

Tasty salad

# Jerseys with crispy bacon



J Sainsbury plc  
Annual Report and  
Financial Statements 2010

We have made fundamental changes at Sainsbury's in recent years which have transformed our business. We have stayed true to our heritage. Our passion for great food at fair prices and our robust, ethical approach remain central to our continued success.



## World Leaders in Fairtrade

We are the world's largest retailer of Fairtrade goods by value. One in every four pounds spent on Fairtrade in the UK is spent at a Sainsbury's store.



## Supermarket of the year

Sainsbury's was named Supermarket of the Year at the 2009 Retail Industry Awards, due to our ability to adapt to changing customer needs over the past year.



## We are 'Green to the Core'

We were awarded an industry leading 'A' rating in the 'Green to the Core?' survey by Consumer Focus for our customer engagement on green issues, our sustainable farming and fish policies and the high proportion of sustainable products available.



## Largest UK retailer of Freedom Food

We are the largest retailer of Freedom Food both by the amount of products we sell and the range we offer. Freedom Food is the RSPCA's farm assurance and food labelling scheme.



## Leader in HR and people management

We won the CBI 'People's Organisation' award for our broad-ranging HR and people-management excellence.



## Leader in quality

We won more Quality Food Awards than any other retailer this year, including 7 wins from 15 categories for Value products.



official partner of the Paralympic Games

## Official partner of the London 2012 Paralympic Games

We have been appointed as the first ever Paralympic-only sponsor, becoming a Tier One Partner of the London 2012 Paralympic Games.

[www.j-sainsbury.co.uk/illustratedreview](http://www.j-sainsbury.co.uk/illustratedreview)

An illustrated review of Sainsbury's during the 2009/10 financial year is also online at our corporate website or through the direct website address above.



## Corporate objectives

The Company's strategy centres around five areas of focus. These areas are underpinned by Sainsbury's strong heritage and brand which consistently sets it apart from major competitors.

### ① Great food at fair prices

To build on and stretch the lead in food. By sharing customers' passion for healthy, safe, fresh and tasty food, Sainsbury's will continue to innovate and provide leadership in delivering quality products at fair prices, sourced with integrity.



### ② Accelerating the growth of complementary non-food ranges and services

To continue to accelerate the development of non-food ranges and services following the principles of quality and value and to provide a broader shopping experience for customers.

### ③ Reaching more customers through additional channels

To extend the reach of Sainsbury's brand by opening new convenience stores and developing the online operations.



### ④ Growing supermarket space

To expand the Company's store estate, actively seeking and developing a pipeline of new stores and extending the largely under-developed store portfolio to provide an even better food offer while also growing space for non-food ranges.

### ⑤ Active property management

The ownership of property assets provides operational flexibility and the exploitation of potential development opportunities will maximise value.



- Over 19 million customer transactions on average every week, a million more than last year
- A 16.1 per cent market share in the UK, up by 0.2 per cent on last year
- Won more Quality Food Awards than any other retailer this year, including seven wins from 15 categories for Value products
- World's largest retailer of Fairtrade goods by value

Over  
**19m**

customer transactions on average every week, a million more than last year

- Complementary non-food grew three times faster than food sales and the TU clothing range continued to be the star performer
- Our TU childrenswear range is now the seventh largest in the UK market by volume
- Doubled our clothing warehouse capacity to manage the increasing demand for our clothing lines
- Sainsbury's Bank delivered strong growth, with operating profit increasing to £19 million

**3x**

Complementary non-food grew three times faster than food sales

- 51 Sainsbury's convenience stores opened during 2009/10
- Total convenience estate of 335 stores with plans to open 75 to 100 more in 2010/11
- Groceries online business growing rapidly with sales up just under 20 per cent, within reach of nearly 90 per cent of UK households
- Non-food online launched in July 2009, with over 8,000 products now available nationally

Online up  
**20%**

Online sales growing rapidly with turnover up over 20 per cent

- 38 new supermarkets opened, including our largest store in Northern Ireland at 70,000 sq ft
- 13 supermarkets extended
- Added over 1.1 million gross sq ft of new space in total (including convenience), an increase of 6.8 per cent
- On track to meet our target of increasing gross space by 15 per cent over the two years to March 2011

Added over  
**1.1m** gross sq ft

of new space in total, including 38 new supermarkets and 13 extensions

- Market value of our freehold property portfolio increased to £9.8 billion
- Up £2.3 billion on last year, including £0.7 billion of property value created from investment and development activity
- 294 wholly-owned freehold and long leasehold stores, of which 85 per cent have development potential
- Two property joint ventures containing 43 supermarkets

**£9.8bn**

Market value of freehold property

# Business review

## About Sainsbury's

J Sainsbury plc was founded in 1869 and today operates a total of 872 stores comprising 537 supermarkets and 335 convenience stores. It jointly owns Sainsbury's Bank with Lloyds Banking Group and has two property joint ventures with Land Securities Group PLC and The British Land Company PLC.

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

We now serve over 19 million customers a week and have a market share of over 16 per cent. Our large stores offer around 30,000 products and we offer complementary non-food products and services in many of our stores. An internet-based home delivery shopping service is also available to nearly 90 per cent of UK households. We employ 150,000 colleagues.

Financial summary	2009/10 £m	2008/09 £m	Change %
Sales (including VAT)	21,421	20,383	5.1
Sales (excluding VAT)	19,964	18,911	5.6
Underlying operating profit	671	616	8.9
Underlying profit before tax	610	519	17.5
Profit before tax	733	466	57.3
Profit after tax	585	289	102.4
Underlying basic earnings per share	23.9p	21.2p	12.7
Basic earnings per share	32.1p	16.6p	93.4
Full year dividend per share	14.2p	13.2p	7.6

### Notes

Like-for-like sales: Like-for-like sales are Easter-adjusted for comparative purposes. 2009/10 included a Good Friday trading week and an Easter Sunday trading week. 2008/09 included an Easter Sunday trading week.

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

As previously announced, Sainsbury's has excluded the non-cash IAS 19 financing element from its underlying profit definition. The comparatives for all relevant underlying measures have been restated accordingly.

Underlying profit before tax: Profit before tax from continuing operations before any profit or loss on the sale 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 basic earnings per share: Profit after tax from continuing operations attributable to ordinary shareholders before any profit or loss on the sale 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 period, excluding those held by the ESOP trusts, which are treated as cancelled.

'Green to the Core?' survey – Consumer Focus (formally known as the National Consumer Council) commissioned independent marketing research agency, GfK NOP Ltd, to conduct in-store, helpline and website research during July 2009.

Sainsbury's 16.1 per cent market share at March 2010 is based on Kantar World panel 52 week data (Total till roll, Share of Grocers).

The property value of £9.8 billion has been estimated based on independent third party valuations as at March 2010 covering a representative sample of around 50 per cent of our freehold and long leasehold properties. The basis of valuation is investment market value based on rent and yield, assuming sale and leaseback on the standard institutional lease which the Company currently uses when transacting its disposals of mature assets.

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

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## OUR GOAL

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

As a leading food retailer we focus on being

### 1. BEST FOR FOOD AND HEALTH



Freefrom: **100**

- new and improved 'Freefrom' lines making the range 236 in total.
- Be Good to Yourself: The 'Be Good to Yourself' healthy food range was relaunched in January 2010 with 60 new and improved lines, bringing the total to around 250 lines.



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

### 2. SOURCING WITH INTEGRITY

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

### 3. RESPECT FOR OUR ENVIRONMENT



- Fairtrade: With sales of over **£218 million**, we are the world's largest retailer of Fairtrade by value.
- Development groups: During 2009/10 we extended Sainsbury's successful Development Group model to beef, pork, poultry, lamb, cheese and egg suppliers.

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

Green to the Core: **'A rating'**

- in the 'Green to the Core?' survey by Consumer Focus.
- Store environmental innovation: We continue to lead on store environmental innovation with our eco-store programme growing larger in 2009/10 with new store openings.

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

Active Kids: To date we have donated over **£86 million** to schools and clubs.

- Sport Relief: Customers and colleagues helped us to donate a record £5 million for Sport Relief 2010, more than doubling the £2.3 million raised for Sport Relief 2008.



### 4. MAKING A POSITIVE DIFFERENCE TO OUR COMMUNITY

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

### 5. A GREAT PLACE TO WORK



Over **£80 million** bonus payment will be shared between 127,000 colleagues.

- 'You Can': around 9,150 colleagues have been provided with job opportunities, skills and qualifications through our 'You Can' programme.

And that's why we believe **OUR VALUES MAKE US DIFFERENT**

# Chairman's statement



David Tyler, Chairman

The Board is pleased with the performance of Sainsbury's over the last year. We delivered good profit growth and underlying earnings per share were up over 12 per cent. Our progress in achieving strategic objectives has been very encouraging, especially in increasing our selling space and widening the range of our complementary non-food offer. At the same time, the values of the organisation have continued to underpin everything we do, with our continued focus on customer service and responsible trading.

## Our colleagues

I was delighted to be invited to become Chairman of the business last autumn and would first like to thank my predecessor, Sir Philip Hampton, for the major contribution he has made to Sainsbury's during his five years at the Company. Since 2005, sales have grown by around £1 billion each year and profits have more than doubled.

My most significant observation since joining is associated with our 150,000 colleagues. I have been hugely impressed with their enthusiasm and their commitment to deliver a great experience for our customers. They share Sainsbury's values and work well as a team. I would like to thank them all for their hard work in the last 12 months and their commitment over an extended period to 'Making Sainsbury's Great Again'. As a result of their success, colleagues have been able to earn a share of a record bonus this year of over £80 million.

## Market background

2009/10 was a year of recession in the UK. In this very uncertain environment, consumers have naturally been determined to shop around for more value. Some commentators believed that Sainsbury's would underperform in these conditions. However, our universal customer appeal and flexibility in meeting customer needs has enabled us to grow our market share and profitability during this period.

## Our results

The commitment of our colleagues and our focus on customers has been key to the delivery of another strong set of results despite this challenging economic backdrop. Underlying profit before tax for the year was up 17.5 per cent to £610 million with underlying basic earnings per share up 12.7 per cent to 23.9 pence. As a result of this continued improvement in profitability, the Board is recommending a final dividend of 10.2 pence per share, making a full year dividend of 14.2 pence, an increase of 7.6 per cent over the previous year. This dividend is covered 1.68 times by underlying earnings in line with our policy for dividend cover of 1.50 to 1.75 times.

## Strategy and business model

Our strategy is based on five areas of focus which aim to improve our profitability through universal customer appeal and increased reach throughout the UK. **Great food at fair prices** remains core to our heritage of offering fresh, tasty and healthy food at a competitive price.

Our customers welcome our emphasis on freshness and value and consequently we now serve over 19 million customers a week which is one million more than last year.

**Accelerating the growth of complementary non-food ranges and services** is a significant area of focus and non-food sales are now growing at three times the rate of food. We are reaching **more customers through additional channels** by opening 51 new convenience stores and by developing our online home delivery operation which is now available to nearly 90 per cent of UK households. We also successfully launched our non-food online business in the year. **Growing supermarket space** has been fundamental in helping us to grow market share to 16.1 per cent of the UK grocery market. Our store pipeline has been built up steadily over the last five years. This year we have increased gross store space by 6.8 per cent and we are on track to deliver 15 per cent growth in the two years to March 2011. **Active property management** underpins our strategy. The value of our freehold property estate is now estimated at £9.8 billion, up £2.3 billion from last year.

## Our values

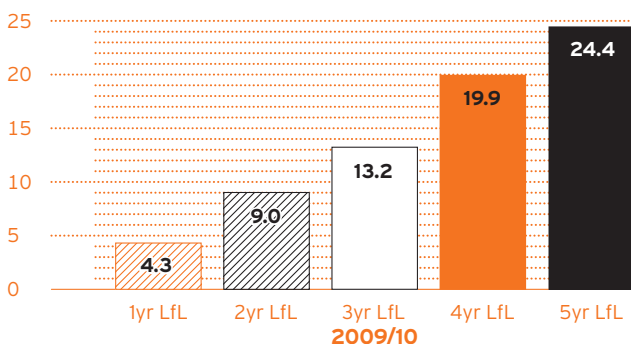
2009/10 was an award-winning year with Sainsbury's voted the 'Supermarket of the Year' by the Retail Industry Awards. We received recognition for our commitment to excellent customer service and the outstanding quality of our offer. Our customers expect us to trade responsibly and ethically without compromising on quality or value. We are proud to be the world's largest retailer of Fairtrade goods by value which reflects the importance we attach to sourcing goods with integrity. We are also pleased to have been awarded an industry-leading 'A rating' for our customer engagement on green issues in the 'Green to the Core?' survey, conducted by Consumer Focus.

## Outlook

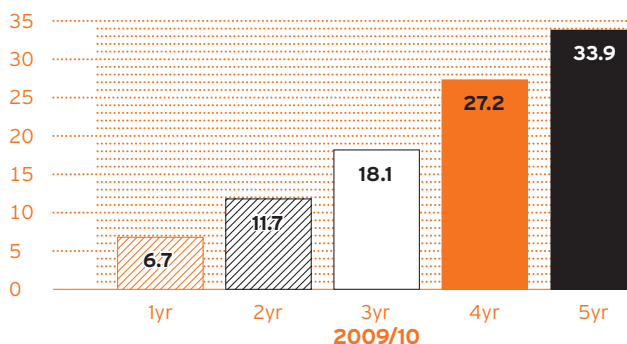
Sainsbury's is a **growing business** with a **strong balance sheet, valuable property assets** and an **improving return on capital**. Our strong operating cash flows support our plans to accelerate the investment programme, delivering further trading and property value for shareholders. While we expect that the environment will remain challenging and consumer spending will be under pressure, we believe our **substantial space growth plans**, supporting our expanding food, non-food and convenience store businesses, **alongside our continued focus on productivity**, will enable the business to **make further good progress**.

# Key financial performance indicators

## Like-for-like sales<sup>1</sup> (%)



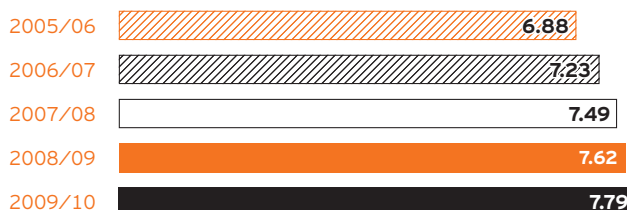
## Total sales<sup>1</sup> (%)



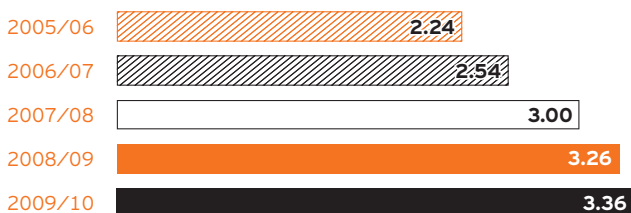
## Trading intensity per square foot<sup>2,3</sup> (£ per week)

2005/06	£18.40
2006/07	£19.30
2007/08	£19.69
2008/09	£20.01
2009/10	<b>£20.42</b> up 2.0%

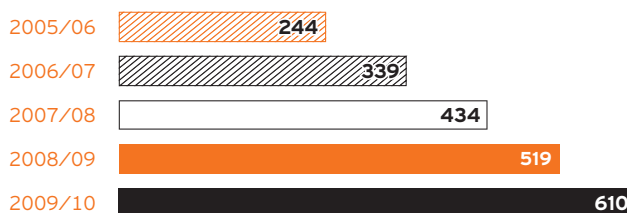
## Underlying EBITDAR<sup>4</sup> (%)



## Underlying operating margin<sup>5</sup> (%)



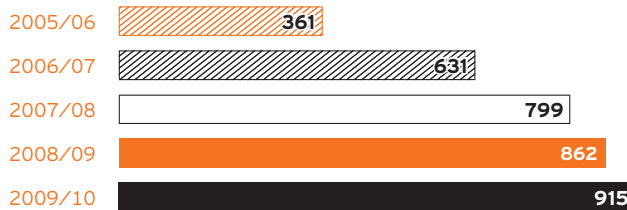
## Underlying profit before tax<sup>6</sup> (£m)



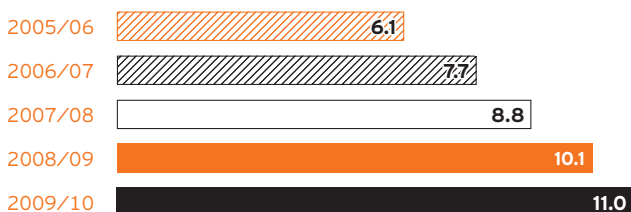
## Underlying basic earnings per share<sup>7</sup> (pence)

2005/06	9.5
2006/07	13.0
2007/08	17.4
2008/09	21.2
2009/10	<b>23.9</b> up 12.7%

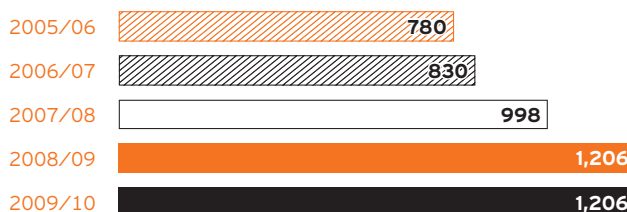
## Net capital expenditure<sup>8</sup> (£m)



## Pre-tax return on capital employed<sup>9</sup> (%)



## Operating cash flow (£m)



### Notes

- Sales excluding fuel, including VAT.
- Trading intensity per square foot: sales per week (including VAT, excluding fuel) divided by sales area excluding checkout space.
- Adjusted for comparative purposes for the VAT change to 15 per cent between 1 December 2008 and 31 December 2009.
- Underlying EBITDAR: underlying profit before tax from continuing operations before underlying net finance costs, underlying share of post-tax profit or loss from joint ventures, depreciation, amortisation and rent, divided by sales excluding VAT including fuel.
- Underlying operating margin: underlying profit before tax from continuing operations before underlying net finance costs and underlying share of post-tax profit or loss from joint ventures, divided by sales excluding VAT, including fuel.
- Underlying profit before tax: profit before tax from continuing operations before any profit or loss on the sale 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 basic earnings per share: profit after tax from continuing operations attributable to ordinary shareholders before any profit or loss on sale of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, 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 period, excluding those held by the ESOP trusts, which are treated as cancelled.
- Net capital expenditure: total capital expenditure including the investment in the British Land joint venture in 2008/09, less disposal proceeds.
- Underlying profit before interest and tax, divided by the average of opening and closing capital employed (net assets before net debt).





**Justin King, Chief Executive**

Sainsbury's has outperformed because we continue to lead on providing healthy, fresh and tasty food with universal appeal. Total sales, including VAT, excluding fuel, for the year were up 6.7 per cent and like-for-like sales were up 4.3 per cent. Like-for-like sales have grown cumulatively over five years by nearly 25 per cent. Customers recognise the progress we have made in 'Making Sainsbury's Great Again' and we now serve on average over 19 million customers each week. That's one million more than last year and nearly five million more than five years ago.

Colleagues have worked hard to deliver operational excellence resulting in better service and further productivity savings which have contributed to 17.5 per cent growth in underlying profit before tax, a good performance in difficult trading times. I am delighted therefore that 127,000 colleagues will

share a bonus of over £80 million. Our success has also meant that we have been able to invest over £900 million in capital expenditure in the year. This has added 1.1 million sq ft to our store estate, opening or extending over 100 stores and creating over 6,500 new jobs with Sainsbury's.

## Good sales and profit performance: accelerating our growth strategy

### Financial summary

- Total sales (including VAT, including fuel) up 5.1 per cent to £21,421 million (2008/09: £20,383 million)
- Total sales (including VAT, excluding fuel) up 6.7 per cent
- Like-for-like sales (including VAT, excluding fuel) up 4.3 per cent
- Underlying operating profit up 8.9 per cent to £671 million (2008/09: £616 million)
- Underlying profit before tax up 17.5 per cent to £610 million (2008/09: £519 million)
- Underlying basic earnings per share up 12.7 per cent to 23.9 pence (2008/09: 21.2 pence)
- Proposed full year dividend of 14.2 pence (2008/09: 13.2 pence), up 7.6 per cent

### Statutory

- Profit before tax up 57.3 per cent to £733 million (2008/09: £466 million)
- Basic earnings per share up 93.4 per cent to 32.1 pence (2008/09: 16.6 pence)

### Balance sheet and financing

- Property value of £9.8 billion up £2.3 billion, £0.7 billion due to investment and development activity
- IAS 19 pension deficit post-tax at March 2010 of £303 million (March 2009: deficit post-tax of £222 million)
- Triennial March 2009 pension funding agreed – utilises property asset, post-tax cash flows unchanged
- Net debt of £1,549 million, ongoing funding secured on property, credit rating affirmed then withdrawn

### Making Sainsbury's Great Again

- Now over 19 million weekly customer transactions, up one million year-on-year
- 'Supermarket of the Year' in 2009 Retail Industry Awards
- Top marks in the Consumer Focus 'Green to the Core?' survey
- 127,000 colleagues share bonus of over £80 million
- Food: World's largest retailer of Fairtrade; UK's largest retailer of Freedom Food
- Non-food: Growing at three times the rate of food; Sainsbury's Bank pre-tax operating profit of £19 million
- Channels: 51 new convenience stores; groceries online sales up just under 20 per cent
- Space: 1.1 million sq ft of gross new space added, including 38 new supermarkets
- On track for 2.5 million sq ft, or 15 per cent, of gross new space growth in two years to March 2011

## Operating review

Since launching the 'Making Sainsbury's Great Again' plan we have continued to grow the business and build a strong foundation for growth. In what has been a challenging consumer environment over the past year, we have delivered good results and accelerated our growth strategy.

Our business model has shown its resilience. We listened to our customers and delivered an offer with genuine universal appeal, enabling them to do their full weekly shop with us, whatever their budget. This was recognised by Sainsbury's being awarded 'Supermarket of the Year' in the 2009 Retail Industry Awards for the third time in four years, where the judges acknowledged our clear customer understanding and innovation in providing value without compromising brand and quality standards.

Ever since John Sainsbury set up his first dairy shop in 1869, our values have made us different. They reflect our customers' priorities and the way we want to work. Our customers are demanding and want top quality purchases at a fair price and to them quality includes social, environmental and ethical concerns.

## Trading summary

We have made strong progress on our strategic areas of focus over the past year. We have grown store space and expanded our product ranges. We are developing new lines of business and distribution channels. We continue to actively manage our property estate for long-term value.

Good sales performance has underpinned our success. Total sales, including VAT, excluding fuel, increased by 6.7 per cent during the year and our like-for-like sales were up 4.3 per cent, ahead of our three to four per cent medium-term objective. We now serve over 19 million customers each week, a million more than last year.

All areas of our business supported this sales growth. Our non-food product range performed extremely well, with sales growing three times as quickly as food and our groceries online business grew by just under 20 per cent. Convenience stores experienced strong underlying growth and we made good progress in growing supermarket space, with net new space contributing two per cent to total sales growth.

We invest both to stay competitive on price and to improve the quality of our offer. **'Shop and Save'** communicates the

Company's competitive pricing policy and strong promotions. We have worked hard to ensure that retail price inflation for our customers remained lower than cost of goods inflation through the year and have also delivered great value promotions. **'Switch and Save'** helps customers to save at least 20 per cent by choosing our equivalent own-label standard products or more through choosing 'basics' products over leading brands and was recognised as the consumer initiative of the



year in 'The Grocer Gold Awards 2009'. **'Cook and Save'** provides cooking ideas such as 'Feed Your Family for a Fiver', one of our most successful campaigns to date.

Building customer loyalty is an important feature of our business and we have increased the range and depth of our engagement with customers through our unique loyalty offer combining the Nectar loyalty scheme with 'coupon at till' technology. Our **'Collect and Save'** campaign delivers a wide range of relevant and targeted offers which our customers really value and over 100 suppliers are now signed up to the scheme. There are now one million more Nectar users than last year and Nectar has become the UK's largest loyalty card scheme.

We also invest to deliver operational excellence. We have again raised our performance in customer service and product availability this year. We upgraded our IT infrastructure to improve stock replenishment and enhanced our ordering flexibility, thereby reducing food waste.

Higher wages, energy prices and property costs pushed cost inflation to the higher end of our two to three per cent medium-term expectations. Cost-saving measures such as self-checkout and bioptic scanners, amongst many other initiatives, have offset over 75 per cent of this cost inflation. In addition we continue to invest for the long term with the expansion of our non-food infrastructure and depot capacity, the launch of our non-food online operation and a significant step-up in new space growth.

This year's good sales performance was matched by good growth in underlying operating profit with growth of 8.9 per cent to £671 million. Increased sales and tight cost control has improved our underlying operating margin which rose by 10 basis points to 3.36 per cent.

We continue to invest in developing our business for the future. We have invested over £900 million capital expenditure in the year, adding a gross 1.1 million sq ft of new space in line with our accelerated growth plans. This included opening 38 new supermarkets and has helped to create over 6,500 new jobs with Sainsbury's. We expect to achieve a pre-tax internal rate of return in excess of 15 per cent on our current investment programme, with a further £1.1 billion of capital expenditure earmarked for 2010/11.

## Financial strength

Sainsbury's is a strongly cash-generative business and delivered an operating cash flow of £1.2 billion in the year. Net debt reduced by £122 million in the year to £1,549 million (March 2009: £1,671 million).

We have strong asset backing from our freehold property estate which has significant development potential. As at 20 March 2010, the estimated market value of our freehold property assets was £9.8 billion, an increase of £2.3 billion since last year.

Our efficient capital structure comprises debt that is secured on our property assets and is low-cost and

long-dated. Since the major refinancing of the business in 2006, Sainsbury's has funded itself through the secured debt market, supplemented by shorter-term bank credit lines and has no rated unsecured debt instruments outstanding. Following a review of funding requirements we do not anticipate issuing unsecured capital markets debt and as such the corporate rating is no longer needed.

Accordingly, and consistent with the strategy followed by a number of other property-rich companies using secured funding platforms, Sainsbury's has withdrawn its corporate family rating from Moody's Investors Service and its corporate credit rating from Standard & Poor's. This concludes the transition to an asset-backed funding strategy initiated in 2006 and no material impact on the cost or availability of debt is anticipated. The Group has over £3 billion of available debt and facilities, which gives us significant funding capacity both to support our current activities and to realise our future ambitions.

As at 20 March 2010, the IAS 19 pension deficit post-tax was £303 million (March 2009: deficit of £222 million). This reflects the fact that asset values have increased by £900 million since March 2009, offset by a lower real discount rate and revised mortality assumptions.

In May 2010, Sainsbury's reached agreement with the Company's Pension Scheme Trustees on the terms of the triennial actuarial valuation, which was struck at 21 March 2009, and related funding plan. The actuarial deficit is £1,227 million, with the increase from the last actuarial deficit of £443 million (in March 2006) reflecting that asset values were taken at a low point in the cycle.

The funding plan represents a comprehensive package of measures to address the deficit whilst ensuring efficient cash management for Sainsbury's. We are utilising property assets to address half of the deficit through the establishment of a property-backed partnership, which avoids locking in higher annual cash payments based on depressed March 2009 asset values, and enables the contributions agreed to be cash-neutral on a post-tax basis over the next five years. The actuarial valuation and related funding plan will be finalised in June 2010 and submitted to the Pensions Regulator.

### Our Values Make Us Different

Underpinning our business are five key values, which we believe set us apart from other retailers. They determine our priorities to ensure that we conduct ourselves in an honest, ethical, and therefore sustainable fashion. Our commitment to values was recognised in November 2009 when Sainsbury's was awarded top marks in the Consumer Focus 'Green to the Core?' survey of leading UK supermarkets for our customer engagement on green issues.

As a leading food retailer, we seek to be the best for food and health which is why we are committed to sourcing our products with integrity. As we source from all over the world to sell in the UK, we promote respect for our environment and the communities in which we operate.

Our commitment to our values would not be possible without the full support of our colleagues, making Sainsbury's a great place to work.

**Being best for food and health** was the founding principle on which our business was built. Sainsbury's very first store was established to improve the diet of poorer Londoners through good quality, healthy eating. It is common to all our food offerings and is fundamental in sub-brands like **'Freefrom'**, **'Be Good to Yourself'** and **'Taste the Difference'**. We promote healthy eating by inspiring customers to cook via successful campaigns such as **'Feed your Family for a Fiver'** and simple recipe 'tip cards'. Over 25 per cent of these contain at least one portion of fruit or vegetables towards the recommended 'five a day' and half of the ideas on tip cards are rated as 'healthier'.

Sainsbury's goes to great lengths to **source with integrity**. We are committed to offering British products at their best, when in season and when quality meets customers' expectations. We are the world's largest Fairtrade retailer by value, providing financial and logistical support to farmers to help them achieve Fairtrade status. One in every four pounds spent on Fairtrade in the UK is spent at a Sainsbury's store. Our leadership in this area was recognised by the South African president Jacob Zuma when he toured our Greenwich supermarket during his UK state visit in March 2010.

Our **respect for the environment** aligns with our customers' concerns. We recognise that in order to seriously tackle climate change, we must work upstream alongside our supply chain, as well as downstream with our customers. Making it easier for our customers to reduce, re-use and recycle goes a long way to making a difference. Our **'Make the Difference Day'** initiatives are designed to have a big impact with a simple, easy-to-use idea like our **'Love Your Leftovers'** food container giveaway. We gave away two million re-usable food containers to help customers use their food leftovers and thereby reduce food waste.

Initiatives to **reduce waste, packaging and energy usage** have also been implemented which are environmentally responsible as well as cost efficient. During 2009/10 we reduced energy usage by two and a half per cent despite over six per cent space growth, through our energy reset programme. We are also the first supermarket to commit to CO<sub>2</sub> refrigeration, which is up to 3,000 times less damaging than other refrigerants in global warming terms. This is a pledge which will help us achieve our commitment to cut our carbon footprint by a third by 2030.

Our stores are at the **heart of the communities they serve** and through economic and social impacts we aim to make a positive difference to these communities. We actively get involved in local organisations to promote a healthier and more active lifestyle for people of all ages, and each store is encouraged to select a local charity and work together to make a real difference for people in that community. Nationally, our Active Kids programme helps



to give schools and nurseries access to sports equipment and promote healthier lifestyles. Active Kids has now raised £86 million towards sports and cooking equipment in local schools, nurseries and clubs. We are also proud to have raised over £5 million for Sport Relief during the year.

Earlier this month Sainsbury's became the **official sponsor of London 2012 Paralympic Games** which complements our commitment to promote healthy, fitter lifestyles across all ages and abilities and will offer great opportunities for our customers and colleagues to get involved.

Ensuring that Sainsbury's is a **great place to work** builds on our commitment to help improve the quality of life for our colleagues. We were the first UK employer to offer flexible qualifications to our colleagues and since launching 'You Can' in 2008, over 9,000 colleagues have benefited from our job-related qualification schemes. This year we trained an additional 300 apprentices on our bakery, meat and fish counters and we plan to continue to develop our apprenticeships in many new stores. We are the first supermarket to have launched a bakery college which will take over 200 apprentices towards a level 2 NVQ qualification on the successful completion of the apprenticeship. As a result of these and many more initiatives in developing our people, our colleague retention has improved significantly year-on-year. As a result of their success, **127,000 colleagues have shared in a record bonus** this year of over £80 million.

### Accelerating our Growth – Five Areas of Focus

In 2007, we identified five areas of focus for developing our business and significant progress in each area has contributed to our good performance. During 2009/10 we have accelerated our growth in these areas by allocating additional capital and resources.

**Great food at fair prices:** To build on and stretch the lead in food. By sharing our customers' passion for healthy, safe, fresh and tasty food, Sainsbury's will continue to innovate and provide leadership in delivering quality products at fair prices, sourced with integrity.

**Accelerating the growth of complementary non-food and services:** To accelerate the development of non-food ranges and services, such as Sainsbury's Bank, following the same principles of quality, value and innovation and to provide a broader shopping experience for customers.

**Reaching more customers through additional channels:** To extend the reach of Sainsbury's brand by opening new convenience stores and developing our online businesses.

**Growing supermarket space:** To expand the Company's store estate, actively developing a pipeline of new stores and extending the largely under-developed store portfolio to provide an even better food offer while also growing space for complementary non-food ranges.

**Active property management:** The ownership of property assets provides operational flexibility and the exploitation of potential development opportunities will maximise value.

### ① Great food at fair prices

We continually invest in the quality of our food and no other food retailer does more to provide its customers with fresh and in-season British produce at fair prices. Under our 'Local First for Fresh' scheme, around 50 stores now take delivery from local suppliers of new potatoes and strawberries on the day they are harvested.



We continue to develop closer relations with over 17,000 farmers and growers both at home and overseas to help improve the quality and value of the food they provide. Through our 'Field to Fork' initiative we have been encouraging suppliers to work together to share knowledge and expertise and have extended our existing development group for dairy farmers to beef, lamb, pork, cheese, poultry and egg farmers.

Own-brand products are rigorously and independently tested through quality sampling, benchmark testing and customer panels. Products don't reach our shelves unless they are judged to be better than existing products. We launched 1,300 new own-brand products this year and improved a further 3,500. These efforts have not gone unnoticed. Sainsbury's won more Quality Food Awards than any other retailer this year, including seven wins from 15 categories for Value products.

Ethical issues remain high on our customers' minds and Sainsbury's is proud to offer the largest range of '**Freedom Food**' that meets the RSPCA standards for higher welfare in the UK. For the healthier-minded, we strive for great-tasting food with a high nutritional value. We relaunched our '**Freefrom**' and '**Be Good to Yourself**' ranges this year. Our '**Freefrom**' range for customers with wheat, gluten and dairy intolerances now has over 100 new or improved products and a market share of nearly 29 per cent, up seven per cent on last year. '**Be Good to Yourself**' was relaunched in January 2010 with 60 new lines, with a focus on taste and new product innovation. We now have around 250 lines in the range and have grown our market share since launch to nearly 27 per cent.

In a year in which household budgets were under pressure, several initiatives promoted value for money. We expanded our entry-level '**basics**' range with 140 new products last year and now have over 700 products in the range which meet our quality standards whilst saving customers money. The range continues to deliver strong growth and sales were up 25 per cent this year.

Our '**Cook and Save**' campaign offers money-saving tips to encourage scratch cooking. In the last 12 months we have created over 100 different tip cards which are a firm favourite with customers who collected over 40 million cards from stores during the year. Our successful '**Feed Your Family for a Fiver**' campaign featured Jamie Oliver giving nutritious, tasty recipe ideas using Sainsbury's ingredients.

## ② Accelerating the growth of complementary non-food and services

Supermarket operators currently account for less than 15 per cent of the £166 billion UK non-food market and the scale of the opportunity is therefore considerable. We compete with non-food retailers and our focus on 'high street style' at supermarket prices resonates with customers.

Today, only around 20 per cent of the UK population live within a 15-minute drive of one of our stores with a wider 15,000 sq ft plus non-food offer. Consequently, we are stepping up plans for extensions and completed 13 larger, more cost-effective extensions in the year. We have a strong pipeline and expect to add **15 to 20 extensions per year ongoing with 70 planning consents already held**. This will result in the proportion of the population within a 15-minute drive time doubling to around 40 per cent by 2014. When we extend a store it generates uplifts in both food and non-food sales, becoming a destination store for both product ranges, that customers will travel longer to visit.



We are developing compelling non-food ranges which are relevant and easy to shop with clothing, home décor, cookshop and papershop key areas of focus. During the year our complementary **non-food business grew at three times the rate of food** and our TU clothing range continued to be a star performer. Ladieswear grew well with major highlights on footwear, accessories and lingerie. Childrenswear grew strongly

and we are now the **seventh largest childrenswear retailer in the UK market by volume**.

General merchandise also enjoyed strong growth. The January Sale drove significant sales increases in our homeware ranges, with home accessories, cookshop and bedding showing significant uplift. In Entertainment we continue to grow market share. Launch events for 'Harry Potter' and 'Call of Duty' helped to demonstrate that we can take up to 25 per cent market share with targeted and coordinated marketing on key items that also has the effect of increasing customer visits to our stores.

Operationally, we have increased the volume of goods we source directly from the Far East and we have opened a new sourcing office in Shanghai to complement our main operation in Hong Kong. We have established a second clothing depot in Bedford to support our main depot in Coventry, doubling our clothing warehouse capacity and helping manage the increasing demand for our clothing lines. An upgraded IT system, which helps us to control our clothing stock more effectively, is now being extended to handle all our non-food items.

**Sainsbury's Bank** delivered strong growth despite a challenging market. The launch of the new reward campaign in September, offering customers double Nectar points for two years on their Sainsbury's shopping when they take out a financial services product, demonstrates

the closer integration with our core business. Sainsbury's Bank customers spend more in our stores and customer numbers have increased to 1.4 million active customer accounts. We continue to win awards for our products including two key industry awards for 'Best Online Credit Card Provider' and 'Best Direct Home Insurance Provider' and are extending the range of financial services we offer with, for example, travel money bureaux now becoming a core in-store service with our one hundredth bureau now open.

## ③ Reaching more customers through additional channels

Convenience is the fastest-growing sector in the grocery store market and a key growth area for Sainsbury's. The market is still not consolidated – the four largest players have a combined share of less than 15 per cent – representing a significant growth opportunity. We opened 51 convenience stores during 2009/10, adding 122,000 sq ft of additional space, and now have a total estate of 335 stores with plans to open 75 to 100 more in 2010/11, and then over 100 per year thereafter.

Our '**food on the move**' and '**neighbourhood**' formats are working well, meeting customer needs for food for now, later and top-up shopping. We continue to be creative in the way we use all available space to provide as comprehensive an offer as possible with our convenience stores delivering good underlying growth.

Our groceries online business is also growing rapidly with annual sales now over £500 million and the business is delivering a positive contribution to profitability. We now reach nearly 90 per cent of UK households and through continued improvements in IT, supply chain and store-picking processes we have achieved record service and product availability metrics.

In July 2009, we successfully launched our non-food online business with over 8,000 non-food products available nationally. We will be introducing our '**click and collect**' service into ten trial stores from May 2010.

## ④ Growing supermarket space

In addition to our strong pipeline of extensions and planned convenience store openings, we also have significant opportunity to grow supermarket space. Sainsbury's currently has a 16.1 per cent market share in the UK as a whole, up by 0.2 per cent on last year. However, we are currently under-represented in many areas of the country and this provides a real opportunity for growth. Around 40 per cent of the UK population does not live within a 10-minute drive of a Sainsbury's supermarket and we have started to close this gap. During the year we opened 38 new supermarkets of which around three quarters are in the areas where we are currently under-represented. This included 33 stores (26 supermarkets and seven convenience stores) acquired from Co-op/Somerfield of which 32 are currently trading, with one due to open in the summer.

We operate a full range of store formats, from convenience to larger destination stores which means we can be more flexible with the space that we open whilst still ensuring that all investments meet our strict investment hurdle rate criteria. The combination of the 38 new supermarkets, 13 extensions and 51 new convenience stores has meant that we have added over 1.1 million sq ft of gross new space in the year, equivalent to a 6.8 per cent increase. This new space is performing ahead of our expectations.

In 2010/11, we plan for a full year gross space growth of around 8 per cent, fulfilling our growth plan of 15 per cent in the two years to March 2011 which equates to 2.5 million sq ft of additional selling area. We expect to achieve an internal rate of return in excess of 15 per cent on our current investment programme on a pre-tax basis.

Of the 294 supermarkets that we wholly own, 89 are on the development plan, with a further 16 having potential for mixed-use schemes. Of the remaining balance, 141 have longer-term potential subject to planning, economic and physical viability.

Sainsbury's continues to monetise dry assets that have been fully developed and to use these proceeds to invest in stores with development potential. During the year we generated proceeds from disposals of £153 million, including the sale and leaseback of six supermarkets, realising a total profit on disposal of £27 million.

### ⑤ Active property management

Ownership of our assets enables us to retain operational flexibility while exploiting development opportunities and maximising value for shareholders.

At 20 March 2010, the value of our freehold property estate was estimated at £9.8 billion. This represents an increase of £2.3 billion in property value since last year of which £1.7 billion is due to a yield improvement but importantly £0.7 billion is due to investment and development activity we have undertaken, less £0.1 billion in relation to the disposal of dry assets.

In total we wholly own 294 supermarkets and have a 50 per cent share of the 43 stores in our property joint ventures ("JVs") and taken together this is equivalent to 65 per cent of our total supermarket trading space. Our estate comprises many well-located sites which are relatively under-developed and therefore have great potential for creating value through delivering trading uplifts and also an increase in the overall property value.

We are working with our JV partners to maximise the value of the 43 sites held in these JVs. 21 are on the development plan, with a further 16 having longer-term potential. There are also four potential mixed-use schemes including Wandsworth, which is part of our JV with Land Securities and for which we received planning approval for a significant mixed-use scheme in March 2010. There are two dry assets which may be candidates for disposal at appropriate yields.



# Corporate responsibility review

## Commitments and progress

Value	Commitment	Progress
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### Best for Food and Health

<b>Healthier baskets for customers</b>	We will make the most popular items in our customers' baskets healthier, focusing on products that contribute the most saturated fat, salt or sugar to the UK diet, to deliver a real impact on the nation's health.	<b>Ongoing</b> – we continue to make the most popular items in our customers' baskets healthier.
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### Sourcing with Integrity

<b>Being best for British</b>	We will source great-tasting British products when in season, wherever these meet our customers' expectations for quality and authenticity.	<b>Achieved and Ongoing</b> – we remain committed to supporting UK farmers and continue to source British products, both when in season and in certain categories all year round.
<b>Being number one supermarket for animal welfare</b>	We will offer the widest range of higher welfare products of any UK retailer.	<b>Achieved</b> – we offer both the widest range of Freedom Food higher welfare products and sell more than any other UK retailer.
<b>Sourcing responsibly and ethically</b>	We will be the largest UK retailer of Fairtrade products (by sales value).	<b>Achieved</b> – we are now the world's largest retailer of Fairtrade by value.

### Respect for our Environment

<b>Reducing energy</b>	We will reduce our CO <sub>2</sub> emissions per square metre by 25% by 2012, against a 2005/06 baseline.	<b>Ongoing</b> – our commitment on refrigeration, Eco-stores and reset programme are helping us to progress towards this target.
<b>Reducing packaging</b>	We will reduce our own brand packaging weight relative to sales, by 33% by 2015 against a 2009 baseline.	<b>Ongoing</b> – making progress both incrementally through packaging redesign and through packaging innovation like milk bags.
<b>Reducing food waste</b>	We will have all supermarkets and depots connected to a zero food waste to landfill programme by the end of 2009.	<b>Achieved</b> – we now have all of our supermarkets and depots connected to a zero food waste to landfill programme.
<b>Reducing waste</b>	We will have all supermarkets and depots connected to a zero waste to landfill programme for operational waste by the end of 2010.	<b>Ongoing</b> – making progress by using our back-hauling process more efficiently and ISO14001 at depots.

### Making a Positive Difference to our Community

<b>Generating a positive economic impact on communities</b>	We will provide 6,500 new Sainsbury's jobs in 2009/10, through our planned opening of 28 supermarkets and 55 new convenience stores.	<b>Achieved</b> – over 6,500 new Sainsbury's jobs were created by opening 38 new supermarkets and 51 new convenience stores.
<b>Supporting local communities</b>	We will launch our Local Charity of the Year scheme, linking every store, Sainsbury's depot and our support centres to a local charity partner each year.	<b>Achieved</b> – we have supported over 750 local charities through the scheme this year and donated over £1 million to local charities.

### A Great Place to Work

<b>Supporting the development of our colleagues</b>	We will provide over 10,000 colleagues with job opportunities, skills and qualifications through our 'You Can' programme by 2010.	<b>Ongoing</b> – we are making progress against our target of providing 10,000 colleagues with job opportunities, skills and qualifications through 'You Can'. To date, around 9,150 colleagues have taken part in 'You Can'.
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## An award-winning year for Corporate Responsibility at Sainsbury's



**Dow Jones Sustainability Index 2009/10**  
We are proud to be recognised as the global industry leader in the Dow Jones Sustainability Index 2009/10.



**FTSE4Good Index**  
We continue to be included in the FTSE4Good Index, in recognition of our management of environmental, social and ethical issues.



**BITC CR Index – Platinum status award**  
For the 2nd year running we are Platinum members of the BITC CR Index for our commitment to responsible retailing.



**Carbon Trust Standard**  
Recognition of our supermarket division's reduction of CO<sub>2</sub> year-on-year.

**IGD Food Industry Award**  
Tetra Pak Environmental Sustainability Award for Sainsbury's Dairy Development Group.

**Consumer Focus 'Green to the Core?'**  
'A rating' in a survey of UK leading supermarkets by Consumer Focus.

**RSPCA Good Business Awards**  
Most improved supermarket (widest range of Freedom Food labelled products).

**CBI Human Capital Award**  
We won the 'People's Organisation' award for our broad-ranging HR and people-management excellence.

**Fairtrade**  
World's largest retailer of Fairtrade by value.

**Freedom Food**  
Largest UK retailer of Freedom Food both by value and range.

With an average of over 19 million customer transactions each week, almost 150,000 colleagues and in excess of 2,000 suppliers, Sainsbury's has a real impact on the economy, environment and society. Sainsbury's values underpin our goal to provide healthy, safe, fresh and tasty food at fair prices. These values are at the heart of our business; they determine our priorities and ensure that we conduct ourselves in an honest, ethical, and therefore sustainable manner. As a leading food retailer we focus on being the **'best for food and health'** which is why we are committed to **'sourcing with integrity'**. As we source from all over the world to sell in the UK we aim to always show

**'respect for our environment'** and play an active role in the communities we serve **'making a positive difference to our community'**. All this is possible through the commitment of our colleagues so that Sainsbury's is **'a great place to work'**.

Our values are an integral part of the way we do business at Sainsbury's. This is reflected in our corporate responsibility governance structure whereby members of our Operating Board have responsibility for each of our five values and sit on our Corporate Responsibility Steering Group.

## Corporate Responsibility Governance Structure





Customers and stakeholders trust the company to act responsibly on their behalf. They also look to Sainsbury's to take the lead in encouraging people to shop with the environment and ethics in mind. Throughout the challenging economic environment, customers have told us that ethical and environmental issues are important to them. Therefore, whilst customers have demanded better value from their purchases this is not at the expense of the environment or society.

Sainsbury's publishes an extensive Corporate Responsibility report that covers our five values in more detail and this is available at [www.j-sainsbury.co.uk/cr](http://www.j-sainsbury.co.uk/cr). We have reported on Corporate Responsibility in some form since 1996, when we were the first UK food retailer to publish an Environment report.

### Best for Food and Health

Our goal is to offer our customers great quality food at fair prices and as a leading food retailer, we are committed to being **'Best for food and health'**. Our approach is to help and inspire customers to eat a healthy, balanced diet by promoting healthy eating and active lifestyles. It's not only about making healthy, high quality and tasty food easily available in our stores, but it's about having clear and straightforward labelling that helps people make more informed choices. **We were the first UK retailer to apply front-of-pack Multiple Traffic Light labelling** to all relevant products, making it easier for customers to make healthy choices at a glance.

We recognise that customers are still conscious about price, which is why we also focus on making healthy food affordable and inspiring customers to cook and 'try something new today'. Through our initiatives such as **'Feed Your Family for a Fiver'** and the **'Try Team'** we continue to help customers cook on a budget and encourage them to waste less food through initiatives such as **'Love Your Leftovers'** and **'Make the Most of your Roast'** tip cards.

#### Highlights from the year include:

**Be Good to Yourself:** The 'Be Good to Yourself' healthy food range was relaunched in January 2010 with 60 new and improved lines bringing the total to around 250 lines. Market share (Kantar Worldpanel February 2010; 52 week) was up one per cent on last year, to nearly 27 per cent.

**Freefrom:** The 'Freefrom' range was relaunched in February 2010 with over 100 new and improved lines making 236 in total. Market share (Nielsen February 2010; 52 week) was up 6.8 per cent on last year, to nearly 29 per cent.

**Tip cards:** Over the last 12 months, our customers have collected over 40 million tip cards. Over 25 per cent of these recipes contain at least one portion of five-a-day and 50 per cent feature healthier recipes (i.e. only green or amber traffic lights). **We now have at least two tip cards in every set of 12 aimed specifically for kids**, thereby catering even more for families.

**Little Ones launch:** Our 'Little Ones' baby and toddler club, launched in October 2009, aims to provide parents of children aged zero to four years with targeted, nutritional advice and recipes through direct mail and a fully interactive website. All of the 180+ recipes are approved by the British Nutrition Foundation and our online experts such as Dr Dawn Harper and nutritionist Sara Stanner, give the 300,000 registered users comprehensive health and nutrition advice.

### Sourcing with Integrity

**'Sourcing with integrity'** is central to our ability to deliver great products at fair prices. In practice it means working with our suppliers to ensure the sustainability of our products in the round, taking into consideration their economic, environmental and social impacts. We are committed to offering British products at their best, when in season and when the quality meets customers' expectations. For example **we sell more British apples and pears than any other retailer in the UK**. We have a long history of supporting British farmers and helping to raise capability and skills to create sustainable businesses and long-term relationships.

Sainsbury's also recognises the value it brings to communities in developing countries. Through our position as the world's largest retailer of Fairtrade products we know that we make a positive impact by not only providing trade but also through the payment of social premiums to local communities that improve schools, healthcare and local infrastructure amongst other projects. Last year Sainsbury's customers helped us to pay \$16 million in social premiums. We also provide financial and logistical support to farmers in Africa and elsewhere to help them achieve Fairtrade accreditation.

We are committed to promoting high standards of animal welfare, as we know this is a key concern for our customers. We are proud that not only do we **sell more high welfare 'freedom food' products than anyone else** but we also stock the largest range. Sainsbury's also offer the largest range of fish certified by the MSC in the UK. The MSC certification programme for sustainable and well-managed fisheries assures the highest standards of fish sustainability practices. We recognise that we have a responsibility to use natural resources sustainably and through our commitments to sustainable palm oil, Forest Stewardship Council ("FSC") timber and improved water management we minimise the impact of our products on the environment.

#### Highlights from the year include:

**Fairtrade:** With sales of over £218 million, we are **the world's largest retailer of Fairtrade by value**. This leadership along with our green credentials prompted the first state visit to a supermarket by South African president Jacob Zuma.

**Freedom Food and MSC fish:** We are the **largest retailer of Freedom Food meat and fish in the UK** and offer the largest range of own-brand MSC fish, illustrating our strong commitment to sourcing sustainable fish and promoting high animal welfare.

**Development groups:** During 2009/10 we extended Sainsbury's successful Development Group model to beef, pork, poultry, lamb, cheese and egg suppliers. Our first group, the Dairy Development Group helps our dairy farmers implement efficiencies to become more competitive businesses. The group pioneered a carbon footprinting model which has the potential to reduce farmers' energy costs and reduce farmers' carbon footprint.

**Sustainable palm oil:** Ranked number one out of 59 European retailers in the World Wildlife Fund Sustainable Palm Oil Buyers Scorecard. The scorecard ranks companies' commitment to buying and using sustainable palm oil, ultimately linked to deforestation of the rainforest. We were **the first retailer to buy sustainable palm oil** last year and it is committed to only using sustainable palm oil in its own brand products by 2014.

## Respect for our Environment

At Sainsbury's we take environmental issues seriously. We aim to be environmentally responsible in the way we run our business and we also want to make it easy for customers to be environmentally responsible. Climate change represents one of the greatest challenges we face, both as a business and as a global population. As a UK retailer, we source products from all over the world. We take a long-term view of our environmental impact and are committed to reducing our carbon footprint, as well as managing the use of precious resources in a responsible manner. We recognise that tackling the issue involves addressing both our direct and indirect impacts. We are working hard to reduce our operational footprint and continue to develop a better understanding of the carbon embodied in our products and in the construction of our buildings. We are **the UK's first retailer to make a firm commitment to phase out harmful gases from our refrigeration**. All of our fridges will be switched to environmentally friendly CO<sub>2</sub> technology, which will cut our store carbon footprint by one third by 2030.

Sainsbury's champions the 'Reduce, Re-use, Recycle' approach both to minimise waste from its operations as well as helping customers reduce waste in the home, for example by packaging reduction and providing clear recycling advice both on pack and in-store. We **now have all of our stores connected to our zero food waste to landfill programme**, which results in food waste going to Anaerobic Digestion or creating energy from this waste. During the year we have developed a new Climate Change Strategy which has further refined our strategy for managing our environmental impact. The Climate

Change Strategy divides the business into three elements: Our Operations, Our Products, Our Customers. Our approach is to reduce the environmental impact of our operations and our products and help our customers be more environmentally responsible.

### Highlights from the year include:

**Green to the Core:** We received **an industry-leading 'A rating' in the 'Green to the Core?' survey by Consumer Focus**. This report assessed supermarkets' performance on making 'green' shopping easier. We ranked well on engagement with our customers on green issues and our "excellent sustainable farming and fish policies, with a high proportion of sustainable products available".

**Environmental stores:** We continue to lead in store environmental innovation with our eco-store programme growing larger in 2009/10 with store openings at Westhoughton, Dursley, Gloucester Quays and a convenience store in Bath. Through these **we have commissioned Europe's first biomass generator**, created bee hotels and **opened the UK's first carbon negative extension at Durham**.

**Reducing packaging:** Through a number of packaging innovations, such as switching canned chopped tomatoes to FSC-certified Tetra Pak and the launch of milk bags that have 75 per cent less packaging compared to plastic bottles, we are on track to meet our corporate target of a 33 per cent reduction in packaging by sales by 2015.

**Supporting customers:** We launched a number of initiatives during the year making it easier for customers to be more environmentally responsible. For example, we were **the first UK retailer to invest in electric vehicle charge points** at 11 of our stores in London; this is now being extended to our remaining London stores. We also announced **the world's largest fleet of electric vans** for our online deliveries.

## Making a Positive Difference to our Community

Our stores are at the very heart of the communities they serve. For us this is not only about providing great service and quality products. It's also about making a positive difference to our communities and being a good neighbour. With almost 150,000 colleagues throughout the UK, we are a major contributor to local employment. Whilst we clearly have a significant economic impact, as one of the major local employers, of equal and increasing importance is the social impact we have on local communities. When developing plans for new stores or store improvement programmes, we always engage and consult with members of the local community, council and key stakeholders and they consider our local community activities as a key point of difference from other retailers. By engaging fully with the communities in which we operate we ensure our stores mirror and reflect the local community and are at the hub of the communities they serve. We support local communities through programmes such as local charity

partnerships, food donation schemes, Comic Relief and Sainsbury's Active Kids.

We aim to be known as **'More than a Store'** through the offering of our space and facilities to be used by the local community. We encourage community groups to use our stores as a meeting place and a number of groups meet and run events ranging from scouts meetings to speed dating for the elderly. We have also trialled hosting community meetings in our stores giving key groups within the community the opportunity to work with each other and discuss and support the needs of the community. We plan to extend this further in 2010/11.

#### Highlights from the year include:

**Local charity partnerships:** We support over 750 local charities through colleague and customer fundraising and volunteering. **We now have all of our stores, depots and support centres linked to local charities.**

**Sport Relief:** Customers and colleagues helped us to donate **a record £5 million for Sport Relief 2010**, more than doubling the £2.3 million raised for Sport Relief 2008.

**Active Kids:** Over 43,000 schools and clubs have registered to our 6th Active Kids scheme. To date we have **donated over £86 million to schools and clubs.**

**Job creation:** During 2009/10 we generated around 6,500 new Sainsbury's jobs by opening 38 new supermarkets and 51 new convenience stores across the UK, meeting our 2009/10 target. This was in addition to the 15,500 temporary jobs we created over Christmas 2009 to manage increased trade over the holiday season.

### A Great Place to Work

Being **'A great place to work'** is rooted in Sainsbury's heritage and values. It also plays a crucial role in achieving our business goals. We rely on our colleagues to deliver great service to our customers every single day.

We are committed to championing equality, diversity, inclusion and flexible working options for our colleagues. We remain committed to recruiting, retaining and engaging the best people, from backgrounds that reflect the communities we serve. We believe that every colleague, no matter where they work or the role they perform, should be encouraged to develop and make best use of their skills.

We value the opinions of our colleagues and we communicate honestly with them. We also believe in recognising and rewarding our colleagues for the vital part they play in making Sainsbury's a great place to work. All these things are important, whatever the economic climate; in an economic downturn they're more vital than ever.

#### Highlights from the year include:

**'You Can':** 'You Can' is our umbrella brand for the work we are doing to open Sainsbury's to a wider range of new recruits, and help our colleagues to develop new skills. These range from offering apprenticeships, to job-related qualifications, to more general 'Skills for Life'. We are making progress against our target of providing 10,000 colleagues with job opportunities, skills and qualifications through 'You Can'. To date, over 9,150 colleagues have taken part in 'You Can'.

**Bakery college:** We launched **the UK's first supermarket bakery college** representing a significant investment in training and skills to help develop the next generation of bakers. The college will take over 200 apprentices toward a level 2 NVQ qualification on the successful completion of the apprenticeship.

**Colleague bonus:** 127,000 colleagues will earn a share of a bonus payment of over £80 million this year bringing the total amount paid out over the last five years to over £290 million. The bonus scheme is linked to the delivery of great service and product availability as well as overall sales and profit measures.

**Apprenticeships:** We trained 300 apprentices for our bakery, butcher and fish counters and we plan to have apprentices in all our main stores.

# Financial review



## Darren Shapland, Chief Financial Officer

Sainsbury's has performed well in what remains a challenging economic environment, continuing to develop its offer and invest for the future whilst delivering its growth strategy and maintaining the strength of its balance sheet. This leaves the company well placed to deliver sustainable growth into the coming year and beyond.

Sales (including VAT) increased by 5.1 per cent to £21,421 million (2008/09: £20,383 million). Underlying profit before tax, which now excludes the IAS 19 pension financing element, improved by 17.5 per cent to £610 million (2008/09: £519 million). Profit before tax was up 57.3 per cent, at £733 million (2008/09: £466 million), supported by the surplus on the revaluation of properties within joint ventures.

Underlying basic earnings per share increased to 23.9 pence (2008/09: 21.2 pence), up 12.7 per cent.

The rate of increase was lower than at an underlying profit before tax level due to the small dilutive effect of the 78.1 million shares issued in June 2009. Basic earnings per share increased by 93.4 per cent, to 32.1 pence (2008/09: 16.6 pence), more than the increase in underlying earnings per share primarily due to the revaluation of properties within the joint ventures. A final dividend of 10.2 pence has been recommended by the Board (2008/09: 9.6 pence) making a full year dividend of 14.2 pence per share, up 7.6 per cent year-on-year (2008/09: 13.2 pence).

### Summary income statement for the 52 weeks to 20 March 2010

	2009/10 £m	2008/09 £m	Change %
<b>Sales (including VAT)<sup>1</sup></b>	<b>21,421</b>	20,383	5.1
<b>Sales (excluding VAT)</b>	<b>19,964</b>	18,911	5.6
<b>Underlying operating profit</b>	<b>671</b>	616	8.9
Underlying net finance costs <sup>2</sup>	(79)	(113)	30.1
Underlying share of post-tax profit from joint ventures <sup>3</sup>	18	16	12.5
<b>Underlying profit before tax<sup>4</sup></b>	<b>610</b>	519	17.5
Profit on sale of properties	27	57	n/a
Investment property fair value movements	123	(124)	n/a
Financing fair value movements	(15)	(10)	(50.0)
IAS 19 pension financing (charge)/credit	(24)	24	n/a
One-off item: Office of Fair Trading dairy inquiry	12	-	n/a
<b>Profit before tax</b>	<b>733</b>	466	57.3
Income tax expense	(148)	(177)	16.4
<b>Profit for the financial period</b>	<b>585</b>	289	102.4
<b>Underlying basic earnings per share<sup>4</sup></b>	<b>23.9p</b>	21.2p	12.7
<b>Basic earnings per share</b>	<b>32.1p</b>	16.6p	93.4
<b>Full year dividend per share</b>	<b>14.2p</b>	13.2p	7.6

1 Sales (including VAT) were adversely affected by the reduction in the standard rate of VAT from 17.5 per cent to 15 per cent, effective from 1 December 2008 to 31 December 2009.

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

3 The underlying share of post-tax profits from joint ventures is stated before investment property fair value movements and financing fair value movements.

4 Restated for the change in definition of underlying profit before tax to exclude the IAS 19 pension financing element.

### Sales (including VAT) and space

Sales (including fuel) increased by 5.1 per cent to £21,421 million (2008/09: £20,383 million) through a combination of strong like-for-like ("LFL") performance and new space, offset by the impact of slightly lower fuel prices largely as a result of the change in VAT rate.

The 5.1 per cent growth includes a 0.3 per cent impact from the timing of Easter in 2009 and a 1.8 per cent contribution from net new space. LFL sales (including fuel) were up 3.0 per cent, lower than for sales excluding fuel due to the impact of slightly lower fuel prices.

Sales growth (including VAT, including fuel) for the 52 weeks to 20 March 2010	2009/10 %	2008/09 %
Like-for-like sales ( <i>Easter-adjusted</i> )	3.0	5.5
Addition/(removal) of Easter adjustment <sup>1</sup>	0.3	(0.7)
Net new space (excluding extensions)	1.8	0.9
<b>Total sales growth</b>	<b>5.1</b>	<b>5.7</b>

<sup>1</sup> Like-for-like sales growth has been Easter-adjusted for comparative purposes. 2008/09 included one Easter Sunday trading week. 2009/10 included one Good Friday trading week and one Easter Sunday trading week.

Sales (excluding fuel) grew by 6.7 per cent with LFL growth of 4.3 per cent, of which 0.7 per cent was contributed by extensions in their first year of trading, net of disruptions. The LFL growth rate was above Sainsbury's medium-term planning assumption of between three and four per cent representing a good performance in tough economic conditions, with good growth in customer transactions across the year.

The LFL growth was 5.7 per cent in the first half and 2.8 per cent in the second half, reflecting the reduction in food inflation in the latter part of the year. Within this good growth, non-food sales grew at more than three times the rate of grocery growth and groceries online sales increased by just under 20 per cent.

Sales growth (including VAT, excluding fuel) for the 52 weeks to 20 March 2010	2009/10 %	2008/09 %
Like-for-like sales ( <i>Easter-adjusted</i> )	4.3	4.5
Addition/(removal) of Easter adjustment <sup>1</sup>	0.4	(0.8)
Net new space (excluding extensions)	2.0	1.0
<b>Total sales growth</b>	<b>6.7</b>	<b>4.7</b>

<sup>1</sup> Like-for-like sales growth has been Easter-adjusted for comparative purposes. 2008/09 included one Easter Sunday trading week. 2009/10 included one Good Friday trading week and one Easter Sunday trading week.

New space (excluding extensions) contributed a net 2.0 per cent to total sales growth of 6.7 per cent (excluding fuel). Sainsbury's added a gross 1,143,000 sq ft of selling area, an increase of 6.8 per cent since the start of the year. Including the impact of replacements, closures and disposals, this translated into net space growth of 1,047,000 sq ft, an increase of 6.3 per cent since the start of the year.

Sainsbury's acquired 33 stores from the Co-op and Somerfield in the year, of which 25 are now trading as supermarkets and seven as convenience stores. These have generated an additional 320,000 sq ft of new space, included in the total above. The remaining store will open in summer 2010 and trade as a supermarket.

Sainsbury's has increased the pace of property activity this year with 38 new supermarkets opening during the year, including three replacement stores. These openings have allowed Sainsbury's to increase its representation in Scotland, Wales and South West England, with over 75 per cent of the new space added in these areas. In addition, Sainsbury's has also completed 13 supermarket extensions and a further 41 refurbishments in the year.

In the convenience estate, Sainsbury's opened 51 new stores, representing a significant increase on the 16 stores opened in 2008/09, disposed of six stores and extended or refurbished eight stores.

Gross space growth of around eight per cent is expected in 2010/11, completing growth of 15 per cent in the two years to March 2011. Net new store space excluding extensions is expected to contribute 2.5 per cent to total sales growth (excluding fuel) in 2010/11.

### Store numbers and retailing space

	Supermarkets Number	Supermarkets Area 000 sq ft	Convenience Number	Convenience Area 000 sq ft	Total Number	Total Area 000 sq ft
As at 21 March 2009	502	15,974	290	729	792	16,703
New stores	38	758	51	122	89	880
Replacements/disposals/closures	(3)	(86)	(6)	(10)	(9)	(96)
Extensions/downsizes/refurbishments	-	263	-	-	-	263
<b>As at 20 March 2010</b>	<b>537</b>	<b>16,909</b>	<b>335</b>	<b>841</b>	<b>872</b>	<b>17,750</b>
Memorandum:						
Extensions	13	226	2	2	15	228
Refurbishments/downsizes	41	37	6	(2)	47	35
<b>Total projects</b>	<b>54</b>	<b>263</b>	<b>8</b>	<b>-</b>	<b>62</b>	<b>263</b>

### Underlying operating profit

Underlying operating profit increased by 8.9 per cent to £671 million (2008/09: £616 million) reflecting the strong sales performance and a 10 basis point improvement in underlying operating margin to 3.36 per cent for the year (2008/09: 3.26 per cent). The underlying rate of improvement was consistent across the first half and the second half of the year after adjusting for fluctuations in fuel prices.

Underlying EBITDAR margin has improved 17 basis points to 7.79 per cent for the year (2008/09: 7.62 per cent). The rate of improvement is higher than at an operating profit level due to the increased lease costs arising from the disposal of supermarket assets which have no further development potential.

Sainsbury's has driven operational gearing from higher sales volumes and the delivery of cost efficiency savings which have offset over 75 per cent of total cost inflation as well as supporting sustained investment in the customer offer. Cost inflation in 2010/11 is expected to fall at the lower end of the two to three per cent medium-term range, with cost savings expected to fully offset this inflation.

Underlying operating profit for the 52 weeks to 20 March 2010	2009/10	2008/09	Change
Underlying operating profit (£m) <sup>1</sup>	<b>671</b>	616	8.9%
Underlying operating margin (%) <sup>2</sup>	<b>3.36</b>	3.26	10 bps
Underlying EBITDAR (£m) <sup>3</sup>	<b>1,555</b>	1,441	7.9%
Underlying EBITDAR margin (%) <sup>4</sup>	<b>7.79</b>	7.62	17 bps

- 1 Underlying earnings before interest and tax and before Sainsbury's share of post-tax profits from joint ventures.
- 2 Underlying operating profit divided by sales excluding VAT.
- 3 Underlying operating profit before rent, depreciation and amortisation.
- 4 Underlying EBITDAR divided by sales excluding VAT.

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

Sainsbury's Bank has made further good progress, generating a pre-tax operating profit of £19 million (2008/09: £13 million). Sainsbury's 50 per cent equity share of the post-tax profit amounted to £7 million for the year (2008/09: £4 million).

The business has increased profitability through a rise in net interest income, strong cost control and good risk management of bad debts. Sainsbury's Bank continues to lend prudently to higher credit scoring customers and successfully build its revenue sources with a clear focus on the Sainsbury's shopper across banking, insurance services and transaction fees. It has a strong and well-capitalised balance sheet.

The Sainsbury's Bank JV is expected to contribute a similar year-on-year step-up in profits in 2010/11.

### Property joint ventures

Sainsbury's total underlying share of post-tax profit from its JVs with British Land and Land Securities was £11 million for the year (2008/09: £12 million), slightly down on last year as a result of the full-year effect of additional debt within the Land Securities JV.

Profits from property JVs are expected to deliver a broadly similar result in 2010/11.

At the year end, a total surplus on the revaluation of the properties of £123 million (2008/09: a deficit of £124 million) has been recognised within the share of post-tax profits from JVs in the income statement. This represents an increase on revaluation of these properties to an average yield of 5.2 per cent (2008/09: 6.2 per cent).

### Underlying net finance costs

Underlying net finance costs decreased by £34 million to £79 million (2008/09: £113 million) mainly as a result of the decrease in the RPI rate, which resets annually in February, lowering the cost of Sainsbury's inflation-linked debt, as well as reduced variable interest costs and tight control of working capital. In line with the change in the definition of underlying profit before tax ("UPBT"), the IAS 19 pension financing element has been removed from underlying net finance costs.

Interest cover was 8.7 times (2008/09: 5.6 times, restated for the change in UPBT definition to remove the IAS 19 pension financing element). Fixed charge cover was 2.3 times (2008/09: 2.1 times).

Sainsbury's expects underlying net finance costs in 2010/11 to increase by around £25 million due to the change in interest rates on RPI-linked debt.

Underlying net finance costs <sup>1</sup> for the 52 weeks to 20 March 2010	2009/10 £m	2008/09 £m
<b>Underlying finance income</b>	<b>33</b>	28
Interest costs	<b>(127)</b>	(156)
Capitalised interest	<b>15</b>	15
<b>Underlying finance costs</b>	<b>(112)</b>	(141)
<b>Underlying net finance costs</b>	<b>(79)</b>	(113)

- 1 Finance income/(costs) before financing fair value movements and IAS 19 pension financing element.

### Taxation

The income tax charge for the year was £148 million (2008/09: £177 million), with an underlying tax rate of 28.5 per cent (2008/09: 29.1 per cent) and an effective tax rate of 20.2 per cent (2008/09: 38.0 per cent). The underlying tax rate has remained broadly in line with last year and remains slightly higher than the statutory rate due to disallowable depreciation, offset by the resolution of a number of other outstanding items. Disallowable depreciation amounted to £77 million in 2009/10 (2008/09: £73 million). The effective tax rate is lower than in 2008/09 primarily due to the movement in the joint venture property valuations which are not subject to tax.

Underlying tax rate calculation for the 52 weeks to 20 March 2010	Profit £m	Tax £m	Rate %
Profit before tax	733	(148)	20.2
Less: profit on sale of properties	(27)	(15)	
Less: investment property fair value movements	(123)	-	
Add: financing fair value movements	15	(4)	
Add: IAS 19 pension financing element	24	(7)	
Less: Office of Fair Trading dairy inquiry	(12)	-	
<b>Underlying profit before tax</b>	<b>610</b>	<b>(174)</b>	<b>28.5</b>

The Group expects the underlying tax rate to be between 30 per cent and 31 per cent in 2010/11.

### Earnings per share

Underlying basic earnings per share increased by 12.7 per cent to 23.9 pence (2008/09: 21.2 pence). The rate of increase reflects the improvement in underlying profit after tax attributable to equity holders partially offset by the small dilutive effect of the additional 78.1 million shares issued as part of the equity placing in June 2009.

Basic earnings per share were up 93.4 per cent, at 32.1 pence (2008/09: 16.6 pence), more than the increase in underlying earnings per share primarily due to the surplus on joint venture property valuations.

Underlying earnings per share calculation for the 52 weeks to 20 March 2010	2009/10 pence	2008/09 <sup>1</sup> pence
<b>Basic earnings per share</b>	<b>32.1</b>	16.6
Adjustments (net of tax) for:		
Profit on sale of properties	(2.3)	(2.1)
Investment property fair value movements	(6.7)	7.1
Financing fair value movements	0.6	0.5
IAS 19 pension financing element	0.9	(0.9)
One-off item: Office of Fair Trading dairy inquiry	(0.7)	-
<b>Underlying basic earnings per share</b>	<b>23.9</b>	21.2

<sup>1</sup> Restated for the change in definition of underlying profit before tax to remove the IAS 19 pension financing element.

### Dividends

The Board has recommended a final dividend of 10.2 pence per share (2008/09: 9.6 pence), which will be paid on 16 July 2010 to shareholders on the Register of Members at the close of business on 21 May 2010, subject to approval. This will increase the full year dividend by 7.6 per cent to 14.2 pence per share (2008/09: 13.2 pence).

The dividend is covered 1.68 times by underlying earnings (2008/09: 1.61 times, restated for the change in definition of UPBT to exclude the IAS 19 pension financing element), in line with Sainsbury's policy of providing cover of between 1.50 and 1.75 times.

The proposed final dividend was recommended by the Board on 12 May 2010 and, as such, has not been included as a liability as at 20 March 2010.

### Return on capital employed

The pre-tax return on average capital employed continued to improve significantly, increasing by 85 basis points in the year to 11.0 per cent, around 70 basis points above the Company's weighted-average cost of capital.

Pre-tax return on capital employed for the 52 weeks to 20 March 2010	2009/10	2008/09
Underlying operating profit (£m)	671	616
Underlying share of post-tax profit from joint ventures (£m)	18	16
Underlying profit before interest and tax (£m)	689	632
Average capital employed <sup>1</sup> (£m)	6,281	6,243
<b>Return on average capital employed (%)</b>	<b>11.0</b>	10.1
Year-on-year improvement	85bps	136bps

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

### Net debt and cash flow

Sainsbury's net debt as at 20 March 2010 was £1,549 million (March 2009: £1,671 million), a reduction of £122 million from the 2009 year-end position. The reduction was driven by the cash generated from the capital raise in June 2009 and strong operational cash flows, including another good working capital performance, offset by capital expenditure on the acceleration of the store development programme and outflows for taxation, interest and dividends. The resolution of a number of outstanding items contributed to a lower tax payment than in 2008/09, and interest payments benefited from lower interest rates on inflation linked debt as a result of a lower RPI than last year.

Sainsbury's expects year-end net debt to increase to around £1.9 billion in 2010/11, in line with its increased capital expenditure from the plan to deliver 15 per cent space growth in the two years to March 2011.

Summary cash flow statement for the 52 weeks to 20 March 2010	2009/10 £m	2008/09 £m
<b>Operating cash flows before changes in working capital</b>	<b>1,114</b>	1,039
Changes in working capital	92	167
<b>Cash generated from operations</b>	<b>1,206</b>	1,206
Net interest paid	(96)	(118)
Corporation tax paid	(89)	(160)
<b>Cash flow before appropriations</b>	<b>1,021</b>	928
Purchase of non-current assets	(1,057)	(994)
Investment in joint ventures	(2)	(291)
Disposal of non-current assets	139	390
Proceeds from issue of shares	250	15
Receipt of new debt	123	165
Net dividends paid	(239)	(215)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>235</b>	(2)
Increase in debt	(115)	(157)
IAS 32 and IAS 39 adjustments and other movements	2	(9)
<b>Movement in net debt</b>	<b>122</b>	(168)
Opening net debt	(1,671)	(1,503)
<b>Closing net debt</b>	<b>(1,549)</b>	(1,671)

### Working capital

Sainsbury's has continued to manage working capital closely and cash generated from operations includes a further year-on-year improvement in working capital of £92 million. This has been achieved through tight management of inventories, which are up less than two per cent on last year, and continued improvement of trade cash flows.

### Financing

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

At March 2010, Sainsbury's had total debt and facilities of £3.0 billion in place. Sainsbury's core funding of £2.4 billion is represented by £2.0 billion CMBS debt, with £1.1 billion due 2018 and £0.9 billion due 2031 with additional debt capacity of £0.2 billion due 2014 and £0.2 billion due 2015. Contingent liquidity is maintained via committed facilities of £0.6 billion. At 20 March 2010, no drawings were made against these committed facilities (2008/09: £nil).

Since the refinancing exercise undertaken in 2006, the Group's core funding has comprised long-term secured asset-backed loans supplemented by shorter-term bank lending. Following a review of funding requirements the Company does not anticipate issuing unsecured capital markets debt and as such the corporate rating is no longer needed. Accordingly, and consistent with the strategy followed by a number of other property-rich companies using secured funding platforms, Sainsbury's has withdrawn its corporate family rating from Moody's Investors' Service and its corporate credit rating from Standard and Poor's.

### Capital expenditure

Core capital expenditure amounted to £886 million in the year (2008/09: £863 million). This included £496 million on new store development (2008/09: £386 million) and £320 million on extensions and refurbishments (2008/09: £385 million). During the year, a number of freehold and trading properties were acquired, in line with Sainsbury's plans to buy such properties where it believes there are long-term trading and development opportunities.

Total expenditure has been offset by the receipt of £131 million in relation to property disposals of stores which have no further development potential (2008/09: £393 million). Property disposals generated a profit of £27 million (2008/09: £57 million).

The Group expects 2010/11 capital expenditure of around £1.1 billion, to bring total expenditure to £2 billion in the two years to March 2011.

Capital expenditure for the 52 weeks to 20 March 2010	2009/10 £m	2008/09 £m
New store development	496	386
Extensions and refurbishments	320	385
Other – including supply chain and IT	70	92
<b>Core retail capital expenditure</b>	<b>886</b>	<b>863</b>
British Land joint venture investment	–	274
Acquisition of freehold and trading properties	160	118
Proceeds from property transactions	(131)	(393)
<b>Net capital expenditure</b>	<b>915</b>	<b>862</b>

### Summary balance sheet

Shareholders' funds at 20 March 2010 were £4,966 million (2009: £4,376 million), an increase of £590 million. This is attributable to both the cash generated from the capital raise in June 2009 and investments in joint ventures, which have grown due to the increase in the value of the properties. Gearing, which measures net debt as a percentage of total equity, has reduced to 31 per cent (2009: 38 per cent), as a result of the reduction in net debt and the increase in net assets.

On 22 June 2009, J Sainsbury plc issued 78.1 million ordinary shares (4.43 per cent of the Company's issued share capital) at £3.10 per share via an equity placing, generating cash of £242 million. On 16 July 2009, J Sainsbury plc issued £190 million convertible bonds due 2014, paying a cash coupon of 4.25 per cent with a conversion price of £4.19 (representing a 35 per cent premium to the reference price of £3.10). For accounting purposes, the bond is split between debt (£166 million) and equity (£24 million).

Summary balance sheet at 20 March 2010	2010 £m	2009 £m	Movement £m
Land and buildings (freehold and long leasehold)	6,059	5,728	331
Land and buildings (short leasehold)	559	520	39
Fixtures and fittings	1,585	1,573	12
Other non-current assets	811	604	207
Inventories	702	689	13
Trade and other receivables	215	195	20
Cash and cash equivalents	837	627	210
Debt	(2,386)	(2,298)	(88)
<b>Net debt</b>	<b>(1,549)</b>	<b>(1,671)</b>	<b>122</b>
Trade and other payables and provisions	(3,113)	(3,040)	(73)
Retirement benefit obligations, net of deferred tax	(303)	(222)	(81)
<b>Net assets</b>	<b>4,966</b>	<b>4,376</b>	<b>590</b>

As at 20 March 2010, Sainsbury's estimated market value of properties is £9.8 billion (March 2009: £7.5 billion), including a 50 per cent share of properties held within the property joint ventures. Excluding the share of properties held within the property joint ventures, the estimated market value is circa £9.1 billion (March 2009: £6.9 billion), equivalent to an average yield of circa 5.1 per cent, 49 per cent higher than the net book value of land and buildings on the balance sheet.



### Pensions

As at 20 March 2010, the present value of retirement benefit obligations less the fair value of plan assets was a deficit after deferred tax of £303 million (2009: £222 million deficit). The movement in the deficit reflects a 28.0 per cent increase in the value of assets to £4.2 billion (2009: £3.3 billion) offset by a 28.7 per cent increase in funded obligations due to market movements in the discount rate, the inflation rate and the inclusion of an allowance for future increase in life expectancy of a minimum rate of improvement of one per cent per annum, in line with the triennial valuation assumption.

The IAS 19 pension service cost included within UPBT was £48 million (2008/09: £50 million). Sainsbury's expects this to increase to around £55 million in 2010/11.

Retirement benefit obligations at 20 March 2010	2010 £m	2009 £m
Present value of funded obligations	(4,649)	(3,610)
Fair value of plan assets	4,237	3,310
Pension deficit	(412)	(300)
Present value of unfunded obligations	(9)	(9)
Retirement benefit obligations	(421)	(309)
Deferred income tax asset	118	87
Net retirement benefit obligations	(303)	(222)

### Triennial valuation

The defined benefit pension schemes were subject to a triennial valuation at March 2009 by Towers Watson, the schemes' independent actuaries, on the projected unit basis. On the basis of the assumptions agreed, the actuarial deficit at 21 March 2009 was £1,227 million, an increase of £784 million from the March 2006 deficit of £443 million. This is primarily due to the valuation date coinciding with a low point in asset values. A new recovery plan addressing this deficit has been agreed with the Trustees, which utilises property assets to address half of the deficit and results in the post-tax cash flows being unchanged over the next five years.

### Office of Fair Trading ("OFT")

In April 2010, the OFT announced that it had insufficient evidence to support infringement findings with regard to certain products that were the subject of its 2002/03 dairy investigation, involving certain retailers and processors. As a result, the penalty that Sainsbury's had agreed to pay in 2007/08 as part of an early resolution agreement will be reduced to £13 million from £26 million. Sainsbury's welcome the OFT's decision in respect of these products. Sainsbury's originally settled with the OFT in 2007/08 because it recognised the benefit of a speedy settlement, despite its disappointment at being penalised for actions that were intended to help British farmers.

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

# Principal risks and 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, 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 32. The management of the 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 acts of terrorism

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

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

## Business strategy

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

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

- Great food at fair prices;
- Accelerating the growth of complementary non-food ranges and services;
- Reaching more customers through additional channels;
- Growing supermarket space; and
- Active property management.

Progress against these areas of focus and any risks to delivery are regularly reviewed by the Board and the overall strategy is reviewed at the 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

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

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

## Economic and market risks

The impact of the economic downturn continues to drive demand for value from customers. Challenges to household disposable income, competitor pricing positions and product costs can affect the performance of the Group in terms of both sales and costs.

Focus continues on delivering quality products with 'universal appeal', at a range of price points ensuring value for all our customers. This is achieved through the continuous review of our key customer metrics, active management of price positions, development of sales propositions and increased promotion and marketing activity. While external cost pressures including oil-related costs, 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.

## Environment and sustainability

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

A number of initiatives are in place, which are being led by the Environmental Action team and the Corporate Responsibility Steering Group to reduce our environmental impact and to meet our customers' requirements in this area. Further details are included in the Corporate Responsibility review on pages 11 to 15.

### Financial strategy and treasury risk

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

The central treasury function is responsible for managing the Group's liquid resources, funding requirements, and interest rate and currency exposures and the associated risks as set out in note 28 of the Annual Report and Financial Statements 2010. Additional funding was secured through a capital raise in the summer of 2009 to support the business' space expansion plans. The treasury function has clear policies and operating procedures which are regularly reviewed and audited.

### Fraud

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

### Health and safety

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

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

### IT systems and infrastructure

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

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

### Pension risk

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

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

### Product safety

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

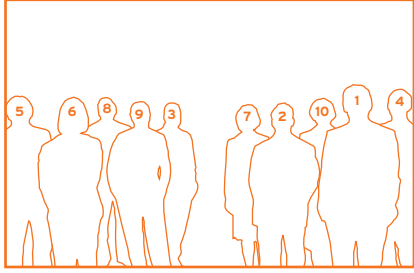
There are stringent controls in place to ensure product safety and integrity. Food hygiene practices are taken very seriously and are monitored regularly to ensure compliance with standards. All aspects of product safety are governed through a Product Safety Committee. All suppliers are expected to conform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

### Regulatory environment

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

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

# J Sainsbury plc: Board of Directors



## Lord Sainsbury of Preston Candover KG Life President

### Key to Committee Members

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

### 1. David Tyler \* Chairman

David joined the Board on 1 October 2009 and 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 Group 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 (2007-09) and a Non-Executive Director of Reckitt Benckiser Group plc over the same period. Age 57.

### 2. Justin King ♥ Chief Executive

Appointed Chief Executive Officer on 29 March 2004 and is also Chairman of the Operating Board. He has been a Non-Executive Director of Staples, Inc. since September 2007 and was appointed to the board of the London Organising Committee of the Olympic Games and Paralympic Games in January 2009. He was formerly Director of Food at Marks & Spencer plc and from 1994 to 2001 he held a number of senior positions at ASDA/WalMart in Trading, HR and Retail. Justin was previously Managing Director of Häagen Dazs UK and spent much of his early career with Mars Confectionery and Pepsi International. Age 48.



### 3. Darren Shapland Chief Financial Officer

Appointed Chief Financial Officer on 1 August 2005 and is also Chairman of Sainsbury's Bank plc. Darren was appointed a Non-Executive Director of Ladbrokes plc in November 2009. He was formerly Group Finance Director of Carpetright plc (2002-05) and Finance Director of Superdrug Stores plc (2000-02). Between 1988 and 2000, Darren held a number of financial and operational management roles at Arcadia plc including Joint Managing Director, Arcadia Home Shopping; Finance Director of Arcadia brands; Finance Director, Top Shop/Top Man (Burton Group); and Director of Supply Chain Programme (Burton Group). Age 43.

### 4. Mike Coupe Trading Director

Appointed an Executive Director on 1 August 2007 and has been a member of the Operating Board since October 2004. He joined Sainsbury's from Big Food Group where he was a Board Director of Big Food Group plc and Managing Director of Iceland Food Stores. Mike previously worked for both ASDA and Tesco, where he served in a variety of senior management roles. He is also a member of the supervisory board of GSI UK. Age 49.



**5. John McAdam ●\***  
**Senior Independent Director**

Appointed a Non-Executive Director on 1 September 2005. He is Chairman of Rentokil Initial plc and United Utilities plc. He is also a Non-Executive Director of Rolls-Royce Group plc and Sara Lee Corporation. John joined Unilever 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 62.

**6. Anna Ford ◆\*♥**  
**Non-Executive Director**

Appointed a Non-Executive Director on 2 May 2006. She retired from the BBC in 2006, after 32 years in News and Current Affairs. Anna is a Non-Executive Director of N Brown Group plc and has been a Trustee of the Royal Botanical Gardens in Kew, London; a Fellow of the Royal Geographical Society; a Trustee of Forum for the Future; Chancellor of Manchester University; and an Honorary Bencher of Middle Temple. Age 66.

**10. Val Gooding ◆\***  
**Non-Executive Director**

Appointed a Non-Executive Director on 11 January 2007. She was formerly Chief Executive of BUPA (1998-2008), which she joined from British Airways, and is a Non-Executive Director of Standard Chartered Bank plc. Val is a member of the BBC's Executive Board and the Advisory Board of the Warwick Business School. She is a Trustee of the British Museum and a Non-Executive Director of the Lawn Tennis Association. She was formerly a Non-Executive Director of Compass Group plc and BAA plc. Age 59.

**9. Gary Hughes ●\***  
**Non-Executive Director**

Appointed a Non-Executive Director on 1 January 2005. Gary is Chief Financial Officer of the Gala Coral Group and a Director of the Scottish Exhibition Centre Limited. Formerly he was 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 48.

**8. Bob Stack ◆\***  
**Non-Executive Director**

Appointed a Non-Executive Director on 1 January 2005. He was a Director of Cadbury plc until December 2008. He joined Cadbury Beverages in the US in 1990 and was first appointed to the Board of Cadbury Schweppes plc in May 1996 as Group Human Resources Director. In March 2000 he was appointed Chief Human Resources Officer and took on responsibility for communication and external affairs in addition to HR. Bob is Trustee and Non-Executive Director of Earthwatch International and also a Non-Executive Director and Chairman of the Remuneration Committee of IMI plc. Age 59.

**7. Mary Harris ●\*♥**  
**Non-Executive Director**

Appointed a Non-Executive Director on 1 August 2007. She is a member of the supervisory boards of TNT NV and Unibail-Rodamco S.E. Mary previously spent much of her career with McKinsey & Company, most recently as a partner, and her previous work experience included working for PepsiCo in Greece and the UK as a sales and marketing executive. Age 44.

# The Operating Board



**Justin King (1)**  
See page 24

**Darren Shapland (2)**  
See page 24

**Mike Coupe (3)**  
See page 24

**Tim Fallowfield (4)**  
**Company Secretary**

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

**Luke Jensen (5)**  
**Managing Director Non-Food**

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. In this role he is responsible for driving the profitable growth of Sainsbury's in General Merchandise, Clothing and Entertainment and for the development of the Company's Far East direct sourcing operation, Sainsbury's Asia. 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) (2002-03).

**Rob Fraser (6)**  
**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 plc.

**John Rogers (7)**  
**Property Director**

John joined Sainsbury's in March 2005 as Director of Corporate Finance before becoming Director of Group Finance (2007-08). He became Property Director and was appointed to the Operating Board in June 2008. Prior to Sainsbury's, John was Group Finance Director for Hanover Acceptances, a diversified corporation with wholly owned subsidiaries in the food manufacturing, real-estate and agri-business sectors. Previous roles include Senior Manager at Monitor Company and Manager at Arthur Andersen.

**Gwyn Burr (8)**  
**Customer Director**

Joined the Operating Board in 2004 and became a Director of Sainsbury's Bank plc in 2007. Gwyn is responsible for Marketing, Own-Brand and Customer Service. She has over 20 years' business experience, including five with Nestle Rowntree and over 13 with ASDA/WalMart where she held various board level positions. Before joining Sainsbury's, Gwyn founded her own marketing consultancy, The Resultant Team. She is currently chair of the Business in the Community, Cause Related Marketing Leadership team.

**Roger Burnley (9)**  
**Retail and Logistics Director**

Appointed to the Operating Board in March 2006 as Supply Chain Director and in April 2008 he assumed the role of Retail and Logistics Director. Roger was previously Supply Chain Director at Matalan. He spent his early career in retail management and buying at B&Q before joining ASDA/WalMart, where he held a number of positions before becoming their Supply Chain Director in 2001.

**Imelda Walsh (10)**  
**HR Director**

HR Director since October 2001. Appointed to the Operating Board when formed in May 2004. Before this she was a member of the Board of Sainsbury's Supermarkets Ltd from March 2003. Imelda was appointed a Director of Sainsbury's Bank plc in February 2007. Prior to joining Sainsbury's, she worked for Barclays Retail Financial Services, Coca-Cola and Schweppes Beverages. Author of the Flexible Working Review, published May 2008, which recommended how to extend the right to request flexible working to parents of older children.

**Neil Sachdev (11)**  
**Commercial Director**

Joined Sainsbury's in March 2007 as Commercial Director following 28 years at Tesco, where he worked in a range of different business areas including: Stores Board Director UK Property/Operations (2000-06); Supply Chain Director (1999-2000); Director, Competition Commission (1998-99); Support Director (February 1998-September 1998); and Retail Director (1994-98). Neil is Non-Executive Director and a member of the Audit and Remuneration Committees of Capital Shopping Centres Group PLC.

# Directors' report

The Directors present their report and audited financial statements for the 52 weeks to 20 March 2010.

## Principal activities

The Company's principal activities are grocery, related retailing and financial services.

## Business review

The Business Review sets out a comprehensive review of the development and performance of the business for the 52 weeks ended 20 March 2010 and future developments. The Business Review is set out on pages 1 to 23 of this report. All the information detailed in these pages is incorporated by reference into this report and is deemed to form part of this report.

## Corporate governance statement

The corporate governance statement as required by the Disclosure and Transparency Rules 7.2.1 is set out on pages 29 to 32 and is incorporated by reference into this report.

## Dividends

The Directors recommend the payment of a final dividend of 10.2 pence per share (2009: 9.6 pence), making a total dividend for the year of 14.2 pence per share (2009: 13.2 pence), an increase of 7.6 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting ("AGM"), the dividend will be paid on 16 July 2010 to shareholders on the register at the close of business on 21 May 2010.

## Changes to the Board

David Tyler was appointed a Director of the Company on 1 October 2009 and became Chairman on 1 November 2009 following the resignation of Philip Hampton.

## Re-election of Directors

In accordance with the Articles of Association, David Tyler, who was appointed to the Board since the last AGM, will retire and seek election at the AGM. Val Gooding and Justin King will also retire by rotation and seek re-election. Full biographical details of all of the current Directors are set out on pages 24 and 25.

## Annual General Meeting

The AGM will be held on Wednesday, 14 July 2010 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am. The Chairman's letter and the Notice of Meeting accompany this report, together with notes explaining the business to be transacted at the meeting.

At the meeting, resolutions will be proposed to declare a final dividend, to receive the Annual Report and Financial Statements and approve the Remuneration Report, to elect Directors and to re-appoint PricewaterhouseCoopers LLP as auditors. In addition, shareholders will be asked to renew both the general authority of the Directors to issue shares and to authorise the Directors to issue shares without applying the statutory pre-emption rights. Following the placing of new shares and offering of convertible bonds by the Company in 2009, the authority to issue shares without applying the statutory pre-emption rights will be limited to 2.5 per cent of the total issued ordinary share capital of the Company in order 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. No such purchase has been made during the last financial year. Shareholders will also be asked to renew the Directors' authority to operate the J Sainsbury All Employee Share Ownership Plan for a further ten years, adopt new Articles of Association to reflect changes introduced by the Companies (Shareholders' Rights) Regulations in August 2009 and 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 on the rights, restrictions and obligations attaching to the share capital of the Company, including voting rights, are contained in the Company's Articles of Association. The Articles of Association may only be changed with the agreement of shareholders.

Shares acquired through the Company's employee share 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 2009, 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 75. At the date of this report, 1,861,173,065 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.

On 17 June 2009, the Company announced plans to raise additional capital via a placing of new shares and an offering of convertible bonds. Both parts were successfully received by the market raising £432 million in total. A total of 78,111,544 new ordinary shares were placed at a price of 310 pence per share, raising gross proceeds of approximately £242 million. The new ordinary shares that were issued represented approximately 4.4 per cent of Sainsbury's issued ordinary share capital prior to the placing. The convertible bond offering raised £190 million and the bonds may be converted into ordinary shares at the option of the holder by the fifth anniversary of their issue in 2014 at an initial conversion price of 418.50 pence per ordinary share. The proceeds of the capital raising will be used to accelerate Sainsbury's growth strategy.

## Major interests in shares

As at 12 May 2010, 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)	4.09
Legal and General Group plc	3.99
Lord Sainsbury of Turville*	5.85
Qatar Holdings LLC	25.99

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

### Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown in the Remuneration Report on page 42. 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 2009/10, which has been renewed for 2010/11. 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 64 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 has a strong record in its commitment to corporate responsibility, which is an everyday part of how the Company does business. Details of the Company's principal corporate responsibility initiatives and activities are set out on pages 11 to 15. The Company's Corporate Responsibility Report, which will be published in June 2010 ([www.j-sainsbury.co.uk/crreport2010](http://www.j-sainsbury.co.uk/crreport2010)), provides a comprehensive statement on corporate responsibility and describes the Company's policies and activities in relation to its five corporate responsibility principles; Best for Food and Health, Sourcing with Integrity, Respect for Our Environment, Making a Positive Difference to Our Community and A Great Place to Work.

As part of 'A Great Place to Work' the Company has well-developed policies for fair and equal treatment of all colleagues, employment of disadvantaged persons and colleague participation. It is our policy that people with disabilities be given full and fair consideration for all vacancies. For those colleagues who become disabled during their employment, we endeavour to adjust their working environment, where possible, allowing them to maximise their potential whilst remaining with the Company.

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

The Company's quarterly, interim and annual results are presented to all senior management and are communicated to all colleagues. Colleagues have always been encouraged to hold shares in the Company.

### Donations

Sainsbury's is committed to making a positive difference to the communities in which we operate. 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 £15.7 million (2009: £17.4 million) for charities through events supported by the Company, including Sport Relief. Cash and in-kind donations totalled £1.9 million (2009: £5.7 million). The amount of in-kind donations, principally food donations to Fareshare, reduced this year but we remain Fareshare's largest corporate partner.

The Company made no political donations in 2010 (2009: £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 81 to 85 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 23. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 16 to 21. The Group manages its financing by diversifying funding sources, configuring core borrowings with long-term maturities and maintaining sufficient standby liquidity. Full details of the Group's financing arrangements can be found in note 20 on pages 70 and 71 to the financial statements. In addition, notes 28 and 29 on pages 81 to 90 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 2018.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current challenging economic outlook. The Directors 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 45 to 102.

### 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, 12 May 2010



# Statement of corporate governance

## Compliance

The following sections explain how the Company applies the main principles of Section 1 of the UK Combined Code on Corporate Governance June 2008 (the "Code"). The Board is committed to strong governance practices and, during the year, the Company has complied with all the provisions of the Code.

## The Board

The Board has been chaired by David Tyler since 1 November 2009 following the resignation of Philip Hampton. It consists of three Executive Directors and six Non-Executive Directors in addition to the Chairman. Dr John McAdam is the Senior Independent Director. The Directors' biographical details are set out on pages 24 and 25.

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

## The Chairman

David Tyler joined the Board as a Non-Executive Director on 1 October 2009 and assumed the role of Chairman on 1 November 2009. The Nomination Committee led the recruitment process as described in more detail below. His biographical details are set out on page 24 and establish his broad range of experience that makes him ideal for the chairman role. At the time of his appointment he confirmed his independence and also that he had sufficient time to meet his responsibilities to the Company, particularly as he had just stood down as a non-executive director of Reckitt Benckiser Group plc. Since his appointment he has had an extensive induction process, including meetings with key investors.

## 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. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors. 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/Non-Executive Directors

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

The Chairman satisfied the independence criteria of the Code on his appointment and all the Non-Executive Directors are considered to be independent according to the provisions of the Code. 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.

The Companies Act 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 fulfill 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 Board's role

The Board has a number of key responsibilities and formally reserved powers. It regularly considers strategic issues, key projects and major investments and monitors performance against delivery of the agreed key targets. It approves the corporate plan and the annual budget. Its objective is to create maximum value for shareholders over the long term.

During the year the Board received updates on the investor relations programme and feedback from major shareholders. It reviewed the funding of the Group's pension plans and broader pension matters. The Board fully considered and approved the placing of new shares and the offering of convertible bonds which successfully raised £432 million to accelerate Sainsbury's growth strategy (see page 27 of the Directors' Report and notes 20 on page 70 and 23 on page 75 to the financial statements for more information relating to the capital raising and the Company's share capital structure).

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. It also receives an annual update on health and safety and product safety, and relevant controls and governance, and any specific issues on these and other matters which might affect the Company's reputation are reported to the Board as they occur.

The Board delegates certain responsibilities to its principal 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 has responsibility for evaluating the balance of the Board and for succession planning at Board level. During the year the Nomination Committee led the process to appoint a new chairman. 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 overleaf.

**Attendance**

The table shows the attendance of Directors at scheduled Board and Committee meetings. The Board scheduled eight meetings during the year 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
Mike Coupe	8(8)	–	–	–	–
Anna Ford	8(8)	–	2(2)	5(5)	4(4)
Val Gooding	7(8)	–	–	5(5)	4(4)
Philip Hampton	5(5)	–	–	5(5)	–
Mary Harris	8(8)	4(4)	2(2)	5(5)	–
Gary Hughes	8(8)	3(4)	–	5(5)	–
Justin King	8(8)	–	2(2)	–	–
John McAdam	8(8)	4(4)	–	5(5)	–
Darren Shapland	8(8)	–	–	–	–
Bob Stack	8(8)	–	–	5(5)	4(4)
David Tyler	3(3)	–	–	–	–

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

**Information and development**

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

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

During the year the Board held a Board meeting at the Northampton Depot and visited nearby sites related to Sainsbury's 'No Waste to Landfill' environmental initiatives. In addition, 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 this year's evaluation exercise should be conducted by Tim Fallowfield, the Company Secretary. Having agreed the key objectives with the Chairman, he prepared a detailed questionnaire for the Directors which followed the format of last year's exercise in order to track year-on-year responses, and included additional questions relating to specific areas of focus. He then met

with each Director separately for in-depth discussions about the Board's role and structure, contribution to strategic planning and risk management, Board process and dynamics, and any emerging issues. The performance of the Board Committees was also reviewed. Some members of senior management were asked for their views. He then presented the findings to the Board for discussion, identifying what was working well and areas which could be improved or approached differently. The Board concluded that it was working effectively.

The action plan from the 2009 review had been implemented and the Board was satisfied with the progress that it had made during the year. An action plan was agreed to address the themes which emerged from this year's exercise; these included new Board processes, aspects of Board succession, and engagement with the wider management team and other parts of the business.

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

**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 26. 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 Product Safety and Health and Safety Committees and the Corporate Responsibility Steering Group, each of which has approved terms of reference setting out their areas of responsibility.

**Board Committees**

The Board has delegated certain responsibilities to the Nomination, Remuneration, Corporate Responsibility and Audit Committees. The Chairman of each Committee provides an in-depth report of each meeting of the respective Committee to the Board at the following Board meeting.

**Nomination Committee**

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

During the year the Committee led the recruitment process for a new chairman after Philip Hampton informed the Board that, having completed five years as Chairman, he would be stepping down from the Board. This process was led by John McAdam, the Senior Independent Director. Search consultants, Egon Zehnder International, were instructed by the Committee in connection with this process. The Committee considered the skills, knowledge, background and experience required for the role, and a job specification was prepared. The Committee specified the time commitment expected of the role. Following an extensive search, the Committee recommended to the Board that David Tyler be appointed as Chairman. He was appointed to the Board on 1 October 2009 and became Chairman from 1 November.

The Committee holds one meeting each year where it reviews succession planning and senior management development. 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 when necessary and in 2009/10 met on five occasions.

**Remuneration Committee**

The Committee is chaired by Bob Stack, with Anna Ford and Val Gooding as its other members. The Remuneration Report is set out on pages 33 to 42.

### Corporate Responsibility Committee

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

The Corporate Responsibility 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. Other members include:

- Best for Food and Health – Gwyn Burr, Customer Director
- Sourcing with Integrity – Mike Coupe, Trading Director
- Respect for our Environment – Neil Sachdev, Commercial Director
- Making a Positive Difference to our Community – Roger Burnley, Retail and Logistics Director
- A Great Place to Work – Imelda Walsh, Human Resources Director.

A summary of the Company's corporate responsibility priorities and activities is set out on pages 11 to 15. This year's Corporate Responsibility report will be published in June 2010.

### Audit Committee

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

During the year the Committee met on four occasions, the agendas being organised around the Company's reporting cycle. It monitored the integrity of the financial statements and any formal announcements relating to the Company's financial performance and reviewed any significant financial judgements contained in them. The Committee has also reviewed the effectiveness of the Company's financial controls and the systems of internal control and risk management. Where any weaknesses were identified, the detailed actions for resolution are closely monitored through to completion. The Committee regularly meets with the external auditors without management being present.

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 giving the going concern statement set out on page 28.

The Committee reviewed PricewaterhouseCoopers LLP's ("PwC") overall work plan and approved their remuneration and terms of engagement and considered in detail the results of the audit, PwC's performance and independence and the effectiveness of the overall audit process. The Committee recommended PwC's re-appointment as auditors to the Board and this resolution will be put to shareholders at the AGM. PwC have been the Company's auditors since 1995. The external auditors are required to rotate the audit partner responsible for the Group and subsidiary audits every five years. The current audit partner, who has now completed five audits, therefore ceases to be responsible for the Sainsbury's audit following the AGM. PwC have identified a successor partner who has relevant industry and FTSE100 company experience and who has been interviewed by the Chairman, Chairman of the Audit Committee, the Chief Executive and the Chief Financial Officer. He is undertaking a programme of induction meetings during the Spring and Summer of 2010.

The Committee has implemented the Company's policy which restricts the engagement of PwC in relation to non-audit services. This 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, and others (such as mergers and acquisitions advice) that can only be undertaken with appropriate authority from the Committee Chairman or the Committee, should fees exceed pre-set thresholds. 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 Committee receives a report at each meeting on the non-audit services being provided and the cumulative total of non-audit fees. In the event that cumulative non-audit fees exceed the audit fee then all subsequent non-audit expenditure must be approved by the Committee Chairman. The majority of the non-audit work undertaken during 2009/10 related to the 2009 pension funding valuation. The non-audit fees for the year were £0.5 million, and the audit fee for the year in respect of the Group, Company and its subsidiaries and the fee for the interim review totalled £0.8 million.

The Committee has regularly reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of its recommendations. Karen Whitworth has direct access to all members of the Committee including the Committee Chairman and David Tyler. She has regular meetings with all Committee members.

The Committee reviewed the Company's 'whistleblowing' procedures to 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.

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 an update at each meeting on all material frauds.

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.

In February 2010 a new Grocery Supply Code of Practice ("GSCOP") became effective 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 Group Internal Audit as its Code Compliance Officer. Sainsbury's has taken the necessary steps to prepare for the implementation of the GSCOP, including a comprehensive training programme for relevant colleagues. The Audit Committee reviewed the Company's preparations for implementation, and has certain reporting obligations to fulfil in the future under GSCOP.

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

### Internal control

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

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

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

### Risk management

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

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

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

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

The Operating Board reviews and challenges the output from the divisional risk process and updates the overall Company risk register if deemed necessary. Internal Audit provides independent assurance as to the existence and effectiveness of the risk management activities described by management.

### Investor relations

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

The Company regularly meets with its large investors and institutional shareholders who, along with 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.

The Board regularly receives feedback on the views of major investors and the Investor Relations programme. In addition, Makinson Cowell provide investor relations consultancy services to the Company and give an external analysis to the Board on the views of institutional investors and 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 14 July 2010. 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 104 to 106 and on the Company's website ([www.j-sainsbury.co.uk/investors](http://www.j-sainsbury.co.uk/investors)).

# Remuneration report

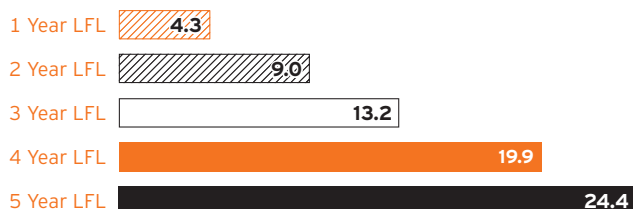
This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report sets out the remuneration policy, while the second part details the remuneration, pensions and share plan interests of the Directors for the 52 weeks to 20 March 2010. The Directors confirm 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 14 July 2010 asking them to approve this report.

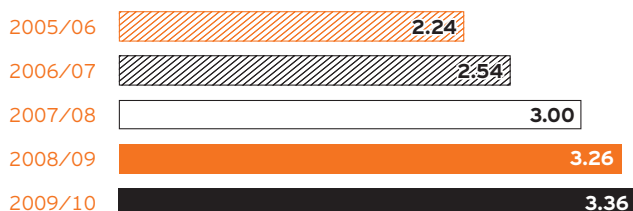
## Dear Shareholder,

Despite another year of challenging market conditions, Sainsbury's has delivered continued strong performance against its targets in 2009/10. The retail sector continues to be one of the most fast-moving and highly competitive in the UK. However, Sainsbury's stable and experienced leadership team has consistently achieved growth since 2005. The tables below demonstrate the level of achievement in sales, underlying operating margin and underlying profit before tax over the last five years.

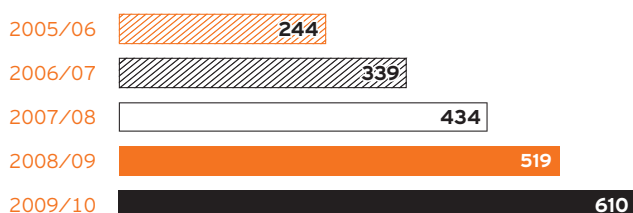
### Like-for-like sales (%)



### Underlying operating margin (%)



### Underlying profit before tax (£m)



Building on this context, I would like to share with you some highlights of the remuneration policy and practice for the last year.

- Despite this strong business performance, the Committee has been mindful of the current economic climate when reviewing salaries for 2010/11. No salary increase has been awarded to the Executive Directors and salary changes have been kept at modest levels elsewhere in Sainsbury's.

- There has been strong performance against Sainsbury's bonus targets for 2009/10. Not only has there been strong growth in underlying profit before tax, but colleagues have worked hard to deliver record levels of customer service and product availability. This has led to the highest bonus pool ever - over £80 million - being earned this year by around 127,000 colleagues. In respect of the Executive Directors, their awards were 96.5 per cent of the maximum bonus opportunity, reflecting the Company's excellent business results. A new bonus payment timetable was trialled in order to make awards closer to the end of the performance period in which they were earned. We are intending to continue with this approach for 2010/11.
- Through the Deferred Share Award, Sainsbury's has continued to ensure a strong link exists between its incentive framework and its five core areas of focus. The Company has performed well against the basket of measures set at the start of the year. The majority of these objectives have been met or outperformed, laying the foundation for strong, sustainable growth and long-term shareholder value. The awards that have been made reflect this performance.
- The Making Sainsbury's Great Again Share Plan ("MSGA") came to a close at the end of 2008/09, following the full achievement of its stretching sales and earnings per share performance conditions. The final set of shares to vest was available for exercise in May 2009.
- The first cycle of the Value Builder Share Plan, which was launched in 2006/07, achieved a good level of performance against its targets, vesting at 92.5 per cent of its maximum opportunity. One half of the shares to vest became exercisable in May 2009 and the remaining shares were exercisable in March 2010.
- During the year, a number of participants took the opportunity to exercise vested nil-cost options to acquire further shares in the Company; these had been earned through the MSGA and Value Builder Share Plans. This principle of share ownership is further reinforced through the use of deferred shares. The Executive Directors continue to have a high level of shareholding, which provides close alignment with shareholders' interests.

The Company is now moving into a key phase of its growth strategy and the next three years will be critical to its delivery. The Committee has set incentive plan levels for 2010/11 with this context in mind, carefully considering the degree of performance that will be required and the need to secure the existing, high performing leadership team. The Committee will increase the Executive Directors' Value Builder core awards for 2010/11 but, in return, they will now be expected to hold and maintain a higher level of the Company's shares. The market for executive talent in the food retail sector is intensely competitive, and the Committee will need to remain cognisant of this commercial reality in the coming years.

In addition, we have reviewed the policy in relation to the termination provisions for new Executive Directors' appointments and will bring these arrangements in line with current best practice guidelines.

There will be no other material changes to our remuneration policy, framework, incentive plan design or performance measures for 2010/11.

We are committed to good corporate governance and building on the existing strong relationships we have with our shareholders and institutional investors. For a number of years we have looked to explain the rationale behind our pay practices, and we have further expanded this year's Remuneration Report with this objective in mind.

**Bob Stack**  
Chairman, Remuneration Committee

### Remuneration Committee

The Remuneration Committee comprises Bob Stack (Remuneration Committee Chairman), Anna Ford and Val Gooding, all of whom are independent Non-Executive Directors. The Committee met four times in 2009/10.

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

Philip Hampton attended all Committee meetings held during the year until he left the Company on 31 October 2009.

The responsibilities of the Committee include:

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

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

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was supported by its appointed advisers, Deloitte LLP ("Deloitte"), whose consultants attended all Committee meetings. Deloitte provided the Company with unrelated advice and consultancy regarding information systems strategy and development, retirement benefit planning, grocery online strategy and across a range of direct and indirect taxation areas.

Towers Watson provided comparative data which was considered by the Committee in setting remuneration levels. Total Shareholder Return ("TSR") calculations are supplied by UBS, who provided broking and banking services to the Company during the year.

### Remuneration Policy

The Committee 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 long-term shareholder value. Therefore, the Company's current arrangements incorporate performance metrics which are directly linked 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 data that takes into account the remuneration of similar executive roles in similar companies, in addition to the individual's experience, potential, performance, job size and scope. 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. No incentive plan awards are 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, stakeholders (including shareholders, governance bodies and employees), share dilution, best practice corporate governance and market competitiveness, particularly within the retail sector.

### Components of remuneration

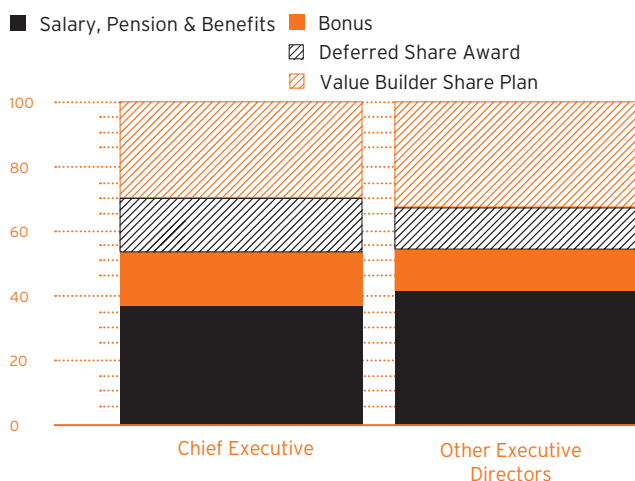
At the end of 2008/09, the Committee undertook a review to assess the effectiveness of the Company's Remuneration Policy. This review highlighted that a restructure of the incentive plan framework was necessary to create a stronger link to the five areas of focus. While the changes did not require formal shareholder approval, the views of the Company's main investors and governance bodies were sought prior to implementation. Details of these changes were disclosed in the 2008/09 report.

The main remuneration components for the Executive Directors and Operating Board Directors comprise basic salary, incentive plans, pensions and benefits. The balance between the fixed (basic salary and pension) and variable (annual bonus, Deferred Share Award and Value Builder Share Plan) elements of remuneration changes with performance, and the variable proportion of total remuneration increases significantly for increased 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.

The following diagram shows the balance between the fixed and variable remuneration components for 2010/11. The analysis assumes that target performance is achieved and it indicates that around 60 per cent of the package is variable.

**Fixed vs Variable Remuneration (%)**



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

**i) Fixed remuneration**

**Basic salary**

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

The Committee reviewed the salaries of Justin King, Darren Shapland and Mike Coupe in March 2010 and determined that they should remain unchanged. This decision reflected a number of considerations including the external pay and inflation climate in the UK, and the range of awards made to management and non-management central colleagues.

**Pensions**

The Company's Defined Benefit Pension Plan was closed to new members on 31 January 2002 and Justin King, Darren Shapland and Mike Coupe do not participate in it. In lieu of pension plan participation for 2009/10, Justin King received a pension supplement of 30 per cent of salary. Darren Shapland and Mike Coupe each received pension supplements of 25 per cent of salary.

**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 2009/10, Board and management plans retained the same key metrics based on profit and sales growth, product availability, 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, product availability and the achievement of individual objectives.

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

The maximum cash bonus that could have been earned for 2009/10 was 125 per cent of salary in respect of Justin King and 80 per cent of salary in respect of both Darren Shapland and Mike Coupe.

In determining bonus payments for 2009/10, the Committee took into account performance against each of the plan's measures in addition to individual objectives. 2009/10 was another strong year financially for the Company: the profit target was exceeded, sales grew well in a challenging climate, and availability in stores improved. As a result, bonuses of 96.5 per cent of the maximum opportunity were awarded to the Executive Directors in respect of 2009/10.

The 2009/10 bonus plan for store colleagues was based on the achievement of a corporate sales target as well as availability and customer service targets measured in their individual stores. No bonus awards are paid unless a threshold level of corporate profit is met. As a result of strong store and corporate performance in 2009/10, including record levels of customer service and availability, around 127,000 colleagues earned awards from a bonus pool totalling over £80 million. This bonus pool is the highest ever; in 2008/09 a bonus pool of around £60 million was shared by around 120,000 colleagues.

For 2010/11, the bonus measures will remain unchanged and the targets will be set at a level to incentivise stretching year-on-year growth.

**Deferred Share Award**

Following the remuneration review, the Deferred Share Award ("DSA") was introduced to replace the Deferred Annual Bonus Plan at the start of 2009/10. This incentive arrangement targets a diverse range of business critical financial and non-financial scorecard measures. These are intended to reward Directors for driving 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 will be made to participants subject to performance against a basket of key strategic measures which will be aligned under four broad categories:

1. financial performance
2. returns to shareholders
3. relative performance against peers
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 will be 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 for 2009/10, the Committee gave careful consideration to the selection of its performance measures and targets, as well as to the robustness of the plan design. During the year, the Committee also conducted an interim appraisal to gauge the progress of performance and the plan's effectiveness based on half year results.

The Company has performed strongly in 2009/10, 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 17.5 per cent year-on-year to £610 million. Despite the dilutive effect of the 78.1 million shares issued as part of the capital raise in June 2009, earnings per share increased by 12.7 per cent to 23.9 pence. Profit before tax increased by 57.3 per cent to £733 million, supported by the surplus on the revaluation of properties within joint ventures.

#### Return to Shareholders

- Underpinning performance in the year was a 5.1 per cent rise in like-for-like sales (including VAT). This is the fifth consecutive year of growth and it has enabled the Company to maintain a good level of shareholder returns. The recommended full year dividend of 14.2p is 7.6 per cent higher than last year. TSR was assessed on both a relative and absolute basis over one, three and five-year periods.

#### Relative Performance

- The Company has a 16.1 per cent market share in the UK, up by 0.2 per cent on last year, and therefore sales grew ahead of the market. Customer transactions are now averaging over 19 million a week - an increase of one million year-on-year. This demonstrates the Company's universal appeal, which has been driven during the year through a competitive pricing strategy, high profile marketing campaigns such as 'Switch & Save' and 'Feed your Family for a Fiver', and an increased range of non-food products. The Company received recognition for the outstanding quality of its offer by being voted 'Supermarket of the Year' at the Retail Industry Awards.

#### Strategic Goals

The Company's strategy centres around five areas of focus. These areas are underpinned by Sainsbury's strong heritage and brand which consistently set it apart from major competitors. Further details on the corporate objectives are contained on the inside front cover.

- The Company won more Quality Food Awards than any other retailer in the year, including seven wins from 15 categories for Value products. It has also been recognised as the world's largest retailer of Fairtrade by value. During the year, two key food ranges were relaunched: 'Freefrom' and 'Be Good to Yourself', while a significant number of lines were added to the 'Basics' range.
- The Company has developed both its food and complementary non-food ranges, with non-food growing at a rate three times that of food. In particular, TU clothing has continued to be the star performer; the childrenswear range is now ranked seventh largest in the UK market by volume. Sainsbury's Bank operating profit increased to £19 million, with the Bank performing strongly in the context of the broader economic environment.
- A total of 51 Sainsbury's Convenience stores opened during 2009/10. This brings the total Convenience estate to 335 stores

and the Company has plans to open 75 to 100 more in 2010/11. The grocery online business continues to grow rapidly with sales up just under 20 per cent and it now reaches nearly 90 per cent of UK households. During the year, the new non-food online business was successfully launched and now has over 8,000 products available nationally.

- The pace of property activity in the year has accelerated, with over 100 stores either opened or extended, adding over 1.1 million gross sq ft of new space in total, an increase of 6.8 per cent. The Company remains on track to deliver 15 per cent growth in the two years to March 2011. This has enabled the Company to increase its presence in areas in which it was previously under-represented, such as Scotland, Wales and South West England. The Company's largest store in Northern Ireland opened during the year at 70,000 sq ft.
- The market value of the Company's freehold property portfolio has increased to over £9.8 billion. This is an increase of £2.3 billion on last year, including £0.7 billion of property value from investment and development activity. There are now 294 wholly-owned freehold and long leasehold stores, of which 85 per cent have development potential. Two property joint ventures have made good progress during the year and now contain 43 supermarkets in total.

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 2009/10, the plan would pay out at 88 per cent of the maximum level. This translates into a share award of 110 per cent of salary for Justin King and 70 per cent of salary for Darren Shapland and Mike Coupe.

For 2010/11, shares may be awarded with a value of up to 125 per cent of salary for Justin King and 80 per cent of salary for Darren Shapland and Mike Coupe. The Committee has reviewed the DSA's performance framework for 2010/11. The four performance categories and metrics will remain consistent with those agreed for 2009/10.

#### Long-term Incentive Plan 2006 ("Value Builder Share Plan")

The top 1,200 managers in the Company participate in the Value Builder Share Plan, from the Chief Executive to supermarket store managers. Under the plan, a core award of shares in the Company is granted to all participants, calculated as a percentage of their salaries and scaled according to grade. As set out below, dependent upon performance, core awards can grow by up to four times. No awards vest for performance below the threshold levels.

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

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

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



For the purposes of the Value Builder Share Plan, ROCE is calculated on a pre-tax, adjusted basis. It is based on shareholders' proportion of underlying operating profit for the business, including the share of underlying profit arising from joint ventures. The capital employed figure excludes the impact of movements in the IAS 19 pension deficit and the one-off impact of capital spend in the year in which the calculation is made.

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

- The underlying cash operating profit or loss for the business before depreciation and amortisation (with all non-cash IAS 19 pensions accounting entries replaced with the actual cash contributions in respect of future service benefits to the Company's defined benefit pension scheme), less interest and taxes (adjusted to strip out the impact of one-off items) in the final year of the performance period. This reflects the Company's improved ability to generate sustainable cash flows.
- The improvement in normalised working capital over the performance period. This reflects the Company's aggregate contribution to cash from improvements in working capital over the three-year period.

These components are then added and expressed as a per share figure. The improvement in cash flow per share is expressed as a percentage of cash operating profit per share in the base year and is annualised. The working capital element is capped so as not to comprise more than one-third of the cash flow per share figure (the two components being considered on an absolute basis).

Performance is measured at the end of the performance period. Vesting is calculated by applying a performance multiplier to the core award on a sliding scale up to four times. Straight-line vesting will be carried out if performance falls between two points. If the required threshold level of performance has been reached, 50 per cent of the award will be released at the end of year three. Subject to participants remaining in employment for a further year, the balance will then be released. Dividends accrue on the shares that vest in the form of additional shares.

The Committee has 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 measures were tested in May 2009 in respect of the Value Builder Share Plan grant made in 2006/07. A pre-tax, adjusted ROCE of 13.5 per cent was achieved and cash flow per share of 24.7 per cent, which gave rise to a performance multiplier of 3.7 out of a maximum four times.

This performance outcome led to the vesting of 92.5 per cent of the total award for all plan participants, including the Executive Directors. One half of the award became exercisable in May 2009, with the remaining portion being exercisable in March 2010. The number of shares awarded from this grant cycle to Justin King, Darren Shapland and Mike Coupe is set out on page 41.

In preparation for the 2010/11 Value Builder grant, the Committee reviewed the Executive Directors' long-term incentive opportunity, to provide greater alignment with the level of performance that will be required to deliver the next phase of the Company's growth strategy and to secure the existing high-performing team in a highly competitive environment. The Committee considered that shareholders' interests were best served by a combination of some increase to awards and a review of the Executive Directors' shareholding policy (which is set out on page 38). Therefore, it was concluded that for 2010/11, Justin King will be granted a core award of 55 per cent of salary; Darren Shapland and Mike Coupe will be granted a core award of 50 per cent of salary.

The Committee reviewed the performance conditions and the matrix scale and determined that these will remain unchanged for 2010/11, as the targets are equally stretching and ambitious. The detail is set out in the table below.

Pre-tax Adjusted ROCE	Cash flow per share percentage				
	3%	6%	9%	12%	15%
15%	1.5	2.5	3.0	3.5	4.0
14%	1.0	1.5	2.5	3.0	3.5
13%	0.5	1.0	1.5	2.5	3.0
12%	–	0.5	1.0	1.5	2.5
11%	–	–	0.5	1.0	1.5

### iii) Variable remuneration – dormant plans

#### 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. However, following last year's remuneration review, the Committee concluded that while the plan had merits (which were supported by the Committee at the time of its launch), these had been limited by the takeover approaches in relation to the Company in 2007 and by consolidation in the retail sector.

The plan is now dormant, except for the two deferral cycles that have yet to end. The last deferral took place in June 2009 using the bonus awards earned for 2008/09, and no further deferrals will occur.

Under the plan, a percentage of the Executive Directors' earned annual bonuses was deferred into the Company's shares for a period of three years. The compulsory deferral was 25 per cent of bonus for Justin King and 20 per cent of bonus for both Darren Shapland and Mike Coupe. In addition, the Executive Directors could elect to defer a further proportion of their annual bonus providing it did not exceed their compulsory deferral level. For the bonus awards relating to 2008/09, all Executive Directors made the maximum voluntary deferral available under the plan.

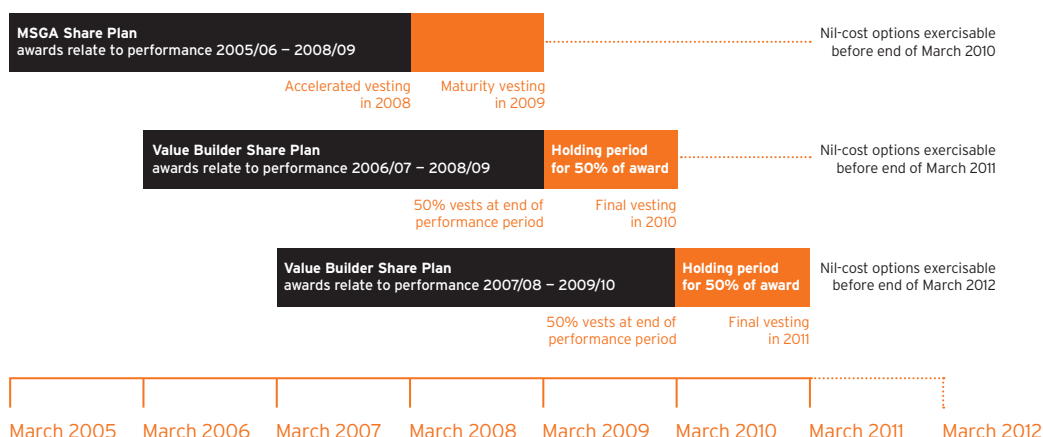
Up to two matched shares can be awarded for each bonus share deferred subject to a relative TSR performance condition, measured over three financial years against a bespoke UK and European retail comparator group, as set out on page 99. No matched shares are awarded for below median performance. Half of the matched shares may be accessed immediately following the end of the three-year performance period while the remainder is held over for a further year. Dividends or their equivalents accrue on the matched shares that vest. There is no performance re-testing.

The TSR performance condition was tested after the year end in respect of the deferral made in 2007, which spanned the three financial years ending on 20 March 2010. The Company's TSR performance was below median in the comparator group, to a large extent reflecting a bid premium in the Company's share price at the start of the measurement period. No matched shares vested and the deferred bonus shares were released to participants shortly following the year end.

#### J Sainsbury plc Share Plan 2005 ("Making Sainsbury's Great Again Share Plan")

The Making Sainsbury's Great Again Share Plan ("MSG") was launched in 2005 following extensive investor consultation. It was a one-off incentive arrangement designed to underpin the Company's recovery plans by incentivising the delivery of challenging sales and profit growth targets over four financial years from 2005/06 to 2008/09. The plan covered the Company's top 1,000 leaders, from the Chief Executive to supermarket store managers. Its performance period ended on 21 March 2009 and therefore, participation in it has now ceased. Details of the plan and its performance conditions are provided in previous Annual Reports.

Recent long-term incentive plan awards



Performance targets

- MSGA:**
- (i) increase sales by £2.5bn
  - (ii) EPS growth exceeding 25% p.a.
- Value Builder:** combination of stretching ROCE and cash flow per share targets

The plan's four-year performance targets were tested in May 2009 covering the period to 21 March 2009. Sales growth of over £2.7 billion and 27.7 per cent growth in earnings per share had been achieved, which exceeded the plan's maximum targets and therefore full vesting occurred. In accordance with the plan's maturity vesting provisions, the second fifty per cent of the maximum award was made available for exercise in May 2009. The first 50 per cent of awards, relating to the accelerated three-year targets, was first exercisable in May 2008.

Vesting of historical awards

Vested share awards are typically delivered to participants in the form of nil-cost options, providing individuals with flexibility as to the point at which they acquire shares. During the past year, a number of executives took the opportunity to exercise these vested nil-cost options. These nil-cost options relate to various performance cycles and incentive plans (MSGA Share Plan and Value Builder Share Plan).

The diagram above summarises recent awards, including the performance periods to which the relevant vested nil-cost options relate.

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 Darren Shapland currently participate in both plans. Mike Coupe participates in 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 2004 (five-year) SAYE reached maturity on 1 March 2010. Around 2,900 colleagues could use their savings and a tax-free bonus to buy Sainsbury's shares at the 217.0 pence option price. The 2006 (three-year) SAYE matured at the same time covering around 6,500 colleagues who could use their savings and a tax-free bonus to buy Sainsbury's shares at the 328.0 pence option price. Using the market price on the date of the first exercise, the value of all the shares subject to the maturity was in excess of £21 million. The Company currently has over 26,000 colleagues participating in the SAYE with over 54,000 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 for one year. We have continued this for a further year. These matching shares must be held for five years to receive all of the relevant tax benefits and will be forfeited if the individual resigns from the Company within the first three years. Justin King and Darren Shapland have each received 115 matching shares during the year.

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. It has conducted a review of these guidelines and has determined that the level of shareholding expected of the Executive Directors will rise with effect from 2010/11, from 1x salary to 2.5x salary for the Chief Executive and from 1x salary to 1.5x salary for the other Executive Directors.

The shareholding guidelines in respect of the Operating Board Directors will remain unchanged at 1x salary. Newly-appointed Directors will have five years from their appointment date in which to build up their shareholding.

The table below sets out the Executive Directors' shareholdings as at the year end on 20 March 2010.

	Shareholding	Valuation <sup>1</sup>	Percentage of salary
Justin King	1,777,764	£5,921,732	658%
Darren Shapland	885,851	£2,950,770	527%
Mike Coupe	743,769	£2,477,495	486%

<sup>1</sup> The valuation is calculated against the closing mid-market share price on 19 March 2010 of 333.1 pence.

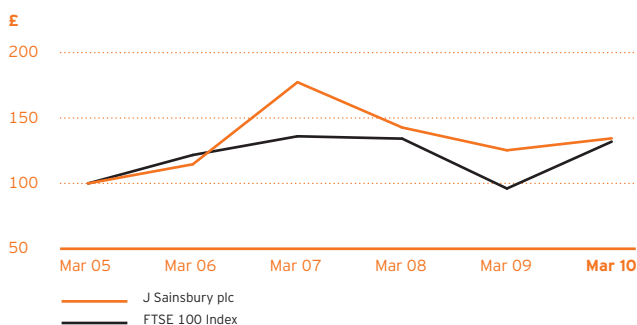
Dilution

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 10 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 20 March 2010, 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, and 4.2 per cent in respect of its executive share plans over a five-year period.

**Performance graph**

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



**Service contracts**

Justin King has a service contract which can be terminated by either party by giving 12 months' written notice. If his service contract is terminated without cause, the Company can request that he works his notice period or takes a period of garden leave, or can pay an amount in lieu of notice equal to one times basic salary for the notice period plus 75 per cent of basic salary in lieu of all other 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 contracts of either Darren Shapland or Mike Coupe are terminated without cause, the maximum payment they would receive would be equal to one times basic salary for the 12-month notice period plus 50 per cent of basic salary in lieu of all other elements of remuneration, except share plans. They are required to mitigate their losses and would receive phased payments, which would be reduced or terminated if they secured alternative employment during the notice period. Their contracts also contain restrictive covenants, which continue for 12 months after termination. The contracts do not contain any specific provisions relating to change of control.

The Committee has agreed that the termination provisions within future Executive Directors' service agreements will state that any severance payments will 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, 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.

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

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

**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 40.

**Chairman**

David Tyler does not have a service contract; his letter of appointment became effective on 1 October 2009 and he became Chairman on 1 November 2009. Subject to shareholder approval at the AGM, he has been 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. 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 reviewed in the year by a sub-committee of the Board, consisting of the Chairman and one or more Executive Directors. They were last increased in March 2007 and, having regard to the market rates, individual time commitment in the Company and the specific responsibilities of each role, the following took effect in September 2009:

Basic fee:	from £50,000 to £55,000
Senior Independent Director fee:	from £10,000 to £15,000
Chairman of Audit Committee fee:	from £10,000 to £15,000
Chairman of Remuneration Committee fee:	from £10,000 to £15,000

The annual fee for chairing the Corporate Responsibility Committee remains unchanged at £10,000.

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

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

## Remuneration report continued

The following section provides details of the remuneration, pension and share plan interests of the Directors for the 52 weeks ended 20 March 2010 and has been audited.

### i) Directors' remuneration

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

	Note	Cash components and benefits				Total cash and benefits 2010 £000	New deferred share award <sup>1</sup> £000	Total <sup>1</sup> 2010 £000	Total 2009 £000
		Salary/fees £000	Bonus <sup>5</sup> £000	Pension supplement <sup>6</sup> £000	Benefits <sup>8</sup> £000				
Justin King	2,9	900	1,085	270	103	<b>2,358</b>	990	<b>3,348</b>	2,048
Mike Coupe		510	394	127	17	<b>1,048</b>	359	<b>1,407</b>	937
Darren Shapland	7,9	560	432	140	16	<b>1,148</b>	394	<b>1,542</b>	967
David Tyler	3	211	-	-	-	<b>211</b>	-	<b>211</b>	-
Anna Ford		62	-	-	-	<b>62</b>	-	<b>62</b>	60
Val Gooding		52	-	-	-	<b>52</b>	-	<b>52</b>	50
Mary Harris		52	-	-	-	<b>52</b>	-	<b>52</b>	50
Gary Hughes		65	-	-	-	<b>65</b>	-	<b>65</b>	60
John McAdam		65	-	-	-	<b>65</b>	-	<b>65</b>	60
Bob Stack		65	-	-	-	<b>65</b>	-	<b>65</b>	60
Philip Hampton	4	243	-	-	1	<b>244</b>	-	<b>244</b>	396
<b>Total 2010</b>		<b>2,785</b>	<b>1,911</b>	<b>537</b>	<b>137</b>	<b>5,370</b>	<b>1,743</b>	<b>7,113</b>	
<b>Total 2009</b>		<b>2,607</b>	<b>1,501</b>	<b>501</b>	<b>79</b>				<b>4,688</b>

<sup>1</sup> The new 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 2012. In previous years, participants were granted matching awards under the Deferred Annual Bonus Plan which were separately disclosed in the tables of share awards (see below). No such grants were made in respect of 2009/10; therefore, the totals for 2009 and 2010 are not directly comparable.

<sup>2</sup> Highest-paid Director.

<sup>3</sup> Appointed to the Board 1 October 2009 and became Chairman on 1 November 2009.

<sup>4</sup> Resigned from the Board 1 November 2009.

<sup>5</sup> Includes performance bonuses earned in the period under review but paid following the end of the financial year.

<sup>6</sup> 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, £450 (2009: £3,000) 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. Darren Shapland was a member of the Executive Stakeholder Pension Plan until 10 August 2008. Contributions to the Stakeholder Plan by the Company in 2008/09 in respect of his membership were £5,650. He received a cash pension supplement equal to 25 per cent of the amount by which his salary exceeded the Company's earnings cap (2008: £117,600) until that date and a supplement of 25 per cent of his basic salary thereafter.

<sup>7</sup> The totals for 2009 in the case of Darren Shapland do not include deductions made from basic salary for Saving Money and Reducing Tax ("SMART") pensions.

<sup>8</sup> Benefits include a combination of cash and non-cash benefits. Non-cash benefits for Darren Shapland and Mike Coupe includes private medical cover. Justin King received non-cash benefits which include company car benefits and private medical cover. Included within benefits for Justin King is a compensatory payment of £64,638 - this compensated him for the dividends he would have received had he not been prevented from exercising certain share options due to share dealing restrictions associated with the capital raising announced on 17 June 2009.

<sup>9</sup> 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 2009/10 (2009: \$75,000). 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 £9,500 during the year for his services which was donated directly to charity. Darren Shapland was appointed a Non-Executive Director of Ladbrokes plc on 18 November 2009 and received £16,600 for his services during 2009/10.

### ii) Long-term incentive plans

#### J Sainsbury plc Share Plan 2005

The table below shows the conditional awards granted under this Plan in 2005.

	Date of grant	Core share award	Personal investment	Share price at date of award pence	Number of options released 13 May 2009 <sup>3</sup>	Number of dividend shares allocated 19 May 2009 <sup>2</sup>
Justin King	24.03.05	237,508	118,754	293.0	831,278	104,564
Darren Shapland	01.08.05	102,558	70,224	280.5	396,843	49,917
Mike Coupe	24.03.05	118,226	73,891	293.0	443,347	55,767

<sup>1</sup> Performance was tested against the performance targets in May 2009 and the awards vested in full.

<sup>2</sup> The five-day average share price from 13 to 19 May 2009 was used to calculate the number of dividend shares to be allocated.

<sup>3</sup> The performance conditions attached to the award were sales and earnings per share targets. Further information see pages 96 and 97.

<sup>4</sup> The J Sainsbury plc Share Plan 2005 is a nil-cost option plan. The exercise price is nil.

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

	Number of options released in the previous year and held on 21 March 2009	Number of options released during the year	Number of options exercised during the year	Mid-market price on date of exercise pence	Gains on option exercises £000	Lapsed during the year	Number of options held 20 March 2010	Exercise price pence
Justin King	898,243	935,842	898,701	322.25	2,896	-	-	nil
			935,384	340.61	3,186	-	-	nil
Darren Shapland	-	446,760	446,760	326.00	1,456	-	-	nil
Mike Coupe	-	499,114	499,114	322.75	1,611	-	-	nil

Justin King retained 943,145 shares from the two exercises above. 890,940 shares were sold and part of the proceeds were used to fund the income tax and National Insurance liabilities. Darren Shapland retained 263,308 shares and Mike Coupe retained 294,165 shares arising out of this release; the remainder was used to fund the income tax and National Insurance charge relating to the release. The share price on the release date was 335.0 pence.

**Long-term Incentive Plan 2006**

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

	Date of grant	Maximum share award <sup>1</sup>	Share price at date of award pence	Number of shares lapsed	Number of dividend shares allocated 19 May 2009 <sup>2</sup>	Number of dividend shares allocated 8 March 2010 <sup>2</sup>	First exercise date	Last exercise date
Justin King	13.07.06	390,424	334.0	29,282	20,535	23,193	–	–
	20.06.07	380,844	583.5	–	–	–	12.05.10	11.05.12
	28.05.08	630,876	352.0	–	–	–	11.05.11	10.05.13
	24.06.09	570,984	314.75	–	–	–	10.05.12	09.05.14
Darren Shapland	13.07.06	188,480	334.0	14,136	9,913	11,196	–	–
	20.06.07	179,220	583.5	–	–	–	12.05.10	11.05.12
	28.05.08	296,916	352.0	–	–	–	11.05.11	10.05.13
	24.06.09	284,224	314.75	–	–	–	10.05.12	09.05.14
Mike Coupe	13.07.06	186,384	334.0	13,979	9,803	11,072	–	–
	20.06.07	163,092	583.5	–	–	–	12.05.10	11.05.12
	28.05.08	281,868	352.0	–	–	–	11.05.11	10.05.13
	24.06.09	258,844	314.75	–	–	–	10.05.12	09.05.14

1 The maximum share award assumes full vesting.

2 The performance conditions attaching to the award are return on capital employed and growth in cash flow per share. Further information is provided on pages 97 and 98. The performance of the award made in July 2006 was tested and a multiplier of 3.7 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 2009 whilst the remainder of the achieved award vested in March 2010. The number of dividend shares on the first vesting was determined by a five-day average share price from 13 to 19 May 2009.

The number of dividend shares on the second vesting was determined by a five-day average share price from 1 to 5 March 2010.

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

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

	Number of options held 21 March 2009	Number of options released during the year	Number of options exercised during the year	Mid-market price on date of exercise pence	Gains on option exercises £000	Lapsed during the year	Number of options held 20 March 2010	Exercise price pence
Justin King	–	201,106	201,106	322.25	648	–	–	nil
	–	203,764	203,764	337.4	687	–	–	nil
Darren Shapland	–	97,085	97,085	326.0	316	–	–	nil
	–	98,368	98,368	337.4	332	–	–	nil
Mike Coupe	–	96,005	96,005	322.75	310	–	–	nil
	–	97,275	97,275	337.4	328	–	–	nil

Justin King retained 203,764 shares from the two exercises above. 201,106 shares were sold and part of the proceeds was used to fund the income tax and National Insurance liabilities. Darren Shapland retained 155,583 shares and Mike Coupe retained 153,854 shares arising out of these exercises; the remainder was used to fund the income tax and National Insurance charge relating to the releases. The share price on the first release date was 335.0 pence. The share price on the second release date was 337.4 pence.

**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	Share price at date of award pence	First exercise date	Last exercise date
Justin King	20.06.07	86,026	172,052	583.5	22.03.10	22.03.12
	20.06.08	158,042	316,084	325.75	21.03.11	21.03.13
	24.06.09	81,319	275,658	314.75	20.03.12	20.03.14
Darren Shapland	20.06.07	29,033	58,066	583.5	22.03.10	22.03.12
	20.06.08	52,043	104,086	325.75	21.03.11	21.03.13
	24.06.09	24,030	81,460	314.75	20.03.12	20.03.14
Mike Coupe	20.06.07	21,294	42,588	583.5	22.03.10	22.03.12
	20.06.08	18,292	36,584	325.75	21.03.11	21.03.13
	24.06.09	23,280	78,920	314.75	20.03.12	20.03.14

1 The maximum matching share award is the maximum award that would become exercisable provided that the Company achieves first position within the comparator group of Ahold, Carrefour, Casino, Delhaize, DSG International, Home Retail Group, Kingfisher, Marks & Spencer, Metro, Morrisons, Next and Tesco. The Company's relative performance is determined by reference to TSR.

2 There were no exercises or lapses under this Plan during the year.

3 The 2007 and 2008 deferred bonus share awards were made on a gross basis. The 2009 deferral was made using net income.

4 Since the year end a number of the shares deferred in June 2007 have been sold to fund the participant's income tax and National Insurance liabilities. The remainder were released to participants.

5 The performance of the awards granted in June 2007 was tested following the year end and no matching shares have been awarded.

6 The exercise price is nil.

**iii) Savings Related Share Option Plan ("SAYE")**

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

	Number of options 21 March 2009	Number of options granted during the year	Number of options exercised during the year	Mid-market price on date of exercise pence	Gains on option exercise £000	Number of options lapsed during the year	Number of options 20 March 2010	Exercise price pence	Date from which exercisable	Date of expiry
Justin King	6,969	-	-	-	-	-	6,969	231.0	01.03.11	31.08.11
Darren Shapland	2,881	-	-	-	-	-	2,881	328.0	01.03.10	31.08.10
		3,324	-	-	-	-	3,324	273.0	01.03.13	31.08.13
Mike Coupe	-	3,324	-	-	-	-	3,324	273.0	01.03.13	31.08.13

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

In the period from 22 March 2009 to 20 March 2010, the highest mid-market price of the Company's shares was 347.8 pence and the lowest mid-market price was 303.3 pence. At 20 March 2010 the Company's share price was 333.1 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>1</sup>		
	21 March 2009	20 March 2010	12 May 2010 <sup>4</sup>
Justin King	548,962	1,777,764	1,742,526
Darren Shapland	422,355	885,851	874,014
Mike Coupe	410,878	743,769	735,024
Anna Ford	1,000	1,000	1,000
Val Gooding	1,320	1,320	1,320
David Tyler <sup>1</sup>	50,000	50,000	50,000
Mary Harris	5,000	5,000	5,000
Gary Hughes	21,510	25,455	25,455
John McAdam	1,000	1,000	1,000
Bob Stack <sup>3</sup>	2,800	2,800	2,800

1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children. They also include the beneficial interests in shares which are held in trust under the Sainsbury's Share Purchase Plan. Shares held by David Tyler at appointment.

2 The totals above for Justin King, Darren Shapland and Mike Coupe include the deferred annual bonus shares were purchased under the Plan, which have to be held until the end of the performance period.

3 Held in the form of 700 American Depository Receipts.

4 Shares deferred in 2007 under the Deferred Annual Bonus Plan were released to participants and a number of shares sold to fund income tax and National Insurance liabilities following the year end. The total includes shares purchased under the Sainsbury's Share Purchase Plan between 20 March 2010 and 11 May 2010.

5 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 6.2 million shares (2009: 9.7 million) held by the Trustees.

Approved by the Board on 12 May 2010

**Bob Stack**

Chairman of the Remuneration Committee

# Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company and Group 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 Company and the Group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and the Group'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 pages 24 and 25 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

# 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 20 March 2010 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 Statement 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 43, the Directors are responsible for the preparation of the Annual Report, the Remuneration report and financial statements. The Directors are responsible for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit 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 opinion, 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 this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## 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.

## 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 20 March 2010 and of the Group's profit and the 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.

## Notes:

- (a) The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 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 28, in relation to going concern; and
- the parts of the Statement of corporate governance relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

## Robert Milburn (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
12 May 2010



# Group income statement

for the 52 weeks to 20 March 2010

	Note	2010 £m	2009 £m
<b>Revenue</b>	4	<b>19,964</b>	18,911
Cost of sales		<b>(18,882)</b>	(17,875)
<b>Gross profit</b>		<b>1,082</b>	1,036
Administrative expenses		<b>(399)</b>	(420)
Other income		<b>27</b>	57
<b>Operating profit</b>	5	<b>710</b>	673
Finance income	6	<b>33</b>	52
Finance costs	6	<b>(148)</b>	(148)
Share of post-tax profit/(loss) from joint ventures	14	<b>138</b>	(111)
<b>Profit before taxation</b>		<b>733</b>	466
Analysed as:			
Underlying profit before tax <sup>1</sup>		<b>610</b>	519
Profit on sale of properties	3	<b>27</b>	57
Investment property fair value movements	3	<b>123</b>	(124)
Financing fair value movements	3	<b>(15)</b>	(10)
IAS 19 pension financing (charge)/credit	3	<b>(24)</b>	24
One-off item: Office of Fair Trading dairy inquiry	3	<b>12</b>	-
		<b>733</b>	466
Income tax expense	8	<b>(148)</b>	(177)
<b>Profit for the financial year</b>		<b>585</b>	289
<b>Earnings per share</b>	9	<b>pence</b>	pence
Basic		<b>32.1</b>	16.6
Diluted		<b>31.6</b>	16.4
Underlying basic <sup>1</sup>		<b>23.9</b>	21.2
Underlying diluted <sup>1</sup>		<b>23.6</b>	20.9

<sup>1</sup> The previous period is restated for the change in the definition of underlying profit before tax as described in note 3.

# Statements of comprehensive income

for the 52 weeks to 20 March 2010

	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Profit for the period</b>		<b>585</b>	289	<b>250</b>	165
<b>Other comprehensive income/(expense):</b>					
Actuarial losses on defined benefit pension schemes	30	(173)	(903)	-	-
Available-for-sale financial assets: fair value movements					
Group		43	(16)	7	(1)
Joint ventures <sup>1</sup>		24	(21)	-	-
Cash flow hedges: effective portion of fair value movements					
Group		(3)	9	-	-
Joint ventures <sup>1</sup>		-	(11)	-	-
Current tax on items recognised directly in other comprehensive income	8	16	-	(1)	-
Deferred tax on items recognised directly in other comprehensive income	8	21	257	-	-
<b>Total other comprehensive income/(expense) for the period (net of tax)</b>		<b>(72)</b>	(685)	<b>6</b>	(1)
<b>Total comprehensive income/(expense) for the period</b>		<b>513</b>	(396)	<b>256</b>	164

<sup>1</sup> For details of the reclassification of certain offsetting foreign exchange gains and losses in the prior period, see note 2.

# Balance sheets

At 20 March 2010 and 21 March 2009

	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Non-current assets</b>					
Property, plant and equipment	11	8,203	7,821	42	42
Intangible assets	12	144	160	-	-
Investments in subsidiaries	13	-	-	7,276	7,262
Investments in joint ventures	14	449	288	91	91
Available-for-sale financial assets	15	150	97	24	7
Other receivables	17	36	45	1,115	1,050
Derivative financial instruments	29	20	31	19	31
Deferred income tax asset	21	-	-	1	1
		<b>9,002</b>	<b>8,442</b>	<b>8,568</b>	<b>8,484</b>
<b>Current assets</b>					
Inventories	16	702	689	-	-
Trade and other receivables	17	215	195	566	380
Derivative financial instruments	29	43	59	32	37
Cash and cash equivalents	26b	837	627	670	460
		<b>1,797</b>	<b>1,570</b>	<b>1,268</b>	<b>877</b>
Non-current assets held for sale	18	56	21	-	-
		<b>1,853</b>	<b>1,591</b>	<b>1,268</b>	<b>877</b>
<b>Total assets</b>		<b>10,855</b>	<b>10,033</b>	<b>9,836</b>	<b>9,361</b>
<b>Current liabilities</b>					
Trade and other payables	19	(2,466)	(2,488)	(4,460)	(3,489)
Borrowings	20	(73)	(154)	(3)	(43)
Derivative financial instruments	29	(41)	(56)	(40)	(49)
Taxes payable		(200)	(202)	(7)	111
Provisions	22	(13)	(19)	(1)	(1)
		<b>(2,793)</b>	<b>(2,919)</b>	<b>(4,511)</b>	<b>(3,471)</b>
<b>Net current liabilities</b>		<b>(940)</b>	<b>(1,328)</b>	<b>(3,243)</b>	<b>(2,594)</b>
<b>Non-current liabilities</b>					
Other payables	19	(106)	(92)	(821)	(2,037)
Borrowings	20	(2,357)	(2,177)	(323)	-
Derivative financial instruments	29	(2)	(8)	-	-
Deferred income tax liability	21	(144)	(95)	-	-
Provisions	22	(66)	(57)	(24)	(27)
Retirement benefit obligations	30	(421)	(309)	-	-
		<b>(3,096)</b>	<b>(2,738)</b>	<b>(1,168)</b>	<b>(2,064)</b>
<b>Net assets</b>		<b>4,966</b>	<b>4,376</b>	<b>4,157</b>	<b>3,826</b>
<b>Equity</b>					
Called up share capital	23	532	501	532	501
Share premium account	23	1,033	909	1,033	909
Capital redemption reserve	24	680	680	680	680
Other reserves	24	(242)	(191)	26	(1)
Retained earnings	25	2,963	2,477	1,886	1,737
<b>Total equity</b>		<b>4,966</b>	<b>4,376</b>	<b>4,157</b>	<b>3,826</b>

The financial statements were approved by the Board of Directors on 12 May 2010, and are signed on its behalf by:

**Justin King** Chief Executive

**Darren Shapland** Chief Financial Officer

# Cash flow statements

for the 52 weeks to 20 March 2010

	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Cash flows from operating activities</b>					
Cash generated from operations	26	1,206	1,206	(251)	203
Interest paid		(111)	(128)	(40)	(57)
Corporation tax paid		(89)	(160)	-	(160)
<b>Net cash from operating activities</b>		<b>1,006</b>	<b>918</b>	<b>(291)</b>	<b>(14)</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment and other assets		(1,036)	(966)	-	-
Purchase of intangible assets		(11)	(10)	-	-
Proceeds from disposal of property, plant and equipment and other assets		139	390	-	86
Acquisition of and investment in subsidiaries and businesses, net of cash acquired	12,13	-	(10)	(5)	-
Investment in joint ventures		(2)	(291)	-	-
Investment in financial assets		(10)	(8)	(10)	(8)
Interest received		18	13	83	70
Dividends received		2	3	252	250
<b>Net cash from investing activities</b>		<b>(900)</b>	<b>(879)</b>	<b>320</b>	<b>398</b>
<b>Cash flows from financing activities</b>					
Proceeds from issuance of ordinary shares		250	15	250	15
Proceeds from short-term borrowings		-	43	-	35
Repayment of short-term borrowings		(36)	-	(35)	-
Proceeds from long-term borrowings		235	152	235	-
Repayment of long-term borrowings		(74)	(30)	(21)	-
Repayment of capital element of obligations under finance lease payments		(2)	-	-	-
Interest elements of obligations under finance lease payments		(3)	(3)	-	-
Dividends paid	10	(241)	(218)	(241)	(218)
<b>Net cash from financing activities</b>		<b>129</b>	<b>(41)</b>	<b>188</b>	<b>(168)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>235</b>	<b>(2)</b>	<b>217</b>	<b>216</b>
Opening cash and cash equivalents		599	601	452	236
<b>Closing cash and cash equivalents</b>	26	<b>834</b>	<b>599</b>	<b>669</b>	<b>452</b>

# Group statement of changes in equity

for the 52 weeks to 20 March 2010

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
<b>At 22 March 2009</b>		<b>501</b>	<b>909</b>	<b>489</b>	<b>2,477</b>	<b>4,376</b>
Profit for the period		-	-	-	585	585
Other comprehensive income/(expense):						
Actuarial losses on defined benefit pension schemes (net of tax)	24	-	-	(125)	-	(125)
Available-for-sale financial assets: fair value movements (net of tax)						
Group	24	-	-	32	-	32
Joint ventures	24	-	-	24	-	24
Cash flow hedges: effective portion of changes in fair value (net of tax)						
Group	24	-	-	(3)	-	(3)
<b>Total comprehensive income/(expense) for the 52 weeks to 20 March 2010</b>		<b>-</b>	<b>-</b>	<b>(72)</b>	<b>585</b>	<b>513</b>
Transactions with owners:						
Dividends paid	10	-	-	-	(241)	(241)
Convertible bond – equity component		-	-	24	-	24
Amortisation of convertible bond equity component		-	-	(3)	3	-
Share-based payment (net of tax)	31	-	-	-	44	44
Shares issued	23,24	22	113	102	-	237
Transfer to retained earnings	24	-	-	(102)	102	-
Shares vested		-	-	-	12	12
Allotted in respect of share option schemes	23,25	9	11	-	(19)	1
<b>At 20 March 2010</b>		<b>532</b>	<b>1,033</b>	<b>438</b>	<b>2,963</b>	<b>4,966</b>
<b>At 23 March 2008</b>		<b>499</b>	<b>896</b>	<b>1,174</b>	<b>2,366</b>	<b>4,935</b>
Profit for the period		-	-	-	289	289
Other comprehensive income/(expense):						
Actuarial losses on defined benefit pension schemes (net of tax)	24	-	-	(650)	-	(650)
Available-for-sale financial assets: fair value movements (net of tax)						
Group	24	-	-	(12)	-	(12)
Joint ventures <sup>1</sup>	24	-	-	(21)	-	(21)
Cash flow hedges: effective portion of changes in fair value (net of tax)						
Group	24	-	-	9	-	9
Joint ventures <sup>1</sup>	24	-	-	(11)	-	(11)
<b>Total comprehensive income/(expense) for the 52 weeks to 21 March 2009</b>		<b>-</b>	<b>-</b>	<b>(685)</b>	<b>289</b>	<b>(396)</b>
Transactions with owners:						
Dividends paid	10	-	-	-	(218)	(218)
Share-based payment (net of tax)	31	-	-	-	40	40
Shares vested		-	-	-	45	45
Allotted in respect of share option schemes	23,25	2	13	-	(45)	(30)
<b>At 21 March 2009</b>		<b>501</b>	<b>909</b>	<b>489</b>	<b>2,477</b>	<b>4,376</b>

1 For details of the reclassification of certain offsetting foreign exchange gains and losses in the prior period, see note 2.

# Company statement of changes in equity

for the 52 weeks to 20 March 2010

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
<b>At 22 March 2009</b>		<b>501</b>	<b>909</b>	<b>679</b>	<b>1,737</b>	<b>3,826</b>
Profit for the period		-	-	-	250	250
Other comprehensive income/(expense):						
Available-for-sale financial assets: fair value movements (net of tax)	24	-	-	6	-	6
<b>Total comprehensive income/(expense) for the 52 weeks to 20 March 2010</b>		<b>-</b>	<b>-</b>	<b>6</b>	<b>250</b>	<b>256</b>
Transactions with owners:						
Dividends paid	10	-	-	-	(241)	(241)
Convertible bond - equity component		-	-	24	-	24
Amortisation of convertible bond equity component		-	-	(3)	3	-
Shares issued	23,24	22	113	102	-	237
Transfer to retained earnings	24	-	-	(102)	102	-
Allotted in respect of share option schemes	23,25	9	11	-	42	62
Utilised in respect of share option schemes		-	-	-	(7)	(7)
<b>At 20 March 2010</b>		<b>532</b>	<b>1,033</b>	<b>706</b>	<b>1,886</b>	<b>4,157</b>
<b>At 23 March 2008</b>		<b>499</b>	<b>896</b>	<b>680</b>	<b>1,697</b>	<b>3,772</b>
Profit for the period		-	-	-	165	165
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 to 21 March 2009</b>		<b>-</b>	<b>-</b>	<b>(1)</b>	<b>165</b>	<b>164</b>
Transactions with owners:						
Dividends paid	10	-	-	-	(218)	(218)
Allotted in respect of share option schemes	23,25	2	13	-	93	108
<b>At 21 March 2009</b>		<b>501</b>	<b>909</b>	<b>679</b>	<b>1,737</b>	<b>3,826</b>

# Notes to the financial statements

## 1 General information

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

The financial year represents the 52 weeks to 20 March 2010 (prior financial year 52 weeks to 21 March 2009). The consolidated financial statements for the 52 weeks to 20 March 2010 comprise the financial statements of the Company and its subsidiaries ("Group") and the Group's interests in joint ventures.

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

## 2 Accounting policies

### (a) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRICs") interpretations and with those parts of the Companies Act 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 under the historical cost convention, except for derivative financial instruments, investment properties, available-for-sale financial assets, share-based payments and retirement benefit plan 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:

- Amendment to IFRS 2 'Share-based payment'  
Previously IFRS 2 described the treatment of a failure to meet a vesting condition, but was not explicit about the accounting consequences of a failure to meet a condition other than a vesting condition. Under the Amendment, where the entity or counterparty can choose to meet a non-vesting condition, a failure by the entity or the counterparty to meet the non-vesting condition will be treated as a cancellation. If neither the entity nor the counterparty has the choice as to whether to meet a non-vesting condition, a failure to meet this non-vesting condition does not have any accounting impact.

If a cancellation by either party occurs, the entity recognises the amount of expense that would have been recognised over the remaining vesting period. The grant date fair value should incorporate an estimate of the number of employees who will cease to contribute to the scheme otherwise than through termination of employment before the options vest. The amendment to IFRS 2 affects the Group's Save As You Earn ("SAYE") scheme. The implementation of the amendment has had no material impact on prior year financial statements.

- IAS 1 (revised) 'Presentation of financial statements'  
The revised standard requires 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements.

- IFRS 8 'Operating Segments'  
IFRS 8 replaces IAS 14 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of IFRS 8 has resulted in no change in the reportable segments presented.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM has been identified as the Group's Operating Board. Details of the Group's Operating Board are available on page 26 of the Annual Report and Financial Statements 2010.

- IFRIC 13 'Customer Loyalty Programmes'  
IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the loyalty credits and deferred over the period that the loyalty credits are redeemed. The implementation of IFRIC 13 has had no material impact on the financial statements.

The following new standards, interpretations and amendments to published standards are effective for the Group for the financial year beginning 22 March 2009, but are not currently relevant for the Group or do not have a significant impact on the Group's financial statements, apart from additional disclosures:

- Revised IAS 1 'Presentation of financial statements', amendments to IAS 1 relating to the disclosure of puttable instruments and obligations arising on liquidation
- Revised IAS 27 'Consolidated and separate financial statements' relating to the cost of an investment on first time adoption
- Amendments to IAS 32 'Financial Instruments: Presentation' relating to puttable instruments and obligations arising on liquidation
- Amendment to IFRS 7 'Financial Instruments: Disclosures'
- IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
- IFRIC 15 'Agreements for the Construction of Real Estate'
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'
- Amendments to various IFRSs and IASs arising from May 2008 Annual Improvements to IFRSs
- IFRIC 18 'Transfer of Assets from Customers'
- Amendment to IAS 23 'Borrowing Costs'

## 2 Accounting policies continued

### Effective for the Group for the financial year beginning 21 March 2010:

- Amendments to IFRS 2 'Share-based Payment' arising from April 2009 Annual Improvements to IFRSs and Amendments relating to group cash-settled share-based payment transactions
- Revised IFRS 3 'Business Combinations', Comprehensive and consequential amendments to IAS 27 'Consolidated and Separate Financial Statements', IAS 28 'Investments in Associates' and IAS 31 'Interests in Joint Ventures'
- Amendments to IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' arising from May 2008 Annual Improvements to IFRSs
- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement'
- IFRIC 17 'Distributions of Non-cash Assets to Owners'
- IFRIC 18 'Transfers of Assets from Customers'
- Amendments to various IFRSs and IASs arising from April 2009 Annual Improvements to IFRSs

The Group has considered the above new standards, interpretations and amendments to published standards that are not yet effective and concluded that except for the amendment to IAS 1 'Presentation of Financial Statements', 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 IAS 1 'Presentation of Financial Statements' amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. The convertible bond issued by the Group in 2009 will fall within the scope of this amendment when it is adopted in the financial year beginning 21 March 2010. This amendment is not expected to have a material impact on the Group's financial statements.

### Effective for the Group for future financial years:

- IFRS 9 'Financial Instruments - Classification and Measurement'
- Revised IAS 24 'Related Party Disclosures' definition of related parties
- Amendments to IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

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

#### Consolidation

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

#### Subsidiaries

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

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

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

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

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

#### 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.

#### Revenue

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

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

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

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



## 2 Accounting policies continued

### 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 based on the expected entitlement at the balance sheet date. 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 impairment loss. Properties in the course of construction are held at cost less any recognised impairment loss. Cost includes directly attributable costs and borrowing costs capitalised in accordance with the Group's accounting policy.

#### Fixtures, equipment and vehicles

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

#### Depreciation

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

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

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

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

### Intangible assets

#### Pharmacy licences

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

#### Computer software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally-acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of 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.

#### Goodwill

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

### Investment property

Investment properties are those properties held for capital appreciation and/or to earn rental income. They are initially measured at cost, including related transaction costs. After initial recognition at cost, they are carried at their fair values based on market value determined by professional valuers at each reporting date. The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included

within the income statement but is excluded from underlying profit in order to provide a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. Currently the only investment properties the Group holds are those contained within its joint ventures with Land Securities Group PLC and British Land PLC.

### Impairment of non-financial assets

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

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

### Capitalisation of interest

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

### Non-current assets held for sale

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

### Leased assets

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

### Finance leases

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

### Operating leases

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

### Lease incentives

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

### Leases with predetermined fixed rental increases

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

### Operating lease income

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

## 2 Accounting policies continued

### Inventories

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

### Cash and cash equivalents

Cash and cash equivalents comprise cash 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, in which case the current tax is also dealt with in equity.

### Deferred taxation

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

Deferred tax is recognised for all temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit. It is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches, and joint ventures except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

### Provisions

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

### Onerous leases

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

### Restructuring and disposal

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

### Employee benefits

#### Pensions

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

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

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 other 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, with the corresponding increase in equity.

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

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

#### Financial instruments

##### Financial assets

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

## 2 Accounting policies continued

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

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

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Subsequent to initial recognition, these assets are recorded at fair value with the movements in fair value 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 to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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.

Issue costs are apportioned between the liability and the equity components of the convertible loan notes 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

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

## 2 Accounting policies continued

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.

### 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 which includes management assumptions and estimates of future performance.

### Post-employment benefits

The Group operates various defined benefit schemes for its employees. The present value of the schemes' liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the schemes. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 30.

### Provisions

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

### Reclassification of certain offsetting foreign exchange gains and losses

The amounts presented for previous periods reflect the reclassification of certain offsetting foreign exchange gains and losses on available-for-sale ("AFS") financial assets and the related cash flow hedges of Sainsbury's Bank plc which were previously recognised in equity rather than in the income statement. Accordingly, for the 52 weeks to 21 March 2009, the losses on AFS assets have been increased and those on cash flow hedges reduced by £21 million. For the 52 weeks to 22 March 2008, the losses on AFS assets have been increased and those on cash flow hedges reduced by £58 million. These adjustments have no impact on total comprehensive income/(expense), total equity or net assets for either period and the amounts now recognised in the income statement are fully offset within the share of post-tax profit/(loss) from joint ventures.

### 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. 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. Comparative amounts have been restated to reflect this change to the definition of UPBT. Underlying profit is not defined by IFRSs, and therefore may not be directly comparable with the 'adjusted' profit measures of other companies. The adjusted items are:

- Profit/loss on sale of properties;
- Investment property fair value movements - these movements 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 movements 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 items are material and infrequent in nature.

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

	2010 £m	2009 £m
<b>Underlying profit before tax</b>	<b>610</b>	519
Profit on sale of properties	27	57
Investment property fair value movements	123	(124)
Financing fair value movements <sup>1</sup>	(15)	(10)
IAS 19 pension financing (charge)/credit	(24)	24
One-off item: Office of Fair Trading dairy inquiry	12	-
<b>Total adjustments</b>	<b>123</b>	(53)
<b>Profit before tax</b>	<b>733</b>	466

<sup>1</sup> Financing fair value movements for the financial year comprised £(12) million for the Group (2009: £(7) million) and £(3) million for the joint ventures (2009: £(3) million).

#### Office of Fair Trading dairy inquiry

The Group has reversed £12 million of costs associated with the Office of Fair Trading ("OFT") dairy inquiry, in line with the OFT's announcement in April 2010.

#### 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 investment (British Land joint venture and Land Securities joint venture).

Management have determined the operating segments based on the information provided to the Operating Board (the CODM) 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 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 Retailing on the basis of profit generated by the sales and the costs directly attributable to that segment which are contained within underlying profit. The reconciliation provided below reconciles underlying operating profit from each of the segments disclosed to profit before tax.

	Retailing £m	Financial services £m	Property investments £m	Group £m
<b>52 weeks to 20 March 2010</b>				
<b>Segment revenue</b>	<b>19,964</b>	<b>-</b>	<b>-</b>	<b>19,964</b>
<b>Underlying operating profit</b>	<b>671</b>	<b>-</b>	<b>-</b>	<b>671</b>
Underlying finance income	33	-	-	33
Underlying finance costs	(112)	-	-	(112)
Underlying share of post-tax profit from joint ventures	-	7	11	18
<b>Underlying profit before tax</b>	<b>592</b>	<b>7</b>	<b>11</b>	<b>610</b>
Profit on sale of properties	27	-	-	27
Investment property fair value movements	-	-	123	123
Financing fair value movements	(12)	-	(3)	(15)
IAS 19 pension financing charge	(24)	-	-	(24)
One-off item: Office of Fair Trading dairy inquiry	12	-	-	12
<b>Profit before tax</b>	<b>595</b>	<b>7</b>	<b>131</b>	<b>733</b>
Income tax expense	-	-	-	(148)
<b>Profit for the financial year</b>				<b>585</b>
<b>Assets</b>	<b>10,406</b>	<b>-</b>	<b>-</b>	<b>10,406</b>
Investment in joint ventures	-	102	347	449
<b>Segment assets</b>	<b>10,406</b>	<b>102</b>	<b>347</b>	<b>10,855</b>
<b>Segment liabilities</b>	<b>5,889</b>	<b>-</b>	<b>-</b>	<b>5,889</b>
<b>Other segment items</b>				
Capital expenditure <sup>1</sup>	1,003	-	-	1,003
Depreciation expense	466	-	-	466
Amortisation expense	13	-	-	13
Provision for impairment of receivables	1	-	-	1
Share-based payments	42	-	-	42

<sup>1</sup> Capital expenditure consists of property, plant and equipment additions of £992 million and intangibles additions of £11 million.

## 4 Segment reporting continued

	Retailing £m	Financial services £m	Property investments £m	Group £m
<b>52 weeks to 21 March 2009</b>				
<b>Segment revenue</b>	18,911	-	-	18,911
<b>Underlying operating profit</b>	616	-	-	616
Underlying finance income <sup>2</sup>	28	-	-	28
Underlying finance costs	(141)	-	-	(141)
Underlying share of post-tax profit from joint ventures	-	4	12	16
<b>Underlying profit before tax<sup>2</sup></b>	503	4	12	519
Profit on sale of properties	57	-	-	57
Investment property fair value movements	-	-	(124)	(124)
Financing fair value movements	(7)	-	(3)	(10)
IAS 19 pension financing credit	24	-	-	24
<b>Profit/(loss) before tax</b>	577	4	(115)	466
Income tax expense				(177)
<b>Profit for the financial year</b>				289
Assets	9,745	-	-	9,745
Investment in joint ventures	1	72	215	288
<b>Segment assets</b>	9,746	72	215	10,033
<b>Segment liabilities</b>	5,657	-	-	5,657
<b>Other segment items</b>				
Capital expenditure <sup>3</sup>	1,105	-	-	1,105
Depreciation expense	453	-	-	453
Amortisation expense	15	-	-	15
Provision for impairment of receivables	1	-	-	1
Share-based payments	40	-	-	40

<sup>2</sup> Underlying finance income and underlying profit before tax have been restated due to the change in the definition of underlying profit before tax, see note 3.

<sup>3</sup> Capital expenditure consists of property, plant and equipment additions of £1,081 million, property, plant and equipment acquired through business combinations of £4 million, intangibles additions of £10 million and intangibles generated through business combinations of £10 million.

Due to the nature of its activities, the Group is not reliant on any individual major customers.

## 5 Operating profit

	2010 £m	2009 £m
Operating profit is stated after charging/(crediting) the following items:		
Employee costs (note 7)	2,075	2,003
Depreciation expense (note 11)	466	453
Amortisation expense (note 12)	13	15
Profit on sale of properties (note 3)	(27)	(57)
Charges relating to the impairment of receivables	1	1
Provision for diminution in value of investment in joint venture	1	–
Operating lease rentals – land and buildings	388	344
– other leases	54	52
– sublease payments received	(37)	(39)
Foreign exchange gains	(6)	(10)
Office of Fair Trading dairy inquiry (note 3)	(12)	–

### Group

	2010 £m	2009 £m
<b>Auditors' remuneration</b>		
<b>Audit and audit related services</b>		
Fees payable to the Company 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
<b>Non-audit services</b>		
Fees payable to the Company auditor and its associates for other services as detailed below:		
Tax services	–	0.6
All other services	0.5	0.3
	<b>1.3</b>	<b>1.7</b>

## 6 Finance income and finance costs

	2010 £m	2009 £m
Interest on bank deposits and other financial assets	33	28
IAS 19 pension financing credit (note 30)	–	24
<b>Finance income</b>	<b>33</b>	<b>52</b>
Borrowing costs		
Secured borrowings	(75)	(119)
Unsecured borrowings	(47)	(33)
Obligations under finance leases	(3)	(3)
Provisions – amortisation of discount (note 22)	(2)	(1)
	<b>(127)</b>	<b>(156)</b>
Interest capitalised – qualifying assets	15	15
IAS 19 pension financing charge (note 30)	(24)	–
Financing fair value movements <sup>1</sup>	(12)	(7)
<b>Finance costs</b>	<b>(148)</b>	<b>(148)</b>

<sup>1</sup> Fair value movements 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.



## 7 Employee costs

	2010 £m	2009 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	1,823	1,758
Social security costs	128	121
Pension costs – defined contribution schemes	33	31
Pension costs – defined benefit schemes (note 30)	49	53
Share-based payments expense (note 31)	42	40
	<b>2,075</b>	<b>2,003</b>

	Number 000's	Number 000's
The average number of employees, including Directors, during the year were:		
Full-time	47.3	49.7
Part-time	99.6	98.8
	<b>146.9</b>	<b>148.5</b>
Full-time equivalent	<b>97.3</b>	<b>97.3</b>

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

## 8 Income tax expense

	2010 £m	2009 £m
Current tax expense		
Current year	152	171
Over provision in prior years	(73)	(25)
	<b>79</b>	<b>146</b>
Deferred tax expense		
Origination and reversal of temporary differences	38	24
Under provision in prior years	31	7
	<b>69</b>	<b>31</b>
Total income tax expense in income statement	<b>148</b>	<b>177</b>
Income tax expense on underlying profit <sup>1</sup>	<b>174</b>	<b>151</b>
Tax on items below:		
Profit on sale of properties	(15)	21
Financing fair value movements	(4)	(2)
IAS 19 pension financing (charge)/credit	(7)	7
Total income tax expense in income statement	<b>148</b>	<b>177</b>

<sup>1</sup> Tax charge attributable to underlying profit before tax, restated for the change in the definition of underlying profit before tax, see note 3.

**8 Income tax expense continued**

The effective tax rate of 20.2 per cent (2009: 38.0 per cent) is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2010 £m	2009 £m
Profit before taxation	733	466
Income tax at UK corporation tax rate of 28.00% (2009: 28.05% <sup>1</sup> )	205	131
Effects of:		
Disallowed depreciation on UK properties	22	20
Non-deductible expenses	7	9
Investment property fair value movements	(34)	35
Over provision in prior years	(42)	(18)
Share of results of joint ventures	(4)	(2)
Other	(6)	2
<b>Total income tax expense in income statement</b>	<b>148</b>	<b>177</b>

<sup>1</sup> The income tax rate of 28.05% is slightly higher than the 28% statutory tax rate due to the historic rate of 30% applying between 23 March 2008 and 31 March 2008 inclusive.

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

	Share based payments £m	Pension scheme £m	AFS fair value movements £m	Total £m
<b>52 weeks to 20 March 2010</b>				
Current tax recognised in equity	(3)	(17)	1	(19)
Deferred tax recognised in equity	1	(31)	10	(20)
<b>Income tax charged to equity</b>	<b>(2)</b>	<b>(48)</b>	<b>11</b>	<b>(39)</b>
<b>52 weeks to 21 March 2009</b>				
Current tax	(3)	-	-	(3)
Current tax prior year adjustment	3	-	-	3
Current tax recognised in equity	-	-	-	-
Deferred tax	2	(253)	(4)	(255)
Deferred tax prior year adjustment	(2)	-	-	(2)
Deferred tax recognised in equity	-	(253)	(4)	(257)
<b>Income tax charged to equity</b>	<b>-</b>	<b>(253)</b>	<b>(4)</b>	<b>(257)</b>

The current and deferred tax in relation to the Group's defined benefit pension schemes' actuarial gains and losses and AFS 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 sale 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.

	2010 million	2009 million
Weighted average number of shares in issue	1,821.7	1,738.5
Weighted average number of dilutive share options	16.0	24.7
Weighted average number of dilutive convertible bonds	34.9	–
Total number of shares for calculating diluted earnings per share	1,872.6	1,763.2

	£m	£m
Profit for the financial year	585	289
Add: interest on convertible bonds, net of tax	6	–
Diluted earnings for calculating diluted earnings per share	591	289

	£m	£m
Profit for the financial period attributable to equity holders of the parent	585	289
(Less)/add (net of tax):		
Profit on sale of properties	(42)	(36)
Investment property fair value movements	(123)	124
Financing fair value movements	11	8
IAS 19 pension financing charge/(credit)	17	(17)
One-off item: Office of Fair Trading dairy inquiry	(12)	–
Underlying profit after tax <sup>1</sup>	436	368
Add: interest on convertible bonds, net of tax	6	–
Diluted underlying profit after tax <sup>1</sup>	442	368

	pence per share	pence per share
Basic earnings	32.1	16.6
Diluted earnings	31.6	16.4
Underlying basic earnings <sup>1</sup>	23.9	21.2
Underlying diluted earnings <sup>1</sup>	23.6	20.9

<sup>1</sup> Underlying profit after tax and diluted underlying profit after tax for the previous period have been restated for the change in the definition of underlying profit after tax, as described in note 3.

## 10 Dividend

	2010 pence per share	2009 pence per share	2010 £m	2009 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	9.60	9.00	167	155
Interim dividend of current financial year	4.00	3.60	74	63
	13.60	12.60	241	218

After the balance sheet date, a final dividend of 10.20 pence per share (2009: 9.60 pence per share) was proposed by the Directors in respect of the 52 weeks to 20 March 2010, resulting in a total final proposed dividend of £189 million (2009: £167 million). The proposed final dividend has not been included as a liability at 20 March 2010.

## 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 22 March 2009	7,454	4,897	12,351	45
Additions	624	368	992	-
Disposals	(95)	(130)	(225)	-
Transfer to assets held for sale	(56)	(6)	(62)	-
<b>At 20 March 2010</b>	<b>7,927</b>	<b>5,129</b>	<b>13,056</b>	<b>45</b>
<b>Accumulated depreciation and impairment</b>				
At 22 March 2009	1,206	3,324	4,530	3
Depreciation expense for the year	125	341	466	-
Disposals	(14)	(118)	(132)	-
Transfer to assets held for sale	(8)	(3)	(11)	-
<b>At 20 March 2010</b>	<b>1,309</b>	<b>3,544</b>	<b>4,853</b>	<b>3</b>
<b>Net book value at 20 March 2010</b>	<b>6,618</b>	<b>1,585</b>	<b>8,203</b>	<b>42</b>
<b>Capital work-in-progress included above</b>	<b>354</b>	<b>94</b>	<b>448</b>	<b>-</b>
<b>Cost</b>				
At 23 March 2008	7,068	4,677	11,745	117
Additions	626	455	1,081	-
Acquisition of subsidiaries	4	-	4	-
Disposals	(225)	(233)	(458)	(72)
Transfer to assets held for sale	(19)	(2)	(21)	-
At 21 March 2009	7,454	4,897	12,351	45
<b>Accumulated depreciation and impairment</b>				
At 23 March 2008	1,123	3,198	4,321	8
Depreciation expense for the year	113	340	453	1
Disposals	(28)	(212)	(240)	(6)
Transfer to assets held for sale	(2)	(2)	(4)	-
At 21 March 2009	1,206	3,324	4,530	3
<b>Net book value at 21 March 2009</b>	<b>6,248</b>	<b>1,573</b>	<b>7,821</b>	<b>42</b>
<b>Capital work-in-progress included above</b>	<b>428</b>	<b>121</b>	<b>549</b>	<b>-</b>
	<b>Group 2010 £m</b>	<b>Group 2009 £m</b>	<b>Company 2010 £m</b>	<b>Company 2009 £m</b>
The net book value of land and buildings comprised:				
Freehold land and building	5,046	4,777	42	42
Long leasehold	1,013	951	-	-
Short leasehold	559	520	-	-
	<b>6,618</b>	<b>6,248</b>	<b>42</b>	<b>42</b>

## 11 Property, plant and equipment continued

### Impairment of property, plant and equipment

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

The recoverable amounts for the CGUs are based on value in use which is calculated on the cash flows expected to be generated by the units using the latest budget and forecast data, the results of which are reviewed by the Board. The key assumptions in the value in use calculation are the discount rate, growth rates and expected changes in margin. Changes in income and expenditure are based on past experience and expectations of future changes in the market. The forecasts are extrapolated beyond five years based on estimated long-term growth rates of three per cent to four per cent. The discount rate is based on the Group's pre-tax weighted average cost of capital of ten per cent (2009: ten per cent).

### Interest capitalised

Interest capitalised included in additions amounted to £15 million (2009: £15 million) for the Group and £nil (2009: £nil) for the Company. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £267 million (2009: £255 million) for the Group and £nil (2009: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.0 per cent (2009: 6.5 per cent).

### Security

Property, plant and equipment of 129 (2009: 128) supermarket properties, with a net book value of £2,344 million (2009: £2,330 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 £70 million (2009: £71 million) has been pledged as security to underpin the residual value guarantee given by the Group with regards to 16 supermarket properties sold in March 2000 and ten supermarket properties sold in July 2000.

### Analysis of assets held under finance leases – Group

	2010 Land and buildings £m	2010 Fixtures and equipment £m	2010 Total £m	2009 Land and buildings £m	2009 Fixtures and equipment £m	2009 Total £m
Cost	50	15	65	50	–	50
Accumulated depreciation and impairment	(22)	(1)	(23)	(21)	–	(21)
Net book value	28	14	42	29	–	29

## 12 Intangible assets

	Goodwill £m	Pharmacy licences £m	Software £m	Total £m
<b>Cost</b>				
At 22 March 2009	114	35	131	280
Additions	–	1	10	11
Disposals	(14)	–	–	(14)
<b>At 20 March 2010</b>	<b>100</b>	<b>36</b>	<b>141</b>	<b>277</b>
<b>Accumulated amortisation and impairment</b>				
At 22 March 2009	–	22	98	120
Amortisation expense for the year	–	2	11	13
<b>At 20 March 2010</b>	<b>–</b>	<b>24</b>	<b>109</b>	<b>133</b>
<b>Net book value at 20 March 2010</b>	<b>100</b>	<b>12</b>	<b>32</b>	<b>144</b>
<b>Cost</b>				
At 23 March 2008	114	36	121	271
Additions	–	–	10	10
Acquisition of subsidiaries and businesses	10	–	–	10
Disposals	(10)	(1)	–	(11)
At 21 March 2009	114	35	131	280
<b>Accumulated amortisation and impairment</b>				
At 23 March 2008	–	20	86	106
Amortisation expense for the year	–	3	12	15
Disposals	–	(1)	–	(1)
At 21 March 2009	–	22	98	120
<b>Net book value at 21 March 2009</b>	<b>114</b>	<b>13</b>	<b>33</b>	<b>160</b>

## 12 Intangible assets continued

The goodwill balance above relates primarily to the Group's acquisition 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 (2009: ten per cent) over a 25 year period. Changes in income and expenditure are based on past experience and expectations of future changes in the market. Based on the operating performance of the respective CGUs, no impairment loss was deemed necessary in the current financial year (2009: £nil).

## 13 Investments in subsidiaries

	2010 £m	2009 £m
<b>Shares in subsidiaries – Company</b>		
Beginning of year	7,262	7,169
Additions	339	93
Disposal of subsidiaries	(165)	–
Provision for diminution in value of investment	(160)	–
<b>End of year</b>	<b>7,276</b>	<b>7,262</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 20 March 2010. The Company has taken advantage of the exemption in s408 of the Companies Act 2006 to disclose a list comprising solely of the principal subsidiaries. A full list of subsidiaries will be sent to Companies House with the next annual return.

## 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 22 March 2009	429	(141)	288	91
Additions in year	2	–	2	–
Provision for diminution in value of investment	–	(1)	(1)	–
Share of retained profit				
Underlying profit after tax	–	18	18	–
Investment property fair value movements	–	123	123	–
Financing fair value movements	–	(3)	(3)	–
	–	138	138	–
Dividends received	–	(2)	(2)	–
Movements in other comprehensive income (note 24)	–	24	24	–
<b>At 20 March 2010</b>	<b>431</b>	<b>18</b>	<b>449</b>	<b>91</b>
At 23 March 2008	138	10	148	91
Additions in year	291	–	291	–
Share of retained loss				
Underlying profit after tax	–	16	16	–
Investment property fair value movements	–	(124)	(124)	–
Financing fair value movements	–	(3)	(3)	–
	–	(111)	(111)	–
Dividends received	–	(3)	(3)	–
Unrealised profit on disposal of property, plant and equipment	–	(5)	(5)	–
Movements in other comprehensive income (note 24)	–	(32)	(32)	–
At 21 March 2009	429	(141)	288	91

## 14 Investments in joint ventures continued

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 – UK)	31 March	50%	England
BL Sainsbury Superstores Limited (property investment – UK)	31 March	50%	England
Sainsbury's Bank plc (financial services – UK)	31 December	50%	England

Where relevant, management accounts for the joint ventures have been used to include the results up to 20 March 2010.

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

	2010 £m	2009 £m
Non-current assets	1,611	1,398
Current assets	1,824	1,494
Current liabilities	(2,092)	(1,800)
Non-current liabilities	(899)	(809)
Net assets	444	283
Income	186	239
Expenses	(171)	(226)
Investment property fair value movements	123	(124)
Profit/(loss) after tax	138	(111)

Investments in joint ventures at 20 March 2010 include £5 million of goodwill (2009: £5 million).

## 15 Available-for-sale financial assets

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Non-current</b>				
Interest bearing financial assets	24	7	24	7
Other financial asset	126	90	–	–
	150	97	24	7

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

The other financial asset represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of 3.1 per cent (2009: 2.8 per cent) and a weighted average cost of capital of ten per cent (2009: 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

	2010 £m	2009 £m
Goods held for resale	702	689

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 20 March 2010 was £15,192 million (2009: £14,490 million).

## 17 Receivables

### Trade and other receivables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Non-current</b>				
Amounts due from Group entities	–	–	1,080	1,005
Other receivables	35	45	35	45
	<b>35</b>	<b>45</b>	<b>1,115</b>	<b>1,050</b>
Prepayments and accrued income	1	–	–	–
	<b>36</b>	<b>45</b>	<b>1,115</b>	<b>1,050</b>
<b>Current</b>				
Trade receivables	71	49	–	–
Amounts due from Group entities	–	–	545	369
Other receivables	101	88	21	11
	<b>172</b>	<b>137</b>	<b>566</b>	<b>380</b>
Prepayments and accrued income	43	58	–	–
	<b>215</b>	<b>195</b>	<b>566</b>	<b>380</b>

Non-current other receivables of £35 million (2009: £45 million) comprise £5 million of floating rate subordinated undated loan capital (2009: £15 million) and £30 million of floating rate subordinated dated loan capital due from Sainsbury's Bank plc (2009: £30 million) (note 32). Current other receivables include £20 million of floating rate subordinated undated loan capital due from Sainsbury's Bank plc (2009: £10 million) (note 32).

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

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

The Group has trade and other receivables of £5 million (2009: £5 million) that are past due but not impaired. These relate to a number of independent receivables for whom there is no recent history of default. These have not been provided for as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

	2010 £m	2009 £m
Up to 8 weeks	5	5
Over 8 weeks	–	–
	<b>5</b>	<b>5</b>

Group trade and other receivables of £3 million (2009: £2 million) and Company amounts due from Group entities of £nil million (2009: £8 million) are impaired and provided for. The ageing of these receivables are as follows:

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Current	–	–	–	8
Up to 8 weeks	–	–	–	–
8 to 20 weeks	1	–	–	–
Over 20 weeks	2	2	–	–
	<b>3</b>	<b>2</b>	<b>–</b>	<b>8</b>

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
At beginning of year	2	1	8	14
Additional provision	1	1	–	–
Release of provision	–	–	(8)	(6)
<b>End of year</b>	<b>3</b>	<b>2</b>	<b>–</b>	<b>8</b>



**17 Receivables** continued

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Sterling	249	240	1,681	1,430
Euro	1	–	–	–
US dollar	1	–	–	–
	<b>251</b>	240	<b>1,681</b>	1,430

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

	2010 Number of counterparties	2010 Balance £m	2009 Number of counterparties	2009 Balance £m
Trade receivables	1	9	1	8
Other receivables	1	18	1	18
Related parties	1	56	1	56

Significant trade receivables identified above relate to amounts receivable from credit card companies.

At 20 March 2010, significant other receivables identified were amounts due from the National Health Service of £18 million (2009: £18 million).

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

No major counterparty balances are considered overdue or impaired.

**18 Non-current assets held for sale**

Non-current assets held for sale of £56 million (2009: £21 million) consist of non-current assets relating to properties held in the Retailing segment. Sale of these assets is expected to occur in the financial year beginning 21 March 2010.

**19 Payables****Trade and other payables**

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Current</b>				
Trade payables	1,782	1,728	–	–
Amounts due to Group entities	–	–	4,446	3,479
Other payables	461	508	14	10
Accruals and deferred income	223	252	–	–
	<b>2,466</b>	2,488	<b>4,460</b>	3,489
<b>Non-current</b>				
Amounts due to Group entities	–	–	821	2,037
Accruals and deferred income	106	92	–	–
	<b>106</b>	92	<b>821</b>	2,037

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 2010 Within one year £m	Group 2010 After one year £m	Group 2010 Total £m	Group 2009 Within one year £m	Group 2009 After one year £m	Group 2009 Total £m
Secured loans						
Loan due 2018	38	1,074	1,112	37	1,105	1,142
Loan due 2031	15	861	876	33	872	905
Unsecured loans						
Bank overdrafts	3	-	3	28	-	28
Bank loan	-	50	50	35	-	35
Term loans due 2015	4	142	146	12	150	162
Convertible bond due 2014	1	171	172	-	-	-
Loan notes	9	-	9	8	2	10
Finance lease obligations	3	59	62	1	48	49
<b>Total borrowings</b>	<b>73</b>	<b>2,357</b>	<b>2,430</b>	<b>154</b>	<b>2,177</b>	<b>2,331</b>

	Company 2010 Within one year £m	Company 2010 After one year £m	Company 2010 Total £m	Company 2009 Within one year £m	Company 2009 After one year £m	Company 2009 Total £m
Bank overdrafts	1	-	1	8	-	8
Bank loan	-	50	50	35	-	35
Term loan due 2015	1	102	103	-	-	-
Convertible bond due 2014	1	171	172	-	-	-
<b>Total borrowings</b>	<b>3</b>	<b>323</b>	<b>326</b>	<b>43</b>	<b>-</b>	<b>43</b>

**Secured loans**

Secured loans are secured on 129 (2009: 128) supermarket properties (note 11) and comprise loans from two finance companies:

- a fixed rate amortising loan with an outstanding principal value of £1,100 million (2009: £1,130 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 5.21 per cent and carrying amount of £1,112 million (2009: £1,142 million) repayable over eight years; and
- an inflation-linked amortising loan with an outstanding principal value of £850 million (2009: £872 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 £876 million (2009: £905 million) repayable over 21 years.

**Bank overdrafts**

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

**Bank loan**

In May 2009, the Group increased and rolled over a maturing bilateral £35 million bank loan into a new three-year loan of £50 million.

**Bank loans due 2015**

In January 2010, the Group restructured its existing £150 million bank loan due 2015 into a new £110 million floating rate bank loan due 2015, leaving a £40 million loan due 2015 based on the original floating rate terms subject to a cap rate.

**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 with an initial conversion price of 418.5 pence.

The Group has entered into interest rate swaps to convert all of the £190 million convertible bond from fixed to floating rates of interest. 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.

**20 Borrowings** continued

	2010 £m	2009 £m
Face value of the convertible bond issued in July 2009	190	–
Equity component	(24)	–
Liability component on initial recognition in July 2009	166	–
Interest expense	8	–
Interest paid	(4)	–
Other <sup>1</sup>	2	–
Liability component at 20 March 2010	172	–

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

**Undrawn borrowing facilities**

The Group maintains three committed revolving credit facilities for standby liquidity purposes including a new £50 million three-year bilateral facility entered into in May 2009. In February 2010, the Group entered into a new five-year €50 million bilateral term loan. At 20 March 2010, no advance had been made under the new bank loan.

	Expiry of facility
£400 million revolving credit facility	February 2012
£163 million revolving credit facility	May 2011
£50 million bilateral revolving credit facility	May 2012

No amounts were drawn down on the facilities at 20 March 2010 (2009: nil).

**Obligations under finance leases**

	Minimum lease payments 2010 £m	Minimum lease payments 2009 £m	Present value of minimum lease payments 2010 £m	Present value of minimum lease payments 2009 £m
Amounts payable under finance leases:				
Within 1 year	7	3	3	1
Within 2 to 5 years inclusive	25	12	13	1
After 5 years	177	177	46	47
	<b>209</b>	192	<b>62</b>	49
Less: future finance charges	(147)	(143)		
Present value of lease obligations	<b>62</b>	49		
Disclosed as:				
Current	3	1		
Non-current	59	48		
	<b>62</b>	49		

Finance leases have effective interest rates of 4.30 per cent to 9.00 per cent (2009: 4.30 per cent to 8.50 per cent). The average remaining lease term is 76 years (2009: 77 years).

**21 Deferred taxation**

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

<b>Group</b>	Accelerated tax depreciation £m	Fair value gains £m	Other property £m	Other £m	Total £m
<b>Deferred income tax liabilities</b>					
At 22 March 2009	(138)	(26)	(93)	(27)	(284)
(Charge)/credit to income statement	(39)	–	9	(3)	(33)
Charge to equity/other comprehensive income	–	(10)	–	–	(10)
<b>At 20 March 2010</b>	<b>(177)</b>	<b>(36)</b>	<b>(84)</b>	<b>(30)</b>	<b>(327)</b>
<b>Deferred income tax assets</b>					
At 23 March 2008	(165)	(30)	(68)	(39)	(302)
Credit/(charge) to income statement	27	–	(25)	12	14
Credit to equity/other comprehensive income	–	4	–	–	4
At 21 March 2009	(138)	(26)	(93)	(27)	(284)
<b>Group</b>					
	Provisions £m	Retirement benefit obligations £m	Share-based payment £m	Capital losses £m	Total £m
<b>Deferred income tax assets</b>					
At 22 March 2009	3	87	27	72	189
Credit to income statement	–	–	(13)	(23)	(36)
Credit/(charge) to equity/other comprehensive income	–	31	(1)	–	30
<b>At 20 March 2010</b>	<b>3</b>	<b>118</b>	<b>13</b>	<b>49</b>	<b>183</b>
At 23 March 2008	11	(129)	31	68	(19)
(Charge)/credit to income statement	(8)	(37)	(4)	4	(45)
Credit to equity/other comprehensive income	–	253	–	–	253
At 21 March 2009	3	87	27	72	189
£m					
<b>Net deferred income tax liability</b>					
<b>At 20 March 2010</b>					<b>(144)</b>
At 21 March 2009					(95)

**21 Deferred taxation** continued

Company	Other property £m	Total £m	
<b>Deferred income tax liabilities</b>			
At 22 March 2009	(65)	(65)	
Charge to income statement	30	30	
<b>At 20 March 2010</b>	<b>(35)</b>	<b>(35)</b>	
<hr/>			
At 23 March 2008	(65)	(65)	
Charge to income statement	–	–	
At 21 March 2009	(65)	(65)	
<hr/>			
Company	Fair value losses £m	Capital losses £m	Total £m
<b>Deferred income tax assets</b>			
At 22 March 2009	1	65	66
Charge to income statement	–	(30)	(30)
<b>At 20 March 2010</b>	<b>1</b>	<b>35</b>	<b>36</b>
<hr/>			
At 23 March 2008	1	65	66
Charge to income statement	–	–	–
At 21 March 2009	1	65	66
<hr/>			
			£m
<b>Net deferred income tax asset</b>			
<b>At 20 March 2010</b>			<b>1</b>
At 21 March 2009			1

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

## 22 Provisions

	Group onerous leases £m	Group restructuring and disposal provisions £m	Group long- service awards £m	Group total £m	Company onerous leases £m	Company disposal provision £m	Company total £m
At 22 March 2009	37	32	7	<b>76</b>	4	24	<b>28</b>
Charge to income statement							
Additional provisions	19	1	-	<b>20</b>	-	-	-
Unused amounts reversed	(1)	(1)	-	<b>(2)</b>	-	(1)	<b>(1)</b>
Utilisation of provision	(8)	(9)	-	<b>(17)</b>	(1)	(1)	<b>(2)</b>
Amortisation of discount	2	-	-	<b>2</b>	-	-	-
<b>At 20 March 2010</b>	<b>49</b>	<b>23</b>	<b>7</b>	<b>79</b>	<b>3</b>	<b>22</b>	<b>25</b>
At 23 March 2008	40	26	7	73	4	25	29
Charge to income statement							
Additional provisions	11	7	-	18	-	-	-
Unused amounts reversed	(8)	-	-	(8)	-	-	-
Utilisation of provision	(7)	(1)	-	(8)	-	(1)	(1)
Amortisation of discount	1	-	-	1	-	-	-
At 21 March 2009	37	32	7	76	4	24	28
				<b>Group 2010 £m</b>	<b>Group 2009 £m</b>	<b>Company 2010 £m</b>	<b>Company 2009 £m</b>
Disclosed as:							
Current				<b>13</b>	19	<b>1</b>	1
Non-current				<b>66</b>	57	<b>24</b>	27
				<b>79</b>	76	<b>25</b>	28

The onerous lease provision covers residual lease commitments of up to an average of 32 years (2009: 30 years), after allowance for existing or anticipated sublet rental income.

The restructuring provisions were fully utilised in the financial year ended 20 March 2010. 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**

	2010 million	2009 million	2010 £m	2009 £m
<b>Group and Company</b>				
<b>Authorised share capital</b>				
Ordinary shares of 28 <sup>4</sup> / <sub>7</sub> pence each (2009: 28 <sup>4</sup> / <sub>7</sub> pence)	2,450	2,450	700	700
Preference B shares of 35 pence each (2009: 35 pence)	2,100	2,100	735	735
<b>Called up share capital</b>				
Allotted and fully paid – ordinary shares	1,860	1,753	532	501
<b>Share premium account</b>				
Share premium			1,033	909

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

	Ordinary shares million	Ordinary shares £m	Share premium £m
At 22 March 2009	1,753	501	909
Issue of shares	78	22	113
Allotted in respect of share option schemes	29	9	11
<b>At 20 March 2010</b>	<b>1,860</b>	<b>532</b>	<b>1,033</b>
At 23 March 2008	1,747	499	896
Allotted in respect of share option schemes	6	2	13
At 21 March 2009	1,753	501	909

On 22 June 2009, J Sainsbury plc issued 78.1 million ordinary shares with a nominal value of 28<sup>4</sup>/<sub>7</sub> pence each at £3.10 per share via an equity placing. This resulted in an increase in ordinary share capital of £22 million and share premium of £113 million net of transaction costs.

## 24 Capital redemption and other reserves

	Group Capital redemption reserve £m	Group Currency translation reserve £m	Group Actuarial (losses)/ gains £m	Group Available-for- sale assets £m	Group Cash flow hedge reserve £m	Group Merger reserve £m	Group Convertible bond reserve £m	Group total other reserves £m
At 22 March 2009	680	(1)	(223)	33	-	-	-	(191)
Actuarial losses on defined benefit pension schemes (net of tax)	-	-	(125)	-	-	-	-	(125)
Available-for-sale financial assets: fair value movements (net of tax)								
Group	-	-	-	32	-	-	-	32
Joint ventures (note 14)	-	-	-	24	-	-	-	24
Cash flow hedges: effective portion of fair value movements (net of tax)								
Group	-	-	-	-	(3)	-	-	(3)
Placing and open offer	-	-	-	-	-	102	-	102
Transfer to retained earnings	-	-	-	-	-	(102)	-	(102)
Convertible bond - equity component	-	-	-	-	-	-	24	24
Amortisation of convertible bond equity	-	-	-	-	-	-	(3)	(3)
<b>At 20 March 2010</b>	<b>680</b>	<b>(1)</b>	<b>(348)</b>	<b>89</b>	<b>(3)</b>	<b>-</b>	<b>21</b>	<b>(242)</b>
At 23 March 2008	680	(1)	427	66	2	-	-	494
Actuarial losses on defined benefit pension schemes (net of tax)	-	-	(650)	-	-	-	-	(650)
Available-for-sale financial assets: fair value movements (net of tax)								
Group	-	-	-	(12)	-	-	-	(12)
Joint ventures (note 14) <sup>1</sup>	-	-	-	(21)	-	-	-	(21)
Cash flow hedges: effective portion of fair value movements (net of tax)								
Group	-	-	-	-	9	-	-	9
Joint ventures (note 14) <sup>1</sup>	-	-	-	-	(11)	-	-	(11)
At 21 March 2009 <sup>1</sup>	680	(1)	(223)	33	-	-	-	(191)
At 25 March 2007	670	(1)	37	107	-	-	-	143
B shares redemption	10	-	-	-	-	-	-	-
Actuarial losses on defined benefit pension schemes (net of tax)	-	-	390	-	-	-	-	390
Available-for-sale financial assets: fair value movements (net of tax)								
Group	-	-	-	(31)	-	-	-	(31)
Joint ventures (note 14) <sup>1</sup>	-	-	-	(10)	-	-	-	(10)
Cash flow hedges: effective portion of fair value movements (net of tax)								
Group	-	-	-	-	2	-	-	2
Joint ventures (note 14) <sup>1</sup>	-	-	-	-	-	-	-	-
At 22 March 2008 <sup>1</sup>	680	(1)	427	66	2	-	-	494

<sup>1</sup> For details of the reclassification of certain offsetting foreign exchange gains and losses, see note 2.



## 24 Capital redemption and other reserves continued

	Company Capital redemption reserve £m	Company Available-for- sale assets £m	Company Merger reserve £m	Company Convertible bond reserve £m	Company Total other reserves £m
At 22 March 2009	680	(1)	-	-	(1)
Available-for-sale financial assets: fair value movements (net of tax)	-	6	-	-	6
Placing and open offer	-	-	102	-	102
Transfer to retained earnings	-	-	(102)	-	(102)
Convertible bond – equity component	-	-	-	24	24
Amortisation of convertible bond equity	-	-	-	(3)	(3)
<b>At 20 March 2010</b>	<b>680</b>	<b>5</b>	<b>-</b>	<b>21</b>	<b>26</b>
At 23 March 2008	680	-	-	-	-
Available-for-sale financial assets: fair value movements (net of tax)	-	(1)	-	-	(1)
At 21 March 2009	680	(1)	-	-	(1)

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

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

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

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

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

The merger reserve was created in June 2009, when J Sainsbury plc issued 78.1 million ordinary shares with a nominal value of 28<sup>4</sup>/<sub>7</sub> pence each per share. This resulted in an increase in ordinary share capital of £22 million, share premium of £113 million net of transaction costs and the creation of £102 million in the merger reserve. The transfer to retained earnings resulted from the operation of section 612 of the Companies Act 2006 with regard to the issue of shares by J Sainsbury plc in exchange for shares in J Sainsbury Jersey (Finance) Limited and the subsequent redemption of redeemable preference shares of that company for cash.

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

**25 Retained earnings**

	Group Own shares £m	Group Profit and loss account £m	Group Total retained earnings £m	Company Retained earnings £m
At 22 March 2009	(34)	2,511	2,477	1,737
Profit for the year	-	585	585	250
Dividends paid	-	(241)	(241)	(241)
Share-based payment (net of tax)	-	44	44	-
Shares vested	12	-	12	-
Allotted in respect of share option schemes	-	(19)	(19)	42
Utilised in respect of share option schemes	-	-	-	(7)
Amortisation of convertible bond equity	-	3	3	3
Transfer from merger reserve	-	102	102	102
<b>At 20 March 2010</b>	<b>(22)</b>	<b>2,985</b>	<b>2,963</b>	<b>1,886</b>
At 23 March 2008	(79)	2,445	2,366	1,697
Profit for the year	-	289	289	165
Dividends paid	-	(218)	(218)	(218)
Share-based payment	-	40	40	-
Shares vested	45	-	45	-
Allotted in respect of share option schemes	-	(45)	(45)	93
At 21 March 2009	(34)	2,511	2,477	1,737

**Own shares held by Employee Share Ownership Plan ("ESOP") trusts**

The Group owned 6,162,927 (2009: 9,650,780) of its ordinary shares of 28<sup>4</sup>/<sub>7</sub> pence nominal value each. At 20 March 2010, the total nominal value of the own shares was £2 million (2009: £3 million).

As at 20 March 2010 none of the own shares are held by an ESOP trust on behalf of certain Directors and senior employees under the Group's Performance Share Plan (2009: none). All shares (2009: 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 20 March 2010 was £21 million (2009: £30 million).

## 26 Notes to the cash flow statements

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Operating profit/(loss)	<b>710</b>	673	<b>(210)</b>	(18)
Adjustments for				
Depreciation expense	<b>466</b>	453	-	1
Amortisation expense	<b>13</b>	15	-	-
Profit on sale of properties	<b>(27)</b>	(57)	-	(21)
Foreign exchange differences	<b>(6)</b>	(10)	-	-
Share-based payments expense	<b>42</b>	40	-	-
Retirement benefit obligations <sup>1</sup>	<b>(85)</b>	(75)	-	-
Provision for diminution in value of investment	<b>1</b>	-	<b>160</b>	-
Liquidation of subsidiaries	-	-	<b>26</b>	-
Operating cash flows before changes in working capital	<b>1,114</b>	1,039	<b>(24)</b>	(38)
Changes in working capital				
Increase in inventories	<b>(13)</b>	(8)	-	-
Decrease/(increase) in trade and other receivables	<b>1</b>	23	<b>(173)</b>	(60)
Increase/(decrease) in trade and other payables	<b>101</b>	148	<b>(51)</b>	301
Increase/(decrease) in provisions and other liabilities	<b>3</b>	4	<b>(3)</b>	-
Cash generated from operations	<b>1,206</b>	1,206	<b>(251)</b>	203

<sup>1</sup> The adjustment for retirement benefit obligations reflects the difference between the service charge of £49 million (2009: £53 million) for the defined benefit schemes and the cash contributions of £134 million made by the Group to the defined benefit schemes (2009: £128 million).

### b) Cash and cash equivalents

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash and cash equivalents	<b>837</b>	627	<b>670</b>	460
Bank overdrafts (note 20)	<b>(3)</b>	(28)	<b>(1)</b>	(8)
	<b>834</b>	599	<b>669</b>	452

### c) Non-cash transactions

The principal non-cash transactions are the repayment of borrowings and proceeds from new borrowings of £110 million arising from the debt restructuring described in note 20, for which amounts were settled net by offset with the counterparty banks.

**27 Analysis of net debt**

	2010 £m	2009 £m
<b>Non-current assets</b>		
Interest bearing available-for-sale financial assets	24	7
Derivative financial instruments	20	31
	<b>44</b>	<b>38</b>
<b>Current assets</b>		
Cash and cash equivalents	837	627
Derivative financial instruments	43	59
	<b>880</b>	<b>686</b>
<b>Current liabilities</b>		
Bank overdrafts	(3)	(28)
Borrowings	(67)	(125)
Finance leases	(3)	(1)
Derivative financial instruments	(41)	(56)
	<b>(114)</b>	<b>(210)</b>
<b>Non-current liabilities</b>		
Borrowings	(2,298)	(2,129)
Finance leases	(59)	(48)
Derivative financial instruments	(2)	(8)
	<b>(2,359)</b>	<b>(2,185)</b>
<b>Total net debt</b>	<b>(1,549)</b>	<b>(1,671)</b>

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

**Reconciliation of net cash flow to movement in net debt**

	2010 £m	2009 £m
<b>Net debt at beginning of the year</b>	<b>(1,671)</b>	<b>(1,503)</b>
Increase/(decrease) in cash and cash equivalents	235	(2)
Increase in interest bearing available-for-sale assets <sup>1</sup>	10	8
Net increase in borrowings <sup>1</sup>	(72)	(177)
Net (increase)/decrease in derivatives <sup>1</sup>	(23)	6
Net repayment of obligations under finance leases	2	–
Fair value movements	(9)	2
Other non-cash movements	(21)	(5)
<b>Net debt at the end of the year</b>	<b>(1,549)</b>	<b>(1,671)</b>

<sup>1</sup> Excluding fair value movements.

## 28 Financial risk management

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

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

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

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

### Liquidity risk

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

The Group's liquidity policy requires committed funding is maintained to cover cash flow requirements over an 18-month time horizon. The Group complies with this policy by structuring core debt with long-term maturities, pre-funding future cash flow and maintaining a portfolio of standby credit facilities.

The principal elements of the Group's core funding comprise two long-term loans of £1,100 million due 2018 and £850 million due 2031 secured over property assets held in two subsidiary companies. In addition the Group has two unsecured bank loans totalling £150 million due 2015 and £190 million of convertible bonds due 2014 outstanding.

Short-term and seasonal funding is sourced from the wholesale inter-bank money market where interest is charged at various spreads above LIBOR.

For standby purposes the Group maintains two syndicated committed revolving credit facilities of £400 million due February 2012 and £163 million due May 2011 and a £50 million bilateral committed revolving credit facility due May 2012. Interest on drawings under these facilities is charged at various margins over LIBOR. There are £nil drawings under the committed facilities as at 20 March 2010 (2009: £nil drawings).

**28 Financial risk management** continued

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.

<b>Group</b>	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
<b>At 20 March 2010</b>				
Secured loans				
Secured loan due 2018	85	85	331	984
Secured loan due 2031 <sup>1</sup>	54	56	177	1,226
Unsecured loans				
Notional overdraft	3	-	-	-
Bank loan <sup>2</sup>	3	3	51	-
Bank loans due 2015 <sup>2</sup>	7	7	23	156
Convertible bond due 2014	8	8	210	-
Loan notes <sup>2</sup>	9	-	-	-
Obligations under finance leases	7	7	18	177
Trade and other payables	2,463	-	-	-

<b>At 21 March 2009</b>				
Secured loans				
Secured loan due 2018	85	85	224	1,221
Secured loan due 2031 <sup>1</sup>	53	54	170	1,239
Unsecured loans				
Notional overdraft	28	-	-	-
Bank loan <sup>2</sup>	35	-	-	-
Bank loans due 2015 <sup>2</sup>	13	12	37	175
Loan notes <sup>2</sup>	8	2	-	-
Obligations under finance leases	3	3	9	177
Trade and other payables	2,487	-	-	-

<b>Company</b>	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
<b>At 20 March 2010</b>				
Notional overdraft	1	-	-	-
Bank loan <sup>2</sup>	3	3	51	-
Bank loan due 2015 <sup>2</sup>	2	2	7	111
Convertible bond due 2014	8	8	210	-
Amounts due to Group entities <sup>2</sup>	4,496	41	129	940
Other payables	14	-	-	-

<b>At 21 March 2009</b>				
Notional overdraft	8	-	-	-
Bank loan <sup>2</sup>	35	-	-	-
Amounts due to Group entities <sup>2</sup>	3,540	1,139	118	952
Other payables	10	-	-	-

**Assumptions:**

- Cash flows relating to debt linked to inflation rates have been calculated using a RPI of 3.7 per cent for the year ended March 2011 and 3 per cent for future years.
- Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates at 20 March 2010 and 21 March 2009.

**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 20 March 2010</b>				
Commodity contracts				
Inflow	2	-	-	-
Interest rate swaps in a hedging relationship				
Inflow <sup>1</sup>	4	4	8	9
Other interest rate swaps:				
Inflow <sup>1</sup>	2	2	7	3
<b>At 21 March 2009</b>				
Commodity contracts				
Outflow	(7)	-	-	-
Interest rate swaps in a hedging relationship				
Inflow <sup>1</sup>	2	2	7	11
Other interest rate swaps:				
Inflow <sup>1</sup> /(outflow)	2	2	4	(6)

**Assumption:**

<sup>1</sup> The swap rate which matches the remaining term of the interest rate swap at 20 March 2010 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2009: 21 March 2009).

The Group holds commodity contracts at fair values prevailing at the reporting dates. At 20 March 2010, £2 million relating to these financial instruments has been recognised in other comprehensive income (2009: £(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 20 March 2010</b>				
Forward foreign exchange contracts – cash flow hedges				
Outflow	(245)	(32)	-	-
Inflow	252	33	-	-
<b>At 21 March 2009</b>				
Forward foreign exchange contracts – cash flow hedges				
Outflow	(120)	(22)	-	-
Inflow	142	22	-	-

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 20 March 2010, £7 million relating to these financial instruments has been recognised in other comprehensive income (2009: £17 million).

**28 Financial risk management continued****Credit risk**

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

The Group deposits surplus funds with approved banks on the wholesale inter-bank money markets or with money market funds as pooled investments. Under the Group's credit policy investments are limited 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, AAA from both rating agencies.

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

Counterparty	Rating	2010 £m	2009 £m
Financial institutions – Money Market Funds	AAAm/Aaa	599	410
Financial institutions – Money Market Deposits	A1+/P1	40	28
Financial institutions – Money Market Deposits	A1/P1	20	–

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

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

Counterparty	Short term rating	2010 £m	2009 £m
Interest rate swaps	A1+/P1	1	–
Interest rate swaps	A1/P1	50	56
FX forward contracts	A1+/P1	4	4
FX forward contracts	A1/P1	5	18
Commodity contracts	A1+/P1	1	–
Commodity contracts	A1/P1	2	–

**Market risk****a) Currency risk**

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

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

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

A 20 per cent change in the value of the US dollar versus sterling at the balance sheet date with all other variables held constant would have increased or decreased post-tax profit or loss for the year by £2 million (2009: £2 million), as a result of gains or losses on translation of US dollar cash balances and US dollar denominated trade payables and receivables.

A 20 per cent change in the value of euro versus sterling at the balance sheet date with all other variables held constant would have increased or decreased post-tax profit or loss for the year by £1 million (2009: £1 million), as a result of gains or losses on translation of euro cash balances and euro denominated trade payables and receivables.

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

**b) Interest rate risk**

The Group is exposed to interest rate risk on borrowings and deposits. 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 £1,290 million of fixed rate debt (2009: £1,130 million), of which £401 million (2009: £211 million) has been swapped into floating rate debt using interest rate swaps. The remaining £889 million (2009: £919 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 nil (2009: £35 million). The fair value movement in the underlying fixed rate debt has resulted in a charge to the income statement of £2 million (2009: £35 million) which represents the ineffectiveness on the hedging relationship.



## 28 Financial risk management continued

### ii) Cash flow sensitivity for variable rate instruments

The Group holds £745 million of floating rate borrowings (2009: £541 million), comprising £536 million of floating rate swaps (2009: £346 million) and £209 million of floating rate debt (2009: £195 million). An increase of 100 basis points in the floating rate at the balance sheet date would have decreased post-tax profit by £5 million (2009: £3 million) and a decrease of 100 basis points in the floating rate at the balance sheet date would have increased post-tax profit by £3 million (2009: £3 million). Where a decrease in interest rates of 100 basis points would reflect a negative floating rate the assumed rate is nil.

The Group also holds £734 million of interest bearing assets (2009: £478 million). An increase of 100 basis points in the floating rate at the balance sheet date would have increased post-tax profit by £5 million (2009: £3 million) and a decrease of 100 basis points in the floating rate at the balance sheet date would have decreased post-tax profit by £3 million (2009: £3 million). Where a decrease in interest rates of 100 basis points would reflect a negative floating rate the assumed rate is nil.

### iii) Cash flow sensitivity for inflation-linked variable instruments

The Group holds £850 million of inflation-linked debt (2009: £872 million) which is recorded at amortised cost. An increase of 100 basis points in the RPI at the balance sheet date would have increased post-tax profit by £6 million and a decrease of 100 basis points in the RPI at the balance sheet date would have decreased post-tax profit by £1 million (an increase or a decrease of 100 basis points in the RPI 2009: £6 million). Where a decrease in RPI of 100 basis points would reflect a negative rate, the assumed rate is nil.

### iv) Fair value sensitivity for available-for-sale assets

Included within available-for-sale financial assets is £126 million (2009: £90 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 3.1 cent per annum (2009: 2.8 per cent) and a discount rate of ten per cent (2009: ten per cent), (see note 15).

A change of 0.5 per cent in the assumed rate of property rental growth to 2.6 per cent and 3.6 per cent, holding other assumptions constant, would result in values for this asset of £116 million (2009: £81 million) and £136 million (2009: £98 million) respectively. A change of one per cent in the discount rate to nine per cent and 11 per cent, holding other assumptions constant, would result in values of £143 million (2009: £103 million) and £112 million (2009: £79 million) respectively.

### Commodity risk

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

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

The Group uses financial derivatives to hedge fuel exposures on a layered basis using contracts for difference. A 20 per cent change in the fair value of the commodity price at the balance sheet date would have increased or decreased the cash flow equity reserve by £3 million (2009: £2 million).

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

### Capital risk management

The Board's policy is to maintain a strong capital structure consistent with the size and nature of the Group.

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

The Board has a policy to maintain the underlying earnings cover for the ordinary dividend at a range of between 1.5 and 1.75 times.

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

## 29 Financial instruments

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Derivative assets</b>				
<b>Non-current</b>				
Contract for difference – fair value through profit or loss	–	12	–	12
Interest rate swaps – fair value hedge	19	19	19	19
Foreign exchange forward contract – cash flow hedge	1	–	–	–
	<b>20</b>	<b>31</b>	<b>19</b>	<b>31</b>
<b>Current</b>				
Commodity and foreign exchange forward contract – cash flow hedge	11	22	–	–
Interest rate swaps – fair value through profit or loss	32	37	32	37
	<b>43</b>	<b>59</b>	<b>32</b>	<b>37</b>
<b>Derivative liabilities</b>				
<b>Current</b>				
Commodity and foreign exchange forward contract – cash flow hedge	(1)	(7)	–	–
Interest rate swaps – fair value through profit or loss	(40)	(49)	(40)	(49)
	<b>(41)</b>	<b>(56)</b>	<b>(40)</b>	<b>(49)</b>
<b>Non-current</b>				
Interest rate swaps – fair value through profit or loss	–	(8)	–	–
Commodity forward contract – fair value through profit or loss	(2)	–	–	–
	<b>(2)</b>	<b>(8)</b>	<b>–</b>	<b>–</b>

**Foreign exchange forward contracts – cash flow hedges**

At 20 March 2010, the Group held a portfolio of foreign exchange forward contracts with a fair value of £9 million (2009: £22 million) to hedge its future foreign currency denominated trade purchases. The Group had purchased €115 million (2009: €55 million) and sold sterling at rates ranging from 1.10 to 1.18 (2009: 0.78 to 0.94) with maturities from March 2010 to March 2011 (2009: March 2009 to March 2010) and purchased US\$273 million (2009: US\$161 million) and sold sterling at rates ranging from 1.45 to 1.70 (2009: 1.40 to 2.00) with maturities from March 2010 to June 2011 (2009: March 2009 to September 2010).

At 20 March 2010, an unrealised gain of £7 million (2009: gain of £17 million) is included in equity in respect of the forward contracts. This gain will be transferred to the income statement over the next 15 months. During the year a credit to the profit or loss of £8 million was transferred from the cash flow hedge equity reserve and included in cost of sales (2009: credit of £31 million).

**Commodity contracts – cash flow hedges**

At 20 March 2010, the Group held a portfolio of commodity forward contracts with a fair value of £2 million (2009: £(7) million) to hedge its future own use fuel consumption over the next 12 months.

At 20 March 2010, an unrealised gain of £2 million (2009: loss of £5 million) is included in equity in respect of these contracts. This loss will be transferred to the income statement over the next 12 months.

**Interest rate swaps – fair value hedge**

The Group holds a portfolio of £401 million of interest rate swaps (2009: £211 million) to hedge a portion of the fixed rate secured loan due in 2018 and the £190 million convertible bond due 2014. Under the terms of the swaps, the Group receives fixed interest and pays floating rate interest at a fixed spread above three-month LIBOR. The notional principal amount of the one of the interest rate swaps amortises from £211 million to £111 million from April 2016 to April 2018.

**29 Financial instruments continued****Derivative financial instruments - fair value through profit and loss**

At 20 March 2010, the Group held a portfolio of interest rate swaps at fair value through profit or loss which convert £256 million of the Group's floating rate obligations into fixed rates (2009: £256 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 £75 million swap under which the counterparty has a once only option to cancel the swap or double the notional principal value of the swap on 19 July 2010 and thereafter a recurring option to cancel the swap on quarterly dates through to August 2030.

The Group holds a portfolio of non-designated interest rate swaps which convert £391 million of fixed rate borrowings into floating rates (2009: £391 million). Under the terms of the swap the Group receives fixed rates of interest and pays interest at various spreads above three-month LIBOR until 19 April 2018.

**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 creditors of £11 million (2009: £9 million) and US dollar denominated trade creditors of £11 million (2009: £15 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, receivables, overdrafts, payables and loans of a maturity of less than one year are assumed to approximate to their book values, and are excluded from the analysis below.

	Group Carrying amount £m	Group Fair value £m	Company Carrying amount £m	Company Fair value £m
<b>2010</b>				
<b>Financial assets</b>				
Amounts due from Group entities	-	-	1,080	1,170
Other receivables	55	55	55	55
<b>Financial liabilities</b>				
Amounts due to Group entities	-	-	(821)	(881)
Secured loans <sup>1</sup>	(1,988)	(2,208)	-	-
Convertible bond <sup>2</sup>	(172)	(175)	(172)	(175)
Bank loans due 2015	(146)	(161)	(103)	(103)
Bank loan	(50)	(50)	(50)	(50)
Obligations under finance leases	(59)	(59)	-	-
<b>2009</b>				
<b>Financial assets</b>				
Amounts due from Group entities	-	-	1,005	1,110
Other receivables	55	55	55	55
<b>Financial liabilities</b>				
Amounts due to Group entities	-	-	(2,037)	(2,087)
Secured loans <sup>1</sup>	(2,047)	(2,224)	-	-
Bank loans due 2015	(162)	(191)	-	-
Loan notes	(10)	(10)	-	-
Obligations under finance leases	(48)	(48)	-	-

1 Includes £211 million accounted for as a fair value hedge (2009: £211 million).

2 Includes £190 million accounted for as a fair value hedge.

**29 Financial instruments** continued**Fair value measurements recognised in the statement of financial position**

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).

<b>Group</b>	2010 Level 1 £m	2010 Level 2 £m	2010 Level 3 £m	2010 Total £m
<b>Available-for-sale financial assets</b>				
Interest bearing financial assets	-	24	-	<b>24</b>
Other financial assets	-	-	126	<b>126</b>
<b>Financial assets at FVTPL</b>				
Derivative financial assets	-	63	-	<b>63</b>
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities	-	(43)	-	<b>(43)</b>

<b>Company</b>	2010 Level 1 £m	2010 Level 2 £m	2010 Level 3 £m	2010 Total £m
<b>Available-for-sale financial assets</b>				
Interest bearing financial assets	-	24	-	<b>24</b>
<b>Financial assets at FVTPL</b>				
Derivative financial assets	-	51	-	<b>51</b>
<b>Financial liabilities at FVTPL</b>				
Derivative financial liabilities	-	(40)	-	<b>(40)</b>

There were no transfers between Level 1 and Level 2 during the year.

**Reconciliation of Level 3 fair value measurements of financial assets:**

	Other financial assets 2010 £m
Opening balance	90
Total gains or losses:	
In profit or loss	-
In other comprehensive income	36
<b>Closing balance</b>	<b>126</b>

**29 Financial instruments** continued**Financial assets and liabilities by category**

Set out below is the accounting classification of each class of financial assets and liabilities as at 20 March 2010 and 21 March 2009.

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>2010</b>						
Cash and cash equivalents	837	-	-	-	-	837
Trade and other receivables	207	-	-	-	-	207
Available-for-sale financial assets	-	150	-	-	-	150
Trade and other payables	-	-	-	-	(2,463)	(2,463)
Current borrowings	-	-	-	-	(73)	(73)
Non-current borrowings	-	-	-	-	(2,357)	(2,357)
Derivative financial instruments						
Cash flow hedges <sup>1</sup>	-	-	-	11	-	11
Interest rate swaps <sup>2</sup>	-	-	(8)	19	-	11
Commodity contract	-	-	(2)	-	-	(2)
	<b>1,044</b>	<b>150</b>	<b>(10)</b>	<b>30</b>	<b>(4,893)</b>	<b>(3,679)</b>
<b>2009</b>						
Cash and cash equivalents	627	-	-	-	-	627
Trade and other receivables	187	-	-	-	-	187
Available-for-sale financial assets	-	97	-	-	-	97
Trade and other payables	-	-	-	-	(2,490)	(2,490)
Current borrowings	-	-	-	-	(154)	(154)
Non-current borrowings	-	-	-	-	(2,177)	(2,177)
Derivative financial instruments						
Cash flow hedges <sup>1</sup>	-	-	-	15	-	15
Interest rate swaps <sup>2</sup>	-	-	(20)	19	-	(1)
Contract for difference	-	-	12	-	-	12
	<b>814</b>	<b>97</b>	<b>(8)</b>	<b>34</b>	<b>(4,821)</b>	<b>(3,884)</b>

1 Cash flow hedges are deferred through equity.

2 Interest rate swaps used for hedging are at fair value through profit or loss.

**Company**

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>2010</b>						
Cash and cash equivalents	670	-	-	-	-	670
Trade and other receivables	1,681	-	-	-	-	1,681
Available-for-sale financial assets	-	24	-	-	-	24
Trade and other payables	-	-	-	-	(5,281)	(5,281)
Current borrowings	-	-	-	-	(3)	(3)
Non-current borrowings	-	-	-	-	(323)	(323)
Derivative financial instruments						
Interest rate swaps <sup>1</sup>	-	-	(8)	19	-	11
	<b>2,351</b>	<b>24</b>	<b>(8)</b>	<b>19</b>	<b>(5,607)</b>	<b>(3,221)</b>
<b>2009</b>						
Cash and cash equivalents	460	-	-	-	-	460
Trade and other receivables	1,430	-	-	-	-	1,430
Trade and other payables	-	-	-	-	(5,526)	(5,526)
Current borrowings	-	-	-	-	(43)	(43)
Derivative financial instruments						
Interest rate swaps <sup>1</sup>	-	-	(12)	19	-	7
Contract for difference	-	-	12	-	-	12
	<b>1,890</b>	<b>-</b>	<b>-</b>	<b>19</b>	<b>(5,569)</b>	<b>(3,660)</b>

1 Interest rate swaps used for hedging are at fair value through profit or loss.

**29 Financial instruments continued****Financial instruments income, expense, gains and losses**

Set out below are the accounting classifications of income, expense, gains and losses experienced on financial instruments in the 52 weeks to 20 March 2010 and 21 March 2009.

	2010 £m	2009 £m
<b>At fair value through profit or loss, held for trading</b>		
Net gains and losses	36	15
<b>Loans and receivables</b>		
Net gains and losses	1	(5)
Interest income	4	9
<b>Available for sale</b>		
Net gain transferred on sale	-	-
<b>Other financial liabilities</b>		
Net gains and losses	(30)	(14)
Interest expense	(110)	(137)

**30 Retirement benefit obligations**

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

The defined benefit schemes were subject to a triennial valuation carried out by Towers Watson, the schemes' independent actuaries, at March 2009 on the projected unit basis. The results of this valuation are expected to be finalised by June 2010. The retirement benefit obligations at 20 March 2010 have been calculated, where appropriate, on a basis consistent with this valuation.

The unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

The amounts recognised in the balance sheet are as follows:

	2010 £m	2009 £m
Present value of funded obligations	(4,649)	(3,610)
Fair value of plan assets	4,237	3,310
	(412)	(300)
Present value of unfunded obligations	(9)	(9)
Retirement benefit obligations	(421)	(309)
Deferred income tax asset	118	87
Net retirement benefit obligations	(303)	(222)

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

### 30 Retirement benefit obligations continued

#### a) Income statement

The amounts recognised in the income statement are as follows:

	2010 £m	2009 £m
Current service cost – funded schemes	(48)	(50)
Current service cost – unfunded scheme	–	(1)
Past service cost	(1)	(2)
Included in employee costs (note 7)	(49)	(53)
Interest cost on pension scheme liabilities	(230)	(249)
Expected return on plan assets	206	273
Total included in finance (expense)/income (note 6)	(24)	24
Total income statement expense	(73)	(29)

Of the expense recognised in operating profit, £44 million (2009: £48 million) is included in cost of sales and £5 million (2009: £5 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was a gain of £921 million (2009: a loss of £876 million).

#### b) Other comprehensive income

The amounts recognised in the statement of other comprehensive income are as follows:

	2010 £m	2009 £m
Net actuarial losses recognised during the year	(173)	(903)
Cumulative actuarial losses recognised	(482)	(309)

#### c) Valuations

The movements in the funded retirement benefit obligations are as follows:

	2010 £m	2009 £m
Beginning of year	(3,610)	(3,668)
Current service cost	(48)	(50)
Past service cost	(1)	(2)
Interest cost	(230)	(249)
Contributions by plan participants	(7)	(7)
Actuarial (losses)/gains	(888)	246
Benefits paid	135	120
End of year	(4,649)	(3,610)

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

	2010 £m	2009 £m
Beginning of year	3,310	4,171
Expected return on plan assets	206	273
Actuarial gains/(losses)	715	(1,149)
Contributions by employer	134	128
Contributions by plan participants	7	7
Benefits paid	(135)	(120)
End of year	4,237	3,310

**30 Retirement benefit obligations** continued

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

	2010 %	2009 %
Equities	42	39
Bonds	49	50
Property	2	3
Other	7	8
	<b>100</b>	<b>100</b>

**d) Assumptions**

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

	2010 %	2009 %
Discount rate	5.8	6.5
Inflation rate	3.4	2.8
Future salary increases	3.4	2.8
Future pension increases	2.2–3.4	2.0–2.8

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 schemes' liabilities.

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.

	2010 Fair value £m	2010 Expected return %	2009 Fair value £m	2009 Expected return %
Equities	1,787	8.0	1,279	8.0
Bonds	2,074	4.9	1,662	5.1
Property	101	7.0	105	7.0
Other	275	4.3–7.0	264	4.0–7.0
	<b>4,237</b>	<b>6.4</b>	<b>3,310</b>	<b>6.3</b>

The combined life expectancy for both the schemes operated at the balance sheet date for a pensioner at normal retirement age (now 65 years for men and women) is as follows:

	2010 years	2009 years
Male pensioner	22.2	21.7
Female pensioner	23.8	23.2

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 2009 onwards of one per cent per annum.



**30 Retirement benefit obligations continued****e) Sensitivities**

An increase of 0.5 per cent in the discount rate would decrease the retirement benefit obligations by £426 million. A decrease of 0.5 per cent in the discount rate would increase the retirement benefit obligations by £479 million.

An increase of 0.5 per cent in the inflation rate would increase the retirement benefit obligations by £404 million. A decrease of 0.5 per cent in the inflation rate would decrease the retirement benefit obligations by £287 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £97 million.

**f) Experienced gains and losses**

The history of experience adjustments on the plans for the current and previous financial years is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of retirement benefit obligations	<b>(4,658)</b>	(3,619)	(3,676)	(4,401)	(4,368)
Fair value of plan assets	<b>4,237</b>	3,310	4,171	4,298	3,710
Retirement benefit (obligations)/assets	<b>(421)</b>	(309)	495	(103)	(658)
Experience gain/(loss) on plan liabilities	<b>116</b>	171	(79)	(236)	(27)
Experience gain/(loss) on plan assets	<b>715</b>	(1,149)	(380)	89	428

The expected contributions to defined benefit schemes for the next financial year beginning 21 March 2010 are £103 million (2009: £93 million).

**31 Share-based payments**

The Group recognised £42 million (2009: £40 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £1 million (2009: 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 20 March 2010, the carrying amount of national insurance contributions payable was £5 million (2009: £13 million) of which £1 million (2009: £3 million) was in respect of vested grants.

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 20 March 2010, UK employees held 20,980 five-year savings contracts (2009: 21,416) in respect of options over 21.0 million shares (2009: 22.0 million) and 33,407 three-year savings contracts (2009: 29,281) in respect of options over 20.4 million shares (2009: 18.0 million).

A reconciliation of option movements is shown below:

	2010 Number of options million	2010 Weighted average exercise price pence	2009 Number of options million	2009 Weighted average exercise price pence
Outstanding at beginning of year	<b>40.0</b>	<b>262</b>	35.9	278
Granted	<b>11.5</b>	<b>273</b>	15.7	224
Forfeited	<b>(4.3)</b>	<b>269</b>	(5.5)	292
Exercised	<b>(5.1)</b>	<b>235</b>	(6.1)	233
Expired	<b>(0.7)</b>	<b>236</b>	-	-
Outstanding at end of year	<b>41.4</b>	<b>268</b>	40.0	262
Exercisable at end of year	<b>3.2</b>	<b>300</b>	2.4	235

**31 Share-based payments continued**

The weighted average share price during the period for options exercised over the year was 332 pence (2009: 293 pence). Details of options at 20 March 2010 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2010 million	Options outstanding 2009 million
17 December 2003 (5 year period)	31 August 2009	241	–	0.9
15 December 2004 (5 year period)	31 August 2010	217	0.8	3.7
15 December 2005 (3 year period)	31 August 2009	231	–	1.5
15 December 2005 (5 year period)	31 August 2011	231	4.1	4.5
15 December 2006 (3 year period)	31 August 2010	328	2.4	3.2
15 December 2006 (5 year period)	31 August 2012	328	2.8	3.1
20 December 2007 (3 year period)	31 August 2011	331	3.6	4.3
20 December 2007 (5 year period)	31 August 2013	331	2.9	3.3
17 December 2008 (3 year period)	31 August 2012	224	7.8	9.1
17 December 2008 (5 year period)	31 August 2014	224	5.7	6.4
10 December 2009 (3 year period)	31 August 2013	273	6.7	–
10 December 2009 (5 year period)	31 August 2015	273	4.6	–
			<b>41.4</b>	<b>40.0</b>

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:

	2010	2009
Share price at grant date (pence)	341	280
Exercise price (pence)	273	224
Expected volatility – 3 year period (%)	38.3	35.7
– 3 year period (%)	31.3	30.4
Option life – 3 year period (years)	3.2	3.2
– 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	3.7	3.6
Risk-free interest rate – 3 year period (%)	3.7	3.8
– 5 year period (%)	4.6	4.0
Fair value per option – 3 year period (pence)	107	86
– 5 year period (pence)	107	85

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.

**b) Colleague Share Option Plan ("CSOP")**

The Colleague Share Option Plan operates under the rules of the HMRC Approved Discretionary Share Option Scheme. Under the CSOP, participants are granted options to purchase shares of the Company at a stated exercise price. The exercise of options is conditional upon participants remaining in the employment of the Group for a three-year period after date of grant. Colleagues leaving employment for certain reasons have six months from their leaving date to exercise their options.

At 20 March 2010, a total of 1,253 UK employees (2009: 10,034) participated in the plan and held options over 0.4 million shares (2009: 3.2 million). Options are exercisable between three and ten years from the date of the grant of option. It is intended that there will be no further options granted under this plan.

A reconciliation of option movements is shown below:

	2010 Number of options million	2010 Weighted average exercise price pence	2009 Number of options million	2009 Weighted average exercise price pence
Outstanding at beginning of year	3.2	363	3.4	363
Forfeited	(0.1)	352	(0.2)	356
Expired	(2.7)	378	–	–
Outstanding at end of year	0.4	272	3.2	363
Exercisable at end of year	0.4	272	3.2	363

The weighted average share price during the period for options exercised over the year was 325 pence (2009: 372 pence).

**31 Share-based payments continued**

Details of options at 20 March 2010 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2010 million	Options outstanding 2009 million
2 August 1999	1 August 2009	378	–	2.7
2 June 2000	1 June 2010	272	<b>0.4</b>	0.5
			<b>0.4</b>	3.2

**c) Executive Share Option Plan ("ESOP")**

Under the Executive Share Option Plan, participants were granted options to purchase shares in the Company at a stated exercise price. The maximum annual option award was two times basic salary and the grants were agreed by the Remuneration Committee according to the assessed performance and potential of participants.

The exercise of options is conditional upon a performance target based on the growth in the Company's underlying earnings per share ("EPS") relative to inflation over a three-year period. EPS is measured against a fixed starting point over the performance period beginning with the year in which the option was granted. To the extent that the condition is not satisfied in full after three years, it will be retested on a fixed-point basis over four and then five financial years. To the extent the condition is not met after five financial years, the option will lapse.

Once the options vest, participants remaining in the Group's employment or leaving for certain reasons, are entitled to exercise the options between vesting date (normally at the end of the three-year performance period) and the option expiry date, which is ten years from date of grant.

It is intended that there will be no further options granted under this plan.

A reconciliation of option movements is shown below:

	2010 Number of options million	2010 Weighted average exercise price pence	2009 Number of options million	2009 Weighted average exercise price pence
Outstanding at beginning of year	<b>2.4</b>	<b>387</b>	4.1	411
Forfeited	<b>(0.6)</b>	<b>321</b>	(0.4)	356
Expired	<b>(0.3)</b>	<b>378</b>	(1.3)	482
Outstanding at end of year	<b>1.5</b>	<b>397</b>	2.4	387
Exercisable at end of year	<b>1.5</b>	<b>397</b>	2.2	395

The weighted average share price during the period for options exercised over the year was 336 pence (2009: 321 pence).

Details of options at 20 March 2010 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2010 million	Options outstanding 2009 million
2 August 1999	1 August 2009	378	–	0.3
2 June 2000	1 June 2010	272	<b>0.2</b>	0.2
7 June 2001	6 June 2011	427	<b>0.6</b>	0.8
26 July 2001	25 July 2011	407	<b>0.7</b>	0.9
20 May 2004	19 May 2014	275	–	0.2
			<b>1.5</b>	2.4

**31 Share-based payments continued****d) All-Employee Share Ownership Plan**

(i) In June 2003, under the All-Employee Share Ownership Plan, free shares were awarded to UK employees with more than 12 months' continuous service. The free shares are being held in a trust on behalf of participants and will be forfeited if participants cease to remain in the Group's employment for a period of three years. Shares are released to participants within the first three years for certain reasons. After the three-year period, the shares continue to be held by the trust for a further holding period of two years, unless they are released to participants upon cessation of employment with the Group.

A reconciliation of shares held in the trust is shown below:

	Number of shares 2010 million	Number of shares 2009 million
Outstanding at beginning of year	0.4	1.4
Released to participants	–	(1.0)
Outstanding at end of year	0.4	0.4

(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. Under this scheme, 229,431 matching shares have been awarded, of which 212,115 are outstanding at 20 March 2010 (2009: 95,258 matching shares).

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:

	2010	2009
Share price at grant date (pence)	326	292
Exercise price (pence)	–	–
Expected volatility (%)	37.9	26.8
Option life (years)	3.0	3.0
Expected dividends (expressed as dividend yield %)	3.8	2.6
Risk-free interest rate (%)	3.6	5.7
Fair value per option (pence)	302	271

The expected volatility is based on the standard deviation of the Group's share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

**e) J Sainsbury plc Share Plan 2005**

Under the J Sainsbury plc Share Plan 2005, shares were awarded to participants on the conditional basis that the performance targets were achieved within the four-year performance period, from the financial year beginning 27 March 2005 until the financial year ended 21 March 2009. The levels of awards were scaled according to seniority and there was an opportunity for Executive Directors and eligible Operating Board members to make a personal investment of up to 50 per cent of salary in the plan.

The awards vested if stretching sales and earnings per share targets are achieved. The relevant performance multiplier, which is on a sliding scale up to a maximum of five times, was to be calculated and applied to the core award of shares, as well as the personal investment shares i.e. shares acquired by Executive Directors and eligible Operating Board members. Further, there was an opportunity for partial vesting of up to half the award, if the accelerated performance targets have been met at the end of year three (i.e. financial year ending March 2008). No awards would vest unless threshold levels of growth in both sales and EPS are achieved.

Once performance targets were achieved, options were granted to participants remaining in the Group's employment or leaving for certain reasons to acquire the shares awarded to them, at nil cost. The options expired a year after the end of the four-year performance period. Dividends accrued on the shares that vest in the form of additional shares.

In order to participate in the plan, participants agreed to surrender options granted to them under the Company's Executive Share Option Plan in 2002, 2003 and 2004.

In March 2008, the three-year accelerated performance targets were met and 50 per cent of achieved awards became exercisable. In May 2008 a total number of 15.5 million shares were granted to employees as a result of achieving the performance target, of which 12.4 million options were exercised during the year ended 21 March 2009. In May 2009, the performance targets were met and the remaining 50 per cent of achieved awards became exercisable, so a further 16.4 million shares were granted. During the year, 19.3 million options were exercised. The weighted average share price during the year for options exercised was 325 pence (2009: 332 pence).

**31 Share-based payments continued**

A reconciliation of the number of shares is shown below:

	Number of shares 2010 million	Number of shares 2009 million
Outstanding at beginning of year	2.9	–
Granted	16.4	15.5
Exercised	(19.3)	(12.4)
Expired	–	(0.2)
Outstanding at end of year	–	2.9

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

	Number of shares 2010 million	Number of shares 2009 million
Outstanding at beginning of year	6.0	6.1
Forfeited	–	(0.1)
Released to participants	(6.0)	–
Outstanding at end of year	–	6.0

Details of shares conditionally allocated at 20 March 2010 are set out below:

Date of conditional award	Shares conditionally allocated 2010 million	Shares conditionally allocated 2009 million
13 July 2005	–	6.0

**f) Long-Term Incentive Plan 2006**

Under the Long-Term Incentive Plan 2006, shares are conditionally awarded to the top 1,000 managers in the Company, from the Chief Executive to the supermarket store managers. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

The awards will vest if the threshold levels of two co-dependent performance conditions - Return on Capital Employed ("ROCE") and growth in cash flow per share, are achieved over the three-year performance period. The core award can grow by up to four times, dependent on the level of performance. Straight-line vesting will apply if performance falls between two points.

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.

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

**31 Share-based payments** continued

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

	Number of shares 2010 million	Number of shares 2009 million
Outstanding at beginning of year	7.4	4.5
Conditionally allocated	3.5	3.3
Forfeited	(0.3)	(0.4)
Released to participants	(2.1)	–
Outstanding at end of year	8.5	7.4

Details of shares conditionally awarded at 20 March 2010 are set out below:

Date of conditional award	Shares conditionally allocated 2010 million	Shares conditionally allocated 2009 million
13 July 2006	0.1	2.3
20 June 2007	1.8	1.9
28 May 2008	3.1	3.2
24 June 2009	3.5	–
	8.5	7.4

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:

	2010	2009
Share price at grant date (pence)	315	346
Exercise price (pence)	–	–
Expected volatility (%)	48.1	38.8
Option life (years)	4.2	4.2
Expected dividends (expressed as dividend yield %)	–	–
Risk-free interest rate (%)	3.7	4.9
Fair value per option (pence)	315	346

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 2009, the three-year performance targets were met achieving a multiplier of 3.7. During the year, a total number of 8.3 million shares were granted to employees as a result of achieving the performance target and 7.9 million options were exercised. The weighted average share price during the year for options exercised was 330 pence.

### 31 Share-based payments continued

#### g) Deferred Annual Bonus Plan

The Deferred Annual Bonus Plan applies to the top levels of management including Executive Directors and currently comprises around 40 participants in total. The first deferral took place in June 2007, in respect of the bonus awards for the financial year ended 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 measures the Company's TSR performance over a three-year period against a bespoke UK and European retail comparator group comprising: Tesco, Morrisons, DSG International, Kingfisher, Home Retail Group, Marks & Spencer, Next, Ahold, Carrefour, Casino, Delhaize and Metro. Alliance Boots was removed from the comparator group following its de-listing.

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

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

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

	Number of shares 2010 million	Number of shares 2009 million
Outstanding at beginning of year	1.1	0.6
Granted	0.5	0.5
Lapsed	(0.1)	–
Outstanding at end of year	1.5	1.1

Details of shares allocated at 20 March 2010 are set out below:

	Shares conditionally allocated 2010 million	Shares conditionally allocated 2009 million
20 June 2007	0.6	0.6
20 June 2008	0.5	0.5
24 June 2009	0.4	–
	1.5	1.1

### 32 Related party transactions

#### Group

##### a) Key management personnel

The key management personnel of the Group comprises members of the J Sainsbury plc Board of Directors and the Operating Board.

The key management personnel compensation is as follows:

	2010 £m	2009 £m
Short-term employee benefits	17	11
Post-employment employee benefits	1	1
Share-based payments	8	10
	<b>26</b>	<b>22</b>

Details of transactions, in the normal course of business, with the key management personnel are provided below. The transactions occurred with Sainsbury's Bank plc. For this purpose, key management personnel include Group key management personnel and members of their close family.

	Credit card balances Number of key management personnel	Credit card balances £m	Saving deposit accounts Number of key management personnel	Saving deposit accounts £m
At 22 March 2009	5	-	7	(1)
Amounts advanced/(received) <sup>1</sup>	6	-	3	(1)
Interest earned	1	-	9	-
Amounts withdrawn	6	-	5	1
<b>At 20 March 2010</b>	<b>5</b>	<b>-</b>	<b>6</b>	<b>(1)</b>
At 23 March 2008	4	-	2	(1)
Amounts advanced/(received) <sup>1</sup>	6	-	5	(1)
Interest earned	2	-	7	-
Amounts withdrawn	6	-	3	1
At 21 March 2009	<b>5</b>	<b>-</b>	<b>7</b>	<b>(1)</b>

<sup>1</sup> Includes existing balances of new appointments.

##### b) Joint ventures

###### Transactions with joint ventures

For the 52 weeks to 20 March 2010, the Group entered into various transactions with joint ventures as set out below.

	2010 £m	2009 £m
Sales of inventories	3	3
Management services provided	14	17
Interest income received in respect of interest bearing loans	1	3
Dividend income received	2	-
Sale of assets	-	34
Management services received	-	(1)
Rental expenses paid	(72)	(67)

###### Year-end balances arising from transactions with joint ventures

	2010 £m	2009 £m
<b>Receivables</b>		
Other receivables	2	2
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	1	-
<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.



**32 Related party transactions continued****Company****a) Key management personnel**

The key management personnel of the Company comprises members of the J Sainsbury plc Board of Directors. The Directors do not receive any remuneration from the Company (2009: £nil) as their emoluments are borne by subsidiaries. The Company did not have any transactions with the Directors during the financial year (2009: £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**

	2010 £m	2009 £m
<b>Loans and advances given to, and dividend income received from subsidiaries</b>		
Loans and advances given	310	402
Loans and advances repaid by subsidiaries	(103)	(423)
Interest income received in respect of interest bearing loans and advances	126	119
Dividend income received	268	250
<b>Loans and advances received from subsidiaries</b>		
Loans and advances received	(350)	(944)
Loans and advances repaid	377	689
Interest expense paid in respect of interest bearing loans and advances	(69)	(201)

**Year-end balances arising from transactions with subsidiaries**

	2010 £m	2009 £m
<b>Receivables</b>		
Loans and advances due from subsidiaries	1,625	1,374
<b>Payables</b>		
Loans and advances due to subsidiaries	(5,267)	(5,516)

**c) Joint ventures****Transactions with joint ventures**

For the 52 weeks to 20 March 2010, the Company entered into transactions with joint ventures as set out below.

	2010 £m	2009 £m
<b>Services and loans provided to joint ventures</b>		
Management services received	-	(1)
Interest income received in respect of interest bearing loans	1	3
Dividend income received	2	-

**Year-end balances arising from transactions with joint ventures**

	2010 £m	2009 £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.

### 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.

	Land and buildings 2010 £m	Land and buildings 2009 £m	Other leases 2010 £m	Other leases 2009 £m
Commitments under non-cancellable operating leases payable as follows:				
Within 1 year	372	348	49	48
Within 2 to 5 years inclusive	1,449	1,358	74	77
After 5 years	5,343	5,253	4	–
	<b>7,164</b>	6,959	<b>127</b>	125

The Group sublets certain leased properties and the total future minimum sublease payments to be received under non-cancellable subleases at 20 March 2010 are £267 million (2009: £264 million).

The Company does not have any operating lease commitments (2009: £nil).

### 34 Capital commitments

The Group has entered into contracts totalling £216 million (2009: £327 million) for future capital expenditure not provided for in the financial statements.

The Company does not have any capital commitments (2009: £nil).

### 35 Financial commitments

The financial commitments of Sainsbury's Bank plc, a 50 per cent joint venture of the Group, are set out below.

The amounts noted below indicate the volume of business outstanding at the balance sheet date in respect of the off-balance sheet financial instruments that commit Sainsbury's Bank plc to extend credit to customers.

	2010 £m	2009 £m
Commitments to extend credit	<b>32.7</b>	25.5

# Five year financial record

	2010	2009	2008	2007	2006
<b>Financial results (£m)</b>					
<b>Revenue<sup>1</sup></b>	<b>21,421</b>	20,383	19,287	18,518	17,317
<b>Underlying operating profit</b>					
Retailing	671	616	535	429	352
Sainsbury's Bank	-	-	-	2	(10)
	<b>671</b>	616	535	431	342
Underlying net finance costs <sup>2,3</sup>	(79)	(113)	(99)	(92)	(98)
Share of post-tax profit/(loss) from joint ventures	18	16	(2)	-	-
<b>Underlying profit before tax<sup>2,3,4</sup></b>	<b>610</b>	519	434	339	244
Increase on previous year (%)	17.5	19.6	28.0	38.9	2.5
<b>Underlying operating profit margin excluding Sainsbury's Bank (%)</b>	<b>3.36</b>	3.26	3.00	2.54	2.24
<b>Earnings per share</b>					
Underlying basic (pence) <sup>2,4</sup>	23.9	21.2	17.4	13.0	9.5
Increase on previous year (%)	12.7	21.8	33.8	36.8	21.8
Proposed dividend per share (pence) <sup>5</sup>	14.20	13.20	12.00	9.75	8.00
<b>Retail statistics for UK food retailing</b>					
<b>Number of outlets at financial year-end excluding checkout space<sup>6</sup></b>					
Sainsbury's Supermarkets					
over 55,000 sq ft sales area	45	34	24	20	15
40,001 – 55,000 sq ft sales area	125	130	130	124	116
25,001 – 40,000 sq ft sales area	156	153	161	167	177
15,000 – 25,000 sq ft sales area	115	108	100	98	92
under 15,000 sq ft sales area	431	367	408	379	352
	<b>872</b>	792	823	788	752
<b>Sales area excluding checkout space (000 sq ft)</b>					
Sainsbury's Supermarkets <sup>6</sup>	17,750	16,703	16,191	15,715	15,166
Net increase on previous year:					
Sainsbury's Supermarkets <sup>6</sup> (%)	6.3	3.2	3.0	3.6	1.8
New Sainsbury's Supermarkets openings <sup>6</sup>	89	29	35	40	34
<b>Sainsbury's Supermarkets' sales intensity</b>					
<b>Excluding checkout space (including VAT)<sup>6,7</sup></b>					
Per square foot (£ per week)	20.42	20.01	19.69	19.30	18.40

1 Includes VAT at Sainsbury's Supermarkets.

2 Previous periods are restated for the change in the definition of underlying profit before tax as described in note 3.

3 Net finance costs before financing fair value movements, IAS 19 pension financing (charge)/credit and one-off items that are material and infrequent in nature.

4 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.

5 Total proposed dividend in relation to the financial year.

6 Includes all convenience stores and convenience acquisitions.

7 The 2010 and 2009 figures have been adjusted for the effect of the VAT change from 17.5 per cent to 15 per cent on 1 December 2008 to 31 December 2009 to ensure the data is presented on a like-for-like basis.

# Additional shareholder information

## End of year information at 20 March 2010

Number of shareholders:	<b>121,423</b> (2009: 126,423)
Number of shares in issue:	<b>1,860,610,824</b> (2009: 1,753,155,824)

## By size of holding

	Shareholders % 2010	Shareholders % 2009	Shares % 2010	Shares % 2009
500 and under	<b>64.60</b>	67.35	<b>0.48</b>	0.55
501 to 1,000	<b>13.80</b>	12.60	<b>0.64</b>	0.68
1,001 to 10,000	<b>20.60</b>	18.58	<b>3.48</b>	3.40
10,001 to 100,000	<b>1.22</b>	1.01	<b>1.97</b>	1.87
100,001 to 1,000,000	<b>0.33</b>	0.33	<b>7.40</b>	8.52
Over 1,000,000	<b>0.17</b>	0.13	<b>86.03</b>	84.98
	<b>100.00</b>	100.00	<b>100.00</b>	100.00

## By category of shareholder

	Shareholders % 2010	Shareholders % 2009	Shares % 2010	Shares % 2009
Individual and other shareholders	<b>94.14</b>	95.21	<b>12.08</b>	12.38
Insurance companies	<b>0.05</b>	0.03	<b>0.03</b>	0.02
Banks and Nominees	<b>5.43</b>	4.38	<b>81.22</b>	78.13
Investment Trusts	<b>0.03</b>	0.03	<b>0.23</b>	0.01
Pension Funds	<b>0.01</b>	0.01	<b>0.00</b>	0.00
Other Corporate Bodies	<b>0.34</b>	0.34	<b>6.43</b>	9.46
	<b>100.00</b>	100.00	<b>100.00</b>	100.00

## Annual Report and Financial Statements

The Annual Report and Financial Statements is published on our website at [www.j-sainsbury.co.uk/report2010](http://www.j-sainsbury.co.uk/report2010) 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 investor.relations2@sainsburys.co.uk.

## Annual General Meeting ("AGM")

The AGM will be held at 11.00am on Wednesday, 14 July 2010 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, Bridgewater 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

Starting in July 2010, the Company will adopt the Consolidated Tax Voucher ("CTV") process in relation to future dividend payments. This means that rather than those shareholders who currently receive their dividend direct into their bank account receiving a separate tax voucher for each dividend payment made, they will receive a CTV once a year, detailing all payments made throughout that year.

The first CTVs will be despatched with the January 2011 dividend mailing to shareholders and will contain the tax and payment information for dividends paid during the tax year 2010/2011.

## 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 32,562 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	25 June 2010
DRIP shares purchased for participants	16 July 2010
DRIP share certificates issued	28 July 2010

## 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.

#### 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 $\frac{1}{2}$  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: Anna Tee, Head of Investor Relations, J Sainsbury plc, Store Support Centre, 33 Holborn, London EC1N 2HT.

#### American Depository Receipts ("ADRs")

The Company has a sponsored Level I 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.

### Financial calendar 2010/11

#### Dividend payments

##### Ordinary dividend:

Ex-dividend date	19 May 2010
Record date	21 May 2010
Final dividend payable	16 July 2010
Interim dividend payable	January 2011

#### Other dates

Annual General Meeting – London	14 July 2010
Interim results announced	10 November 2010
Interim report available	November 2010
Annual General Meeting – London	13 July 2011

#### Registered office

J Sainsbury plc  
33 Holborn  
London EC1N 2HT  
Registered number 185647

#### Auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

#### Solicitors

Linklaters  
One Silk Street  
London EC2Y 8HQ

#### Stockbrokers

UBS  
1 Finsbury Avenue  
London EC2M 2PP

Morgan Stanley  
25 Cabot Square  
Canary Wharf  
London E14 4QA

### Electronic communications for shareholders

The Company has set up a facility for shareholders to take advantage of electronic communications.

#### If you would like to:

- view the Annual Report and Accounts on the day it is published
- receive electronic notification of the availability of future shareholder information (you must register your email for this service)
- check the balance and current value of your shareholding and view your dividend history
- submit your vote online prior to a general meeting

For more information, to view the terms and conditions and to register for the service, log on to [www.j-sainsbury.co.uk/investors](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 14 July 2010 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, London SW1P 3EE at 11.00am.

**B shares** – Preference B shares issued on 12 July 2004 as part of the Return of Capital scheme in 2004/05.

**'basics'** – Sainsbury's entry level sub-brand range of products.

**'BGTY' – 'Be Good to Yourself'** – Sainsbury's healthier alternative sub-brand range of products. Products are either: those with less than three per cent fat or those with less calories, salt and saturated fat than standard lines.

**CMBS** – Commercial Mortgage Backed Securities.

**Company** – J Sainsbury plc.

**CC – Competition Commission** – An independent public body which conducts in-depth inquiries into mergers, markets and the major regulated industries. The CC has undertaken an investigation into the supply of groceries by retailers in the UK.  
[www.competition-commission.org.uk](http://www.competition-commission.org.uk)

**CR – Corporate responsibility** – The need to act responsibly in managing the impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment.

**'Different by design'** – Sainsbury's general merchandise brand which mirrors the premium 'Taste the difference' food range.

**'Different values'** – Campaign launched in 2007 to emphasise the higher quality specifications and great value of Sainsbury's own brand products.

**Dividend cover** – Underlying profit after tax from continuing operations attributable to equity shareholders divided by total value of dividends declared during the year.

**DRIP – Dividend Reinvestment Plan** – Allows shareholders to reinvest their cash dividend in shares of the Company through a specially arranged share dealing service.

**EBITDAR** – Earnings before 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.

**Easter adjustment** – To adjust for the timing of Easter: 2009/2010 included a Good Friday trading week and an Easter Sunday trading week. 2008/09 included an Easter Sunday trading week.

**ESOP trusts** – Employee Share Ownership Plan trusts.

**Fairtrade** – The Fairtrade label is an independent consumer label that guarantees a fair deal for marginalised workers and small scale farmers in developing countries. Producers receive a minimum price that covers the cost of production and an extra premium that is invested in the local community.  
[www.fairtrade.org.uk](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.

**'freedom'** – Sainsbury's range of products guaranteed to be wheat, gluten or dairy free.

**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)

**GDAs** – Guideline Daily Amounts.

**Gearing** – Net debt divided by total equity.

**Group** – The Company and its subsidiaries.

**IFRIC** – International Financial Reporting Interpretations Committee.

**IFRSs** – International Financial Reporting Standard(s).

**IGD** – Institute of Grocery Distribution.  
[www.igd.com](http://www.igd.com)

**Income statement** – Formerly known as the profit and loss account under UK GAAP.

**ISA** – Individual Savings Account.

**JV – Joint venture** – A business jointly owned by two or more parties.

**Like-for-like sales** – The measure of year on year same store sales growth.

**LTIP** – Long-Term Incentive Plan.

**'Mtd'** – 'Make the difference days' – Launched in April 2007 to raise awareness and action around different social, environmental and ethical issues and working partnership with customers to make a sustained difference.

**MTL – Multiple traffic lights** – Nutritional labels which provide effective 'at-a-glance' information customers need to make healthier choices when shopping. Around 5,000 Sainsbury's products carry our Wheel of Health MTL label.

**OFT** – Office of Fair Trading.

**Organic** – Organic farming prohibits the use of artificial fertilisers, pesticides, growth regulators and additives in livestock feed. The International Federation of Organic Agriculture Movements (IFOAM) accredits national organic certifying bodies.

**Pipeline** – Sites which the Group has an interest in developing in the future.

**ROCE** – Return on Capital Employed.

**RPI** – Retail Price Index.

**'Sainsbury's SO organic'** – Sainsbury's organic sub-brand range of products.

**TSR – Total Shareholder Return** – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

**'Ttd' – 'Taste the difference'** – Sainsbury's premium sub-brand range of products.

**'Try something new today'** – The marketing campaign in support of Making Sainsbury's Great Again.

**'TU'** – Sainsbury's own label clothing range.

**'TU home'** – Sainsbury's sub-brand homeware range of products.

**Underlying basic earnings per share** – Profit after tax from continuing operations attributable to equity holders before any profit or loss on the sale 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 sale 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/(loss)** – Underlying profit before tax from continuing operations before underlying net finance costs and underlying share of post-tax profit or loss from joint ventures.

# Notes

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# Jerseys with crispy bacon



'Taste the Difference'  
Jersey Royals



'Taste the Difference'  
oak smoked back  
bacon rashers



Spring onions



Garlic

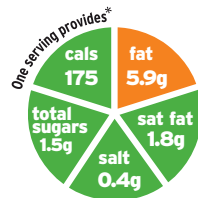


Wild rocket

Try boiling halved 'Taste the Difference' Jersey Royal potatoes for around 20 minutes, until tender. Meanwhile, heat 1 tablespoon of olive oil in a pan and fry 75g of 'Taste the Difference' oak smoked back bacon, rind removed and chopped into pieces, for 3-4 minutes until crispy. Add 1 bunch of spring onions, sliced and 1 clove of garlic, peeled and sliced. Sauté until the garlic is soft and the spring onion has wilted. Remove from the heat and stir in the cooked, drained potatoes. Serve on a bed of wild rocket for a tasty dish that's great alongside meat or fish.



For more meal ideas, visit our Try Team  
at [www.sainsburys.co.uk/trynation](http://www.sainsburys.co.uk/trynation)



\*Traffic light labelling values for one serving based on:  
125g 'Taste the Difference' Jersey Royal potatoes, 3g olive oil,  
19g 'Taste the Difference' oak smoked back bacon, 20g spring  
onion, 1g garlic, 18g rocket, using the nutrition information  
on Sainsbury's branded products.

Want to know more about our year?  
[www.j-sainsbury.co.uk/illustratedreview](http://www.j-sainsbury.co.uk/illustratedreview)

