value movements (net of tax)							
Group	-	-	-	3	-	-	3
Joint ventures (note 14)	-	-	-	2	-	-	2
Cash flow hedges effective portion of fair value movements (net of tax)							
Joint ventures (note 14)	-	-	-	-	2	-	2
Amortisation of convertible bond equity component	-	-	-	-	-	(5)	(5)
<b>At 17 March 2012</b>	<b>680</b>	<b>(1)</b>	<b>(476)</b>	<b>107</b>	<b>(7)</b>	<b>12</b>	<b>(365)</b>
At 21 March 2010	680	(1)	(348)	89	(3)	21	(242)
Actuarial gains on defined benefit pension scheme (net of tax)	-	-	26	-	-	-	26
Available-for-sale financial assets fair value movements (net of tax)							
Group	-	-	-	11	-	-	11
Joint ventures (note 14)	-	-	-	2	-	-	2
Cash flow hedges effective portion of fair value movements (net of tax)							
Group	-	-	-	-	(8)	-	(8)
Joint Venture (note 14)	-	-	-	-	2	-	2
Amortisation of convertible bond equity component	-	-	-	-	-	(4)	(4)
<b>At 19 March 2011</b>	<b>680</b>	<b>(1)</b>	<b>(322)</b>	<b>102</b>	<b>(9)</b>	<b>17</b>	<b>(213)</b>

Company	Capital redemption reserve £m	Available-for-sale assets £m	Convertible bond reserve £m	Total other reserves £m
At 20 March 2011	680	6	17	23
Available-for-sale financial assets fair value movements (net of tax)	-	(4)	-	(4)
Amortisation of convertible bond equity	-	-	(5)	(5)
<b>At 17 March 2012</b>	<b>680</b>	<b>2</b>	<b>12</b>	<b>14</b>
At 21 March 2010	680	5	21	26
Available-for-sale financial assets fair value movements (net of tax)	-	1	-	1
Amortisation of convertible bond equity	-	-	(4)	(4)
<b>At 19 March 2011</b>	<b>680</b>	<b>6</b>	<b>17</b>	<b>23</b>

The capital redemption reserve arose on 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. The final redemption date for B Shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

Currency translation reserve represents the cumulative 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.

The actuarial gains and losses reserve represents the actuarial gains and losses on the defined benefit pension scheme operated by the Group. The available-for-sale assets reserve represents the fair value gains and losses on the available-for-sale financial assets held by the Group. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Group.

The convertible bond reserve represents the equity component of the £190 million convertible bond issued in July 2009.

## Notes to the financial statements continued

### 31 Share-based payments continued

#### b) 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.

	2012 Number of options million	2012 Weighted average exercise price pence	2011 Number of options million	2011 Weighted average exercise price pence
Outstanding at beginning of year	11	417	15	397
Forfeited	-	-	(0.2)	416
Exercised	-	-	(0.2)	272
Expired	(1.1)	-	-	-
Outstanding at end of year	-	-	11	417
Exercisable at end of year	-	-	11	417

The weighted average exercise price during the period for options exercised over the year was nil (2011: 323 pence).

Details of options at 17 March 2012 are set out below.

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2012 million	Options outstanding 2011 million
2 June 2000	1 June 2010	272	-	-
7 June 2001	6 June 2011	427	-	0.5
26 July 2001	25 July 2011	407	-	0.6
			-	1.1

#### c) 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. 0.3 million free shares (2011: 0.4 million) are being held in a trust on behalf of participants unless they are released to participants upon cessation of employment with the Group.

(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 Sainsbury's share purchase plan. This arrangement ceased in August 2011. Under this scheme, 232,603 matching shares are outstanding at 17 March 2012 (2011: 275,071 were outstanding). The charge under IFRS for this scheme was not material.

#### d) Long-Term Incentive Plan 2006

Under the Long-Term Incentive Plan 2006, shares are conditionally awarded to the top managers in the Company. 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.

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 no later than on the fourth anniversary of the date of award. Options granted to acquire the award of shares will expire two years from the vesting date. Dividends will accrue on the shares that vest in the form of additional shares.

## Notes to the financial statements continued

### 31 Share-based payments continued

To achieve the maximum multiplier of four, the following criteria are required to be met

Date of conditional award	Percentage increase to achieve maximum multiplier	
	Cash flow per share %	Return on capital employed %
13 July 2006	18	14
20 June 2007	18	14
28 May 2008	15	15
24 June 2009	15	15
21 June 2010	15	15
19 May 2011	12	15

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

	2012 million	2011 million
Outstanding at beginning of year	10.7	8.5
Conditionally allocated	1.8	4.2
Forfeited	(0.8)	(0.7)
Released to participants	(2.1)	(1.3)
Outstanding at end of year	9.6	10.7

Details of shares conditionally allocated at 17 March 2012 are set out below

	2012 million	2011 million
13 July 2006	-	0.1
20 June 2007	0.1	1.0
28 May 2008	1.5	2.8
24 June 2009	3.0	3.2
21 June 2010	3.3	3.6
19 May 2011	1.7	-
	9.6	10.7

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:

	2012	2011
Share price at grant date (pence)	355	324
Expected volatility (%)	18.4	22.8
Option life (years)	4.2	4.2
Risk-free interest rate (%)	3.3	3.7
Fair value per option (pence)	355	324

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.

In March 2011, the three year accelerated performance targets were met achieving a multiplier of 1.9 (2010: 3.2). During the year, a total number of 6.3 million shares were granted to employees as a result of achieving the performance target and 6.2 million options were exercised. The weighted average share price during the year for options exercised was 326 pence (2011: 333 pence).

#### e) Deferred Annual Bonus Plan

The Deferred Annual Bonus Plan, applied to the top levels of management including Executive Directors and comprised around 40 participants in total. The first deferral took place in June 2007, in respect of the bonus awards for the financial year ended 24 March 2007. The second deferral took place in June 2008, in respect of the bonus awards for the financial year ended 22 March 2008. The third and final deferral took place in June 2009, in respect of bonus awards for the financial year ended 21 March 2009.

The Plan measured the Company's total shareholder return ('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, Aldi, Carrefour, Casino Delhaize and Metro. Alliance Boots was removed from the comparator group following its de-listing.

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

## Notes to the financial statements continued

### 31 Share-based payments continued

To the extent that the performance condition was met at the end of the three-year performance period, the matched shares would be added to the deferred bonus shares. The deferred bonus shares and half of the matched shares could be accessed immediately, while the remainder were held over for a further year. Dividends or their equivalents accrued on shares that vested.

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

	2012 million	2011 million
Outstanding at beginning of year	0.9	1.5
Granted	-	-
Lapsed	(0.4)	(0.6)
Outstanding at end of year	0.5	0.9

Details of shares conditionally allocated at 17 March 2012 are set out below

	2012 million	2011 million
20 June 2008	0.1	0.5
24 June 2009	0.4	0.4
	0.5	0.9

#### f) Deferred Share Award

The Deferred Share Award targets a diverse range of business critical financial and non financial scorecard measures. These are intended to reward the top 40 managers in the Company, including Executive Directors for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company.

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

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

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

	2012 million	2011 million
Outstanding at beginning of year	1.3	-
Granted	1.2	1.3
Lapsed	(0.1)	-
Outstanding at end of year	2.4	1.3

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

	Share conditionally allocated 2012 million	Share conditionally allocated 2011 million
20 May 2010	1.2	1.3
19 May 2011	1.2	-
	2.4	1.3

## Notes to the financial statements continued

### 32 Related party transactions

#### Group

##### a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc Board of Directors and the Operating Board. The key management personnel compensation is as follows:

	2012 £m	2011 £m
Short term employee benefits	9	8
Post-employment employee benefits	1	1
Share-based payments	9	10
	19	19

Six key management personnel had credit card balances with Sainsbury's Bank plc (2011: six). These arose in the normal course of business and were immaterial to the Group and the individuals. Six key management personnel held saving deposit accounts with Sainsbury's Bank plc (2011: four). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

##### b) Joint ventures

###### Transactions with joint ventures

For the 52 weeks to 17 March 2012, the Group entered into various transactions with joint ventures as set out below:

	2012 £m	2011 £m
Management services provided	7	14
Interest income received in respect of interest bearing loans	1	1
Dividend income received	-	1
Sale of assets	12	74
Purchase of assets	-	(16)
Acquisition of companies	-	(58)
Rental expenses paid	(75)	(72)

###### Year-end balances arising from transactions with joint ventures

	2012 £m	2011 £m
<b>Receivables</b>		
Other receivables	13	1
Loans due from joint ventures		
Floating rate subordinated undated loan capital <sup>1</sup>	25	25
Floating rate subordinated dated loan capital <sup>2</sup>	30	30
Other	16	9
<b>Payables</b>		
Loans due to joint ventures	(48)	(48)

<sup>1</sup> 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.

<sup>2</sup> 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.

##### c) Retirement benefit obligations

As discussed in note 30, the Group has entered into an arrangement with the Pension Scheme Trustee as part of the funding plan for the actuarial deficit in the Scheme. Full details of this arrangement are set out in note 30 to these financial statements.



## 32 Related party transactions continued

## Company

## a) Key management personnel

The key management personnel of the Company comprise members of the J Sainsbury plc Board of Directors. The Directors do not receive any remuneration from the Company (2011: £nil) as their emoluments are borne by subsidiaries. The Company did not have any transactions with the Directors during the financial year (2011: £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

	2012 £m	2011 £m
<b>Loans and advances given to, and dividend income received from subsidiaries</b>		
Loans and advances given	341	702
Loans and advances repaid by subsidiaries	(281)	(125)
Interest income received in respect of interest bearing loans and advances	146	135
Dividend income received	276	250
<b>Loans and advances received from subsidiaries</b>		
Loans and advances received	(339)	(321)
Loans and advances repaid	61	64
Interest expense paid in respect of interest bearing loans and advances	(108)	(64)

## Year-end balances arising from transactions with subsidiaries

	2012 £m	2011 £m
<b>Receivables</b>		
Loans and advances due from subsidiaries	2,352	2,191
<b>Payables</b>		
Loans and advances due to subsidiaries	(5,316)	(5,282)

## c) Joint ventures

## Transactions with joint ventures

For the 52 weeks to 17 March 2012, the Company entered into transactions with joint ventures as set out below.

	2012 £m	2011 £m
<b>Services and loans provided to joint ventures</b>		
Interest income received in respect of interest bearing loans	1	1
Dividend income received	-	1

## Year-end balances arising from transactions with joint ventures

	2012 £m	2011 £m
<b>Receivables</b>		
Loans due from joint ventures		
Floating rate subordinated undated loan capital <sup>1</sup>	25	25
Floating rate subordinated dated loan capital <sup>2</sup>	30	30
<b>Payables</b>		
Loans due to joint ventures	(5)	(5)

<sup>1</sup> 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.

<sup>2</sup> 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.

## Notes to the financial statements continued

### 33 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.

	2012 £m	2011 £m
Aggregate future minimum lease payments		
Within 1 year	471	463
Within 2 to 5 years inclusive	1,741	1,675
After 5 years	6,042	5,957
	8,254	8,095

The Group sublets certain leased properties.

	2012 £m	2011 £m
Aggregate future minimum lease receipts		
Within 1 year	31	31
Within 2 to 5 years inclusive	98	102
After 5 years	151	144
	280	277

### 34 Capital commitments

The Group has entered into contracts totalling £345 million (2011: £265 million) for future capital expenditure not provided for in the financial statements.

### 35 Financial commitments

Sainsbury's Bank plc, a 50 per cent joint venture of the Group, has off balance sheet financial instruments committing it to extend credit to customers of £40 million (2011: £46 million).

# Five year financial record

	2012	2011	2010	2009	2008
<b>Financial results (£m)</b>					
<b>Sales (including Value Added Tax, including fuel)</b>	<b>24,511</b>	<b>22,943</b>	<b>21,421</b>	<b>20,383</b>	<b>19,287</b>
<b>Underlying operating profit</b>	<b>789</b>	<b>738</b>	<b>671</b>	<b>616</b>	<b>535</b>
Underlying net finance costs <sup>1,2</sup>	(109)	(97)	(79)	(113)	(99)
Underlying share of post-tax profit/(loss) from joint ventures	32	24	18	16	(2)
<b>Underlying profit before tax<sup>1,2,3</sup></b>	<b>712</b>	<b>665</b>	<b>610</b>	<b>519</b>	<b>434</b>
Increase on previous year (%)	71	9.0	17.5	19.6	28.0
<b>Underlying operating profit margin (%)</b>	<b>3.54</b>	<b>3.50</b>	<b>3.36</b>	<b>3.26</b>	<b>3.00</b>
<b>Earnings per share</b>					
Underlying basic (pence) <sup>1,3</sup>	28.1	26.5	23.9	21.2	17.4
Increase on previous year (%)	6.0	10.9	12.7	21.8	33.8
Proposed dividend per share (pence) <sup>4</sup>	16.10	15.10	14.20	13.20	12.00
<b>Retail statistics for UK food retailing</b>					
<b>Number of outlets at financial year end</b>					
over 55,000 sq ft sales area	81	64	45	34	24
40,001 - 55,000 sq ft sales area	123	124	125	130	130
25,001 - 40,000 sq ft sales area	152	155	156	153	161
15,000 - 25,000 sq ft sales area	115	113	115	108	100
under 15,000 sq ft sales area	541	478	431	367	408
	<b>1,012</b>	<b>934</b>	<b>872</b>	<b>792</b>	<b>823</b>
<b>Sales area (000 sq ft)</b>	<b>20,347</b>	<b>19,108</b>	<b>17,750</b>	<b>16,703</b>	<b>16,191</b>
Net increase on previous year (%) <sup>5</sup>	6.5	7.7	6.3	3.2	3.0
New stores <sup>5</sup>	92	68	89	29	35
<b>Sales intensity (including Value Added Tax)<sup>5,6</sup></b>					
Per square foot (£ per week)	<b>19.47</b>	<b>20.04</b>	<b>20.42</b>	<b>20.01</b>	<b>19.69</b>

1 2008/09 and prior periods are restated for the change in the definition of underlying profit before tax (UPBT). As communicated at the time of the 2008/09 year end announcement, the financing element of IAS 19 Employee Benefits pensions accounting has been excluded from UPBT.

2 Net finance costs pre-financing fair value movements. IAS 19 pension financing (charge)/credit 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, IAS 19 pension financing (charge)/credit 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 2008/09 and 2009/10 adjusted for comparative purposes to remove the dilutive effect of the temporary VAT reduction to 15 per cent between 1 December 2008 and 31 December 2009.

## Additional shareholder information

### End of year Information at 17 March 2012

Number of shareholders	118,950 (2011 116,974)
Number of shares in issue	1,883,086,486 (2011 1,870,802,529)

### By size of holding

	Shareholders %		Shares %	
	2012	2011	2012	2011
500 and under	62.85	64.13	0.46	0.46
501 to 1,000	12.88	12.95	0.61	0.60
1,001 to 10,000	22.38	21.16	3.83	3.47
10,001 to 100,000	1.43	1.28	2.21	2.01
100,001 to 1,000,000	0.32	0.32	6.84	7.00
Over 1,000,000	0.14	0.16	86.05	86.45
	100.00	100.00	100.00	100.00

### By category of shareholder

	Shareholders %		Shares %	
	2012	2011	2012	2011
Individual and other shareholders	92.80	93.93	8.93	10.25
Insurance companies	0.07	0.05	0.04	0.03
Banks and Nominees	6.74	5.64	85.24	83.70
Investment Trusts	0.04	0.03	0.05	0.16
Pension Funds	0.01	0.01	0.00	0.07
Other Corporate Bodies	0.34	0.34	5.74	5.79
	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/ar12](http://www.j-sainsbury.co.uk/ar12) and has only been sent to those shareholders who have asked for a paper 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, Store Support Centre, 33 Holborn, London EC1N 2HT or you can email your request to [investorrelations2@sainsburys.co.uk](mailto:investorrelations2@sainsburys.co.uk)

### Annual General Meeting ('AGM')

The AGM will be held at 11.00am on Wednesday, 11 July 2012 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 at [www.j-sainsbury.co.uk](http://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.

### Registrars

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. Telephone: 0870 702 0106.

You can view and manage your shareholding online at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). You will require your 11 character Shareholder Reference Number ('SRN') to log in. Your SRN starts with the letter C or G and is followed by 10 numbers. It can be found on share certificates and dividend tax vouchers.

### Consolidated Tax Vouchers

The Company has adopted the Consolidated Tax Voucher ('CTV') process in relation to dividend payments. This means that those shareholders receiving their dividend direct into their bank account will receive a CTV once a year detailing all payments made throughout that year.

### 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 29,930 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from the Registrars. Alternatively, you can elect to join the DRIP by registering for Investor Centre at [www.investorcentre.co.uk](http://www.investorcentre.co.uk).

### Key dates for the final dividend are as follows

Last date for return of revocation of DRIP mandates	22 June 2012
DRIP shares purchased for participants	13 July 2012
DRIP share certificates issued	25 July 2012

### 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. 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'.

### Electronic Shareholder Communications

The Company encourages all shareholders to receive their shareholder communications electronically in order to reduce our impact on the environment. Shareholders can register their email address at [www.etreeuk.com/jsainsbury](http://www.etreeuk.com/jsainsbury) and for each new shareholder that does so we will make a donation to the Tree for All campaign run by the Woodland Trust.

## Additional shareholder information continued

### Share dealing services

To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or a high street bank who will usually be able to assist you. Alternatively, you may consider using

- The Share Centre Ltd who offer a postal dealing service and they can be contacted at The Share Centre, PO Box 2000, Oxford Road, Aylesbury Buckinghamshire HP21 8ZB Telephone 01296 414141 or freephone 08000 282812 and quote 'Sainsbury's', or
- Computershare who offer a telephone and internet facility which gives shareholders the opportunity to trade at a known price. The telephone service is available from 8.00am to 4.30pm, Monday to Friday, excluding bank holidays on telephone number 0870 703 0084. The internet share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting [www.computershare.com/dealing/uk](http://www.computershare.com/dealing/uk)

Further information and detailed terms and conditions are available on request by calling either provider

### ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form may be obtained from Computershare Investor Services PLC. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from [www.sharegift.org](http://www.sharegift.org)

### 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 <sup>4</sup>/<sub>7</sub> 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 Adam Wilson Katsibas, 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 1 ADR programme for which The Bank of New York Mellon 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

BNY Mellon  
Shareowner Services  
PO Box 358516  
Pittsburgh  
PA 15252-8516  
Toll Free Telephone # for domestic callers 1-888-BNY-ADRS  
International callers can call +1-201-680-6825  
Email [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)

### General contact details

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 Finance call 0500 405 060

For any customer enquiries please contact our Customer Careline by calling 0800 636 262

## Additional shareholder information continued

### Financial calendar 2012/13

#### Dividend payments

##### Ordinary dividend

Ex-dividend date	16 May 2012
Record date	18 May 2012
Final dividend payable	13 July 2012
Ex-dividend date	21 November 2012
Record date	23 November 2012
Interim dividend payable	4 January 2013

##### Other dates

Annual General Meeting - London	11 July 2012
Interim results announced	14 November 2012
Interim report available at j-sainsbury.co.uk	14 November 2012
Preliminary Results announced	8 May 2013
Annual General Meeting - London	10 July 2013

### Registered office and advisers

#### Registered office

J Sainsbury plc  
33 Holborn  
London EC1N 2HT  
Registered number 185647

#### Solicitors

Linklaters  
One Silk Street  
London EC2Y 8HQ

#### Stockbrokers

UBS  
1 Finsbury Avenue  
London EC2M 2PP

#### Auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

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

#### The service allows you to

- view the Annual Report and Financial Statements 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, and
- 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](http://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](http://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](http://www.sainsburys.co.uk/activekids)

**AGM – Annual General Meeting** – This year the AGM will be held on Wednesday, 11 July 2012 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.

**bps** – basis points

**Brand Match** – Unique initiative using market-leading technology guaranteeing price match on the basket of comparable grocery branded goods with Asda and Tesco. Over 14,000 branded grocery lines are included and the initiative works by offering customers who spend over £20 and buy at least one branded product coupons at the till, there and then for use at their next shop. We even include promotions provided the same number of products are bought. Maximum value of coupons £10.

**by Sainsbury's** – core own label brand

**CMBS** – Commercial Mortgage Backed Securities

**Company** – J Sainsbury plc

**Click & Collect** – service which allows customers to place general merchandise orders online for collection from over 900 stores.

**CPI** – Consumer Price Index

**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.

**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 interest, 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.

**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](http://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.

**FSA** – Food Standards Agency  
[www.food.gov.uk](http://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](http://www.ftse.com/ftse4good)

**FVTPL** – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

**GDAs** – Guideline Daily Amounts

**Gearing** – Net debt divided by net assets.

**Group** – The Company and its subsidiaries.

**IFRIC** – International Financial Reporting Interpretations Committee.

**IFRSs** – International Financial Reporting Standard(s).

**Income statement** – Formerly known as the profit and loss account under UK GAAP.

**JV** – Joint venture – A business jointly owned by two or more parties.

**Kantar Worldpanel** – an independent third party providing data on the UK Grocery Market.

**Like-for-like sales** – The measure of year-on-year same store sales growth.

**Live Well for Less** – Sainsbury's customer commitment to continue to help people live the life they want to live, with quality products at fair prices.

**LTIP** – Long Term Incentive Plan

**MSC** – Marine Stewardship Council

**Multiple traffic lights** – Nutritional labels which provide effective 'at a glance' information customers need to make healthier choices when shopping.

**Nectar** – The most popular loyalty scheme in the UK, of which Sainsbury's is a partner.

**OFT** – Office of Fair Trading

**Real discount rate** – Discount rate less inflation rate.

**ROCE** – Return on capital employed

**RPI** – Retail Price Index

**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.

**Taste the Difference** – Sainsbury's premium sub-brand range of products.

**TU** – Sainsbury's own label clothing range.

**Underlying basic earnings per share** – Profit after tax from continuing operations attributable to equity holders before any profit or loss on the disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing element 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 profit or loss on the disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing element and one-off items that are material and infrequent in nature.

**Underlying operating profit** – Underlying profit before tax from continuing operations before underlying net finance costs and underlying share of post-tax profit or loss from joint ventures.

**Underlying cash flow from operations** – the underlying cash generated from operations for net rent and cash payments to the pension scheme.

## Notes

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**Further insight  
Want to know more  
about our year?  
Visit [j-sainsbury.co.uk](http://j-sainsbury.co.uk)**

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# Achievements

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## **Supermarket of the year**

We won the top award in the Retail Industry Awards 2011 for the second time in three years, with the judges praising us for being true to our brand in a difficult trading period, while championing family values and investing for the future

## **Best convenience retailer**

For a second year running Sainsbury's won Convenience Chain of the Year. Our stores impressed the judges with their combination of strong results and excellent growth in a hard fought market

## **Embedding sustainability**

Sainsbury's achieved Gold class status and was rated as a global sector leader in the Dow Jones Sustainability Index. This Index is one of the leading ways that sustainability is measured in the international business community

## **Leading retailer for sustainability**

We were the top retailer for sustainability in the independent, highly regarded FTSE4Good Index, which evaluates businesses from around the world against key social, environmental and governance practices

## **Investing in our people**

We are the first ever food retailer to receive a Gold accreditation from Investors in People for our commitment to improve our business by investing in our colleagues

## **Committed to animal welfare standards**

For the third year running we won the Best Volume Supermarket in the Compassion in World Farming Awards. The award recognised our responsible, sustainable business approach to our supply chain, and consistent commitment to farm animal welfare

## **Focus on customer health**

This award recognises companies that have made a real impact on helping people make healthier choices in their food and drink. For Sainsbury's, the accolade reflects the work of our in-store pharmacies

## **Official partner of the London 2012 Paralympic Games**

We are proud to be the first ever Paralympics-only sponsor. Our sponsorship is helping us to promote a healthier, more active lifestyle across all ages and abilities

## **Celebrating Her Majesty's Diamond Jubilee**

Sainsbury's is celebrating Her Majesty the Queen's Diamond Jubilee through our support of the Thames Diamond Jubilee Pageant, Diamond Jubilee Beacons, Jubilee Family Festival and Woodland Trust Jubilee Woods Project

## 25 Retained earnings

	Group Own shares £m	Group Profit and loss account £m	Group Total retained earnings £m	Company Retained earnings £m
At 20 March 2011	(22)	3,396	3,374	1,935
Profit for the year	-	598	598	260
Dividends paid	-	(285)	(285)	(285)
Share-based payment (net of tax)	-	26	26	-
Allotted in respect of share option schemes	-	(3)	(3)	27
Utilised in respect of share option schemes	-	-	-	(2)
Amortisation of convertible bond equity	-	5	5	5
<b>At 17 March 2012</b>	<b>(22)</b>	<b>3,737</b>	<b>3,715</b>	<b>1,940</b>
At 21 March 2010	(22)	2,985	2,963	1,886
Profit for the year	-	640	640	280
Dividends paid	-	(269)	(269)	(269)
Share-based payment (net of tax)	-	37	37	-
Allotted in respect of share option schemes	-	(1)	(1)	35
Utilised in respect of share option schemes	-	-	-	(1)
Amortisation of convertible bond equity	-	4	4	4
<b>At 19 March 2011</b>	<b>(22)</b>	<b>3,396</b>	<b>3,374</b>	<b>1,935</b>

**Own shares held by Employee Share Ownership Plan ('ESOP') trusts**

The Group owned 5,893,732 (2011: 6,099,104) of its ordinary shares of 28 $\frac{1}{2}$  pence nominal value each. At 17 March 2012, the total nominal value of the own shares was £2 million (2011: £2 million).

All shares (2011: all shares) are held by an ESOP trust for the Executive Share Plans. 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 17 March 2012 was £18 million (2011: £21 million).

## Notes to the financial statements continued

### 26 Notes to the cash flow statements

#### a Reconciliation of operating profit to cash generated from operations

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Profit before tax	799	827	246	320
Net finance costs	103	84	(12)	(68)
Share of post-tax profits of joint ventures (note 14)	(28)	(60)	-	-
Dividend income from subsidiaries	-	-	(276)	(250)
Operating profit	874	851	(42)	2
Adjustments for				
Depreciation expense	486	468	-	-
Amortisation expense	13	14	-	-
Profit on disposal of properties	(82)	(108)	(3)	-
Foreign exchange differences	(6)	5	-	-
Share-based payments expense	27	35	-	-
Retirement benefit obligations <sup>1</sup>	(74)	(49)	-	-
Liquidation of subsidiaries	-	-	45	-
Provision for diminution in value of investment	-	-	-	2
Operating cash flows before changes in working capital	1,238	1,216	-	4
Changes in working capital				
Increase in inventories	(126)	(110)	-	-
Increase in trade and other receivables	-	(64)	(99)	(535)
Increase in trade and other payables	182	105	31	2
Decrease in provisions	(3)	(9)	-	(6)
<b>Cash generated from operations</b>	<b>1,291</b>	<b>1,138</b>	<b>(68)</b>	<b>(535)</b>

<sup>1</sup> The adjustment for retirement benefit obligations reflects the difference between the service charge of £60 million (2011: £56 million) for the defined benefit scheme and the cash contributions of £134 million made by the Group to the defined benefit scheme (2011: £105 million)

#### b Cash and cash equivalents

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

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash and cash equivalents	739	501	408	169
Bank overdrafts (note 20)	-	(1)	-	-
<b>Net cash and cash equivalents</b>	<b>739</b>	<b>500</b>	<b>408</b>	<b>169</b>

## Notes to the financial statements continued

### 27 Analysis of net debt

	2012 £m	2011 £m
<b>Non-current assets</b>		
Interest bearing available for-sale financial assets	31	36
Derivative financial instruments	37	29
	<b>68</b>	<b>65</b>
<b>Current assets</b>		
Cash and cash equivalents	739	501
Interest bearing deposit	-	40
Derivative financial instruments	69	52
	<b>808</b>	<b>593</b>
<b>Current liabilities</b>		
Bank overdrafts	-	(1)
Borrowings	(131)	(70)
Finance leases	(19)	(3)
Derivative financial instruments	(88)	(59)
	<b>(238)</b>	<b>(133)</b>
<b>Non-current liabilities</b>		
Borrowings	(2,493)	(2,285)
Finance leases	(124)	(54)
Derivative financial instruments	(1)	-
	<b>(2,618)</b>	<b>(2,339)</b>
<b>Total net debt</b>	<b>(1,980)</b>	<b>(1,814)</b>

### Reconciliation of net cash flow to movement in net debt

	2012 £m	2011 £m
<b>Net debt at beginning of the year</b>	<b>(1,814)</b>	<b>(1,549)</b>
Net increase/(decrease) in cash and cash equivalents	239	(334)
Increase in interest bearing available-for-sale assets <sup>1</sup>	-	10
(Decrease)/increase in interest bearing financial asset	(40)	40
Net (increase)/decrease in borrowings <sup>1</sup>	(262)	12
Net increase in derivatives <sup>1</sup>	-	6
Net (increase)/decrease of obligations under finance leases	(84)	3
Fair value movements	(17)	(4)
Other non-cash movements	(2)	2
<b>Net debt at the end of the year</b>	<b>(1,980)</b>	<b>(1,814)</b>

<sup>1</sup> Excluding fair value movements

### 28 Financial risk management

The principal financial risks faced by the Group are liquidity, interest rate, foreign currency, commodity and counterparty risks

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 financial exposures and setting appropriate risk limits and controls. The Finance Committee of the Board of Directors has delegated responsibility for approving specific financial transactions. The Treasury Committee, chaired by the Chief Financial Officer, regularly reviews risk positions and monitors Treasury performance. The Group Audit Committee oversees 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 uses forward contracts to hedge foreign exchange and commodity risks, and interest rate swap contracts to hedge interest rate risks. 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.

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

#### Liquidity risk

Liquidity risk is the risk that the Group could be unable to meet its financial obligations as they fall due at a reasonable price.

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

The Group's liquidity policy targets a minimum funding headroom of £300 million in excess of forecast net debt over a rolling 12 month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow and holding adequate standby liquidity.

## Notes to the financial statements continued

### 28 Financial risk management continued

The Group's core funding comprise two long-term loans of £1,036 million due 2018 and £843 million due 2031 both secured on property assets. In addition the Group has unsecured bank loans totalling £476 million with maturities ranging from 2012 to 2017, unsecured institutional loans totalling £23 million maturing 2015, and a public issue-convertible bond totalling £190 million maturing in July 2014. The Group has also financed £87 million through the hire purchase facilities in respect of movable in-store assets for various periods to 2018.

Short term and seasonal funding is sourced from the wholesale inter bank money market where interest is charged at various spreads above LIBOR.

The Group maintains a £690 million syndicated revolving credit facility due October 2015 for liquidity standby purposes. Interest on drawings under this facility is charged at a margin over LIBOR. There are £nil drawings under the facility as at 17 March 2012 (2011: £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.

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
<b>At 17 March 2012</b>				
Secured loans				
Secured loan due 2018	85	121	384	724
Secured loan due 2031 <sup>1</sup>	59	61	195	1,164
Unsecured loans				
Bank loan due 2012 <sup>2</sup>	51	-	-	-
Bank loan due 2014 <sup>2</sup>	1	1	25	-
Bank loans due 2015 <sup>2</sup>	28	28	226	-
Bank loans due 2016 <sup>2</sup>	1	1	43	-
Bank loans due 2017 <sup>2</sup>	3	3	117	-
Convertible bond due 2014	8	8	194	-
Other loans due 2015 <sup>2</sup>	1	1	24	-
Obligations under finance leases	20	20	62	177
Trade and other payables	2,719	-	-	-

<b>At 19 March 2011</b>				
Secured loans				
Secured loan due 2018	85	85	374	856
Secured loan due 2031 <sup>1</sup>	57	59	192	1,275
Unsecured loans				
Notional overdraft	1	-	-	-
Bank loan due 2012 <sup>2</sup>	3	51	-	-
Bank loans due 2015 <sup>2</sup>	26	26	159	-
Convertible bond due 2014	8	8	202	-
Obligations under finance leases	7	7	14	168
Trade and other payables	2,571	4	-	-

Company	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
<b>At 17 March 2012</b>				
Bank loan due 2012 <sup>2</sup>	51	-	-	-
Bank loan due 2014 <sup>2</sup>	1	1	25	-
Bank loans due 2015 <sup>2</sup>	23	23	179	-
Bank loans due 2016 <sup>2</sup>	1	1	43	-
Bank loans due 2017 <sup>2</sup>	3	3	117	-
Convertible bond due 2014	8	8	194	-
Other loans due 2015 <sup>2</sup>	1	1	24	-
Amounts due to Group entities <sup>2</sup>	3,907	45	293	718
Other payables	52	-	-	-

<b>At 19 March 2011</b>				
Bank loan due 2012 <sup>2</sup>	3	51	-	-
Bank loans due 2015 <sup>2</sup>	21	21	103	-
Convertible bond due 2014	8	8	202	-
Amounts due to Group entities <sup>2</sup>	4,043	43	208	848
Other payables	22	-	-	-

#### Assumptions

<sup>1</sup> Cash flows relating to debt linked to inflation rates have been calculated using a RPI of 5.0 per cent for the year ended 17 March 2012, 3.9 per cent for the years ended 2013 and 2014 and 3.3 per cent for future years (2011: RPI of 3.7 per cent for the year ended 19 March 2011, 5.0 per cent for the years ended 2012 and 2013 and 3.5 per cent for future years).

<sup>2</sup> Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates at 17 March 2012 and 19 March 2011.

28 Financial risk management continued

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
<b>At 17 March 2012</b>				
Commodity contracts				
Inflow	2	1	-	-
Interest rate swaps in a hedging relationship				
Inflow <sup>1</sup>	9	7	19	8
Other interest rate swaps				
Inflow/(outflow)	4	4	13	(20)
<b>At 19 March 2011</b>				
Commodity contracts				
Inflow	6	-	-	-
Interest rate swaps in a hedging relationship				
Inflow <sup>1</sup>	4	3	4	5
Other interest rate swaps				
Inflow/(outflow)	1	1	4	(6)

Assumption

<sup>1</sup> The swap rate which matches the remaining term of the interest rate swap at 17 March 2012 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2011: 19 March 2011)

The Group holds commodity contracts at fair values prevailing at the reporting dates. At 17 March 2012, £3 million gain relating to these financial instruments has been recognised in other comprehensive income (2011: gain of £5 million)

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
<b>At 17 March 2012</b>				
Forward foreign exchange contracts - cash flow hedges				
Outflow	(356)	(28)	(1)	-
Inflow	354	28	1	-
Commodity contracts				
Outflow	(3)	(3)	(10)	(11)
Inflow	3	3	11	13
Cross currency swaps				
Outflow	(10)	(10)	(273)	-
Inflow	9	9	265	-
<b>At 19 March 2011</b>				
Forward foreign exchange contracts - cash flow hedges				
Outflow	(326)	(51)	-	-
Inflow	319	50	-	-
Commodity contracts				
Outflow	(4)	(4)	(12)	(16)
Inflow	4	4	13	19

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 17 March 2012, £3 million loss relating to these financial instruments has been recognised in other comprehensive income (2011: loss of £5 million)

**Credit risk**

The Group is exposed to counterparty default or non-performance risk on its holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities and trade receivables

The Group credit policy limits investments to counter parties with minimum credit ratings of A1 from Standard & Poor's and P1 from Moody's Investors Service or, in the case of sterling liquidity funds, AAAm from Standard & Poor's or Aaa/MR1+ from Moody's Investors Service

The Group deposits surplus funds directly with approved banks on the wholesale inter-bank money markets or with approved money market funds as pooled investments

## Notes to the financial statements continued

### 28 Financial risk management continued

#### Credit risk continued

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

Counterparty	Short term rating	2012 £m	2011 £m
Financial institutions - Money Market Funds	AAAm/Aaa	509	205
Financial institutions - Money Market Deposits	A1+/P1	-	15
Financial institutions - Money Market Deposits	A1/P1	2	40

Management does not expect any losses from non performance of deposit counterparties

Interest rate swaps, foreign exchange options, forward contracts and commodity contracts for difference are used by the Group to hedge interest rate, foreign currency and fuel exposures. The table below analyses the fair value of the Group's derivative financial assets by credit exposure, excluding any collateral held

Counterparty	Short term rating	2012 £m	2011 £m
Interest rate swaps	A1+/P1	-	1
Interest rate swaps <sup>1</sup>	A1/P1	64	67
Interest rate swaps <sup>1</sup>	A2/P1	34	-
FX forward contracts	A1+/P1	-	1
FX forward contracts	A1/P1	1	2
Commodity contracts	A1+/P1	2	4
Commodity contracts	A1/P1	-	2

<sup>1</sup> Collateral held £43 million (2011: £11 million)

#### Market risk

##### (a) Currency risk

The Group is exposed to currency risk as a result of potential movements in exchange rates impacting supplier contracts denominated in currencies other than pound sterling. The Group also has limited exposure in respect of recognised foreign currency assets and liabilities.

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

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.

The Group considers that a ten per cent movement in exchange rates against sterling is a reasonable measure of volatility. The impacts of these changes in exchange rates in US dollar and euros versus sterling at the balance sheet date with all other variables held constant is summarised in the following table.

	2012			2011		
	Change in exchange rate impact on post-tax profit +/-10% £m	Change in exchange rate impact on cash flow hedge reserve +10% £m	Change in exchange rate impact on cash flow hedge reserve -10% £m	Change in exchange rate impact on post-tax profit +/-20% £m	Change in exchange rate impact on cash flow hedge reserve +20% £m	Change in exchange rate impact on cash flow hedge reserve -20% £m
USD/GBP	1/(1)	(26)	32	2/(2)	(46)	71
EUR/GBP	1/(1)	(8)	10	1/(1)	(12)	18

##### (b) Interest rate risk

The Group is exposed to interest rate risk on borrowings and deposits. The Group's interest rate policy seeks to minimise the cost and volatility of the Group's interest expense by maintaining a diversified portfolio of fixed rate, floating rate and inflation-linked liabilities.

##### (i) Fair value sensitivity for fixed rate instruments

The Group holds £1,291 million of fixed rate debt (2011: £1,259 million), of which £424 million (2011: £401 million) has been swapped into floating rate debt using interest rate swaps. The remaining £867 million (2011: £858 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.

For the year, the fair value movement in the interest rate swaps has resulted in a credit to the income statement of £8 million (2011: £6 million). The fair value movement in the underlying fixed rate debt has resulted in a charge to the income statement of £10 million (2011: £3 million) which represents the ineffectiveness on the hedging relationship.

##### (ii) Cash flow sensitivity for variable rate instruments

The Group holds £526 million of floating rate borrowings (2011: £686 million), comprising £485 million of floating rate swaps (2011: £461 million) and £41 million of floating rate debt (2011: £225 million). The Group also holds £542 million of interest bearing assets (2011: £301 million).



## Notes to the financial statements continued

### 28 Financial risk management continued

The Group considers that a 100 basis point increase is a reasonable measure of volatility. The sensitivity of these balances to changes of 100 basis points in the floating rate at the balance sheet date on post-tax profit is shown below. Where a decrease of 100 basis points would reflect a negative rate, the assumed rate is nil.

	2012		2011	
	Change in floating rate +100 bps £m	Change in floating rate -100 bps £m	Change in floating rate +100 bps £m	Change in floating rate -100 bps £m
Floating rate borrowings	(14)	16	(5)	4
Interest bearing assets	4	(2)	2	(2)

#### (iii) Cash flow sensitivity for inflation-linked variable instruments

The Group holds £843 million of inflation-linked debt (2011: £840 million) which is recorded at amortised cost. The Group considers that a 100 basis point increase is a reasonable measure of volatility. The sensitivity of this balance to changes of 100 basis points in the RPI at the balance sheet date on post-tax profit is shown below.

	2012		2011	
	Change in RPI +100 bps £m	Change in RPI -100 bps £m	Change in RPI +100 bps £m	Change in RPI -100 bps £m
Inflation linked debt	-	6	(6)	6

In September 2011, the Group entered into an inflation linked swap to convert £250 million (2011: £nil) of the £843 million (2011: £840 million) loan due 2031 from RPI linked to fixed rate interest for the period April 2012 to April 2017. A 100 basis points change in the RPI at the balance sheet date would have increased or decreased the cash flow equity reserve by £12 million (2011: £nil).

#### (iv) Fair value sensitivity for available-for-sale assets

Included within available-for-sale financial assets is £146 million (2011: £140 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 three per cent per annum (2011: 3.2 per cent) and a discount rate of ten per cent (2011: ten per cent), (see note 15). The sensitivity of this balance to changes of 0.5 per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below.

	2012		2011	
	Change in growth rate +/- 0.5% £m	Change in discount rate +/- 1.0% £m	Change in growth rate +/- 0.5% £m	Change in discount rate +/- 1.0% £m
Available-for-sale assets	10/(10)	(14)/16	9/(12)	(16)/15

#### Commodity risk

The Group is exposed to commodity price risk within its commercial buying operations and with respect to 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 to be hedged.

The Group uses financial derivatives to hedge fuel exposures on a layered basis using contracts for difference. The Group considers a ten per cent movement in commodity rates a reasonable measure of volatility. A ten per cent (2011: 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 £4 million (2011: £5 million).

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

The Group has also entered into several long-term fixed price power purchase agreements with independent producers. Included within derivative financial assets is £3 million (2011: £4 million) relating to these agreements. The Group values agreements as the net present value of fixed price future expected energy purchases less the market implied forward energy price discounted back at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and ten per cent in the implied forward energy prices holding other assumptions constant is shown below.

	2012		2011	
	Change in volume +/- 20.0% £m	Change in electricity forward price +/- 10.0% £m	Change in volume +/- 20.0% £m	Change in electricity forward price +/- 10.0% £m
Derivative financial instruments	1/(1)	3/(3)	1/(1)	3/(3)

## Notes to the financial statements continued

### 28 Financial risk management continued

#### Capital risk management

The Group defines the capital that it manages as total equity plus net debt balances

The Board's objective is to safeguard the Group's ability to remain a going concern and to maintain a strong and efficient capital base to support the Group's strategic objectives and to maintain its ability to provide optimal returns for shareholders. There has been no change to capital risk management policies during the year.

The Group manages its capital structure and makes funding decisions based on the prevailing economic environment and has a number of tools available to manage capital risk. These include maintaining a diversified debt portfolio, the ability to adjust the size and timing of dividends paid to shareholders, to recycle capital through the sale and leaseback programme, the issue of new shares or the repurchase of shares on the open market to flex capital expenditure. The Board has a policy to maintain the underlying earnings cover for the ordinary dividend at a minimum of 1.5 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. The Group does not have a defined share buy-back plan.

The Board monitors a range of financial metrics including return on capital employed, gearing and fixed charge cover. A key objective of the Group's capital risk management is to maintain compliance with the covenants attached to the Group's debt. Throughout the year, the Group has comfortably complied with these covenants.

### 29 Financial instruments

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
<b>Derivative assets</b>				
<b>Non-current</b>				
Commodity forward contract - fair value through profit or loss	3	4	-	-
Interest rate swaps - fair value hedge	33	25	33	25
Commodity and foreign exchange forward contract - cash flow hedge	1	-	-	-
	<b>37</b>	<b>29</b>	<b>33</b>	<b>25</b>
<b>Current</b>				
Commodity and foreign exchange forward contract - cash flow hedge	4	9	-	-
Interest rate swaps - fair value through profit or loss	65	43	65	43
	<b>69</b>	<b>52</b>	<b>65</b>	<b>43</b>
<b>Derivative liabilities</b>				
<b>Current</b>				
Foreign exchange forward contract - cash flow hedge	(4)	(8)	-	-
Interest rate swaps - fair value through profit or loss	(84)	(51)	(84)	(51)
	<b>(88)</b>	<b>(59)</b>	<b>(84)</b>	<b>(51)</b>
<b>Non-current</b>				
Interest rate swaps - fair value hedge	(1)	-	(1)	-
	<b>(1)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>

#### Foreign exchange forward contracts - cash flow hedges

At 17 March 2012, the Group held a portfolio of foreign exchange forward contracts with a fair value loss of £3 million (2011: £6 million) to hedge its future foreign currency denominated trade purchases. The Group had purchased €103 million (2010: €83 million) and sold sterling at rates ranging from 1.14 to 1.21 (2011: 1.13 to 1.21) with maturities from March 2012 to April 2013 (2011: March 2011 to April 2013) and purchased US\$457 million (2011: US\$463 million) and sold sterling at rates ranging from 1.52 to 1.67 (2011: 1.45 to 1.67) with maturities from March 2012 to April 2015 (2011: March 2011 to June 2012).

At 17 March 2012, an unrealised loss of £3 million (2011: loss of £5 million) is included in other comprehensive income in respect of the forward contracts. This loss will be transferred to the income statement over the next 38 months. During the year a debit to the income statement of £3 million was transferred from the cash flow hedge equity reserve and included in cost of sales (2011: debit of £8 million).

#### Commodity contracts - cash flow hedges

At 17 March 2012, the Group held a portfolio of commodity forward contracts with a fair value gain of £3 million (2011: £5 million) to hedge its future own use fuel consumption over the next 13 months.

At 17 March 2012, an unrealised gain of £3 million (2011: gain of £5 million) is included in other comprehensive income in respect of these contracts. This gain will be transferred to the income statement over the next 12 months.

## 29 Financial Instruments continued

### Interest rate swaps – fair value hedge

The Group holds a portfolio of £424 million of interest rate swaps (2011: £401 million) to hedge a portion of the £1,036 million fixed rate secured loan due in 2018, the £190 million convertible bond due 2014, and the other loans due 2015. 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 one 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 17 March 2012, the Group held a portfolio of interest rate swaps at fair value through profit or loss which convert £331 million of the Group's floating rate obligations into fixed rates (2011: £331 million). Under the terms of these swaps the Group pays fixed rates of interest and receives three-month LIBOR for periods expiring from 19 April 2018 to 19 April 2031. Included in this portfolio is a £150 million swap under which the counterparty has a recurring option to cancel the swap on quarterly payment dates through to January 2031 at zero cost.

The Group holds a portfolio of non-designated interest rate swaps which convert £391 million of fixed rate borrowings into floating rates (2011: £391 million). Under the terms of the swap the Group receives fixed rates of interest and pays floating rates of interest at various spreads above three-month LIBOR until 19 April 2018.

### Interest rate risk

Financial instruments where interest is re-priced at intervals of 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 payables of £12 million (2011: £11 million) and US dollar denominated trade payables of £11 million (2011: £14 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 other than fair values. The fair value of financial assets and liabilities are based on prices that are available from the market on which the instruments are traded where available. The fair values 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, trade receivables, overdrafts and payables 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
<b>2012</b>				
<b>Financial assets</b>				
Amounts due from Group entities	-	-	1,277	1,494
Other receivables	58	58	55	55
<b>Financial liabilities</b>				
Amounts due to Group entities	-	-	(874)	(973)
Loans due 2018 <sup>1</sup>	(1,069)	(1,201)	-	-
Loans due 2031	(874)	(1,068)	-	-
Bank loan due 2012	(50)	(50)	(50)	(50)
Bank loans due 2014	(25)	(25)	(25)	(25)
Bank loans due 2015	(253)	(261)	(209)	(210)
Bank loans due 2016	(43)	(43)	(43)	(43)
Bank loans due 2017	(108)	(108)	(108)	(108)
Convertible bond due 2014 <sup>2</sup>	(179)	(214)	(179)	(214)
Other loans due 2015 <sup>3</sup>	(23)	(23)	(23)	(23)
Obligations under finance leases	(143)	(143)	-	-
<b>2011</b>				
<b>Financial assets</b>				
Amounts due from Group entities	-	-	1,146	1,260
Other receivables	56	56	55	55
<b>Financial liabilities</b>				
Amounts due to Group entities	-	-	(861)	(923)
Loans due 2018 <sup>1</sup>	(1,087)	(1,172)	-	-
Loans due 2031	(870)	(1,032)	-	-
Convertible bond due 2014 <sup>2</sup>	(176)	(227)	(176)	(227)
Bank loans due 2015	(172)	(186)	(129)	(133)
Bank loan due 2012	(50)	(51)	(50)	(51)
Obligations under finance leases	(57)	(57)	-	-

<sup>1</sup> Includes £211 million accounted for as a fair value hedge (2011: £211 million).

<sup>2</sup> Includes £190 million accounted for as a fair value hedge (2011: £190 million).

<sup>3</sup> Includes £23 million accounted for as a fair value hedge (2011: £nil).

## Notes to the financial statements continued

### 29 Financial instruments continued

#### Fair value measurements recognised in the Balance sheets

The following table provides an analysis of financial instruments that are recognised subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>2012</b>				
<b>Available-for-sale financial assets</b>				
Interest bearing financial assets	-	31	-	31
Other financial assets	-	-	146	146
<b>Financial assets at FVTPL</b>				
Derivative financial assets	-	103	3	106
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities	-	(89)	-	(89)

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>2011</b>				
<b>Available-for-sale financial assets</b>				
Interest bearing financial assets	-	36	-	36
Other financial assets	-	-	140	140
<b>Financial assets at FVTPL</b>				
Derivative financial assets	-	81	-	81
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities	-	(59)	-	(59)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>2012</b>				
<b>Available-for-sale financial assets</b>				
Interest bearing financial assets	-	31	-	31
<b>Financial assets at FVTPL</b>				
Derivative financial assets	-	98	-	98
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities	-	(85)	-	(85)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>2011</b>				
<b>Available-for-sale financial assets</b>				
Interest bearing financial assets	-	36	-	36
<b>Financial assets at FVTPL</b>				
Derivative financial assets	-	68	-	68
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities	-	(51)	-	(51)

There were no transfers between Level 1 and Level 2 during the year

## Notes to the financial statements continued

### 29 Financial instruments continued

#### Reconciliation of Level 3 fair value measurements of financial assets

	2012 £m	2011 £m
Opening balance	140	126
Transfer to Level 3	3	-
In other comprehensive income	6	14
<b>Closing balance</b>	<b>149</b>	<b>140</b>

#### Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 17 March 2012 and 19 March 2011

Group	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
<b>2012</b>						
Cash and cash equivalents	739	-	-	-	-	739
Trade and other receivables	263	-	-	-	-	263
Available-for-sale financial assets	-	178	-	-	-	178
Trade and other payables	-	-	-	-	(2,719)	(2,719)
Current borrowings	-	-	-	-	(150)	(150)
Non-current borrowings	-	-	-	-	(2,617)	(2,617)
Derivative financial instruments						
Cash flow hedges <sup>1</sup>	-	-	-	1	-	1
Interest rate swaps <sup>2</sup>	-	-	(19)	32	-	13
Commodity contract	-	-	3	-	-	3
	<b>1,002</b>	<b>178</b>	<b>(16)</b>	<b>33</b>	<b>(5,486)</b>	<b>(4,289)</b>
<b>2011</b>						
Cash and cash equivalents	501	-	-	-	-	501
Trade and other receivables	317	-	-	-	-	317
Available-for-sale financial assets	-	176	-	-	-	176
Trade and other payables	-	-	-	-	(2,571)	(2,571)
Current borrowings	-	-	-	-	(74)	(74)
Non-current borrowings	-	-	-	-	(2,339)	(2,339)
Derivative financial instruments						
Cash flow hedges <sup>1</sup>	-	-	-	1	-	1
Interest rate swaps <sup>2</sup>	-	-	(8)	25	-	17
Commodity contract	-	-	4	-	-	4
	<b>818</b>	<b>176</b>	<b>(4)</b>	<b>26</b>	<b>(4,984)</b>	<b>(3,968)</b>

<sup>1</sup> Cash flow hedges are deferred through other comprehensive income

<sup>2</sup> Interest rate swaps used for hedging are at fair value through profit or loss

## Notes to the financial statements continued

### 29 Financial Instruments continued

Company	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
<b>2012</b>						
Cash and cash equivalents	408	-	-	-	-	408
Trade and other receivables	2,408	-	-	-	-	2,408
Available-for-sale financial assets	-	31	-	-	-	31
Trade and other payables	-	-	-	-	(5,368)	(5,368)
Current borrowings	-	-	-	-	(72)	(72)
Non-current borrowings	-	-	-	-	(565)	(565)
Derivative financial instruments						
Interest rate swaps <sup>1</sup>	-	-	(19)	32	-	13
	2,816	31	(19)	32	(6,005)	(3,145)
<b>2011</b>						
Cash and cash equivalents	169	-	-	-	-	169
Trade and other receivables	2,246	-	-	-	-	2,246
Available-for-sale financial assets	-	36	-	-	-	36
Trade and other payables	-	-	-	-	(5,304)	(5,304)
Current borrowings	-	-	-	-	(17)	(17)
Non-current borrowings	-	-	-	-	(338)	(338)
Derivative financial instruments						
Interest rate swaps <sup>1</sup>	-	-	(8)	25	-	17
	2,415	36	(8)	25	(5,659)	(3,191)

<sup>1</sup> Interest rate swaps used for hedging are at fair value through profit or loss

**30 Retirement benefit obligations**

Retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme, (the 'Scheme') and an unfunded pension liability relating to senior employees. The Scheme was closed to new employees on 31 January 2002. The assets of this scheme are held separately from the Group's assets.

The Scheme was subject to a triennial actuarial valuation carried out by Towers Watson, the scheme's independent actuaries, at March 2009 on the projected unit basis. The results of this valuation were approved by the Scheme's Trustees in June 2010. The retirement benefit obligations at 17 March 2012 have been calculated, where appropriate, on a basis consistent with this valuation.

A triennial valuation will be carried out at March 2012 by Towers Watson, the Scheme's independent actuaries on the projected unit basis with a statutory completion date of June 2013.

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.

**Sainsbury's Property Scottish Limited Partnership**

Further to the funding plan agreed with the Scheme's Trustees on 17 June 2010 Sainsbury's established the Sainsbury's Property Scottish Partnership (the 'Partnership') with the Scheme. Under this arrangement, properties to a fair value of £256 million were transferred to the Partnership. On 25 March 2011, further properties to a fair value of £501 million were transferred to the Partnership. Both transfers were effected via a 30 year sale and leaseback arrangement.

The Scheme's interest in the Partnership entitles it to an annual distribution of approximately £35 million for 20 years. These contributions will be in addition to the Group's normal cash contributions paid to the Scheme annually. The properties transferred to the Partnership will revert to Sainsbury's ownership in 2030 in return for a cash payment equal to the amount of any remaining funding deficit on the Scheme at that time, up to a maximum of £600 million.

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

The amounts recognised in the balance sheet are as follows:

	2012 £m	2011 £m
Present value of funded obligations	(5,654)	(4,945)
Fair value of plan assets	5,192	4,614
	(462)	(331)
Present value of unfunded obligations	(9)	(9)
<b>Retirement benefit obligations</b>	<b>(471)</b>	<b>(340)</b>
Deferred income tax asset	16	99
<b>Net retirement benefit obligations</b>	<b>(455)</b>	<b>(241)</b>

The retirement benefit 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:

	2012 £m	2011 £m
Current service cost - funded scheme	(59)	(55)
Past service cost	(1)	(1)
Included in employee costs (note 7)	(60)	(56)
Interest cost on pension scheme liabilities	(268)	(265)
Expected return on plan assets	285	268
Total included in finance income (note 6)	17	3
<b>Total income statement expense</b>	<b>(43)</b>	<b>(53)</b>

Of the expense recognised in operating profit, £50 million (2011: £54 million) is included in cost of sales and £10 million (2011: £2 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was a gain of £582 million (2011: a gain of £389 million).

## Notes to the financial statements continued

### 30 Retirement benefit obligations continued

#### b) Other comprehensive income

The amounts recognised in the statement of other comprehensive income are as follows

	2012 £m	2011 £m
Net actuarial (losses)/gains recognised during the year	(222)	29
Cumulative actuarial losses recognised	(675)	(453)

#### c) Valuations

The movements in the funded retirement benefit obligations are as follows

	2012 £m	2011 £m
Beginning of year	(4,945)	(4,649)
Current service cost	(59)	(55)
Past service cost	(1)	(1)
Interest cost	(268)	(265)
Contributions by plan participants	(6)	(7)
Actuarial losses	(519)	(92)
Benefits paid	144	124
End of year	(5,654)	(4,945)

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

	2012 £m	2011 £m
Beginning of year	4,614	4,237
Expected return on plan assets	285	268
Actuarial gains	297	121
Contributions by employer	134	105
Contributions by plan participants	6	7
Benefits paid	(144)	(124)
End of year	5,192	4,614

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

	2012 %	2011 %
Equities	36	39
Bonds	48	49
Property	3	3
Other	13	9
	100	100

#### d) Assumptions

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

	2012 %	2011 %
Discount rate	5.0	5.5
Inflation rate	3.3	3.3
Future salary increases	2.4 - 3.3	2.5 - 3.3
Future pension increases	2.0 - 3.1	2.1 - 3.2

The discount rate is based on the annualised yield on an AA-rated sterling corporate bond index adjusted for the difference in term between the index and the scheme's liabilities



**30 Retirement benefit obligations continued**

The 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

	2012 Fair value £m	2012 Expected return %	2011 Fair value £m	2011 Expected return %
Equities	1,881	7.3	1,812	7.7
Government Bonds	259	3.3	726	4.2
Corporate Bonds	2,204	4.3	1,551	5.2
Property	174	6.3	146	6.7
Other	674	3.3 - 6.3	379	4.2 - 6.7
	5,192	5.3	4,614	6.2

The life expectancy for the scheme operated at the balance sheet date for a pensioner at normal retirement age (now 65 years for men and women), is as follows

	2012 years	2011 years
Male pensioner	23.1	22.3
Female pensioner	25.6	23.9

The base mortality tables were derived by projecting forward the latest standard mortality tables (PA00 tables) in line with the base 1992 series improvements up to 2006, and then in line with medium cohort improvements from 2006 onwards, subject to a minimum rate of improvement from 2010 onwards of one per cent per annum

**e) Sensitivities**

An increase of 0.5 per cent in the discount rate would decrease the retirement benefit obligations by £548 million. A decrease of 0.5 per cent in the discount rate would increase the retirement benefit obligations by £614 million.

An increase of 0.5 per cent in the inflation rate would increase the retirement benefit obligations by £408 million. A decrease of 0.5 per cent in the inflation rate would decrease the retirement benefit obligations by £389 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £138 million.

The sensitivities are based on management's best estimate of a reasonably anticipated change.

**f) Experience gains and losses**

The history of experience adjustments on the plans for the current and previous financial years is as follows

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of retirement benefit obligations	(5,663)	(4,954)	(4,658)	(3,619)	(3,676)
Fair value of plan assets	5,192	4,614	4,237	3,310	4,171
Retirement benefit (obligations)/assets	(471)	(340)	(421)	(309)	495
Experience (loss)/gain on plan liabilities	(106)	(79)	116	171	(79)
Experience gain/(loss) on plan assets	297	121	715	(1,149)	(380)

The Group's expected contributions to the defined benefit scheme for the next financial year beginning 18 March 2012 are £133 million (2011: £135 million).

**31 Share-based payments**

The Group recognised £27 million (2011: £35 million) of employee costs (note 7) related to share based payment transactions made during the financial year. Of these, £nil (2011: £nil) were cash-settled.

National insurance contributions are payable in respect of certain share-based payments transactions and are treated as cash-settled transactions. At 17 March 2012, the carrying amount of national insurance contributions payable was £6 million (2011: £7 million) of which £nil (2011: £1 million) was in respect of vested grants.

## Notes to the financial statements continued

### 31 Share-based payments continued

The Group operates a number of 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 17 March 2012, UK employees held 22,976 five-year savings contracts (2011: 21,315) in respect of options over 22.8 million shares (2011: 20.6 million) and 33,993 three-year savings contracts (2011: 31,420) in respect of options over 22.9 million shares (2011: 19.9 million). A reconciliation of option movements is shown below.

	2012 Number of options million	2012 Weighted average exercise price pence	2011 Number of options million	2011 Weighted average exercise price pence
Outstanding at beginning of year	40.5	273	41.4	268
Granted	17.5	238	10.8	297
Forfeited	(6.2)	282	(5.8)	284
Exercised	(6.1)	235	(5.8)	272
Expired	-	-	(0.1)	247
Outstanding at end of year	45.7	263	40.5	273
Exercisable at end of year	4.2	281	2.7	282

The weighted average share price during the period for options exercised over the year was 303 pence (2011: 364 pence). Details of options at 17 March 2012 are set out below.

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2012 million	Options outstanding 2011 million
15 December 2005 (5 year period)	31 August 2011	231	-	1.3
15 December 2006 (5 year period)	31 August 2012	328	2.3	2.6
20 December 2007 (3 year period)	31 August 2011	331	-	1.4
20 December 2007 (5 year period)	31 August 2013	331	2.4	2.7
17 December 2008 (3 year period)	31 August 2012	224	1.9	6.9
17 December 2008 (5 year period)	31 August 2014	224	4.8	5.2
10 December 2009 (3 year period)	31 August 2013	273	4.8	5.6
10 December 2009 (5 year period)	31 August 2015	273	3.6	4.1
10 December 2010 (3 year period)	31 August 2014	297	4.7	6.0
10 December 2010 (5 year period)	31 August 2016	297	4.0	4.7
9 December 2011 (3 year period)	31 August 2015	238	11.5	-
9 December 2011 (5 year period)	31 August 2017	238	5.7	-
			45.7	40.5

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.

	2012	2011
Share price at grant date (pence)	298	371
Exercise price (pence)	238	297
Expected volatility - 3 year period (%)	22.4	34.3
- 5 year period (%)	32.2	29.5
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	3.5
Risk-free interest rate - 3 year period (%)	1.3	3.2
- 5 year period (%)	2.5	4.4
Fair value per option - 3 year period (pence)	60	109
- 5 year period (pence)	85	114

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.

The resulting fair value is expensed over the service period of three or five years, as appropriate, on the assumption that 25 per cent of options will be cancelled over the service period as employees leave the SAYE scheme.