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J Sainsbury plc

ANNUAL REPORT AND
FINANCIAL STATEMENTS 2008

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Notes

Like-for-like sales: Like-for-like sales are Easter adjusted for comparative purposes. 2007/08 included two Good Friday trading weeks and one Easter Monday trading week. 2006/07 included one Good Friday trading week and one Easter Monday trading week. 2008/09 will include one Easter Monday trading week only.

Underlying profit before tax: Profit before tax from continuing operations before any gain or loss on the sale of properties, impairment of goodwill, impairment of properties held within joint ventures, financing fair value movements and one-off items that are material and infrequent in nature. In the current financial year, these one-off items were the costs relating to approach from Delta Two, the costs associated with Office of Fair Trading dairy inquiry and fair value gain on other financial asset. In the prior financial year, these one-off items were the profit on part disposal of Sainsbury's Bank and past service gains on defined benefit schemes.

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

MSGAs sales: Are defined as retailing sales including VAT excluding fuel.

£238 million was the Group's underlying profit before tax in 2004/05.

Customer numbers: Are quoted on a consistent basis, but exclude the Bells and Jacksons convenience stores customers of approximately 1.3 million.

Since March 2007 the Group has undertaken £2 billion of asset management activity. This includes two joint ventures, the acquisition of freeholds and the disposal of surplus and mature assets. This activity has not all been completed within the 2007/08 financial year.

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. 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.

This year we decided to try something new.

Sainsbury's is delivering an illustrated review of the 2007/08 year online at its corporate website www.j-sainsbury.co.uk/illustratedreview rather than in print.

This decision is in keeping with our corporate responsibility principle of 'respect for our environment'. By providing information online we have significantly reduced the amount of paper printed and distributed to shareholders. We hope you will agree that this is a change for the better.

This annual report can also be accessed online at our website.



With thanks to Anya Hindmarch, global social change movement 'We Are What We Do' ("WAWWD") and Antidote for the inspiration for the cover of this report and our online review of the year.

Sainsbury's teamed up with Anya Hindmarch and WAWWD in April 2007 to launch the 'I'm NOT a plastic bag' re-usable shopping bag as part of its efforts to raise awareness of alternatives to disposable plastic bags. 20,000 bags sold out across the UK in under an hour. Sainsbury's aims to halve the number of free one-use disposable plastic bags issued at its stores by April 2009.

www.j-sainsbury.co.uk/illustratedreview

Chairman's statement

This year has been particularly significant for Sainsbury's since it marked the completion of the Making Sainsbury's Great Again ("MSGA") recovery plan announced in October 2004. The plan was based on improving our customer offer and operational efficiency to achieve sustained improvement in our level of sales and profit growth. I am happy to report that actual sales growth in the last three years exceeded our expectations with £2.7 billion additional sales by March 2008 against the original stretching target of £2.5 billion. This is a great achievement in a challenging market. Our sales growth is also reflected in substantially improved profits. Our underlying profit before tax for the year was up 28.4 per cent to £488 million, more than double the £238 million reported for the year to March 2005, prior to our recovery plan.

The Board is recommending a final dividend of 9.00 pence per share, making the full year dividend 12.00 pence, an increase of 23.1 per cent compared to last year. This is covered 1.63 times by earnings which is in line with our stated policy of dividend cover in the range of between 1.5 times and 1.75 times.

It is a credit to the management team and colleagues at Sainsbury's that our performance over the past 12 months was delivered against an extended backdrop of speculation concerning the potential take-over of the Company which lasted for the majority of 2007. In April 2007 a private equity consortium, led by CVC, decided not to proceed with plans to make an offer for the Company, as the pre-conditions to their financing arrangements, which were outside the control of the Board, could not be satisfied. In November 2007, Delta Two's plans to make an offer were also withdrawn following a final review by them of their financing plans. Throughout this period the business continued to perform, well reflecting the exceptional leadership and commitment from the management team.

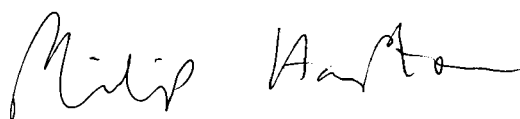
We have also made progress in managing our property assets with the creation of two strategic joint ventures. These unlock the opportunity to develop stores significantly and improve customers' shopping experience and support our belief that effective property management is closely aligned to building shareholder value.

We have a strong heritage and brand which is proving to be both resilient and increasingly relevant as consumers and shareholders are becoming more concerned with the social, environmental and ethical backdrop against which companies now have to operate. It is however, also evident that business conditions have become tougher in the last nine months as a result of the consumer slowdown now in evidence in the UK. The causes of the slowdown appear largely linked to the weaker prospects for economic growth in the light of the credit squeeze which gathered pace in the second half of 2007. The grocery retail sector is extremely competitive but the improvement in our performance in the last few years, together with 139 years of high quality and great value for customers, leaves us well placed to deal with these tougher conditions.

The findings published by the Competition Commission ("CC") at the end of April 2008 brought its investigation to a conclusion. We welcomed its finding that the UK groceries market is 'delivering a good deal for consumers'. This is consistent with the significant improvements Sainsbury's customers have experienced in product quality, availability, service and price over recent years. The CC recommended that a competition assessment should be introduced into the planning system. We argued for this for new stores throughout the inquiry to protect local markets from exploitation in the future. The CC also stated its intention to require more retailers to adhere to a new Grocery Suppliers' Code of Practice, a proposal welcomed by Sainsbury's. However, we believe the creation of an ombudsman to look into aspects of relationships between suppliers and grocery retailers is unnecessary. We will continue to play a full part in discussions with the CC and other parties, to ensure remedies are implemented in the most effective and efficient way to improve choice for UK consumers. The OFT is currently investigating a possible competition infringement in the tobacco industry and also making early enquiries into the pricing of a number of other products sold by supermarkets. Sainsbury's has strict guidelines for compliance with competition law and is cooperating with the OFT in each of its enquiries.

In August we welcomed Mary Harris and Mike Coupe to the Board. Mary joined as a Non-Executive Director. She has previously spent much of her career with McKinsey, most recently as a partner, and has extensive strategic experience in consumer goods industries including retail. Mary will also be a member of Sainsbury's Audit, Corporate Responsibility and Nomination Committees. Mike joined as Executive Director. He has been with Sainsbury's since 2004 as trading director on our Operating Board. With over 20 years' experience in the retail industry including senior roles at Big Food Group, Asda and Tesco, Mike's range and depth of knowledge of the UK retail market bring real value to our Board.

I am delighted that we have successfully delivered against the MSGA targets set in October 2004 and that our business is a fundamentally more stable and robust business than it was when the recovery was launched. We are now focused on delivering the Recovery to Growth targets outlined in May 2007. These are summarised on pages 4 and 5 and were covered in detail in last year's annual report.



Philip Hampton
Chairman

Business review

Continuing operations	2008	2007
Sales (inc VAT) (£m)	19,287	18,518
Sales (ex VAT) (£m)	17,837	17,151
Underlying operating profit (£m)	535	431
Underlying profit before tax (£m)	488	380
Profit before tax (£m)	479	477
Profit after tax (£m)	329	324
Underlying basic earnings per share (p)	19.6	14.7
Basic earnings per share (p)	19.1	19.2
Proposed dividend per share (p)	12.00	9.75

Our business and its markets

J Sainsbury plc consists of Sainsbury's – a chain of 504 supermarkets and 319 convenience stores and Sainsbury's Bank.

Sainsbury's Supermarkets is the UK's longest standing major food retailing chain, having opened its first store in 1869. The Sainsbury's brand is built upon a heritage of providing customers with healthy, safe, fresh and tasty food. Today it differentiates itself by offering a broad range of great quality products at fair prices with particular emphasis on fresh food, a strong ethical approach to business and continuous leadership and innovation. Products are improved and developed to ensure the company leads in terms of the ingredients used and integrity of sourcing. A large Sainsbury's store offers around 30,000 products and an increasing number of stores also offer complementary non-food products and services. 147 stores also operate an internet-based home delivery shopping service. Sainsbury's Bank is jointly owned by J Sainsbury plc and HBOS. With access to 16.5 million Sainsbury's customers each week, operating costs are low allowing it to offer excellent value products with extra benefits, delivered in a simple and accessible way.

The UK grocery retail market

The UK grocery retailing market was valued at £123.5 billion in 2005/06¹ and is forecast to grow at an average annual increase of 2.8 per cent to £141.5 billion by 2011². Over the past year, Sainsbury's strengthened its overall market share position to over 14.8 per cent although the market can also be divided a number of different ways. Excluding non-food, Sainsbury's has the number two position in the market.

Sainsbury's growth will be affected by general market issues such as the impact of regulatory and planning regimes on store development and economic factors such as the level of household disposable income. However, Sainsbury's strategy is aligned with factors such as customers' preferences for the products they buy. A range of own label products offer a range with universal customer appeal and the company monitors prices on a weekly basis to ensure it maintains its competitive price position. The company is well positioned to anticipate and meet the increasing focus on fresh, healthy, quality foods. The development of Sainsbury's complementary non-food offer addresses its customers' desire to buy a greater range of non-food products along with their weekly grocery shop and the continued development of its convenience stores also takes into account of the faster pace of people's lifestyles and the trend towards more frequent top-up shopping trips.

The purpose of this Business review is to provide information on Sainsbury's strategy and corporate objectives, and the market in which it operates together with a review of progress during the year ended 22 March 2008. It includes an analysis of key performance indicators and an assessment of the key risks and uncertainties facing the Group.

30,000
products in a large
Sainsbury's store

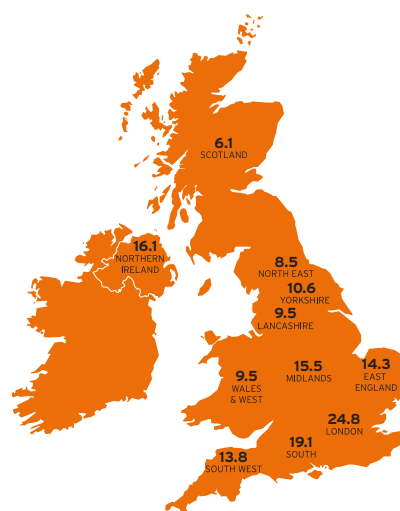
16.5 million
customers each week

Market share by region	2008 %	2007 %
Scotland	6.1	6.1
North East	8.5	7.7
Lancashire	9.5	9.3
Yorkshire	10.6	9.2
Midlands	15.5	15.8
Wales & West	9.5	9.8
East England	14.3	14.5
London	24.8	24.4
South	19.1	20.5
South West	13.8	15.3
Northern Ireland	16.1	15.2

¹ The Institute of Grocery Distribution (IGD) most up to date information available.

² The IGD's mid-case scenario forecast most up to date information available.

³ Measured by TNS.



14.8%
Total market share
Source: TNS

Corporate objectives



Justin King
Chief Executive

When I joined Sainsbury's we undertook a complete review of the business and outlined a plan for Making Sainsbury's Great Again ("MSGA") in October 2004. The plan was based on delivering great quality food at fair prices. To achieve this on an ongoing basis we needed to fix many fundamental parts of our operation.

Only by satisfying customers and improving sales could we return to sustainable growth in both sales and profitability and this has driven everything we have done over the past three and a half years.

Over the past 12 months we have continued to make good progress, growing like-for-like sales (excluding fuel) by 3.9 per cent and I'm delighted that the year culminated in fulfilling the commitments made in October 2004.

We have now reported 13 consecutive quarters of like-for-like sales growth and achieved £2.7 billion additional sales by March 2008 against the original stretching target of £2.5 billion. This is a great achievement in a challenging market.

Our sales growth is also reflected in substantially improved profits and operational gearing is coming through. We have good momentum as we now focus on taking Sainsbury's from recovery to growth. This is an outstanding achievement and I would like to thank all 150,000 Sainsbury's colleagues for the part they played.

Making Sainsbury's Great Again Targets exceeded

Against our clearly defined key performance indicators we have

- Grown sales by £2.7 billion: exceeding plan to reach £2.5 billion sales growth by March 2008
- Over £450 million invested in customer offer delivering best price position for many years
- Achieved our cost savings target of £440 million
- Delivered a neutral underlying cash flow position

In addition we have also achieved

- 13 quarters of consecutive like-for-like sales growth
- Profit more than doubled (£488 million vs £238 million) demonstrating strong operational gearing
- 2.5 million additional customers: now over 16.5 million a week compared to 14 million a week in 2005
- Transacted around £2 billion of asset management activity including two property joint ventures since March 2007

Our passion for healthy, safe, fresh and tasty food, our value, innovation and strong ethical approach to business provides differentiation between us and our major competitors and are what customers want and expect from Sainsbury's.

We remain focused on building and stretching our lead in food and are committed to providing great quality food at fair prices whatever our customers' budgets. We're accelerating the development of our complementary non-food offer to provide customers with a broader shopping experience and our ability to do this is being driven by the addition of sales space through both extensions and new store developments.

We also continue to extend our relationship with customers beyond the traditional supermarket environment through the growth of our convenience store operation, our online offer and Sainsbury's Bank. We have also announced plans to launch a non-food online business in the first half of 2009/10.



From recovery to growth 2007 to 2010 plan

- Space growth – ten per cent new space by March 2010
- Development of grocery and non-food ranges
- Costs – 2007/08 cost savings of £155 million, thereafter ongoing cost savings to offset half our operating cost inflation
- Channel growth through online and convenience expansion
- Profit – profit growth flowing through at a percentage rate in high single digits
- Annual investment in price and quality of 100 – 150 bps
- Sales growth – total additional sales of £3.5 billion by March 2010
- Capital expenditure of £2.5 billion by March 2010
- Cash flow neutral over three years

In May 2007 we outlined a number of new targets which build on our recovery to date to expand and drive further growth. These are ambitious plans that bring together the ongoing improvements we are making in efficient operational performance with the work we have already completed on developing a universal customer offer.

Our active property management is enabling us to retain operational flexibility while exploiting the development potential of our property assets and maximise value. Since March 2007 we have undertaken £2 billion of asset management activity, including two joint ventures.

In May 2007 we outlined a number of new targets which build on our recovery to date to expand and drive further growth. These are ambitious plans that bring together the ongoing improvements we are making in efficient operational performance with the work we have already completed on developing a universal customer offer.

Achieving the MSGA targets has provided a firm base for ongoing sales and profit growth and new space development. However, as we said throughout the second half of 2007/08, consumer budgets are clearly under pressure and we expect the market to remain intensely competitive.

Sainsbury's is now a much better business, able to compete and grow in this challenging environment. We will continue to focus on developing our offer in line with changing customer requirements and on driving further operational savings. This will ensure we continue to make progress in the year ahead.

Over the past three years significant improvements have been made to the company's operation

providing a firm base for future growth. The task, encompassing fixing many basics, from product range and pricing to supply chain and IT, was a huge undertaking for a business the size of Sainsbury's and, as acknowledged at the time, was a job for the medium to long-term.

A good example of the progress that has been made is in product availability, cited in 2004 as our number one performance issue. The depot network has been successfully reorganised improving service to stores and today availability is the highest it has been since our records began.

A significant amount of work has been undertaken in improving customer service and the product offer and customer transactions have now risen from around 14 million in 2004 to over 16.5 million a week. Over £450 million has been invested in price and quality and our price competitiveness is the best it has been for many years.

We have achieved over £440 million of cost savings since March 2005 despite the fact that some of the original intended areas of saving, such as marketing, were re-assessed due to the changing competitive conditions.

Overall, the first three years of MSGA have been successful and all the initial retailing targets set in October 2004 have been achieved.

Recovery to growth

In May 2007 we set new three-year targets that build on the strong progress made to date and drive further growth in the business. Five areas of focus have been identified to take Sainsbury's from recovery to growth.

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

To help lead the company through this next stage of its development we have strengthened our operating board with the addition of four new directors to oversee IT and change, commercial services, property and strategy. The changes are effective from mid June 2008 and give greater representation on the board for key areas of increasing significance as our business moves from recovery to growth.

In addition the company has strengthened its property team as the natural next step in its active property management. A new division has been created to dedicate resource to the ongoing management of Sainsbury's property joint ventures and potential development opportunities to maximise value of the assets.

Operational efficiency

The 2007-2010 targets are underpinned by ongoing operational efficiencies. The cost savings achieved over the last three years have delivered significant progress and there are further plans to reduce the cost base over the coming years, with the target to offset at least half of operating cost inflation.

Creating operational efficiencies is now embedded within the various functions of the business including the store estate, the distribution network, property development and central functions.

In stores, night shift operations have been improved and bi-optic scanners and self checkouts are being introduced to help drive efficiency. Shelf-ready packaging continues to be rolled out to improve replenishment further and additional enhancements to in-store labour management are planned for the year ahead.

Within the distribution network there has been significant improvement to depot productivity and store deliveries. These have been driven by new processes, network re-organisation, a new transport management system and the introduction of new facilities such as a new 530,000 sq ft depot at Northampton, built under carbon-negative conditions, which opened in November 2007.

In April 2008 we announced the appointment of Roger Burnley, previously supply chain director, into the new role of retail and logistics director on our operating board. This reflected in part that the task had changed from fixing the basics to ongoing operational improvements by consolidating the responsibility for both store and depot operations.

A 355,000 sq ft ambient facility was acquired in Staffordshire in March 2008 and a 550,000 sq ft centre in North Yorkshire, to be operated by logistics specialist Wincanton, will be used to consolidate the convenience store supply chain operation currently based in two centres at Maltby and Skelton. These will close later this year. The new depot will also provide relief for the supermarket estate this Christmas and when fully operational will employ around 500 colleagues. At Waltham Point, some of the automated equipment has been removed and similar refurbishment is planned at Hams Hall later this year.

Cost savings within the central functions are being delivered through more cost effective solutions, such as the recent creation of a shared services support centre in Manchester, the ongoing improvements to data analytics from the Nectar card loyalty scheme for targeting marketing spend and the future planned relocation of the central store support centre in Holborn, London to Kings Cross in 2011.

With the renewed focus on growing supermarket space, an enhanced store opening plan is now in place. We have developed our capability in this area to deliver more efficient capital spend from the recently strengthened store development and property team. This team is focused on building and renovating for less by bringing in-house many of the procurement and planning functions previously contracted outside the business.

Operating review

The Sainsbury's brand

'Different values'

The values of the Sainsbury's brand: the passion for healthy, safe, fresh and tasty food, our focus on delivering great products at fair prices, a history of innovation and leadership and a strong regard for the social, ethical and environmental effect of our operation, have continued to stand the test of time. Since we opened our first shop in 1869, Sainsbury's has informed debate and led on issues of the day. With customer numbers now at over 16.5 million each week, initiatives we introduce can have a real impact on UK consumers and in particular the food they eat is a responsibility we take seriously.

A number of awards and audits over the past year recognised our achievements. In October 2007 Sainsbury's was voted 'Supermarket of the Year' at the Retail Industry Awards for the second year running. Other accolades include the highest mark awarded for environmental performance in the National Consumer Council's 'Green Grocers' report, the only 'A' awarded to a major supermarket by Greenpeace and 'best volume retailer' and 'most improved supermarket' by Compassion in World Farming for our commitment to improving animal welfare.

We publish a separate report on our corporate responsibility performance on our website at <http://www.j-sainsbury.co.uk/cr>. Five principles are at the core of the brand: to be 'the best for food and health', 'sourcing with integrity', to have 'respect for our environment', 'making a positive difference to our community' and to be 'a great place to work'. They provide differentiation from major competitors and define and direct all our activities.

Best for food and health

Over recent years customers have become increasingly concerned with the nutritional benefit of individual foods as well as eating a better and more healthy diet. Providing innovation and clear, honest information helps customers choose a healthier diet and the right food for their lifestyles. We were the first supermarket to put nutritional labels on the front of products when we introduced our Wheel of Health multiple traffic light label in 2005. This is now on around 5,000 products. Continuing our innovation in healthy products, we launched the first own label 1 per cent fat milk in April 2008. This contains around half the fat of semi-skimmed milk but retains the flavour and same amount of calcium and vitamin B. If UK consumers switched from semi-skimmed milk to the new 1 per cent milk they could more than halve their saturated fat intake from milk each year.

Sourcing with integrity

The company believes in sourcing and producing products in a responsible manner. In November 2007 we announced that palm oil used in our own brand food would come from certified sustainable sources as increased demand is having a significant environmental impact. The first food on UK supermarket shelves to contain certified sustainable palm oil will be Sainsbury's 'basics' Fish Fingers later this month, making an everyday food more ethical. This will equate to around eight million fish fingers this year which are also Marine Stewardship Council ("MSC") approved. By July 2008, Sainsbury's soap will also contain certified sustainable palm oil. Providing honest and transparent labelling, we will also be the first supermarket to label the use of palm oil in our food with the first range labelled by July 2008.

Respect for our environment

Much of our work in respecting the environment is about good housekeeping to improve efficiency and further reduce energy consumption. In April 2007 we launched 'Make the difference days' ("Mtd") to raise awareness and action around different social, environmental and ethical issues and work in partnership with customers to make a sustained difference. The first day highlighted the issue of free one-use disposable plastic bags. Over three Mtds in total we gave away 15 million free 'Bags for Life' made from 100 per cent recycled material. We encouraged people to re-use these bags and have since seen a 10 per cent reduction in disposable bags used by customers. In April 2008, to mark the first anniversary of Mtd, we announced the ambition to halve free plastic bag usage by April 2009. We are also increasing the recycled content of our single use bags from 33 per cent to 50 per cent, further reducing the environmental impact, and will issue Nectar loyalty points to customers re-using their own bags when shopping in Sainsbury's stores from June 2008.

Making a positive difference to our community

Our stores are at the heart of the communities they serve and during the year, cash and in-kind donations to charitable organisations and other community projects totalled £7.6 million (2007: £6.6 million). Our colleagues, customers and suppliers raised £5.4 million (2007: £12.4 million which included Comic Relief) for charities through events supported by the company. Activities focus on areas that matter most to colleagues and customers such as food, family, health and children.

The Active Kids programme is a great example of this where customers earn vouchers against spend in-store and online which can then be redeemed by schools, Scout and Guide groups against activity

and cookery equipment. Since the launch in 2005, £52 million of sports equipment, kit and coaching have been donated to over 26,000 UK children's groups and nearly 40,000 registrations have been received for the 2008 scheme. New to this year's scheme is the opportunity for British children to donate vouchers to schools in developing countries.

A great place to work

Most store colleagues live within the communities served by their store and many donate time and effort to causes outside work. Our Local Heroes scheme recognises and encourages colleagues who do this with awards of £200 to £500. Providing a great place to work and community involvement are combined in activities such as sponsorship. Sainsbury's has been the retail sponsor of Comic Relief since 1999 and raised £2.3 million for Sport Relief in March 2008. In October 2007, four colleagues from our Scunthorpe store, which had raised the single highest donation for Comic Relief in March 2007, went to India to see projects that were benefiting from money raised, such as the Railway Children project which helps support some of the 18 million children living on the streets in India.

117,000 colleagues will share a bonus of £47 million this year bringing the total amount paid out over the past three years to over £150 million. The bonus scheme is linked to the delivery of great service and product availability as well as overall sales and profit measures. The targets for the one-off MSGA share plan have also been met in full at the end of the three-year period meaning that the first payment under the scheme, due in May 2008, will be made to around 1,000 managers. The second payment due in May 2009 will depend on continued strong performance.

Great food at fair prices

Sainsbury's customers expect quality to be maintained in the delivery of competitive pricing. Even though consumers have had to manage their expenditure more carefully over the past year they still want healthy, safe, fresh and tasty food as well as fair prices. Sainsbury's price competitiveness is currently the best it has been for many years following the investment of more than £450 million over the last three years. Around 15,000 prices are checked every week to make sure our competitive position is maintained and developed.

In August 2007, we launched our 'Different values' campaign to emphasise the higher quality specifications and great value of our own brand products. In March 2008, our 'Feed your family for a fiver' campaign showed customers how affordable, healthy and nutritious meals for a family of four could be prepared within a budget of £5. Since the campaign began sales of featured ingredients have shown a marked increase. Sales of the minced meat featured in the launch television

advertisement increased by 200 per cent and demand for 'basics' spaghetti and tinned tomatoes also saw significant increases.

The campaign has particular relevance as consumers face increasing constraints on household spending but clearly shows that at Sainsbury's they do not have to compromise on food quality when shopping on a budget. Customers also respond very positively to the tip cards which accompany the campaign. We first issued the cards when we launched our 'Try Something New Today' branding in September 2005 and since that time 200 million cards have been distributed, covering 350 different ideas.

We have worked hard to restore the universal appeal of the Sainsbury's brand by developing product ranges that meet a diverse range of requirements. There is a clear rise in the 'savvy shopper' who buys both 'basics' ingredients, where an item's appearance is not a primary concern, alongside premium 'Taste the difference' products, such as meat and fish, where strict quality and taste standards are required.

'Taste the difference' ("Ttd") is our biggest sub brand at around £1 billion of sales a year. It comprises around 1,300 products and was our first own brand range to be free of artificial colours, flavours and hydrogenated fats. In the autumn of 2007 we staged the UK's biggest ever taste test with over five million samples of over 200 different Ttd products tried in-store by customers. Fresh meat and fish have seen significant growth, driven by both the increase in awareness of higher welfare chicken and a strong promotional programme.

Following its reinvigoration in April 2007 and significant range expansion, our entry level 'basics' range had a strong year with growth, at 20 per cent, significantly ahead of the market. Comprising around 500 products, it is our fastest growing sub brand. 'Sainsbury's SO organic' range has over 450 products. All fresh organic meat, eggs and milk come from British farms and 90 per cent of organic fresh produce is in home-compostable, recyclable or recycled packaging.

We have removed artificial colours, flavour enhancers, the sweeteners aspartame, saccharin and acesulfame k, and the benzoate group of preservatives from virtually all our 12,000 plus own brand food and drink including market firsts for cola and lime cordial. The only exceptions are where it compromises product quality and in these cases there is clear labelling on product packaging. Sucralose is now the only sweetener used in Sainsbury's own brand food and drink where, for a variety of reasons, customers wish to avoid natural sugars. We have not permitted the use of specific additives, as recommended for voluntary ban by the Food Standards Agency in April 2007, to be used in food and drink since 2005.

The company has a long history of supporting British farmers. Support goes beyond the stocking of products to working with farmers to help raise capacity, skills, and empowering them to build sustainable businesses. In November 2007 we became the first supermarket to use flour from guaranteed traceable UK farms in our 360 in-store bakeries by using top quality British wheat grown in East Anglia. Via the 'Year of Food and Farming' campaign, we are also helping to raise the profile of British agriculture. This is linked to Sainsbury's Active Kids scheme by providing information and equipment to schools and this year we will be offering schools farm and store tours in partnership with suppliers in each of our key agricultural regions.

Sainsbury's has sold Fairtrade goods since 1994 but the conversion of our bananas to Fairtrade, completed in July 2007, has made an enormous difference to Fairtrade farmers and their communities. By selling Fairtrade bananas at the same price as conventional bananas Sainsbury's and its customers have helped create a social premium of circa £4 million in 2007 which will be returned to the growers and their communities. This is the biggest conversion of its kind worldwide and we now sell more Fairtrade bananas than all other major UK supermarkets combined with a market share in excess of 60 per cent.

To celebrate the 100 per cent conversion, in August 2007 we launched 'The Sainsbury's Fair Development Fund'. Run by Comic Relief and financed with an initial commitment of £1 million from Sainsbury's, the fund will be used to support a number of Fairtrade initiatives over a four-year period. It is hoped the fund will provide a major boost to the livelihoods of producers, especially in Africa, who will be supported in entering the Fairtrade system.

In September 2007, 14 'Local Hero' store colleagues visited Sainsbury's Fairtrade producers in Kenya and Tanzania as acknowledgement of their charitable work and to gain better understanding of the products and the benefits provided to farmers, workers and communities. In October 2007, we announced that 100 per cent of our entire own brand tea would become Fairtrade, followed by roast and ground coffee. This is expected to triple the Fairtrade certified tea sold in the UK and create an increased return of around £2 million each year in Fairtrade premiums for developing countries. We have more than doubled our Fairtrade sales over the last year and when this move is completed at the end of 2010, we will be the UK's largest retailer of Fairtrade tea and coffee.

Accelerating the growth of complementary non-food

Sainsbury's values are just as relevant in non-food ranges as in food. Non-food products follow the same principles of quality, value and innovation and although food is at the heart of Sainsbury's

brand, the development of ranges such as clothing, home, electricals and entertainment is enabling us to complement the food shop and provide a broader offer for our customers.

TU, our own label clothing range which launched in September 2004, continues to be a star performer. We are now the eleventh largest UK clothing retailer by volume and during the past year sales have grown by around 40 per cent taking TU clothing to a £300 million brand. TU clothing is now in 270 of our stores but, with the full range still only in 74, there is significant potential to grow sales as TU is extended further across the store estate. TU's in-house designers follow the same focus on quality and value while tracking the latest developments in fashion and clothing technology.

In March 2006 we launched a range of Fairtrade certified cotton clothing and sales of Fairtrade t-shirts are significantly ahead of our expectations. In March 2008 we launched two new TU clothing ranges called 'Grace' in sizes 18 to 28 and 'Petite' catering for women 5ft 3in and under sized from 8 to 18. Each range consists of 45 items and is in 50 and 25 stores respectively.

The TU brand is now well established with Sainsbury's customers and just as the 'basics' and 'Ttd' (via 'Different by design') sub brands have been applied to non-food products, a new 1,700 homeware range called 'TU home' was launched in two stores in Sydenham (London) and Oldbury (West Midlands) in April 2008. This completes our 'good, better, best' range hierarchy in non-food, as in our food ranges, and complements 1,700 home and lifestyle products, such as storage, home office and toys, already in our core non-food product range. This total offer of 3,400 items will be rolled out to additional stores over the next year.

We had a strong Christmas offer across gifts, cards and wrapping and was our first to be sourced direct by our in-house team. It also included a number of special buys and 'stunt' deals of large electrical products and we had a particularly strong performance in games, small electrical appliances and new technology such as MP3 players, digital cameras and satellite navigation systems. More recent product launches within our home and lifestyle offer include a children's cookware range, designed to help encourage children to get cooking, and the expansion of our premium homeware range 'Different by design'.

Our Health and Beauty ranges had a good year and 35 stores were refitted with a new look and layout for these products. We increased our promotional programme to include 'stunt' deals on products such as nappies and our Champneys skincare range saw its third year of consecutive growth with over two million products being sold. We had 222 pharmacies within our supermarkets at the end of March 2008. We recruited additional pharmacists to strengthen our team as well as

assisting pharmacy colleagues to continue their professional development to continuously improve this area of service for customers. The first General Practitioners' ("GP") surgery to be located in a supermarket opened at one of our Manchester stores in March 2008. Designed to give patients convenient access to GP services during evenings and weekends, this initiative has generated interest nationwide from GPs and Primary Care Trusts.

The addition of sales space through both new store development and extensions is a key strand of our strategy to grow the contribution of non-food ranges. Over the three years to March 2010, the company expects overall sales growth to be split two thirds from food and one third from non-food with half the new space in that same period given to our growing non-food offer. By the end of March 2010 sixty 60,000 sq ft or larger stores will have over 15,000 sq ft of non-food merchandise with TU clothing within 300 stores.

In August 2007, we announced our intention to move our central non-food operation to Coventry and the move is due to be completed by January 2009. The TU clothing team has been based at the Coventry site since the clothing brand launched in 2004 but this will see it become a consolidated general merchandise operation.

We are strengthening our senior non-food team with key recent hires bringing extensive non-food retail experience from major competitors. We are also recruiting around 150 product designers, buyers, merchandisers and administrative colleagues to support the Coventry operation. Our specialist non-food team has grown over the last three years and investment has also been made across IT and the supply chain. The first general merchandise range to be fully designed from the Coventry site will be Autumn/Winter 2008. We have also strengthened our Asian direct sourcing operation, based in Hong Kong, which now has around 50 colleagues.

Reaching more customers through additional channels

Consumers' shopping habits continue to change as customers increasingly want to be able to shop more frequently and more locally as well as via the internet.

Sainsbury's online

Our online home shopping operation has had an outstanding year. Sales grew by 43 per cent with a record Christmas performance. The service operated from 147 stores at the end of the 2008 financial year but had reached 151 stores by the end of April 2008. It covers 85 per cent of UK postcodes and delivers to more than 90,000 customers each week, 40 per cent more than the previous year. We are expanding the number of delivery slots available to customers and continue to make operational improvements. We are also

the first grocery retailer to operate an Electric Zero Emission vehicle. Many more are planned this year and our drivers continue to collect customers' unwanted Sainsbury's plastic carrier bags for recycling.

A natural extension of Sainsbury's increasing in-store offer will be a service providing non-food products online and we have announced the launch of non-food online offer in the first half of the 2010 financial year. The new service will provide customers with the choice of a range of Sainsbury's own-brand and branded non-food products. Our central online team is being doubled to work on developing and implementing the non-food offer online. It will also require dedicated IT and its own supply chain as well as retail and central trading support representing an estimated revenue investment of circa £15 million in the 2009 financial year and a similar amount in the following year.

Sainsbury's Bank

Sainsbury's Bank is an important part of the Group and following the creation of a 50:50 joint venture with HBOS in February 2007, the service was integrated into the core supermarket offer later that year. The Bank was re-launched with a product offer more in line with customer aspirations, including a market-leading internet saving product. Under the new joint venture arrangement with HBOS, we are reporting a small loss of £3 million for the full year.

Rob Walker retired as CEO of Sainsbury's Bank earlier this month as planned after completing his two year contract. Under Rob, the Bank has made real progress and is now in a much stronger position for the future with more products and revenue streams and significantly reduced underlying bad debt. Neil Chandler, previously Head of Loans with HBOS, took over the CEO role at the beginning of May 2008.

Convenience stores

Growing presence in the convenience sector has been an important part of our MSGA plans and in March 2008 Dido Harding joined the company to head up the convenience operation taking over from Lawrence Christensen.

During the year 27 convenience stores were opened, six were closed, one was extended and 15 were refurbished giving a total of 319 by the end of March 2008. Almost all of the 168 stores originally acquired from Bells and Jacksons have now been transferred to the 'Sainsbury's Local' fascia with the exception of 36 stores considered unsuitable for conversion and for which a sale process commenced in March 2008. Nine stores have been sold to the Co-op and a sale has been agreed for the remaining 27 to Martin McColls which will complete in stages over the next couple of months.

We have also ended our agreement with Shell UK whereby Sainsbury's Local stores operated on Shell forecourts. A total of 24 sites carried the offer but the return on investment was not satisfactory to either party and 21 will return to Shell while three will continue to trade as Sainsbury's Local.

Growing supermarket space

Following our improved performance, last year we began actively searching again for locations where we could introduce our offer to new communities. New space growth opportunities are being developed as part of the plans outlined in May 2007 to grow space by ten per cent by March 2010. Half the targeted new space growth is set to come from new stores as we plan to open 30 new supermarkets and 100 convenience stores. Total new space will be split equally across food and non-food ranges. This will enable the continued development of a great food offer via expanded food halls as well as growing total non-food space.

Supermarkets

During the year 14 supermarkets (net of two closures) were opened including acquisitions, 15 stores were extended and a further 52 were refurbished. The second half of the year saw a step up in the store development programme with 15 stores acquired from Kwiksave in October 2007 transferring to the Sainsbury's operation. Eleven stores became small supermarkets and four converted to Sainsbury's Local. All were trading by Christmas 2007. At the end of March 2008 we had 504 supermarkets.

Gross selling area of 576,000 sq ft was created in the year; 472,000 sq ft in supermarkets and 104,000 sq ft in convenience stores. Some 39,000 sq ft of selling space was closed, resulting in net space added of 537,000 sq ft, growing ahead of plans at 3.1 per cent footage growth. 1.3 per cent of this growth came from extensions with 2.0 per cent from new store space. Closures reduced growth by 0.2 per cent.

Our environmental Greenwich store, which originally opened in 1999 representing a watershed in supermarket architecture, was refurbished in the second half of the year. The store is a major investment in the environment and the refurbishment has taken its green credentials to the next level with the addition of features such as the use of carbon dioxide for the refrigeration system, an enhanced lighting scheme which includes greater use of natural light along with automatically dimming sales floor lighting and the inclusion of solar powered fans.

Active property management

The company believes that ownership of its property assets enables it to retain operational flexibility while exploiting development

opportunities and maximising value. Over the year this has included buying freeholds of stores with development potential, the disposal of mature and non-trading assets and joint ventures to both access specialist development expertise for potential mixed use development as well as store extension opportunities.

Since March 2007 the Group has undertaken around £2 billion of asset management activity, including two joint ventures as part of the company's active property management.

We have acquired the freehold to 10 sites for £285 million. As part of this process our specialist in-house property team will now be able to extend and develop stores, providing an improved customer offer and increasing their long-term value.

We have also disposed of surplus and mature assets to realise cash and to fund our development investments. A number of transactions, including the sale and leaseback of four depots and disposal of two stores have raised £341 million in proceeds since March 2007.

In November 2007, we announced the formation of a strategic joint venture ("JV") with Land Securities to bring together undeveloped properties and development expertise. The JV started with three properties but now comprises four, following the additions of a property in the second half of the year. The JV now has a market value of £125 million and the stores owned by the JV have significant potential beyond standard store extensions, such as mixed-use developments. Both partners intend to add properties to the JV as well as actively pursuing other suitable opportunities together.

In March 2008 we announced an investment of £273 million into an existing vehicle, owned by British Land and comprising 39 stores, to create a new 50:50 JV company. At 1.3 million sq ft, the 39 stores held by this securitised property JV, including many of our most important stores, accounts for eight per cent of our total net selling space. The JV has a valuation of £1.2 billion, and the investment represents a net equivalent yield of 5.1 per cent. Creation of this JV unlocks the opportunity to significantly develop these stores and deliver an improved customer offer. It will seek to maximise the full potential of these development opportunities, including extending up to 25 sites by an estimated 500,000 sq ft of net selling area. We will benefit from both the enhanced trading performance of the extensions as well as retaining a share of the increased property value.

As laid out in May 2007 our active property management is expected to be cash flow neutral over the medium-term.

Financial review



Darren Shapland
Chief Financial Officer

Progress in year

The financial results for the 52 weeks to 22 March 2008 represent continued strong performance in line with the Making Sainsbury's Great Again ("MSGA") plan and completes the first stage of MSGA.

Retailing sales (inc VAT) increased by 5.8 per cent to £19,287 million (2007: £18,227 million). Underlying profit before tax was up 28.4 per

cent at £488 million (2007: £380 million). Profit before tax was £479 million (2007: £477 million). Underlying basic earnings per share increased to 19.6 pence (2007: 14.7 pence), up 33.3 per cent. Basic earnings per share were 19.1 pence (2007: 19.2 pence). A final proposed dividend of 9.0 pence per share has been approved by the Board (2007: 7.35 pence) making a full year dividend of 12.0 pence per share, up 23.1 per cent year on year (2007: 9.75 pence).

Summary income statement

for the 52 weeks to 22 March 2008

	2008 £m	2007 £m	% change
Continuing operations			
Sales (inc VAT)			
Retailing – Supermarkets and Convenience	19,287	18,227	5.8
Financial services – Sainsbury's Bank ¹	–	291	n/a
Total sales (inc VAT)	19,287	18,518	4.2
Sales (ex VAT)			
Retailing – Supermarkets and Convenience	17,837	16,860	5.8
Financial services – Sainsbury's Bank ¹	–	291	n/a
Total sales (ex VAT)	17,837	17,151	4.0
Underlying operating profit²			
Retailing – Supermarkets and Convenience	535	429	24.7
Financial services – Sainsbury's Bank ¹	–	2	(100.0)
Total underlying operating profit	535	431	24.1
Underlying net finance costs ³	(45)	(51)	11.8
Share of post-tax loss from joint ventures ⁴	(2)	–	n/a
Underlying profit before tax	488	380	28.4
Profit on sales of properties	7	7	0.0
Financing fair value movements	(4)	8	n/a
One-off items	(12)	82	n/a
Profit before tax	479	477	0.4
Income tax expense	(150)	(153)	2.0
Profit for the financial period	329	324	1.5
Underlying basic earnings per share	19.6p	14.7p	33.3
Basic earnings per share	19.1p	19.2p	(0.5)
Approved dividend per share	12.0p	9.75p	23.1

¹ In 2007 Sainsbury's Bank was fully consolidated until the Group sold five per cent of its shareholding in February 2007; thereafter it has been equity accounted as a joint venture.

² Underlying profit before tax from continuing operations before finance income and finance costs and share of post-tax profit or loss from joint ventures.

³ Net finance costs pre financing fair value movements.

⁴ 2008 includes Sainsbury's Bank (£3 million loss) and the joint venture with Land Securities (£1 million profit).

Retailing – Supermarkets and Convenience

Retailing sales (inc VAT and fuel) increased by 5.8 per cent to £19,287 million (2007: £18,227 million) driven by good like-for-like ("LFL") growth and new space. LFL sales (inc VAT and inc fuel) were up 4.4 per cent. LFL sales (inc VAT and ex fuel) were up 3.9 per cent, in line with the Group's medium term planning assumption of LFL growth of between three and four per cent, and includes 0.8 per cent contributed by extensions.

The profile of the LFL (inc VAT and ex fuel) sales performance was Quarter 1: 5.1 per cent, Quarter 2: 3.1 per cent, Quarter 3: 3.7 per cent and Quarter 4: 4.1 per cent. This profile reflects strong growth in Quarter 1 and the impact of poor weather and tough comparatives in Quarter 2. Both Quarter 3 and Quarter 4 reflected good growth against a toughening consumer environment and included good Christmas and January sale periods.

Key retailing metrics

for the 52 weeks to 22 March 2008

	2008	2007
Sales inc fuel		
Like-for-like sales (inc fuel) % (Easter adjusted)	4.4	5.7
Removal of Easter adjustment % ¹	0.3	0.3
New space (ex extensions) %	1.1	1.3
Total sales growth (inc fuel) %	5.8	7.3
Sales ex fuel		
Like-for-like sales (ex fuel) % (Easter adjusted)	3.9	5.9
Removal of Easter adjustment % ¹	0.4	0.3
New space (ex extensions) %	1.4	1.5
Total sales growth (ex fuel) %	5.7	7.7
Retailing underlying operating profit (£m)	535	429
Year on year retail profit growth %	24.7	21.9
Retailing underlying operating margin % ²	3.00	2.54

¹ Like-for-like sales growth has been Easter adjusted for comparative purposes. 2008 included two Good Friday trading weeks and one Easter Monday trading week. 2007 included one Good Friday trading week and one Easter Monday trading week. 2009 will include one Easter Monday trading week only.

² Retailing underlying operating profit divided by retailing sales (ex VAT).

During the full year 537,000 sq ft of new space was added, a space uplift of 3.1 per cent on the March 2007 year end. 16 new supermarkets opened during the year generating an additional 242,000 sq ft of space and there were two closures reducing retailing space by 27,000 sq ft. 15 extensions during the year provided an additional 195,000 sq ft to the estate and 52 refurbishments in the supermarket estate provided 35,000 sq ft. In the convenience estate, 27 new stores opened, six stores closed, 15 were refurbished and 124 local conversions were completed. In total the convenience estate

increased by 92,000 sq ft over the year. The Group expects that total space growth will be around 3.0 per cent in 2009, with new stores of around 2.0 per cent and extensions of around 2.0 per cent offset by closures and disposals of 1.0 per cent.

Sales from net new space (ex extensions and ex fuel) contributed 1.4 per cent of sales growth in the year. The Group expects the sales contribution from net new space including convenience disposals but excluding extensions to be around 1.0 per cent in 2009, comprising new stores of 1.5 per cent less closures and disposals of 0.5 per cent.

**Retailing space summary
Including checkouts**

	Supermarkets (includes small Central supermarkets)	Supermarkets (includes small Central supermarkets) Area 000 sq ft	Convenience Number	Convenience Area 000 sq ft	Total Number	Total Area 000 sq ft
As at 24 March 2007	490	16,680	298	684	788	17,364
New stores	16	242	27	102	43	344
Closures	(2)	(27)	(6)	(12)	(8)	(39)
Extensions/downsizes/refurbishments		230		2		232
As at 22 March 2008	504	17,125	319	776	823	17,901
Memorandum						
Extensions	15	195	1	2	16	197
Refurbishments	52	35	15	0	67	35
Total projects	67	230	16	2	83	232

Going forward the Group is changing the way it measures retailing space to be in line with industry practice by excluding checkout space from the measurement. This broadly results in a reduction of the Group's retailing space by ten per cent.

**Retailing space summary
Restated to exclude checkouts**

	Supermarkets (includes small Central supermarkets)	Supermarkets (includes small Central supermarkets) Area 000 sq ft	Convenience Number	Convenience Area 000 sq ft	Total Number	Total Area 000 sq ft
As at 22 March 2008	504	15,495	319	696	823	16,191

Retailing underlying operating profit

Increased by 24.7 per cent to £535 million (2007: £429 million) reflecting the positive sales performance and operational gearing driven from higher sales volumes and achievement of the final year of the MSGA cost savings programme. This helped to mitigate the impact of continued investment in price and product quality and higher energy prices. Retailing operating margin (ex VAT) increased by 46 basis points to 3.00 per cent for the year (2007: 2.54 per cent).

Financial services – Sainsbury's Bank

The accounting for Sainsbury's Bank in the full year reflects the sale of five per cent of the Group's shareholding in Sainsbury's Bank to HBOS plc on 8 February 2007. Following this date the Group's equity share (i.e. 50 per cent) of the Bank's post-tax loss has been reported through 'Share of post-tax loss from joint ventures'. This amounted to a £3 million loss for the full year primarily driven by investment in new products and lower profit on insurance sales. In addition during the year, the Group invested £15 million in the ordinary share capital of Sainsbury's Bank, which reflects the growth of the savings balances. The Group expects the Bank to achieve a small profit in 2009.

Active property management

During the year the Group continued its active property strategy of increasing its control over key trading assets with significant development potential whilst disposing of fully developed mature assets. On 14 November 2007, the Group entered a 50:50 joint venture ("JV") with Land Securities. This involved the Group transferring two properties and Land Securities transferring one property into the new entity. Subsequent to this date the Group contributed a further £15 million for the JV to purchase an additional property.

The results of the JV have been equity accounted since inception and the Group's share of the post-tax profit of the entity is £1 million. The Group expects a similar small profit in 2009.

In addition, the Group announced on 26 March 2008 an investment of £273 million to create a 50:50 JV with British Land. This securitised

property JV holds 39 stores, including many of Sainsbury's most important stores, with a valuation of £1.2 billion, representing a net equivalent yield of 5.1 per cent. British Land's existing £722 million of outstanding securitised third party debt, at a fixed interest rate of 4.96 per cent and average life of 12 years, has been retained by the joint venture. Due to timing, this transaction has had no impact on the results of the business for the 2008 financial year. As previously disclosed, the Group expects the British Land joint venture to be EPS neutral in 2009, although the underlying profit measure will be reduced by £5 million given that the incremental interest charge of around £15 million is recognised before tax and the expected JV profit of £10 million is included on a post-tax basis.

Underlying net finance costs

Underlying net finance costs decreased by £6 million to £45 million (2007: £51 million), which comprised a £27 million increase in finance income and a £21 million increase in underlying finance costs. The key movements relate to a £13 million increase in the net return on pension scheme assets reflecting the full year effect of the one-off contributions announced in 2006 and a benefit relating to cash flow improvements, which have been partially offset by the impact of higher interest rates on the Group's variable rate and inflation-linked borrowings.

The Group expects interest costs to increase by £20 million in 2009 due to the impact of the British Land JV and a higher average net debt position.

Furthermore, due to the significant movement in the pension balance sheet position there are a number of changes to the pension charges in 2009 compared to 2008. This will result in an increase of £30 million in net finance charges of which £19 million is due to an increase in interest on pension liabilities and £11 million is due to a lower rate of return on pension assets. At an underlying profit before tax ("UPBT") level the impact of the increased pension charges of £30 million will be reduced by £24 million due to lower service charges, which are credited to operating profit. Hence the net impact of these changes is a £6 million reduction to UPBT.

Underlying net finance costs for the 52 weeks to 22 March 2008	2008 £m	2007 £m
Interest income	29	15
Net return on pension scheme assets	54	41
Underlying finance income¹	83	56
Interest costs	(136)	(117)
Capitalised interest	8	10
Underlying finance costs¹	(128)	(107)
Underlying net finance costs	(45)	(51)

¹ Finance income/costs pre financing fair value movements.

Profit on sale of properties

A profit of £7 million was delivered on the sale of properties during the year, which includes a profit realised on disposal to the Land Securities JV, compared to a profit of £7 million in 2007.

Financing fair value movements

Fair value movements for the Group resulted in a £4 million expense in the year (2007: £8 million income). The Group has one non-compliant hedge remaining as at 22 March 2008, with a notional principal value of £75 million.

One-off items

Fair value gain on other financial asset

During the year the Group recognised a £22 million fair value gain on a financial asset. This asset was disposed of during the year.

Cost associated with Office of Fair Trading dairy inquiry

The Group has incurred £27 million of costs associated with the Office of Fair Trading dairy inquiry.

Costs incurred in relation to approach from Delta Two

The Group has incurred £7 million of costs in relation to the approach from Delta Two.

Taxation

The income tax charge was £150 million (2007: £153 million), with an underlying rate of 30.9 per cent (2007: 34.8 per cent) and an effective rate of 31.3 per cent (2007: 32.2 per cent).

The underlying rate exceeded the nominal rate of UK corporation tax due to the lack of effective tax relief on depreciation of UK retail properties, offset by the deferred tax rate change and

over provisions in prior years. The disallowable depreciation amounted to £71 million in 2008 (2007: £73 million) and is anticipated to be similar in the next financial year. The effective tax rate is lower than in the previous year due to over provisions in prior years offset by higher non-deductible expenses for tax purposes principally driven by the costs associated with the Office of Fair Trading dairy inquiry. The Group expects an underlying tax rate of around 32 per cent to 33 per cent in 2009.

Underlying basic earnings per share

Underlying basic earnings per share increased by 33.3 per cent from 14.7 pence to 19.6 pence in 2008, reflecting the improvement in underlying profit after tax attributable to equity holders.

The weighted average number of shares increased by 27.4 million due to the vesting of share option schemes.

Dividends

A final dividend of 9.0 pence per share has been approved by the Board (2007: 7.35 pence) and will be paid on 18 July 2008 to shareholders on the Register of Members at the close of business on 23 May 2008.

Underlying dividend cover ratio is 1.63 times, in line with our policy of being between 1.5 times and 1.75 times.

Summary cash flow statement

Group net debt as at 22 March 2008 was £1,503 million (2007: £1,380 million) an increase of £123 million from the 2007 year-end position, of which £150 million reflects the reversal of the working capital timing differences identified at the 2007 year-end.

Summary cash flow statement for the 52 weeks to 22 March 2008	2008 £m	2007 £m
Cash generated from operations ¹	998	830
Net interest	(97)	(83)
Corporation tax (paid)/received	(64)	9
Cash flow before appropriations	837	756
Purchase of non-current assets	(986)	(788)
Disposal of non-current assets/operations	197	93
Proceeds from issuance of ordinary shares	43	81
Capital redemption	(10)	(2)
Investment in joint ventures	(31)	-
Repayment of borrowings	(36)	(75)
Debt restructuring costs	-	(2)
Dividends paid	(178)	(140)
Net decrease in cash and cash equivalents	(164)	(77)
Increase in debt	46	79
Other non-cash movements	(5)	33
Movement in net debt	(123)	35
Opening net debt	(1,380)	(1,415)
Closing net debt	(1,503)	(1,380)

¹ 2007 comparatives includes £240 million cash paid into the defined benefit schemes.

Depreciation and amortisation

The full year depreciation and amortisation charge of £481 million was £19 million lower than in 2007, of which £12 million related to Sainsbury's Bank which is no longer consolidated.

Capital expenditure

Net capital expenditure amounted to £799 million (2007: £631 million) in the year, which included £308 million on new store development (2007: £244 million) and £424 million on extensions and refurbishments (2007: £368 million). In addition during the year, freehold properties amounting to £168 million were acquired (2007: £64 million), in line with the Group's plans to buy freeholds of trading sites where it believes there are potential long-term development opportunities. This expenditure has been more than offset by cash receipts of £219 million (2007: £106 million) in relation to corporate property transactions, resulting in net capital expenditure for the year of £799 million. Core capital expenditure is forecast to be in the region of £800 million for the next financial year, with an additional net £100 million relating to the Group's active property management inclusive of the £273 million investment in the British Land JV.

Capital expenditure for the 52 weeks to 22 March 2008	2008 £m	2007 £m
New store development	308	244
Extensions and refurbishments	424	368
Other – including supply chain and IT	118	57
Core retail capital expenditure	850	669
Freehold properties	168	64
Proceeds from property transactions	(219)	(106)
Net retail capital expenditure	799	627
Sainsbury's Bank	-	4
Net Group capital expenditure	799	631

Summary balance sheet

Total equity as at 22 March 2008 was £4,935 million (2007: £4,349 million). Gearing reduced year on year to 30 per cent (2007: 32 per cent), which primarily reflects the improvement in the pension scheme position. The Group expects net debt to be between £1.6 billion and £1.7 billion at the end of 2009.

Summary balance sheet at 22 March 2008	2008 £m	2007 £m
Non-current assets	8,505	7,661
Inventories	681	590
Trade and other receivables	206	197
Cash and cash equivalents	719	1,128
Debt	(2,222)	(2,508)
Net debt	(1,503)	(1,380)
Trade and other payables and provisions	(2,954)	(2,719)
Net assets	4,935	4,349

Pensions

The retirement benefit obligations as at 22 March 2008 have been calculated on a consistent basis with the previous year where appropriate, with updates provided on market based assumptions.

As at 22 March 2008, the retirement benefit obligations less the fair value of plan assets was a surplus of £503 million (2007: deficit of £97 million). The net surplus after deferred tax was £366 million (2007: deficit of £55 million). The movement into surplus mainly reflects favourable market conditions around bond yields, which have increased the discount rate on liabilities.

Pensions	2008 £m	2007 £m
Present value of funded obligations	(3,668)	(4,395)
Fair value of plan assets	4,171	4,298
	503	(97)
Present value of unfunded obligations	(8)	(6)
Retirement benefit asset/(obligations)	495	(103)
Deferred income tax asset (liability)/asset	(129)	48
Net retirement benefit asset/(obligations)	366	(55)

Principal risks and uncertainties

Risk is an inherent part of doing business. The Group has a process for identifying, evaluating and managing the risks faced by the business as described in the Statement of corporate governance. The Board has identified the following factors as principal potential risks to the successful operation of the business.

Economic and market risks

The economic environment and competitor pricing position can affect the performance of the Group's businesses in terms of both sales and costs. Household disposable income is a driver of sales growth. Through development of our product ranges and investment in price and quality, the Group works to ensure that we deliver value for all our customers. As has been widely reported, external cost pressures on oil-related costs and business rates have impacted our business although the Group works hard to mitigate the impact of these cost pressures on our customers and the Group's overall profitability through the delivery of cost savings.

Regulatory risk

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 in terms of regulations over the Group's products and services. The Group monitors regulatory developments and has a strong compliance regime. Regular reviews and audits are carried out in stores and depots to ensure compliance and training needs are regularly reviewed and addressed as required.

Business continuity and acts of terrorism

A major incident or terrorist event could impact on the Group's ability to trade. The Group has plans to maintain business continuity in the event of potentially disruptive events, which are regularly updated and tested.

IT systems and infrastructure

The Group is reliant on its IT infrastructure in order to trade. A failure in these systems could have a significant impact on our business. The Group has controls in place to maintain the integrity and efficiency of its systems which are regularly updated and tested.

Colleague engagement and retention

The Group employs around 150,000 colleagues who are key to the success of the business. Good relations with colleagues and investing in their training and development are essential to the efficiency and sustainability of the Group's operations. The Group's employment policies, remuneration and benefits packages are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities.

Products

The quality and safety of our products is of the highest importance and there is an associated risk if they are below standard. The Group has stringent product controls in place and regularly reviews health and safety policies. All suppliers are expected to conform to the Group's code of conduct for Socially Responsible Sourcing which was 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.

Supply chain

Our stores are part of a complex supply chain and the Group works in partnership with our suppliers to manage the risk of any delays or interruptions in this supply, which may affect trade.

Pension risk

The Group operates a number of pension schemes which includes two defined benefit schemes. These schemes are subject to risks regarding the amount of the liabilities as a result of changes in life expectancy, inflation, future salary increases, risks regarding the value of investments and the returns derived from such investments. The pension trustees, in consultation with the Company, have commenced changes to the scheme's investment strategy to mitigate the volatility of liabilities and to diversify investment risk.

Treasury risks

The central treasury function is responsible for managing the Group's liquid resources, funding requirements and interest rate and currency exposures and the associated risks as set out in note 29.

J Sainsbury plc: Board of Directors



Philip Hampton *

Chairman

Appointed Chairman on 19 July 2004. He was Group Finance Director of Lloyds TSB Group plc from 2002-2004, Group Finance Director of BT Group plc from 2000-2002, Group Finance Director of BG Group plc from 1997-2000, Group Finance Director of British Gas plc from 1995-1997, Group Finance Director of British Steel plc from 1990-1995, an Executive Director of Lazard's from 1981-1990 and a Non-Executive Director of RMC Group plc from 2002-2005. Currently, Philip is a Non-Executive Director of Belgacom (the Belgian telecom group). Age 54



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. He was formerly Director of Food at Marks & Spencer plc and from 1994-2001 he held a number of senior positions at ASDA/Wal-Mart 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 46



Darren Shapland

Chief Financial Officer

Appointed Chief Financial Officer on 1 August 2005 and is also Deputy Chairman of Sainsbury's Bank plc. He was formerly Group Finance Director of Carpetright plc from 2002-2005 and Finance Director of Superdrug Stores plc from 2000-2002. Between 1988-2000, 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 41



Mike Coupe

Trading Director

Appointed an Executive Director on 1 August 2007 and has been a member of the Operating Board since October 2004. He joined Sainsbury's from Big Food Group where he was a Board Director of Big Food Group plc and Managing Director of Iceland Food Stores. Mike previously worked for both ASDA and Tesco where he served in a variety of senior management roles. Age 47

Life President

Lord Sainsbury of Preston Candover KG

Key to Committee Members

◆ Remuneration Committee

● Audit Committee

* Nomination Committee

♥ Corporate Responsibility Committee

◆●*♥ Denotes Chairman of Committee



Val Gooding ♦ *

Non-Executive Director

Appointed a Non-Executive Director on 11 January 2007. She has been Chief Executive of BUPA since August 1998, which she joined from British Airways, and is also 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 57



Gary Hughes ● *

Non-Executive Director

Appointed a Non-Executive Director on 1 January 2005. He is Chief Executive of CMP Information - a division of United Business Media plc. Gary was formerly Group Finance Director of Emap plc, Group Finance Director of SMG plc, Deputy Finance Director of Forte plc, and prior to this held a number of senior management positions with Guinness plc in the UK and in North America. Age 46



Bob Stack ♦ *

Non-Executive Director

Appointed a Non-Executive Director on 1 January 2005. He joined Cadbury Beverages in the US in 1990 and was 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 also a Visiting Professor at Henley Management College. Age 57



Dr John McAdam ● *

Senior Independent Director

Appointed a Non-Executive Director on 1 September 2005. He is Chairman designate of Rentokil Initial plc, a Non-Executive Director, and Chairman designate, of United Utilities plc and a Non-Executive Director of Rolls-Royce Group plc. John joined Unilever as a management trainee in 1974 and went on to hold a number of senior positions in Birds Eye Walls, Quest and Unichema, before the sale of the Specialty Chemical Businesses to ICI in 1997. He was Chief Executive of ICI plc, until its sale to Akzo Nobel, and was formerly Non-Executive Director of Severn Trent plc from 2000-2005. He is also a member of the University of Cambridge Chemistry Advisory Board. Age 60



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 has been a Trustee of the Royal Botanical Gardens in Kew, London; is Chancellor of Manchester University; a Fellow of the Royal Geographical Society; a Trustee of Forum for the Future; an Honorary Bencher of Middle Temple and is on the Board of The Amazing Group. Age 64

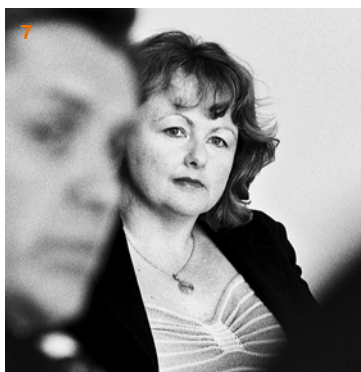
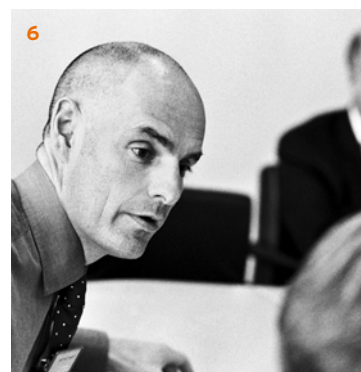


Mary Harris ● * ♥

Non-Executive Director

Appointed a Non-Executive Director on 1 August 2007. She is a member of the supervisory boards of TNT NV and Unibail-Rodamco S.A. Mary previously spent much of her career with McKinsey & Company, most recently as a partner, and prior to that worked for PepsiCo in Greece and the UK as a sales and marketing executive. Age 42

The Operating Board



Justin King (1)
See page 18

Darren Shapland (2)
See page 18

Mike Coupe (3)
See page 18

Tim Fallowfield (4)
Company Secretary
Company Secretary since 2001. 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.

Gwyn Burr (5)
Customer Director
Joined the Operating Board in 2004. Director of Sainsbury's Bank plc. Gwyn has over 20 years' business experience, including five with Nestlé Rowntree and over 13 with ASDA/Wal-Mart. At ASDA, she held various Board level positions across Own Brand, Marketing, Customer Service and Retail.

Roger Burnley (6)
Retail and Logistics Director
Appointed to the Operating Board in March 2006 as supply chain director and in April 2008 he assumed the new 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/Wal-Mart, where he held a number of positions before becoming Supply Chain Director in 2001.

Imelda Walsh (7)
HR Director
HR Director since October 2001. Appointed to Operating Board when formed in May 2004. Before this was a member of the Board of Sainsbury's Supermarkets Ltd from March 2003. Director of Sainsbury's Bank plc. Prior to joining Sainsbury's, worked for Barclays Retail Financial Services, Coca-Cola and Schweppes Beverages. Author of the Flexible working review, published May 2008, which recommended how to extend the right to request flexible working to parents of older children.

Dido Harding (8)
Convenience Director
Appointed to the Operating Board in March 2008. Dido joined Sainsbury's from Tesco where she held a variety of senior roles both in their UK and international businesses. Prior to this she worked at Kingfisher plc and Thomas Cook Ltd where she gained considerable retail experience. She began her career as a consultant with McKinsey.

Directors' report

The Directors present their report and audited financial statements for the 52 weeks to 22 March 2008.

Principal activities

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

Business review

The Business review sets out a comprehensive review of the development and performance of the business for the year ended 22 March 2008 and future developments. The Business review is set out on pages 3 to 17 of this report.

Dividends

The Directors recommend the payment of a final dividend of 9.00 pence per share (2007: 7.35 pence), making a total dividend for the year of 12.00 pence per share (2007: 9.75 pence), an increase of 23.1 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting ("AGM"), the dividend will be paid on 18 July 2008 to shareholders on the register at the close of business on 23 May 2008.

Changes to the Board

As previously reported, Mike Coupe, Trading Director, and Mary Harris, Non-Executive Director, both joined the Board on 1 August 2007.

Re-election of Directors

In accordance with the Articles of Association, Mike Coupe and Mary Harris, who were appointed to the Board since the last AGM, will retire and seek election at this year's AGM. Philip Hampton, Gary Hughes and Bob Stack will also retire by rotation and seek re-election.

Full biographical details of all of the current Directors are set out on pages 18 and 19.

Annual General Meeting

The AGM will be held on Tuesday, 15 July 2008 at The International Convention Centre, Broad Street, Birmingham B1 2EA at 11.00am. The Chairman's letter and the Notice of Meeting accompany this report, together with notes explaining the business to be transacted at the meeting.

At the meeting, resolutions will be proposed to declare a final dividend, to receive the Annual Report and Financial Statements and approve the Remuneration report, to elect Directors and to re-appoint PricewaterhouseCoopers LLP as auditors. In addition, shareholders will be asked to renew both the general authority of the Directors to issue shares, and the authority to issue shares without applying the statutory pre-emption rights, and to authorise the Company to make market purchases of its own shares. No such purchase has been made during the last financial year. Shareholders will also be asked to adopt new Articles of Association to reflect changes introduced by the provisions of the 2006 Companies Act and other current market practice. A resolution to renew the authority to make "political donations" as defined by The Political Parties, Elections and Referendums Act 2000 will also be proposed.

Share capital and control

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

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. The Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights. Further details on the rights, restrictions and obligations attaching to the share capital of the Company, including voting rights, are contained in the Company's Articles of Association. The Articles of Association may only be changed with the agreement of shareholders. Shares acquired through the Company's employee share schemes rank pari passu with shares in issue and have no special rights. The J Sainsbury Employee Benefit Trust waives its right to vote and to dividends on the shares it holds.

At the AGM held in July 2007, 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.

On a takeover, options and awards granted to employees under the Company's share schemes may vest. 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 60. At the date of this report, 1,747,660,753 ordinary shares of 28^{4/7} pence have been issued, are fully paid up and are listed on the London Stock Exchange.

B shares

At the Extraordinary General Meeting held on 12 July 2004, shareholders approved a Return of Capital to shareholders by way of a B Share Scheme. A total of 1,943,173,266 B shares were issued. The final redemption of the 27,502,070 outstanding B shares took place on 18 July 2007.

Major interests in shares

As at 13 May 2008, 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:

	Number of shares	% of voting rights
Crédit Agricole Cheuvreux International Limited	55,965,129	3.21
Judith Portrait (a trustee of various settlements, including charitable trusts)	71,332,495	4.09
Legal & General Group plc	69,825,844	4.00
Lord Sainsbury of Turville*	102,045,437	5.83
Vidacos Nominees Limited (which holds the shares as a nominee for Razino Limited)	88,000,000	5.07
Qatar Holdings LLC	435,164,241	24.97

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

Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown below. Options granted under the Company's employee share plans are shown in the Remuneration report on pages 27 to 32.

	Ordinary shares ¹ 24 March 2007	Ordinary shares ¹ 22 March 2008	Ordinary shares ^{1,4} 13 May 2008
Mike Coupe	98,175 ²	98,870	98,870
Justin King	274,088	390,383	390,446
Darren Shapland	70,241	137,253	137,253
Anna Ford	1,000	1,000	1,000
Val Gooding	1,320	1,320	1,320
Philip Hampton	25,000	25,000	25,000
Mary Harris	– ²	5,000	5,000
Gary Hughes	15,446	18,246	18,246
John McAdam	1,000	1,000	1,000
Bob Stack ³	2,800	2,800	2,800

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

2 As at date of appointment.

3 Held in the form of 700 American Depository Receipts.

4 Includes shares purchased under the Sainsbury's Share Purchase Plan between 22 March 2008 and 13 May 2008.

5 The Executive Directors are potential beneficiaries of the Company's employee benefit trusts, which are used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 22.4 million shares (2007: 23.5 million) held by the Trustees.

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 of the Company 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 2007, which was renewed for 2008/09. Neither the indemnities nor 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 50 of the financial statements.

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 7 and 8. The Company's Corporate Responsibility report, which will be published in June 2008 (www.j-sainsbury.co.uk/crreport), 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.

The Company has well developed policies for fair and equal treatment of all colleagues, employment of disabled persons and colleague participation. During employment the Company seeks to work with each individual, taking into account their personal circumstances, to enable them to reach and maximise their potential.

The Company also actively works with a number of organisations, which seek to promote inclusion within the workplace, these include:

- Gold Card Members of the Employers' Forum on Disability
- Signatories to the 'two tick' policy, which guarantees an interview to any disabled applicant meeting the minimum specification for the role
- Working with Shaw Trust, Remploy and Mencap.

The Company's quarterly, interim and annual results are presented to all senior management and are communicated to all colleagues. Colleagues have always been encouraged to hold shares in the Company and over 39,500 colleagues are shareholders directly or through the Commitment Shares Plan Trust or the Sainsbury's Share Purchase Plan Trust.

Donations

During the year, cash and in-kind donations to charitable organisations and other community projects totalled £7.6 million (2007: £6.6 million). Sainsbury's colleagues, customers and suppliers raised £5.4 million (2007: £12.4 million which included Comic Relief) for charities through events supported by the Company, including Sports Relief, Home-Start, which supports families in local communities across the UK, and CLIC Sargent, a charity caring for children with cancer.

The Company made no political donations.

Post balance sheet events

Events after the balance sheet date are disclosed in note 38 on page 85 to the financial statements.

Financial risk management

The financial risk management and policies of the Group are disclosed in note 29 on pages 65 to 68 of the financial statements.

Going concern

The Directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements which are shown on pages 35 to 85.

Disclosure of information to auditors

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

Auditors

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

By order of the Board

Tim Fallowfield

Company Secretary
13 May 2008

Statement of corporate governance

The following sections explain how the Company applies the principles and supporting principles of the Combined Code on Corporate Governance 2006 (the "Code").

The Board

The Board is chaired by Philip Hampton. The Board consists of three Executive Directors and six Non-Executive Directors. Dr John McAdam, is the Senior Independent Director. Mike Coupe was appointed as an Executive Director and Mary Harris was appointed as a Non-Executive Director on 1 August 2007.

Biographical details of the Directors are set out on pages 18 and 19.

The Board held 16 meetings during the year, including a two-day strategy conference and meetings relating to two potential takeovers of the Company by the private equity consortium led by CVC and by Delta (Two) Limited. The Non-Executive Directors met during the year without the Executive Directors or the Chairman being present.

Division of responsibilities

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

Independence/Non-Executive Directors

The Chairman satisfied the independence criteria of the Code on his appointment and all the Non-Executive Directors who have served during the year are considered to be independent according to the principles of the Code. Bob Stack is a Director of Cadbury Schweppes plc which supplies products to Sainsbury's, but neither the Board, nor Cadbury Schweppes, considers the relationship to be material in the context of their overall businesses.

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 Board's role

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

The Board considered a number of specific projects and initiatives during the year, particularly the two potential takeover approaches made by the private equity consortium led by CVC and by Delta (Two) Limited. The Board also considered and approved joint ventures with Land Securities plc (which combines the retail and development expertise of the two companies to develop Sainsbury's supermarkets anchored developments) and British Land plc (in order to extend and develop trading stores to improve the customer offer and value). It considered carefully the Group's capital structure, in particular the ownership structure of the Group's freehold property assets, including the merits of separating these from the retail operating business. It monitored the progress of the investigation by the Competition Commission into grocery retailing in the UK, and reviewed the Company's development, leadership and succession planning programmes.

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

Attendance

During the year the Directors attended the following number of meetings of the Board and its Committees (the number of meetings held whilst they were Directors is shown in brackets):

	Board	Audit Committee	CR Committee	Nomination Committee	Remuneration Committee
Mike Coupe ¹	9(9)	-	-	-	-
Anna Ford	15(16)	-	2(2)	2(2)	4(4)
Val Gooding	14(16)	-	-	2(2)	3(4)
Philip Hampton	16(16)	-	2(2)	2(2)	-
Mary Harris ¹	9(9)	2(2)	1(1)	1(1)	-
Gary Hughes	14(16)	4(4)	-	2(2)	-
Justin King	16(16)	-	2(2)	-	-
John McAdam	16(16)	4(4)	-	2(2)	-
Darren Shapland	16(16)	-	-	-	-
Bob Stack	15(16)	-	-	2(2)	4(4)

¹ Appointed to the Board on 1 August 2007.

Information and development

The quality and supply of information provided to the Board is reviewed as part of the Board evaluation exercise. 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.

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. The Company has a programme for meeting Directors' training and development requirements. Newly appointed Directors who do not have previous public company experience at Board level are provided with appropriate training on their role and responsibilities. New Directors participate in a comprehensive and tailored induction programme including store and depot visits and meetings with members of the Operating Board, senior management and external advisors. Subsequent training is available on an ongoing basis to meet particular needs with the emphasis on governance and accounting developments. 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 Board programme includes presentations from management which, together with site visits, increases the Non-Executive Directors' understanding of the business and the sector.

All Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that Board procedures are followed and for governance matters. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

Board evaluation

The Board agreed that this year's evaluation exercise should be conducted by the Company Secretary. Having agreed the key objectives with the Chairman, the Company Secretary prepared a detailed questionnaire and then met with each Director separately to discuss the Board's role and structure, process and relationships, and any emerging issues. The performance of the Board Committees was also reviewed. The Company Secretary then presented the findings to the Board, identifying what was working well and areas which could be improved or approached differently. The Board concluded that it was satisfied with the progress that had been made during the year and that it was working effectively. An action plan was agreed to address the themes which emerged from the exercise, with some additional items being added to the Board's agenda for the 2008/09 financial year.

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

Operating Board

Day-to-day management of the Company is delegated to the Operating Board, which is chaired by Justin King. The Operating Board held ten formal meetings during the year. Directors' responsibilities are set out on page 20. It has formal terms of reference setting out its key responsibilities. Minutes are copied

to the Chairman and Non-Executive Directors. Operating Board members regularly attend and present at Board meetings as well as the strategy conference.

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

Board Committees

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

Nomination Committee

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

The Committee has reviewed succession planning and senior management development during the year, and the composition and balance of the Board, and the Committee recommended to the Board that Mike Coupe and Mary Harris be appointed as Directors. The Committee led the recruitment process, which resulted in Mary Harris being appointed. Search consultants were instructed by the Committee in connection with this appointment having considered the skills, knowledge, background and experience required for the role, and a job specification was prepared. The Committee also specified the time commitment expected of the role. Profiles of a shortlist of preferred candidates were prepared for the Committee and the potential composition and mix of the candidates were considered from a team perspective in order to ensure a complementary combination of competencies and experience. Prior to Mary Harris' appointment the Committee considered a full range of references and the Non-Executive Directors took the opportunity to meet her separately.

The Committee's terms of reference are available on the website (www.j-sainsbury.co.uk/governance) and set out the Committee's responsibilities. The Committee meets when necessary and in 2007/08 met formally on two occasions and received further regular updates on the recruitment process.

Remuneration Committee

The Committee is chaired by Bob Stack who was appointed a Non-Executive Director and Chairman of the Committee on 1 January 2005. The Remuneration report is set out on pages 27 to 32.

Corporate Responsibility Committee

The Committee is chaired by Anna Ford, and Justin King and Mary Harris are its members. 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 our 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.

Statement of corporate governance continued

At operational level, Justin King is the overall CR champion and chairs the CR Steering Group, attended by the five Operating Board Directors who champion each of our five CR principles.

A summary of the Company's corporate responsibility priorities and activities are set on page 7. This year's Corporate Responsibility report will be published in June 2008.

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

Audit Committee

The Committee is chaired by Gary Hughes with John McAdam and Mary Harris (from her appointment on 1 August 2007) as its other members, all of whom are independent Non-Executive Directors. Following Jamie Dundas' retirement from the Board on 2 February 2007, until Mary Harris was appointed the Committee membership comprised only two independent Non-Executive Directors, but Philip Hampton, who has extensive financial experience, attended all meetings of the Committee including the two meetings of the Committee during this period. The Board has determined that Gary Hughes has recent and relevant financial experience. Philip Hampton, Justin King, Darren Shapland, Karen Whitworth, Director of Group Internal Audit, other senior members of the Finance Division and the external auditors are invited to attend Committee meetings. The Company Secretary acts as 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 internal control and risk management systems and has monitored progress to ensure that any required remedial action has been or is being taken on any identified weaknesses.

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

The Committee has implemented the Company's policy which restricts the engagement of PwC in relation to non-audit services. The policy is designed to ensure that the provision of such services does not have an impact on the external auditors' independence and objectivity. It identifies certain types of engagement that the external auditors shall not undertake and others (such as tax planning and mergers and acquisitions advice) that can only be undertaken with appropriate authority from the Committee Chairman or the Committee where non-audit fees will exceed pre-set thresholds. The Committee receives a report at each meeting on the non-audit services being provided and the cumulative total of non-audit fees. In the event that cumulative non-audit fees exceed the audit fee then all subsequent non-audit expenditure must be approved by the Committee Chairman. The majority of the non-audit work undertaken during 2007/08 related to corporation tax and VAT advice but work was also carried out on the takeover proposals and accounting advice on specific transactions. The non-audit fees for the year were £0.7 million and the audit fee for the year in respect of the Group, Company and its subsidiaries was £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. During the year the Committee approved the appointment of Karen Whitworth as the new Director of Group Internal Audit. She has direct access to the Committee Chairman and Philip Hampton. Gary Hughes has held separate meetings with her and PwC during the year. The Committee regularly met with PwC without management being present, and may meet the Director of Group Internal Audit separately if it deems necessary.

The Committee has reviewed the Company's 'whistleblowing' procedures during the year and confirmed that arrangements are in place to enable colleagues and suppliers to raise concerns about possible improprieties on a confidential basis.

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

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

Internal control

The Board has overall responsibility for the system of internal controls, including risk management, and has delegated certain of these responsibilities to the Audit Committee. The Audit Committee has reviewed the effectiveness of the system of internal control and ensured that any required remedial action has or is being taken on any identified weaknesses. The system of internal controls 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 includes all controls including financial, operational and compliance controls and risk management procedures.

Statement of corporate governance continued

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 operational and financial reviews of performance against budgets and forecasts by management and the Board;
- regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- 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;
- 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;
- reviews by the Audit Committee of accounting policies and levels of delegated authority; and
- consideration by the Board and by the Audit Committee of the major risks facing the Group and of the procedures in place to manage them. These include health and safety, product safety, legal compliance, litigation, quality assurance, insurance and security and reputational, social, ethical and environmental risks.

There is a continuous process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and up to the date of approval of the Annual Report and Financial Statements and accords with the Turnbull guidance (2005).

The effectiveness of the process is reviewed annually by the Audit Committee which then reports to the Board. The process consists of:

- formal identification by management of each division of the key risks to achieving their business objectives and the controls in place to manage them. The likelihood and potential impact of each risk is evaluated and actions necessary to mitigate them are identified. The risks and progress in mitigating them are regularly reviewed at divisional leadership team meetings as part of their normal business activities;
- 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;
- reporting and review by the Operating Board of risk management activities and actions to improve their effectiveness;
- assurance from specialist functions and committees that legal and regulatory, health and safety, product safety, social, ethical and environmental risks are appropriately identified and managed; and
- independent assurance by Internal Audit as to the existence and effectiveness of the risk management activities described by management.

The system of internal control and risk management is embedded into the operations of the Company, and the actions taken to mitigate any weaknesses are carefully monitored.

Investor relations

The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of the Chief Executive, Chief Financial Officer and Head of Investor Relations. The Chairman, Philip Hampton, is generally available to shareholders and meets with institutional and other large investors as required.

There is a regular dialogue with institutional and other large investors who, along with buy-side and sell-side analysts, are invited to presentations by the Company immediately after the announcement of the Company's interim and full year results. They are also invited to participate in conference calls following the announcement of the Company's trading statements. The content of these presentations and conference calls are webcast and are posted on the Company's website (www.j-sainsbury.co.uk/investors) so as to be available to all investors.

To ensure that the Board understand the views of the major shareholders, Makinson Cowell provide investor relations consultancy services to the Company and report 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 will be held on 15 July 2008. There will be a display of various aspects of the Company's activities and Justin King will make a business presentation. A detailed explanation of each item of special business to be considered at the AGM is included with the Notice of Meeting which will be sent to shareholders at least 20 working days before the meeting. All resolutions proposed at the AGM will be taken on a poll vote. This follows best practice guidelines and enables the Company to count all votes, not just those of shareholders who attend the meeting.

Information on matters of particular interest to investors is set out on page 87 and on the Company's website (www.j-sainsbury.co.uk/investors).

Compliance statement

During the year, the Company has complied with the provisions of the Code with the exception that, as explained above, the Audit Committee had only two Independent Directors as members instead of three until Mary Harris was appointed on 1 August 2007.

Remuneration report

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report provides details of remuneration policy. The second part provides details of the remuneration, pensions and share plan interests of the Directors for the year ended 22 March 2008. The Directors confirm that this report has been drawn up in accordance with Schedule 7A of the Companies Act 1985.

A resolution will be put to shareholders at the Annual General Meeting ("AGM") on 15 July 2008 asking them to approve this report.

Remuneration Committee

The Remuneration Committee is chaired by Bob Stack, Chief Human Resources Officer of Cadbury Schweppes plc. The Committee comprises Bob Stack, Anna Ford and Val Gooding, all of whom are independent Non-Executive Directors. The Committee met four times in 2007/08.

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

The responsibilities of the Committee include:

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

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

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was advised by Deloitte & Touche LLP ("Deloitte") whose consultants attended each Committee meeting and received copies of all the relevant papers. Deloitte also advised the Company on organisational, human resources, unrelated internal audit matters and IT consulting services. Towers Perrin provided comparative data which was considered by the Committee in setting remuneration levels. The Committee has also been advised by Linklaters, who also provided legal advice to the Company, whilst Total Shareholder Return ("TSR") calculations are supplied by UBS, who provided broking and banking services to the Company during the year.

Remuneration policy

It is the intention of the Committee that Executive and Operating Board Directors' remuneration should be competitive, both in terms of base salary and total remuneration, taking into account the individual Director's role, performance and experience. This approach is designed to promote the Company's short and long-term success through securing and retaining high calibre executive talent. Basic salary is targeted around the median of the market with an opportunity to earn above median levels of total reward in return for exceptional performance. A significant proportion of the total remuneration package is performance related, aligning management's and shareholders' interests. Remuneration policies and practices are aligned with the key corporate strategy, targets and objectives and are designed to create long-term value for shareholders.

In 2006, following an extensive consultation exercise with shareholders and institutions, the Committee formulated a new incentive framework (the "Value Builder" framework) to support the business strategy over the medium to longer term. This was consistent with best practice and was approved by shareholders at the 2006 AGM.

The Value Builder framework is based upon a number of key principles so as to:

- build on the sales-led recovery plan announced in 2004 by embedding key measures of financial and capital efficiency;
- support strong performance of the core business and delivery of shareholder value by generating quality earnings, growing profits and generating cash for future investments and/or return to shareholders;
- provide a common focus for the top 1,000 managers (from Chief Executive to supermarket store managers) on critical business measures;
- retain and motivate talent for the longer term; and
- provide competitive reward opportunities for delivering exceptional performance.

The Value Builder framework is a key part of the Company's total remuneration package and consists of two elements, a deferred annual bonus plan with a performance related share match and a long-term incentive plan. These plans are described in detail below.

Set out in the relevant sections below is an overview of how the Committee intends to align the remuneration framework with these key principles over the next financial year.

Components of remuneration

The main remuneration components for the Executive Directors and Operating Board Directors are set out below:

i) Basic salary

Basic salary for each Executive Director is determined by the Committee, taking account of the Director's performance, experience and responsibilities. The Committee also reviews Operating Board Directors' salaries taking similar factors into account. The Committee considers salary levels in comparable companies by referring to the pay practices across the UK retail sector, in companies with an annual sales revenue 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. The Committee also has regard to economic factors, remuneration trends and the level of salary increases throughout the Company when determining Executive Directors' salaries.

For 2008/09, the Executive Directors' salaries were increased by 2.5 per cent, consistent with wider pay adjustments made for management and central non-management colleagues. With effect from 23 March 2008, the base salary of Executive Directors has been increased as follows:

Justin King	from £850,000 to £872,000 per annum
Darren Shapland	from £500,000 to £513,000 per annum
Mike Coupe	from £475,000 to £487,000 per annum

ii) Incentive arrangements

In addition to basic salary, the Company currently operates incentive arrangements that comprise an annual bonus plan and long-term incentive plans. The Committee believes that incentive opportunities provided under these plans reflect an appropriate balance between personal and Group performance. As such, they align the rewards of Directors with the Company's immediate business priorities and the longer-term interests of shareholders.

The balance between the fixed (basic salary and pension) and variable (annual bonus and long-term incentive plan) elements of remuneration changes with performance, and the variable proportion of total remuneration increases significantly for increased levels of performance. For median performance, since the introduction of the deferred annual bonus plan and long-term incentive plan, it is anticipated that between 50 to 60 per cent of total remuneration for Executive Directors will be performance related.

Incentive arrangements for Executive Directors and Operating Board Directors for the 2007/08 financial year consisted of the Deferred Annual Bonus Plan and Value-Builder Share Plan. Awards earned under each of the incentive plans are non-pensionable. The following section describes those plans in detail, together with the J Sainsbury plc Share Plan 2005 (known as "the Making Sainsbury's Great Again Plan"), which is now closed and no further grants will be made under it.

During 2008, the Remuneration Committee will carry out a review of remuneration policy to ensure that it continues to support the Company's long-term strategic goals and provide market competitive reward opportunities.

Annual Bonus Plan

All bonus plans across the Company are aligned under a set of shared common principles. For 2007/08 Board and management plans retained the same key targets based on profit, sales and product availability, plus an element for personal performance. The Executive Directors, Operating Board Directors and all colleagues shared annual targets focused on sales and availability. Availability is measured across all stores on a regular basis by an independent third party, conducting random and unannounced store visits. In determining bonus payments for 2007/08, the Committee took account of individual performance over a difficult and challenging year, as well as performance against the key financial/business targets of profit, sales and availability. A payment will be made to Executive Directors in June 2008.

The 2007/08 bonus plan for store colleagues was based on the achievement of availability and customer service targets, measured in their individual stores, and a corporate sales target. As a result of stores and corporate performance in 2007/08, around 117,000 colleagues will receive a bonus payment in respect of the 2007/08 financial year totalling around £47 million.

For the 2008/09 year, the maximum annual bonus opportunity will remain at 150 per cent of salary for Justin King and 100 per cent for Darren Shapland and Mike Coupe. The Plan's performance measures will continue to be based around profit, sales, availability and personal performance. For 2008/09 the greatest weighting will be on profit.

Deferred Annual Bonus Plan 2006

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 2006/07 bonus awards. The next deferral will take place in June 2008.

The Committee believes that there should be a strong link between short-term and long-term performance both in terms of business targets and associated rewards. Subject to the Company's TSR performance against an industry comparator group, there will be an opportunity for the shares deferred from the Executive Directors' bonus awards to be matched by up to two times, dependent upon the extent to which the TSR performance measure has been met. The Plan is consistent with the Company's remuneration policy, is designed to support the achievement of both short-term and long-term performance targets, introduces a further retention element and helps to promote share ownership among senior management.

Under the Plan, a percentage of Executive Directors' earned gross annual bonuses is deferred into the Company's shares for a period of three years. The compulsory deferral for Justin King is 25 per cent of his gross bonus, with 20 per cent compulsory deferral for Darren Shapland and Mike Coupe. In addition, Executive Directors' may elect to defer a further proportion of their gross annual bonus, provided it does not exceed their compulsory deferral level. In respect of the 2006/07 bonus award, Justin King decided to defer the maximum level of 25 per cent of his bonus on a voluntary basis. Darren Shapland and Mike Coupe deferred 20 per cent of their bonus, the maximum allowed on a voluntary basis.

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

Long-term Incentive Plan 2006

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

Under the Plan a core award of shares in the Company is granted to all participants, calculated as a percentage of their salaries and scaled according to grade. As set out below, dependent upon performance, core awards can grow by up to four times. No awards vest for performance below the threshold levels. For 2008, following a review of the market competitive environment, the Remuneration Committee determined that in order to retain and incentivise its executive talent beyond the business milestones set in 2004, a maximum core award of 62.5 per cent of salary will be made to Justin King in 2008. Core awards of 50 per cent will be made to Darren Shapland and Mike Coupe.

Awards vest based on the performance of two stretching co-dependent performance conditions: Return on Capital Employed ("ROCE") and a cash flow per share measure, both of which will be measured over the three-year performance period. There is no retesting.

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

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

The Committee determined that, for awards to be made in 2008/09, adjustments will be made to the way in which ROCE and cash flow per share performance is measured, as set out below.

ROCE is calculated based on shareholders' proportion of underlying operating profit for the business. The capital employed figure excludes the one-off impact of capital spend in the year the calculation is made and also accounts for the net pension scheme surplus or deficit after deferred taxation.

The Committee determined that whilst management should be encouraged to reduce volatility in the overall pension position, this should not have an undue influence on the ROCE calculation, and that an appropriate focus should be retained on profit generation and operational efficiency. Therefore, the impact of the movement in the net pension schemes surplus or deficit on the performance multiplier will be capped at 0.5 times for future awards.

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

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

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

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

Vesting is calculated by applying a performance multiplier to the core award on a sliding scale up to four times. The performance matrix applying to Value Builder awards to be made in 2008 is set out below. Straight-line vesting will apply if performance falls between two points.

ROCE	Total cash flow per share percentage				
	3%	6%	9%	12%	15%
15%	1.5	2.5	3.0	3.5	4.0
14%	1.0	1.5	2.0	3.0	3.5
13%	0.5	1.0	1.5	2.0	3.0
12%	–	0.5	1.0	1.5	2.5
11%	–	–	0.5	1.0	1.5

Performance will be measured at the end of the performance period. If the required level of performance has been reached, 50 per cent of the award will be released at the end of year three. Subject to participants remaining in employment for a further year, the balance will be released on the fourth anniversary of the date of grant. The Committee has discretion to make adjustments to the calculation of the performance measures (for instance for material acquisitions and disposals) to ensure it remains a true and fair reflection of performance. Dividends will accrue on the shares that vest in the form of additional shares.

J Sainsbury plc Share Plan 2005

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

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

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

The maximum award available under the Plan is targeted towards sales growth of £2.5 billion (using a base figure of £13,588 million), and compound annual growth in EPS of at least 21 per cent over a four-year period. There is an opportunity for partial vesting of up to half the award if accelerated performance targets have been met at the end of year three (the year ended 22 March 2008). Performance will be tested in May 2008, and it is expected that awards will vest in full and that, in accordance with the accelerated vesting provisions, half of those awards will then be released.

The EPS base year and targets were originally set under the Plan in accordance with UK GAAP. However, following the introduction of IFRS the Committee concluded that, in order to ensure that calculations were measured consistently and transparently and by reference to audited figures, the UK GAAP methodology should be replaced by IFRS. After considering various possible ways of restating the EPS base and target figures, the Committee agreed that the base year EPS should be updated to reflect IFRS. As a result EPS is now measured with reference to underlying basic EPS. This reduced EPS for the base year from 8.6 pence per share to 8.3 pence per share. The third and fourth year targets will also be reduced by the same amount of 0.3 pence per share to maintain them at the same levels.

Vesting is calculated by applying a performance multiplier to the core award and personal investment; this is on a sliding scale from one times to five times and is plotted in a matrix format, as set out on page 79. Dividends will accrue on any shares that vest and will be released to participants in the form of additional shares at the point of vesting.

iii) Other share plans

In order to encourage wider employee share ownership, the Company provides two all employee share plans for colleagues, namely the Savings Related Share Option Scheme ("SAYE") and the All Employee Share Ownership Plan. Executive Directors may participate in these plans in the same way as all other colleagues and Justin King is currently participating in both plans. Darren Shapland and Mike Coupe participate in the SAYE plan. As these are all employee plans there are no performance conditions.

The 2002 (five-year) SAYE plan reached maturity on 1 March 2008. Around 3,500 colleagues could use their savings and tax-free bonus to buy Sainsbury's shares at the 239.0 pence option price. The 2004 (three-year) SAYE plan matured at the same time and a further 4,800 colleagues could use their savings and tax-free bonus to buy Sainsbury's shares at the 217.0 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 £21.3 million.

Remuneration report continued

We currently have over 25,000 colleagues participating in the SAYE plan with over 49,300 individual savings contracts.

In 2003 we gave some free shares under our All Employee Share Ownership Plan to all colleagues who had one financial year's service. These shares were held in a trust for five years and on 4 June 2008, 1.4 million shares will be released to 39,600 colleagues.

iv) Pensions

The Company's Defined Benefit Pension Plan was closed on 31 January 2002 and neither Justin King, Darren Shapland nor Mike Coupe participate in it. Justin King and Mike Coupe do not participate in any Company pension plan and instead receive cash supplements in respect of their taxable pensionable earnings. For 2007/08 Justin King and Mike Coupe received pensions supplements of 30 per cent of salary and 25 per cent of salary respectively.

Darren Shapland is a member of the Executive Stakeholder Pension Plan, a defined contribution arrangement which is open to all senior management. He contributes five per cent of his salary up to the Company's earnings cap (2007: £112,800) whilst the Company contribution is 12.5 per cent of salary up to the cap. To the extent that his basic salary exceeds the earnings cap, the Company pays him a cash supplement of 25 per cent of salary on his pensionable earnings in excess of the cap.

v) Benefits

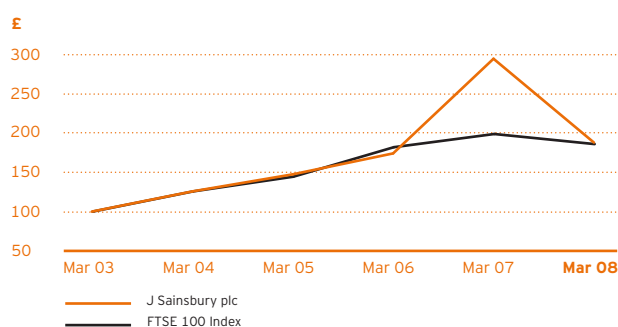
Other benefits for Directors may include the provision of company car benefits and free private medical cover.

Shareholding guidelines

To create greater alignment with the interests of shareholders and to be consistent with one of the objectives of the incentive framework, the Committee has proposed that all Executive Directors and Operating Board Directors should build up a shareholding in the Company over a five-year period starting from 2006/07 that is equal to their annual basic salary, and maintain it thereafter. At the year-end, Justin King held 390,383 shares in total, Darren Shapland held 137,253 shares and Mike Coupe 98,175 in addition to their share scheme grants. At the year-end, based on year-end share price, this represented 153 per cent, 91 per cent and 69 per cent of salary respectively.

Performance graph

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



Service contracts

Justin King has a service contract which can be terminated by either party by giving 12 months' written notice. If his service contract is terminated without cause, the Company can request that he works his notice period or takes a period of garden leave, or can pay an amount in lieu of notice equal to one times basic

salary for the notice period plus 75 per cent of basic salary in lieu of all other benefits including pension and bonus. In addition, if he is dismissed within six months of a change of control the above sum will become payable. The contract contains restrictive covenants, which continue for 12 months after termination.

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

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

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

Chairman

The Chairman does not have a service contract. His letter of appointment became effective on 19 July 2004. He was appointed for an initial term of three years renewable on a 12 month rolling basis thereafter by mutual consent.

His appointment may be terminated at any time upon six months' written notice from either party. He devotes such time as is necessary to perform his duties. The Chairman's fees will not be increased in 2008/09, and have remained unchanged since his appointment in 2004.

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

Non-Executive Directors

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

Non-Executive Directors are paid a basic fee in cash of £50,000 per annum with additional fees of £10,000 per annum being payable to the Senior Independent Director and to the Chairmen of the Audit, Remuneration and Corporate Responsibility Committees. The fees are reviewed annually by a sub-committee of the Board, consisting of the Chairman and one or more Executive Directors, which takes into account market rates and the specific responsibilities and time commitments of the role within Sainsbury's. Non-Executive Directors' fees will not increase in 2008/09. Non-Executive Directors do not participate in any performance related plans.

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

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

Remuneration report continued

The following section provides details of the remuneration, pension and share plan interests of the Directors for the year ended 22 March 2008 and has been audited.

i) Directors' remuneration

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

	Note	Salary/fees £000	Bonus ³ £000	Pension supplement ⁴ £000	Benefits ⁵ £000	Total ⁶ 2008 £000	Total ⁶ 2007 £000
Justin King	1, 7	850	1,042	255	29	2,176	1,921
Darren Shapland		500	429	97	16	1,042	919
Mike Coupe	2	311	302	71	10	694	-
Philip Hampton		395	-	-	1	396	396
Anna Ford		60	-	-	-	60	43
Val Gooding		50	-	-	-	50	10
Mary Harris	2	33	-	-	-	33	-
Gary Hughes		60	-	-	-	60	54
John McAdam		60	-	-	-	60	55
Bob Stack		60	-	-	-	60	55
Payments made to Directors who left the Board before the start of the financial year							54
Total 2008		2,379	1,773	423	56	4,631	
Total 2007		1,824	1,365	246	72	-	3,507

1 Highest paid Director.

2 Appointed to the Board on 1 August 2007.

3 Includes performance bonuses earned in the period under review but not paid in the financial year ended 22 March 2008.

4 Justin King is not a member of the Company pension schemes and received 30 per cent of his basic salary as a cash pension supplement. In addition to this supplement, £4,000 (2007: £4,000) of interest has been earned on a notional fund during the year from his previous membership of the Executive Stakeholder Pension Plan. Mike Coupe is not a member of the Company pension schemes and received 25 per cent of his basic salary as a cash pension supplement. Darren Shapland is a member of the Executive Stakeholder Pension Plan. Contributions to the Stakeholder Plan by the Company in 2007/08 in respect of his membership were £14,100 (2007: £13,575). He received a cash pension supplement equal to 25 per cent of the amount by which his salary exceeded the Company's earnings cap (2007: £112,800).

5 Benefits include company car benefits and private medical cover.

6 The totals for 2007 and 2008 (in the case of Darren Shapland) do not include deductions made from basic salary for Saving Money and Reducing Tax ("SMART") pensions.

7 The Company allows Executive Directors to take up one non-executive role outside the Company subject to a consideration of the role and the time commitment. Directors are entitled to retain the fees earned from such an appointment. Justin King was appointed a Non-Executive Director of Staples, Inc. on 17 September 2007 and received US \$43,750 for his services during the year. He also received from Staples, Inc. 6,414 restricted stock units which vest between March 2009 and December 2010. In addition he received 48,199 Stock Options, 16,699 of which vest in March 2009 with the remainder vesting 25 per cent per annum.

ii) Long-term incentive plans

Performance Share Plan

Under the Plan, shares conditionally allocated to participants are released to them in the form of options if the performance condition is met at the end of the three-year performance period. The number of shares conditionally allocated in 2004 is shown below. No allocations were made from 2005/06 and the Plan is now closed.

		Number of shares conditionally allocated as at 24 March 2007	Lapsed during the year	Number of shares conditionally allocated during the year	Mid-market price on date of conditional allocation pence	Options granted during the year under the Plan	Mid-market price on day option granted pence	Number of shares conditionally allocated as at 22 March 2008	End of performance period
Justin King	20.05.04	184,762	36,952	-	274.0	147,810	558.0	-	24.03.07

The above figures for the 2004 award show the maximum award that would have been released provided that the Company achieved first position within the comparator group (namely Ahold, Alliance Boots, Carrefour, Casino, DSG International, Kingfisher, Loblaws, Marks & Spencer, Morrisons, Next and Tesco), at the end of the three-year performance period. Shares to the value of 30 per cent of salary would have been released at median performance. Awards were granted on 16 May 2007 and pro rated at the relevant position between the median and first position in the comparator group. The Company's relative performance was determined by reference to TSR, being the increase in the value of a share, including reinvested dividends, over the three-year period. This measure was chosen to incentivise participants for maximising shareholder return over the medium-term.

The following table shows the options that were granted in May 2007 as a result of the partial satisfaction of the performance condition attaching to the conditional allocation awarded in 2004.

	Number of options 24 March 2007	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 exercises £000	Lapsed during the year	Number of options 22 March 2008	Total exercise price pence	Date from which exercisable
Justin King	-	147,810	147,810	558.0	825	-	-	nil	-

Justin King retained 30,000 shares arising out of this release.

Remuneration report continued

J Sainsbury plc Share Plan 2005

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

	Date of grant	Core share award	Personal investment	Maximum share award ¹	Share price at date of award pence	First exercise date ²	Last exercise date
Justin King	24.03.05	237,508	118,754	1,662,556	293.0	14.05.08	23.03.10
Darren Shapland	01.08.05	102,558	70,224	793,686	280.5	14.05.08	23.03.10
Mike Coupe	24.03.05	118,226 ⁵	73,891 ⁵	886,694 ⁵	293.0	14.05.08	23.03.10

¹ The maximum share award excludes the personal investment shares acquired by the Directors, which must be held for the duration of the Plan. It assumes full vesting.

² Performance will be tested in May 2008 and it is expected that awards will vest in full and that in accordance with the accelerated vesting provisions half of those awards will be released.

³ The performance conditions attaching to the award are set out on page 79.

⁴ The J Sainsbury plc Share Plan 2005 is a nil cost option plan.

⁵ As at date of appointment.

Long-term Incentive Plan 2006

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

	Date of grant	Maximum share award ¹	Share price at date of award pence	First exercise date ²	Last exercise date
Justin King	13.07.06	390,424 ²	334.0	15.05.09	17.07.11
	20.06.07	380,844 ³	583.5	12.05.10	11.05.12
Darren Shapland	13.07.06	188,480 ²	334.0	15.05.09	17.07.11
	20.06.07	179,220 ³	583.5	12.05.10	11.05.12
Mike Coupe	13.07.06	186,384 ^{2,6}	334.0	15.05.09	17.07.11
	20.06.07	163,092 ^{3,6}	583.5	12.05.10	11.05.12

¹ The maximum share award, assumes full vesting.

² Depending on performance, partial vesting may occur following the Preliminary Results announcement in 2009.

³ Depending on performance, partial vesting may occur following the Preliminary Results announcement in 2010.

⁴ The performance conditions attaching to the award are set out on page 80.

⁵ The Long-term Incentive Plan 2006 is a nil cost option plan.

⁶ As at date of appointment.

Deferred Annual Bonus Plan

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

	Date of grant	Deferred bonus share award	Maximum matching share award ¹	Share price at date of award pence	First exercise date ²	Last exercise date
Justin King	20.06.07	86,026	172,052	583.5	12.05.10	11.05.12
Darren Shapland	20.06.07	29,033	58,066	583.5	12.05.10	11.05.12
Mike Coupe	20.06.07	21,294 ³	42,588 ³	583.5	12.05.10	11.05.12

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

² Depending on performance, partial vesting may occur following the Preliminary Results announcement in 2010.

³ As at date of appointment.

iii) Restricted Share Plan 2005

As previously disclosed, Darren Shapland gave up valuable entitlements arising from Carpetright Executive Incentive plans when he joined the Company. The Committee agreed to compensate him for his lost entitlements and awards comprising cash payments and restricted shares were made. As the awards compensated him for lost entitlements there were no performance conditions. The table shows the final award of shares released to him during the year.

	Number of restricted shares	Date of award	Date of release	Number of shares released	Number of shares lapsed	Notional gain on release at 568.5 pence per share £000	Vesting date
Darren Shapland	32,200	01.08.05	01.08.07	32,200	–	183	–

Darren Shapland retained 18,998 shares arising out of the 2007 release; the remainder was used to fund the income tax and national insurance charge relating to the release.

iv) Savings Related Share Option Scheme ("SAYE")

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

	Number of options 24 March 2007	Number of options granted during the year	Number of options exercised during the year	Number of options lapsed during the year	Number of options 22 March 2008	Weighted average exercise price pence	Range of exercise prices pence	Date from which exercisable	Date of expiry
Justin King	6,969	–	–	–	6,969	231.0	231.0	01.03.11	31.08.11
Darren Shapland	2,881	–	–	–	2,881	328.0	328.0	01.03.10	31.08.10
Mike Coupe	4,047 ²	–	–	–	4,047	231.0	231.0	01.03.11	31.08.11

¹ The Savings Related Share Option Scheme is an all employee share option scheme and has no performance conditions as per HMRC Regulations.

² As at date of appointment.

In the period from 24 March 2007 to 22 March 2008, the highest mid-market price of the Company's shares was 594 pence and the lowest mid-market price was 317.5 pence and at 22 March 2008 was 332.75 pence.

Approved by the Board on 13 May 2008

Bob Stack

Chairman of the Remuneration Committee

Statement of Directors' responsibilities

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

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

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

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

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditors' report to the members of J Sainsbury plc

We have audited the Group and Company financial statements (the "financial statements") of J Sainsbury plc for the 52 weeks ended 22 March 2008 which comprise the Group income statement, the Group and Company Statements of recognised income and expense, the Group and Company Balance sheets, the Group and Company Cash flow statements, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

Respective responsibilities of Directors and Auditors

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

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 22 March 2008 and of its profit and cash flows for the 52 weeks then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 22 March 2008 and cash flows for the 52 weeks then ended;
- the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
13 May 2008

Notes:

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

Group income statement

for the 52 weeks to 22 March 2008

	Note	2008 £m	2007 ¹ £m
Continuing operations			
Revenue	3	17,837	17,151
Cost of sales		(16,835)	(15,979)
Gross profit		1,002	1,172
Administrative expenses		(502)	(669)
Other income		30	17
Operating profit	4	530	520
Finance income	5	83	64
Finance costs	5	(132)	(107)
Share of post-tax loss from joint ventures	14	(2)	-
Profit before taxation		479	477
Analysed as:			
Underlying profit before tax		488	380
Profit on sale of properties	4,7	7	7
Financing fair value movements	5,7	(4)	8
One-off items	7	(12)	82
		479	477
Income tax expense	8	(150)	(153)
Profit for the financial year		329	324
Attributable to:			
Equity holders of the parent		329	325
Minority interests		-	(1)
		329	324
Earnings per share			
	9	pence	pence
Basic		19.1	19.2
Diluted		18.6	18.9
Underlying basic		19.6	14.7
Underlying diluted		19.1	14.5
Dividends per share			
	10	pence	pence
Interim		3.00	2.40
Proposed final (not recognised as a liability at balance sheet date)		9.00	7.35

¹ Sainsbury's Bank was fully consolidated until the Group sold five per cent of its shareholding in February 2007; thereafter it has been equity accounted as a joint venture.

Statements of recognised income and expense

for the 52 weeks to 22 March 2008

	Note	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Actuarial gains on defined benefit pension schemes	31	542	179	-	-
Available-for-sale financial assets fair value movements					
Group		(31)	24	-	-
Joint ventures		48	-	-	-
Cash flow hedges effective portion of fair value movements					
Group		2	-	-	-
Joint ventures		(58)	-	-	-
Share-based payment tax recognised directly in equity	8	(10)	17	-	-
Deferred tax on items recognised directly in equity	8	(152)	(59)	-	-
Net income recognised directly in equity		341	161	-	-
Profit for the financial year		329	324	89	190
Total recognised income for the financial year		670	485	89	190
Attributable to:					
Equity holders of the parent		670	486	89	190
Minority interests		-	(1)	-	-
		670	485	89	190

Balance sheets

at 22 March 2008 and 24 March 2007

	Note	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Non-current assets					
Property, plant and equipment	11	7,424	7,176	241	244
Intangible assets	12	165	175	-	-
Investments in subsidiaries	13	-	-	7,169	7,166
Investments in joint ventures	14	148	98	91	76
Available-for-sale financial assets	17	106	137	-	-
Other receivables	16	55	50	976	919
Deferred income tax asset	21	-	-	1	1
Retirement benefit asset	31	495	-	-	-
		8,393	7,636	8,478	8,406
Current assets					
Inventories	15	681	590	-	-
Trade and other receivables	16	206	197	359	375
Derivative financial instruments	30	4	-	-	-
Cash and cash equivalents	27b	719	1,128	324	523
		1,610	1,915	683	898
Non-current assets held for sale	18	112	25	-	-
		1,722	1,940	683	898
Total assets		10,115	9,576	9,161	9,304
Current liabilities					
Trade and other payables	19	(2,280)	(2,267)	(3,522)	(4,474)
Short-term borrowings	20	(118)	(373)	(88)	(269)
Derivative financial instruments	30	(6)	(2)	(6)	(2)
Taxes payable		(191)	(65)	21	18
Provisions	22	(10)	(14)	(2)	(2)
		(2,605)	(2,721)	(3,597)	(4,729)
Net current liabilities		(883)	(781)	(2,914)	(3,831)
Non-current liabilities					
Other payables	19	(89)	(33)	(1,803)	(740)
Long-term borrowings	20	(2,084)	(2,090)	-	-
Derivative financial instruments	30	(18)	(43)	(18)	(43)
Deferred income tax liability	21	(321)	(168)	-	-
Provisions	22	(63)	(69)	(27)	(30)
Retirement benefit obligations	31	-	(103)	-	-
		(2,575)	(2,506)	(1,848)	(813)
Net assets		4,935	4,349	3,716	3,762
Equity					
Called up share capital	23	499	495	499	495
Share premium account	23	896	857	896	857
Capital redemption reserve	24	680	670	680	670
Other reserves	24	494	143	-	-
Retained earnings	25	2,366	2,184	1,641	1,740
Total equity	26	4,935	4,349	3,716	3,762

The financial statements were approved by the Board of Directors on 13 May 2008, and are signed on its behalf by:

Justin King Chief Executive

Darren Shapland Chief Financial Officer

Cash flow statements

for the 52 weeks to 22 March 2008

	Note	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash flows from operating activities					
Cash generated from operations	27a	998	830	(126)	(166)
Interest paid		(123)	(95)	(34)	(95)
Corporation tax (paid)/received		(64)	9	(64)	-
Net cash from operating activities		811	744	(224)	(261)
Cash flows from investing activities					
Purchase of property, plant and equipment		(973)	(778)	-	-
Purchase of intangible assets		(6)	(7)	-	-
Proceeds from disposal of property, plant and equipment and other assets		198	106	1	11
Acquisition of and investment in subsidiaries and businesses, net of cash acquired	12, 13	(7)	(3)	(3)	(24)
Investment in joint ventures		(31)	-	(15)	-
Proceeds from part disposal of Sainsbury's Bank		-	21	-	21
Cash disposed on part disposal of Sainsbury's Bank		-	(33)	-	-
Cost of disposal of operations		(1)	(1)	(1)	(1)
Interest received		29	15	116	119
Dividends received		-	-	250	270
Net cash from investing activities		(791)	(680)	348	396
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		43	81	43	81
Capital redemption		(10)	(2)	(10)	(2)
Repayment of short-term borrowings		-	(53)	-	(53)
Repayment of long-term borrowings		(36)	(22)	(7)	-
Debt restructuring costs		-	(2)	-	(2)
Interest elements of obligations under finance lease payments		(3)	(3)	-	-
Dividends paid	10	(178)	(140)	(178)	(140)
Net cash from financing activities		(184)	(141)	(152)	(116)
Net (decrease)/increase in cash and cash equivalents		(164)	(77)	(28)	19
Opening cash and cash equivalents		765	842	264	245
Closing cash and cash equivalents	27b	601	765	236	264

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 22 March 2008 (prior financial year 52 weeks to 24 March 2007). The consolidated financial statements for the 52 weeks to 22 March 2008 comprise the financial statements of the Company and its subsidiaries ('Group') and the Group's interests in associates and 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 ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Company's financial statements have been prepared on the same basis and as permitted by Section 230(3) of the Companies Act 1985, no income statement is presented for the Company.

(b) Basis of preparation

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

The preparation of financial statements in conformity with IFRS 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 IAS 1, 'Presentation of Financial Statements – Capital Disclosures'
- IFRS 7 'Financial Instruments: Disclosures'
- IFRIC 8 'Scope of IFRS 2'
- IFRIC 9 'Re-assessment of embedded derivatives'
- IFRIC 10 'Interim Financial Reporting and Impairment'
- IFRIC 11 'IFRS 2 – Group and Treasury Share Transactions'

The above new standards, interpretations and amendments to published standards have had no material impact on the results or the financial position of the Group for the 52 weeks to 22 March 2008.

Effective for the Group for the financial year beginning 23 March 2008:

- IFRIC 12 'Service Concession Arrangements'
- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

Effective for the Group for future financial years:

- Revised IAS 1 'Presentation of financial statements'
- Revised IAS 23 'Borrowing Costs'
- Revised IAS 27 'Consolidated and separate financial statements'
- Amendment to IAS 32 'Financial instruments: Presentation'
- Amendment to IFRS 2 'Share-based payment'
- Revised IFRS 3 'Business Combinations'
- IFRS 8 'Operating Segments'
- IFRIC 13 'Customer Loyalty Programmes'

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

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

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 associates and 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.

Associates and joint ventures

Associates are entities that are neither subsidiaries nor joint ventures, over which the Group has significant influence. Joint ventures are jointly controlled entities in which the Group has an interest. The Group's share of the results of its associates and joint ventures are included in the Group income statement using the equity method of accounting.

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

Investments in subsidiaries, associates and 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.

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

2 Accounting policies continued

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. Revenue excludes Value Added Tax and staff discounts.

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

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.

Sainsbury's Bank

Sainsbury's Bank was fully consolidated until the Group sold five per cent of its shareholding in February 2007; thereafter it has been equity accounted as a joint venture.

Prior to the Group selling part of its shareholding of Sainsbury's Bank, revenue included interest receivable, fees and commissions.

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

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

Cost of sales

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

Prior to the Group selling part of its shareholding of Sainsbury's Bank, cost of sales included interest expense on operating activities, calculated using the effective interest method.

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 any 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.

Intangible assets

Pharmacy licences

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

Computer software

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

Goodwill

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

Investment property

Investment property is property held to earn rental income and/or for capital appreciation. Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with other Sainsbury's properties. Any impairment in value is shown outside underlying profit before tax.

Impairment of non-financial assets

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

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.

2 Accounting policies continued

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 period of the lease term.

Operating lease income

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

Inventories

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

Cash and cash equivalents

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

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 taxable 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 substantially 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.

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 rentals, 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 the statement of recognised income and expense.

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

Long service awards

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

Share-based payments

The Group provides benefits to employees (including Directors) of the Group in the form of equity-settled and cash-settled share-based payment transactions, whereby employees render services in exchange for shares, rights over shares or the value of those shares in cash terms.

For equity-settled share-based payments the fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions. All share options are valued using an option-pricing model (Black-Scholes or Monte Carlo). This fair value is charged to the income statement over the vesting period of the share-based payment scheme, with the corresponding increase in equity.

2 Accounting policies continued

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

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

Financial instruments

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired.

'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.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, these assets are recorded at amortised cost using the effective interest method. Income is calculated on an effective yield basis and is recognised in the income statement.

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

Purchases and sales of 'financial assets at fair value through profit or loss', held-to-maturity and AFS investments are recognised on trade date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets 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.

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.

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 or held-to-maturity investments, 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.

2 Accounting policies continued

Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed in note 29.

Redeemable preference shares

Redeemable preference shares that meet the definition of a liability are recognised as a liability on the balance sheet. The corresponding dividends on these shares are recognised as finance costs through the income statement.

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

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

Offsetting financial instruments

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

Non GAAP performance measures

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

- Profit on sale of properties – these can vary from year to year and therefore create volatility in reported earnings;
- Financing fair value movements – these fair value gains and losses relate to fair value adjustments on derivatives relating to financing activities and hedged items in fair value hedges. The underlying profit measure removes the volatility of these items within profit before tax;
- Impairment of goodwill and impairment of properties within joint ventures; and
- One-off items – these are material and largely one-off in nature, creating volatility in reported earnings which does not reflect Sainsbury's underlying performance.

(c) Judgements and estimates

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

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

Goodwill impairment

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

Impairment of assets

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

Post-employment benefits

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

2 Accounting policies continued

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.

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.

3 Segment reporting

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

The businesses are organised into two operating divisions:

- Retailing (Supermarkets and Convenience); and
- Financial services (Sainsbury's Bank).

All material operations are carried out in the UK.

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

3 Segment reporting continued

	Retailing £m	Financial services £m	Group £m
2008			
Segment revenue			
Sales to external customers	17,837	-	17,837
Underlying operating profit¹			
Underlying operating profit ¹	535	-	535
Profit on sale of properties	7	-	7
Costs relating to approach from Delta Two	(7)	-	(7)
Costs associated with Office of Fair Trading dairy inquiry	(27)	-	(27)
Fair value gain on other financial asset	22	-	22
Segment result			
Segment result	530	-	530
Finance income			83
Finance costs			(132)
Share of post-tax profit/(loss) from joint ventures	1	(3)	(2)
Income tax expense			(150)
Profit for the financial year			329
Assets			
Assets	9,967	-	9,967
Investment in joint ventures	59	89	148
Segment assets			
Segment assets			10,115
Segment liabilities			
Segment liabilities	5,180	-	5,180
Other segment items			
Capital expenditure	1,006	-	1,006
Depreciation expense	463	-	463
Amortisation expense	18	-	18
Reversal of impairment on receivables	(1)	-	(1)
Other non-cash expenses			
Share-based payments	53	-	53
2007			
Segment revenue			
Sales to external customers	16,860	-	16,860
Services to external customers	-	291	291
Total revenue	16,860	291	17,151
Underlying operating profit¹			
Underlying operating profit ¹	429	2	431
Profit on sale of properties	7	-	7
Profit on part disposal of Sainsbury's Bank	-	10	10
Past service gains on defined benefit schemes	72	-	72
Segment result			
Segment result	508	12	520
Finance income			64
Finance costs			(107)
Income tax expense			(153)
Profit for the financial year			324
Assets			
Assets	9,478	-	9,478
Investment in joint ventures	10	88	98
Segment assets			
Segment assets			9,576
Segment liabilities			
Segment liabilities	5,227	-	5,227
Other segment items			
Capital expenditure	733	4	737
Depreciation expense	469	10	479
Amortisation expense	19	2	21
Impairment of amounts due from Sainsbury's Bank customers	-	89	89
Other non-cash expenses			
Share-based payments	38	-	38

¹ Underlying profit before tax from continuing operations before finance income and finance costs and share of post-tax profit or loss from joint ventures.

4 Operating profit

	2008 £m	2007 £m
Operating profit is stated after charging/(crediting) the following items:		
Employee costs (note 6)	1,957	1,785
Depreciation expense	463	479
Amortisation expense (included within cost of sales)	18	21
Profit on sale of properties (note 7)	(7)	(7)
Profit on part disposal of Sainsbury's Bank	-	(10)
Costs relating to approach from Delta Two (note 7)	7	-
Costs associated with Office of Fair Trading dairy inquiry (note 7)	27	-
Fair value gain on other financial asset (note 7)	(22)	-
Impairment of amounts due from Sainsbury's Bank customers (included within administrative expenses)	-	89
Reversal of impairment of receivables	(1)	-
Operating lease rentals – land and buildings	304	287
– other leases	51	45
– sublease payments received	(35)	(30)
Foreign exchange (gains)/losses	(2)	6

Group	2008 £m	2007 £m
Auditors' remuneration		
Audit services		
Fees payable to the Company auditor for the audit of the Group and the Company financial statements	0.3	0.4
Non-audit services		
Fees payable to the Company auditor and its associates for other services as detailed below:		
Audit of the Company's subsidiaries pursuant to legislation	0.4	0.4
Other services pursuant to legislation	0.1	0.1
Tax services	0.5	0.3
All other services	0.2	0.2
	1.5	1.4

5 Finance income and finance costs

	2008 £m	2007 £m
Interest on bank deposits	29	15
Net return on pension schemes (note 31)	54	41
Financing fair value gains ¹	-	8
Finance income	83	64
Financing fair value losses ¹	(4)	-
Borrowing costs		
Bank loans and overdrafts	-	(2)
Other loans	(132)	(111)
Obligations under finance leases	(3)	(3)
Provisions – amortisation of discount (note 22)	(1)	(1)
Interest capitalised – qualifying assets	(136)	(117)
Finance costs	(132)	(107)

¹ Fair value gains or losses relate to fair value adjustments on derivatives relating to financing activities and hedged items in fair value hedges.

6 Employee costs

	2008 £m	2007 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	1,682	1,583
Social security costs	116	122
Pension costs – defined contribution schemes	28	27
Pension costs – defined benefit schemes (note 31)	78	87
Pension costs – past service gains on defined benefit schemes (notes 7 and 31)	–	(72)
Share-based payments expense (note 32)	53	38
	1,957	1,785

	Number 000's	Number 000's
The average number of employees, including Directors, during the year were:		
Full-time	49.6	48.8
Part-time	101.4	98.1
	151.0	146.9
Full-time equivalent	98.6	95.5

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

7 Non GAAP performance measures

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

	2008 £m	2007 £m
Profit on sale of properties	7	7
Financing fair value movements	(4)	8
One-off items for the financial year comprised:		
Costs relating to approach from Delta Two	(7)	–
Costs associated with Office of Fair Trading dairy inquiry	(27)	–
Fair value gain on other financial asset	22	–
Profit on part disposal of Sainsbury's Bank	–	10
Past service gains on defined benefit schemes (notes 6 and 31)	–	72
Total one-off items	(12)	82
Total non GAAP performance measures	(9)	97

Profit on sale of properties

Includes all Group gains or losses on the sale of properties.

Financing fair value movements

Fair value movements relate to fair value adjustments on derivatives relating to financing activities and hedged items in fair value hedges.

Costs relating to approach from Delta Two

The Group has incurred £7 million of costs in relation to the approach from Delta Two.

Costs associated with Office of Fair Trading dairy inquiry

The Group has incurred £27 million of costs associated with the Office of Fair Trading dairy inquiry.

Fair value gain on other financial assets

During the year the Group recognised a £22 million fair value gain on a financial asset. This asset was disposed of during the financial year.

8 Income tax expense

	2008 £m	2007 £m
Current tax expense		
Current year	173	2
Over provision in prior years	(9)	(25)
	164	(23)
Deferred tax expense		
Origination and reversal of temporary differences	–	158
Deferred tax rate change from 30% to 28%	(8)	–
(Over)/under provision in prior years	(6)	18
	(14)	176
Total income tax expense in income statement	150	153
Income tax expense on underlying profit ¹	151	132
Tax on items below:		
Sale of properties	–	(3)
Financing fair value movements	(1)	2
Costs relating to approach from Delta Two	(2)	–
Fair value gain on other financial asset	2	–
Past service gains on defined benefit schemes	–	22
Total income tax expense in income statement	150	153

¹ Tax charge attributable to underlying profit before tax from continuing operations.

The effective tax rate of 31.3 per cent (2007: 32.2 per cent) is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2008 £m	2007 £m
Profit before taxation	479	477
Income tax at UK corporation tax rate of 30% (2007: 30%)	144	143
Effects of:		
Disallowed depreciation on UK properties	21	22
Non-deductible expenses	18	3
Non-taxable income	–	(8)
Capital losses utilised	(10)	–
Deferred tax rate change from 30% to 28%	(8)	–
Over provision in prior years	(15)	(7)
Total income tax expense in income statement	150	153

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

	2008 £m	2007 £m
Share-based payment tax recognised directly in equity		
Current tax payable	(5)	(2)
Deferred tax asset	19	(7)
Prior year adjustment	(13)	–
Deferred tax rate change from 30% to 28%	1	–
Deferred tax losses associated with share-based payment tax deduction	8	(8)
	10	(17)
Deferred tax on items recognised directly in equity		
Actuarial gains on defined benefit pension schemes	161	52
Available-for-sale financial assets fair value movements	3	7
Deferred tax rate change from 30% to 28% – defined benefit pension scheme	(10)	–
Deferred tax rate change from 30% to 28% – available-for-sale financial assets	(2)	–
	152	59
	162	42

9 Earnings per share

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

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

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

All operations are continuing for the periods presented.

	2008 million	2007 million
Weighted average number of shares in issue	1,718.7	1,691.3
Weighted average number of dilutive share options	48.5	28.5
Total number of shares for calculating diluted earnings per share	1,767.2	1,719.8

	£m	£m
Profit for the financial year attributable to equity holders of the parent	329	325
(Less)/add: profit on sale of properties, net of tax	(7)	(10)
financing fair value movements, net of tax	3	(6)
costs relating to approach from Delta Two, net of tax	5	-
fair value gain on other financial asset, net of tax	(20)	-
costs associated with Office of Fair Trading dairy inquiry	27	-
profit on part disposal of Sainsbury's Bank	-	(10)
past service gains on defined benefit schemes, net of tax	-	(50)
Underlying profit after tax	337	249

	pence per share	pence per share
Basic earnings	19.1	19.2
Diluted earnings	18.6	18.9
Underlying basic earnings	19.6	14.7
Underlying diluted earnings	19.1	14.5

10 Dividend

	2008 pence per share	2007 pence per share	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	7.35	5.85	126	99
Interim dividend of current financial year	3.00	2.40	52	41
	10.35	8.25	178	140

After the balance sheet date, a final dividend of 9.00 pence per share (2007: 7.35 pence per share) was proposed by the Directors in respect of the 52 weeks to 22 March 2008, resulting in a total final proposed dividend of £155 million (2007: £126 million). The proposed final dividend has not been included as a liability at 22 March 2008.

11 Property, plant and equipment

	Group Land and buildings £m	Group Fixtures and equipment £m	Group Total £m	Company Land and buildings £m
Cost				
At 25 March 2007	6,719	4,480	11,199	263
Additions	628	365	993	-
Acquisition of subsidiaries (note 33)	3	-	3	-
Disposals	(182)	(153)	(335)	(1)
Transfer to assets held for sale	(100)	(15)	(115)	-
At 22 March 2008	7,068	4,677	11,745	262
Accumulated depreciation and impairment				
At 25 March 2007	1,060	2,963	4,023	19
Depreciation expense for the year	89	374	463	2
Disposals	(19)	(133)	(152)	-
Transfer to assets held for sale	(7)	(6)	(13)	-
At 22 March 2008	1,123	3,198	4,321	21
Net book value at 22 March 2008	5,945	1,479	7,424	241
Capital work-in-progress included above	398	63	461	-
Cost				
At 26 March 2006	6,418	4,323	10,741	268
Additions	383	344	727	-
Disposals	(73)	(138)	(211)	(5)
Part disposal of Sainsbury's Bank	-	(49)	(49)	-
Transfer to assets held for sale	(9)	-	(9)	-
At 24 March 2007	6,719	4,480	11,199	263
Accumulated depreciation and impairment				
At 26 March 2006	970	2,711	3,681	17
Depreciation expense for the year	92	387	479	2
Disposals	(2)	(106)	(108)	-
Part disposal of Sainsbury's Bank	-	(29)	(29)	-
At 24 March 2007	1,060	2,963	4,023	19
Net book value at 24 March 2007	5,659	1,517	7,176	244
Capital work-in-progress included above	343	89	432	-
The net book value of land and buildings comprised:				
Freehold land and building	4,502	4,339	64	65
Long leasehold	938	889	177	179
Short leasehold	505	431	-	-
	5,945	5,659	241	244

Interest capitalised

Interest capitalised included in additions amounted to £8 million (2007: £10 million) for the Group and £nil (2007: £nil) for the Company. Accumulated interest capitalised included in the cost total above amounted to £255 million (2007: £253 million) for the Group and £nil (2007: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.7 per cent (2007: 5.3 per cent).

Security

Property, plant and equipment of 127 supermarket properties, with a net book value of £2,336 million (2007: £2,380 million) are 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 £73 million (2007: £74 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 (note 37).

11 Property, plant and equipment continued

Analysis of assets held under finance leases – Group

	2008 £m	2007 £m
Land and buildings		
Cost	51	53
Accumulated depreciation and impairment	(21)	(21)
Net book value	30	32

12 Intangible assets

	Goodwill £m	Pharmacy licences £m	Software £m	Total £m
Cost				
At 25 March 2007	112	36	115	263
Additions	–	–	6	6
Acquisition of subsidiaries and businesses	4	–	–	4
Transfer to assets held for sale	(2)	–	–	(2)
At 22 March 2008	114	36	121	271
Accumulated amortisation and impairment				
At 25 March 2007	–	17	71	88
Amortisation expense for the year	–	3	15	18
At 22 March 2008	–	20	86	106
Net book value at 22 March 2008	114	16	35	165
Cost				
At 26 March 2006	109	36	120	265
Additions	–	–	7	7
Acquisition of subsidiaries	3	–	–	3
Part disposal of Sainsbury's Bank	–	–	(12)	(12)
At 24 March 2007	112	36	115	263
Accumulated amortisation and impairment				
At 26 March 2006	–	14	60	74
Amortisation expense for the year	–	3	18	21
Part disposal of Sainsbury's Bank	–	–	(7)	(7)
At 24 March 2007	–	17	71	88
Net book value at 24 March 2007	112	19	44	175

The goodwill balance above relates to the Group's acquired subsidiaries – Bells Stores Ltd, Jacksons Stores Ltd, JB Beaumont Ltd, SL Shaw Ltd and Culcheth Provision Stores Ltd – and is allocated to the respective cash-generating units ("CGUs") within the retail 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 ten per cent (2007: ten per cent) over a 25 year period. Based on the operating performance of the respective CGUs, no impairment loss was deemed necessary in the current financial year (2007: £nil).

13 Investments in subsidiaries

	2008 £m	2007 £m
Shares in subsidiaries – Company		
Beginning of year	7,166	7,225
Investment in subsidiaries	–	21
Acquisition of subsidiaries (note 33)	3	3
Part disposal of Sainsbury's Bank	–	(77)
Provision for diminution in value of investment	–	(6)
End of year	7,169	7,166

The Company's principal operating subsidiaries are:

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

All principal operating subsidiaries operate in the countries of their registration or incorporation, and have been consolidated up to and as at 22 March 2008.

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 25 March 2007	76	22	98	76
Additions in year	62	–	62	15
Share of retained loss	–	(2)	(2)	–
Movements in equity (note 24)	–	(10)	(10)	–
At 22 March 2008	138	10	148	91
At 26 March 2006	6	4	10	6
Addition of Sainsbury's Bank	70	18	88	70
At 24 March 2007	76	22	98	76

The holdings directly owned by the Company of the Group's principal joint ventures were:

	Year-end	Share of ordinary allotted capital	Country of registration or incorporation
Hedge End Park Ltd (property investment – UK)	22 March	50%	England
Boutique Sainsbury SARL (food retailing – France)	31 December	50%	France
Harvest GP 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 22 March 2008.

14 Investment in joint ventures continued

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

	2008 £m	2007 £m
Non-current assets	1,069	577
Current assets	2,405	1,140
Current liabilities	(2,896)	(1,376)
Non-current liabilities	(430)	(243)
Net assets	148	98
Income	237	33
Expenses	(239)	(33)
Loss after tax	(2)	-

15 Inventories

	2008 £m	2007 £m
Goods held for resale	681	590

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 22 March 2008 was £13,557 million (2007: £12,801 million).

16 Receivables

Trade and other receivables

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Non-current				
Amounts due from Group entities	-	-	921	869
Other receivables	55	50	55	50
	55	50	976	919
Current				
Trade receivables	32	30	-	-
Amounts due from Group entities	-	-	358	374
Other receivables	83	65	1	1
	115	95	359	375
Prepayments and accrued income	91	102	-	-
	206	197	359	375

Trade and other receivables are carried at amortised cost less impairment using the effective interest method. Trade receivables are non-interest bearing and are on commercial terms. Current other receivables are generally non-interest bearing.

Non-current other receivables of £55 million comprise £25 million of floating rate subordinated undated loan capital and £30 million of floating rate subordinated dated loan capital due from Sainsbury's Bank (note 34).

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

The Group has trade and other receivables of £3 million (2007: £11 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:

	2008 £m	2007 £m
Up to 8 weeks	3	7
Over 8 weeks	-	4
	3	11

16 Receivables continued

Group trade and other receivables of £1 million (2007: £2 million) and Company amounts due from Group entities of £14 million (2007: £14 million) are impaired and provided for. The ageing of these receivables are as follows:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Up to 8 weeks	–	–	14	14
8 to 20 weeks	–	–	–	–
Over 20 weeks	1	2	–	–
	1	2	14	14

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

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
At beginning of year	2	2	14	14
Receivables written off during the year	(1)	–	–	–
End of year	1	2	14	14

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

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Sterling	260	246	1,335	1,294
Euro	1	1	–	–
	261	247	1,335	1,294

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:

	2008 Number of counterparties	2008 Balance £m	2007 Number of counterparties	2007 Balance £m
Trade receivables	1	9	1	8
Other receivables	2	30	3	30
Related parties	1	61	1	56

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

Major other receivables include amounts due from the National Health Service of £16 million (2007: £16 million) for pharmacy sales and loans to developers of £14 million (2007: £14 million) for capital expenditure. Loans to developers are held in escrow and are determined on a contractual basis.

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 capital funding requirements.

No major counterparty balances are considered overdue or impaired.

17 Available-for-sale financial assets

	2008 £m	2007 £m
Non-current		
Unlisted equity investments	1	1
Other financial asset	105	136
	106	137

Unlisted equity investments represent the Group's interest in US unlisted companies. Due to a lack of an active market unlisted equity investments are held at cost less impairment. As at balance sheet date the Group has no intention to sell unlisted equity investments.

The other financial asset represents the Group's beneficial interest in a commercial property investment pool. The fair value of other financial asset is based on discounted cash flows assuming a property rental growth rate of three per cent (2007: three per cent) and a weighted average cost of capital of ten per cent (2007: ten per cent). The majority of available-for-sale financial assets are denominated in sterling. There were no disposals or impairment provisions on available-for-sale financial assets in either the current or the previous year, (see note 29 for sensitivity analysis).

18 Non-current assets held for sale

Assets held for sale of £112 million (2007: £25 million) consist of non-current assets relating to properties held in the retail operations division. Sale of these assets is expected to occur in the next financial year beginning 23 March 2008.

19 Payables

Trade and other payables

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Current				
Trade payables	1,703	1,706	-	-
Amounts due to Group entities	-	-	3,512	4,463
Other payables	329	365	10	11
Accruals and deferred income	248	196	-	-
	2,280	2,267	3,522	4,474
Non-current				
Amounts due to Group entities	-	-	1,803	740
Accruals and deferred income	89	33	-	-
	89	33	1,803	740

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 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Short-term borrowings				
Bank overdrafts	118	363	88	259
B shares liability	-	10	-	10
	118	373	88	269
Long-term borrowings				
Secured loans				
Loan due 2018	1,133	1,142	-	-
Loan due 2036	902	897	-	-
Unsecured loans				
Obligations under finance leases	49	51	-	-
	2,084	2,090	-	-
Total borrowings	2,202	2,463	88	269

Bank overdrafts

Bank overdrafts are repayable on demand and carry floating rates of interest.

B shares liability

Preference B shares were issued on 12 July 2004 as part of a return of share capital in that financial year. All remaining B shares were redeemed on 18 July 2007 at the book value of £10 million. Total preference dividends paid in respect of B shares amounted to £0.2 million (2007: £0.4 million).

A reconciliation of B shares liability for the 52 weeks to 22 March 2008 is shown below:

	2008 shares million	2007 shares million	2008 £m	2007 £m
Beginning of year	27	34	10	12
B shares redemption	(27)	(7)	(10)	(2)
End of year	-	27	-	10

Secured loans

The Group's long-term financing, secured on 127 of its supermarket properties (note 11), comprises loans from two finance companies:

- a fixed rate loan with an outstanding principal value of £1,159 million (2007: £1,186 million) at a weighted average rate of 4.97 per cent stepping up to 5.36 per cent from April 2013 (effective interest rate of 5.20 per cent and carrying amount of £1,133 million (2007: £1,142 million)) repayable over ten years; and
- an inflation linked loan with an outstanding principal value of £867 million (2007: £863 million) at a fixed 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 (effective interest rate of 6.52 per cent and carrying amount of £902 million (2007: £897 million)) repayable over 28 years.

The Group has entered into three interest rate swaps to convert £602 million (2007: £782 million) of the £1,159 million (2007: £1,186 million) loan due 2018 from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 30). During the year, £180 million of the £782 million swaps outstanding as at March 2007 were terminated at a cost of £7 million which represented the fair value of these instruments at the termination date. The fair value of the debt previously hedged by these swaps will be amortised over the remaining life of the loans, resulting in an amortisation charge to the income statement in the current financial year of £136,000 (2007: £nil).

20 Borrowings continued**Obligations under finance leases**

	Minimum lease payments 2008 £m	Minimum lease payments 2007 £m	Present value of minimum lease payments 2008 £m	Present value of minimum lease payments 2007 £m
Amounts payable under finance leases:				
Within 1 year	3	3	–	–
Within 2 to 5 years inclusive	12	13	1	1
After 5 years	188	198	48	50
	203	214	49	51
Less: future finance charges	(154)	(163)		
Present value of lease obligations	49	51		
Disclosed as:				
Current	–	–		
Non-current	49	51		
	49	51		

Finance leases have effective interest rates of 4.30 per cent to 8.50 per cent (2007: 4.30 per cent to 8.50 per cent). The average remaining lease term is 77 years (2007: 78 years).

Borrowing facilities

The Group maintains a £400 million committed revolving credit facility which matures in February 2012. As at 22 March 2008, there were £nil drawings under this facility (2007: £nil drawings).

On 9 May 2008 the Group entered into a new three year £163 million committed revolving loan facility syndicated via the Group's relationship banks and a new 12-month £35 million bilateral committed facility.

21 Deferred taxation

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

Group	Accelerated tax depreciation £m	Fair value gains £m	Other £m	Total £m	
Deferred income tax liabilities					
At 25 March 2007	(200)	(29)	(39)	(268)	
Charge to income statement	28	-	(2)	26	
Charge to equity	-	(3)	-	(3)	
Rate change adjustment to income statement	7	-	2	9	
Rate change adjustment to equity	-	2	-	2	
At 22 March 2008	(165)	(30)	(39)	(234)	
<hr/>					
At 26 March 2006	(158)	(20)	(30)	(208)	
Charge to income statement	(45)	-	(9)	(54)	
Charge to equity	-	(7)	-	(7)	
Part disposal of Sainsbury's Bank	-	-	(2)	(2)	
Reclassification	3	(2)	2	3	
At 24 March 2007	(200)	(29)	(39)	(268)	
<hr/>					
	Provisions £m	Retirement benefit obligations £m	Share-based payment £m	Tax losses £m	Total £m
Deferred income tax assets					
At 25 March 2007	14	48	30	8	100
Charge to income statement	(3)	(26)	9	-	(20)
Charge to equity	-	(161)	(19)	(8)	(188)
Prior year adjustment to equity	-	-	13	-	13
Rate change adjustment to income statement	-	-	(1)	-	(1)
Rate change adjustment to equity	-	10	(1)	-	9
At 22 March 2008	11	(129)	31	-	(87)
<hr/>					
At 26 March 2006	22	227	13	1	263
(Charge)/credit to income statement	(5)	(127)	10	-	(122)
(Charge)/credit to equity	-	(52)	7	8	(37)
Part disposal of Sainsbury's Bank	-	-	-	(1)	(1)
Reclassification	(3)	-	-	-	(3)
At 24 March 2007	14	48	30	8	100
<hr/>					
Net deferred income tax liability					
At 22 March 2008					(321)
At 24 March 2007					(168)

21 Deferred taxation continued

Company	Fair value losses £m
Deferred income tax assets	
At 25 March 2007	1
Charge to income statement	–
At 22 March 2008	1
At 26 March 2006	7
Charge to income statement	(6)
At 24 March 2007	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 25 March 2007	46	30	7	83	7	25	32
Charge to income statement							
– Additional provisions	10	–	–	10	–	–	–
– Unused amounts reversed	(4)	–	–	(4)	(2)	–	(2)
Utilisation of provision	(13)	(2)	–	(15)	(1)	–	(1)
Transfer to retirement benefit obligations (note 31)	–	(2)	–	(2)	–	–	–
Amortisation of discount	1	–	–	1	–	–	–
At 22 March 2008	40	26	7	73	4	25	29

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Disclosed as:				
Current	10	14	2	2
Non-current	63	69	27	30
	73	83	29	32

The onerous lease provision covers residual lease commitments of up to an average of 30 years (2007: 27 years), after allowance for existing or anticipated sublet rental income.

The restructuring and 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

	2008 million	2007 million	2008 £m	2007 £m
Group and Company				
Authorised share capital				
Ordinary shares of 28 ⁴ / ₇ pence each (2007: 28 ⁴ / ₇ pence)	2,450	2,450	700	700
Preference B shares of 35 pence each (2007: 35 pence) (note 20)	2,100	2,100	735	735
Called up share capital				
Allotted and fully paid – ordinary shares	1,747	1,734	499	495
Share premium account				
Share premium			896	857

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 25 March 2007	1,734	495	857
Allotted in respect of share option schemes	13	4	39
At 22 March 2008	1,747	499	896
At 26 March 2006	1,711	489	782
Allotted in respect of share option schemes	23	6	75
At 24 March 2007	1,734	495	857

24 Capital redemption and other reserves

	Group and Company Capital redemption reserve £m	Group Currency translation reserve £m	Group Actuarial gains/ (losses) £m	Group Available- for-sale assets £m	Group Cash flow hedge reserve £m	Group Total other reserves £m
At 25 March 2007	670	(1)	37	107	–	143
B shares redemption	10	–	–	–	–	–
Actuarial gains on defined benefit pension schemes	–	–	390	–	–	390
Available-for-sale financial assets fair value movements						
Group	–	–	–	(31)	–	(31)
Joint ventures (note 14)	–	–	–	48	–	48
Cash flow hedges effective portion of fair value movements						
Group	–	–	–	–	2	2
Joint ventures (note 14)	–	–	–	–	(58)	(58)
At 22 March 2008	680	(1)	427	124	(56)	494
At 26 March 2006	668	(1)	(90)	90	–	(1)
B shares redemption	2	–	–	–	–	–
Actuarial gains on defined benefit pension schemes	–	–	127	–	–	127
Available-for-sale financial assets fair value movements	–	–	–	17	–	17
At 24 March 2007	670	(1)	37	107	–	143

25 Retained earnings

	Group Own shares £m	Group Profit and loss account £m	Group Total retained earnings £m	Company Retained earnings £m
At 25 March 2007	(83)	2,267	2,184	1,740
Profit for the year	–	329	329	89
Dividends paid	–	(178)	(178)	(178)
Share-based payment	–	41	41	–
B shares redemption	–	(10)	(10)	(10)
Shares vested	4	–	4	–
Allotted in respect of share option schemes	–	(4)	(4)	–
At 22 March 2008	(79)	2,445	2,366	1,641
At 26 March 2006	(84)	2,032	1,948	1,692
Profit for the year	–	325	325	190
Dividends paid	–	(140)	(140)	(140)
Share-based payment	–	55	55	–
B shares redemption	–	(2)	(2)	(2)
Shares vested	1	–	1	–
Allotted in respect of share option schemes	–	(3)	(3)	–
At 24 March 2007	(83)	2,267	2,184	1,740

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

The Group owned 22,497,295 (2007: 23,567,107) of its ordinary shares of 28⁴/₇ pence nominal value each. At 22 March 2008, the total nominal value of the own shares was £6.4 million (2007: £6.7 million).

37,627 (2007: 43,450) 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. The remaining 22,459,668 shares (2007: 23,523,657) are held by an ESOP trust for the Executive Share Option Plan. The ESOP trusts waive the rights to the dividends receivable in respect of the shareholder under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 22 March 2008 was £74.9 million (2007: £129.5 million).

26 Reconciliation of movements in equity

Group	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Minority interests £m	Total equity £m
At 25 March 2007	495	857	813	2,184	4,349	-	4,349
Profit for the year	-	-	-	329	329	-	329
Dividends paid	-	-	-	(178)	(178)	-	(178)
Share-based payment	-	-	-	41	41	-	41
Actuarial gains on defined benefit pension schemes	-	-	390	-	390	-	390
Available-for-sale financial assets fair value movements							
Group	-	-	(31)	-	(31)	-	(31)
Joint ventures	-	-	48	-	48	-	48
Cash flow hedges effective portion of fair value movements							
Group	-	-	2	-	2	-	2
Joint ventures	-	-	(58)	-	(58)	-	(58)
B shares redemption	-	-	10	(10)	-	-	-
Shares vested	-	-	-	4	4	-	4
Allotted in respect of share option schemes	4	39	-	(4)	39	-	39
At 22 March 2008	499	896	1,174	2,366	4,935	-	4,935
At 26 March 2006	489	782	667	1,948	3,886	79	3,965
Profit for the year	-	-	-	325	325	(1)	324
Dividends paid	-	-	-	(140)	(140)	-	(140)
Share-based payment	-	-	-	55	55	-	55
Part disposal of Sainsbury's Bank	-	-	-	-	-	(78)	(78)
Actuarial gains on defined benefit pension schemes	-	-	127	-	127	-	127
Available-for-sale financial assets fair value movements	-	-	17	-	17	-	17
B shares redemption	-	-	2	(2)	-	-	-
Shares vested	-	-	-	1	1	-	1
Allotted in respect of share option schemes	6	75	-	(3)	78	-	78
At 24 March 2007	495	857	813	2,184	4,349	-	4,349

Company	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 25 March 2007	495	857	670	1,740	3,762
Profit for the year	-	-	-	89	89
Dividends paid	-	-	-	(178)	(178)
B shares redemption	-	-	10	(10)	-
Allotted in respect of share option schemes	4	39	-	-	43
At 22 March 2008	499	896	680	1,641	3,716
At 26 March 2006	489	782	668	1,692	3,631
Profit for the year	-	-	-	190	190
Dividends paid	-	-	-	(140)	(140)
B shares redemption	-	-	2	(2)	-
Allotted in respect of share option schemes	6	75	-	-	81
At 24 March 2007	495	857	670	1,740	3,762

27 Notes to the cash flow statements**(a) Reconciliation of operating profit to cash generated from operations**

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Operating profit	530	520	(4)	6
Adjustments for				
Depreciation expense	463	479	2	2
Amortisation expense	18	21	-	-
Profit on sale of properties	(7)	(7)	-	(5)
Fair value gain on other financial asset	(22)	-	-	-
Profit on part disposal of Sainsbury's Bank	-	(10)	-	(11)
Provision for diminution in value of investment	-	-	-	6
Foreign exchange differences	(2)	6	-	-
Share-based payments expense	53	38	-	-
Operating cash flows before changes in working capital	1,033	1,047	(2)	(2)
Changes in working capital				
Increase in inventories	(94)	(12)	-	-
Increase in current available-for-sale financial assets	-	(45)	-	-
(Increase)/decrease in trade and other receivables	(26)	(50)	19	624
Decrease in amounts due from Sainsbury's Bank customers and other banks	-	188	-	-
Increase/(decrease) in trade and other payables	96	314	(141)	(788)
Decrease in amounts due to Sainsbury's Bank customers and other banks	-	(198)	-	-
Decrease in provisions and other liabilities	(11)	(414)	(2)	-
Cash generated from operations	998	830	(126)	(166)

(b) Cash and cash equivalents

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

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash and cash equivalents	719	1,128	324	523
Bank overdrafts (note 20)	(118)	(363)	(88)	(259)
	601	765	236	264

28 Analysis of net debt

	25 March 2007 £m	Cash flow £m	Disposals £m	Other non-cash movements £m	22 March 2008 £m
Current assets					
Cash and cash equivalents	1,128	(409)	-	-	719
Derivative financial instruments	-	-	-	4	4
	1,128	(409)	-	4	723
Current liabilities					
Bank overdrafts	(363)	245	-	-	(118)
Borrowings	(10)	10	-	-	-
Derivative financial instruments	(2)	-	-	(4)	(6)
	(375)	255	-	(4)	(124)
Non-current liabilities					
Borrowings	(2,039)	29	-	(25)	(2,035)
Finance leases	(51)	-	-	2	(49)
Derivative financial instruments	(43)	-	7	18	(18)
	(2,133)	29	7	(5)	(2,102)
	(2,508)	284	7	(9)	(2,226)
Total net debt	(1,380)	(125)	7	(5)	(1,503)

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

Reconciliation of net cash flow to movement in net debt

	2008 £m	2007 £m
Decrease in cash and cash equivalents	(164)	(77)
Decrease in debt	39	79
Loan disposed of with part disposal of Sainsbury's Bank	-	45
Disposal of derivative financial instruments	7	-
Other non-cash movements	(5)	(12)
(Increase)/decrease in net debt in the year	(123)	35
Opening net debt at the beginning of the year	(1,380)	(1,415)
Closing net debt at the end of the year	(1,503)	(1,380)

29 Financial risk management

The Group's activities expose it to a variety of financial risks including liquidity risk, credit risk and market risk arising from movements in exchange rates and interest rates.

Funding and treasury risk management is undertaken through a central treasury department in accordance with policies and guidelines approved by the Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying the various risks and setting appropriate risk limits and controls. The Finance Committee, a committee of the Board, has on going responsibility for approving treasury activity and specific financial transactions, the authority for which may be delegated. 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 in this role by Group Internal Audit who regularly undertake reviews of the Group's risk management controls and procedures.

The Group only uses derivative financial instruments to hedge risk exposures arising from an underlying current or anticipated business requirement and not for any speculative purpose. The treasury department does not operate as a profit centre.

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

Liquidity risk

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

The Group's liquidity policy requires it to maintain committed funding to cover cash flow requirements over an 18-month period. This is achieved by monitoring and pre-funding the Group's forecast operational cash flows and maturing debt obligations and by maintaining an adequate level of headroom through committed loan facilities.

The Group's core funding is represented by two long-term loans secured over property assets held in two subsidiary companies. The loans comprise £1,159 million with a legal maturity of April 2018 and £867 million with a legal maturity of 2036.

The Group maintains a £400 million committed revolving credit facility maturing February 2012 to provide additional liquidity. Interest on drawings under the facility is charged at a margin over LIBOR ranging from 37.5 basis points to 75 basis points linked to the Group's latest reported fixed charge cover ratio. There are £nil drawings under this facility (2007: £nil drawings).

The Group also maintains a £35 million net overdraft facility under which debit and credit balances of the various subsidiary accounts covered by the facility are netted for the purpose of charging interest. The table overleaf includes the gross overdrawn balances within this facility and the offsetting cash balances under this arrangement are included within cash and cash equivalents, (see note 27b). Interest arising on any net overdraft balances is charged at one per cent above base rate.

The Group may also access uncommitted money market facilities for short-term funding requirements. Interest on these facilities is charged at various spreads over LIBOR.

The table overleaf 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 estimation in respect of floating interest rate liabilities.

29 Financial risk management continued

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 22 March 2008				
Notional overdraft	118	-	-	-
Borrowings				
Secured loan due 2018	86	85	256	1,276
Secured loan due 2036 ¹	52	53	170	1,302
Finance leases	3	3	9	188
Trade and other payables	2,272	-	-	-
At 24 March 2007				
Notional overdraft	363	-	-	-
Borrowings				
Secured loan due 2018	86	86	256	1,362
Secured loan due 2036 ¹	50	52	165	1,356
B shares	10	-	-	-
Finance leases	3	3	10	198
Trade and other payables	2,259	-	-	-

Company	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 22 March 2008				
Notional overdraft	88	-	-	-
Amounts due to Group entities ²	3,761	1,135	113	946
Other payables	10	-	-	-
At 24 March 2007				
Notional overdraft	259	-	-	-
Borrowings				
B shares	10	-	-	-
Amounts due to Group entities ²	3,546	1,111	118	1,018
Other payables	11	-	-	-

Assumptions:

- 1 Cash flows relating to debt linked to inflation rates have been calculated using RPI of 3.5 per cent for the year ended March 2009; 3 per cent for the four following years then 2.5 per cent for the remaining years of the loan.
- 2 Cash flows relating to debt bearing a floating interest rate have been calculated using the prevailing interest rates at 22 March 2008 and 24 March 2007.

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

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 22 March 2008				
Interest rate swaps on secured loan due 2018				
Outflow ¹	-	-	1	1
Other interest rate swaps				
Inflow ¹	(1)	(1)	(1)	(7)
At 24 March 2007				
Interest rate swaps on secured loan due 2018				
Outflow ¹	-	-	-	-
Other interest rate swaps				
Inflow ¹	-	(1)	(5)	(26)

Assumptions:

- 1 The ten-year swap rate at 23 January 2008 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above.

29 Financial risk management continued

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

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 22 March 2008				
Forward foreign exchange contracts – cash flow hedges				
Outflow	134	4	–	–
Inflow	(137)	(4)	–	–
At 24 March 2007				
Forward foreign exchange contracts – cash flow hedges				
Outflow	109	–	–	–
Inflow	(107)	–	–	–

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 22 March 2008, £2 million relating to these financial instruments has been recognised in equity (2007: £85,000).

Credit risk

The Group's exposures to credit risk arise from holdings of cash and cash equivalents, derivative financial instruments, deposits with banks and investments in marketable securities.

The Group typically places surplus funds onto the wholesale inter-bank money markets, usually in the form of short-term fixed rate deposits with approved banks and counterparties or into pooled Money Market Funds. The Group's credit policy limits investments to banks or liquid securities which carry minimum short-term credit ratings of A1 from Standard & Poor's and P1 from Moody's or, in the case of Money Market Funds, AAAM from Standard & Poor's and Aaa from Moody's. No more than £25 million may be invested with any individual bank counterparty and no more than ten per cent of a fund's overall value may be deposited in a single Money Market Fund. Individual credit limits are reviewed quarterly. The total Money Market Fund balances shown below represent the use of two funds (2007: three funds).

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	2008 £m	2007 £m
Financial institutions – Money Market Funds	AAAm/Aaa	300	450
Financial institutions – Money Market Deposits	A1+/P1	11	60
Financial institutions – Money Market Deposits	A1/P1	–	9

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

Market risk

(a) Currency risk

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

The Group's risk management policy seeks to limit the impact of movements in exchange rates on Group income by requiring anticipated foreign currency cash flows in US dollars and euros to be hedged. The future cash flows, which may be either contracted or uncontracted, are hedged on a layered basis between 80 per cent and 20 per cent using forward contracts over a 14-month time horizon.

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 relative to supplier payments or obligations.

A ten 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 £20,000 (2007: £300,000), as a result of gains or losses on translation of US dollar cash balances and US dollar denominated trade payables and receivables.

A ten 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 £500,000 (2007: £900,000), 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.

29 Financial risk management continued

(b) Interest rate risk

The Group is exposed to interest rate risk on its portfolio of interest bearing borrowings and deposits. The Group's interest rate policy seeks to minimise interest expense and volatility by converting, with the use of financial derivatives, the interest rate profile of underlying borrowings into a diversified portfolio of fixed rate, floating rate and inflation-linked liabilities. Policy defines neutral benchmarks of 35 per cent for fixed rate debt, 25 per cent for floating rate debt and 40 per cent for capped inflation-linked debt, which may be varied within defined levels of tolerance.

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

(i) Fair value sensitivity for fixed rate instruments

The Group holds £1,159 million of fixed rate debt (2007: £1,186 million), of which £602 million (2007: £782 million) has been swapped into floating rate debt with interest rate swaps.

The remaining £557 million (2007: £404 million) portion of fixed rate debt is recorded at amortised cost and a change in interest rates at the reporting date would not affect the income statement.

(ii) Cash flow sensitivity for variable rate instruments

The £602 million portion of fixed rate debt swapped to floating rates (2007: £782 million) and the associated interest rate swaps have been designated as being in a hedging relationship. The interest rate swaps and the gain or loss on the hedged item attributable to the hedged risk are recognised at fair value through profit or loss.

The two movements in fair values on the underlying fixed rate debt and the interest rate swaps largely offset one another in the income statement. A change of 100 basis points in interest rates at the balance sheet date would have increased or decreased post-tax profit or loss by £4 million (2007: £5 million) representing the increased cost of the floating rate leg of the swaps.

For the year, the fair value movement in the interest rate swaps has resulted in a credit to the income statement of £25 million (2007: £39 million). The fair value movement in the underlying fixed rate debt has resulted in a charge to the income statement of £25 million (2007: £39 million). The net movement is a credit to the income statement of £282,000 which represents ineffectiveness on this hedging relationship (2007: £24,000).

Interest rate swaps not held in a hedging relationship are recognised at fair value through profit or loss. An increase of 100 basis points in interest rates would have increased post-tax profit or loss by £4 million (2007: £400,000). A decrease of 100 basis points in interest rates would have decreased post-tax profit or loss by £10 million (2007: £8 million).

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

The Group holds £867 million of inflation-linked debt (2007: £863 million) which is recorded at amortised cost. A change of 50 basis points in the RPI at the balance sheet date would have increased or decreased post-tax profit or loss by £3 million (2007: £2 million).

(iv) Fair value sensitivity for available-for-sale financial assets

Included within available-for-sale financial assets is £105 million (2007: £136 million) relating to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of three per cent per annum and a discount rate of ten per cent (see note 17).

A change of one per cent in the assumed rate of property rental growth to two per cent and four per cent, holding other assumptions constant, would result in values for this asset of £90 million (2007: £113 million) and £130 million (2007: £163 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 £121 million (2007: £152 million) and £92 million (2007: £113 million) respectively.

(c) Pricing risk

The Group operates risk management processes for other material costs associated with its activities, for example energy costs. An energy risk management committee meets regularly to review pricing exposure to electricity and gas consumption and determines strategy for forward purchasing and hedging of energy costs. The process undertaken is similar to that employed in purchasing foreign currency as described in section (a) above.

Capital risk management

The Board's policy is to maintain a strong capital structure consistent with an investment grade credit rating to sustain investor confidence. The Group's current credit ratings comprise a Corporate Family rating of Baa3 from Moody's and a Corporate Credit rating of BBB- from Standard & Poor's.

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

The Board has a policy to maintain the underlying earnings cover for the ordinary dividend at a minimum of 1.5 times and to grow the dividend cover over time to 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.

30 Financial instruments

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Derivative assets				
Current				
Forward contract – cash flow hedge	4	–	–	–
Derivative liabilities				
Current				
Interest rate swaps – non-designated hedges	(6)	(2)	(6)	(2)
Non-current				
Interest rate swaps – fair value hedge	(18)	(43)	(18)	(43)

Interest rate swaps – non-designated hedges

At the balance sheet date, the Group held one interest rate swap that converts £75 million of floating rate borrowings into fixed rates of interest. Under the terms of the swap the Group pays a fixed rate of 4.50 per cent and receives three-month LIBOR on £75 million until 19 April 2031. The counterparty has a once only option to cancel the swap or double the notional principal value of the swap to £150 million on 19 July 2010 and thereafter a recurring option to cancel the swap on quarterly dates through to August 2030.

A swap outstanding in March 2007 with a notional principal of £100 million was cancelled by the counterparty in July 2007.

Interest rate swaps – fair value hedge

The Group has entered into three interest rate swaps to convert a total of £602 million (2007: £782 million) of the fixed rate secured loan due in 2018 to floating rates of interest (note 20). Under the terms of the swaps, the Group receives fixed interest at rates varying from 4.86 per cent to 5.22 per cent and pays floating rate interest at fixed spreads above three-month LIBOR. The notional principal amount of one of the interest rate swaps amortises from £421 million to £221 million from April 2016 to April 2018.

Foreign exchange forward contracts – cash flow hedges

At 22 March 2008, the Group held a portfolio of foreign exchange forward contracts with a fair value of £4 million (2007: £(0.4) million) to hedge its exposure to foreign exchange rate risk on its future foreign currency denominated trade purchases. The Group had purchased €144 million (2007: €110 million) and sold sterling at rates ranging from 0.68 to 0.97 (2007: 0.68 to 0.71) with maturities from April 2008 to November 2008 (2007: April 2007 to January 2008) and purchased US\$237 million (2007: US\$66 million) and sold sterling at rates ranging from 1.93 to 2.05 (2007: 1.79 to 1.98) with maturities from April 2008 to May 2009 (2007: April 2007 to February 2008).

At 22 March 2008, an unrealised gain of £2 million (2007: loss of £0.1 million) is included in equity in respect of these contracts. This gain will be transferred to the income statement over the next 14 months from balance sheet date.

Interest rate risk

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Inflation-linked debt is included within floating rate debt as the rate of interest is based on movements in the RPI and is therefore variable (see note 20). Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Group and Company that are not included in the tables below are non-interest bearing and are therefore not subject to interest rate risk.

The following tables set out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Group					
2008					
Floating rate					
Cash and cash equivalents	719	–	–	–	719
Other receivables	–	20	35	–	55
Bank overdrafts	(118)	–	–	–	(118)
Secured loan due 2036 ¹	(10)	(4)	(12)	(876)	(902)
Interest rate swaps on secured loan due 2018	–	–	–	(602)	(602)
Other interest rate swaps ²	–	–	75	–	75
Fixed rate					
Secured loan due 2018	(35)	(27)	(90)	(981)	(1,133)
Interest rate swaps on secured loan due 2018	–	–	–	602	602
Other interest rate swaps ²	–	–	(75)	–	(75)
Finance lease obligations	–	–	(1)	(48)	(49)

30 Financial instruments continued

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Group					
2007					
Floating rate					
Cash and cash equivalents	1,128	-	-	-	1,128
Other receivables	-	-	20	30	50
Bank overdrafts	(363)	-	-	-	(363)
B shares liability	(10)	-	-	-	(10)
Secured loan due 2036 ¹	(5)	-	(25)	(867)	(897)
Interest rate swaps on secured loan due 2018	-	-	-	(782)	(782)
Other interest rate swaps ²	-	100	-	150	250
Fixed rate					
Secured loan due 2018	(35)	(25)	(85)	(997)	(1,142)
Interest rate swaps on secured loan due 2018	-	-	-	782	782
Other interest rate swaps ²	-	(100)	-	(150)	(250)
Finance lease obligations	-	-	(1)	(50)	(51)

¹ Principal redemption profile of inflation-linked loan based on RPI projections at balance sheet date.

² Other interest rate swaps cancellable at the option of the counterparty.

Company**2008****Floating rate**

Cash and cash equivalents	324	-	-	-	324
Amounts due from Group entities	36	-	-	-	36
Other receivables	-	20	35	-	55
Bank overdrafts	(88)	-	-	-	(88)
Amounts due to Group entities	(3,388)	(1,045)	-	-	(4,433)
Interest rate swaps on amount due to Group entity in 2018	-	-	-	(602)	(602)
Other interest rate swaps ¹	-	-	75	-	75

Fixed rate

Amounts due from Group entities	-	-	55	866	921
Amount due to Group entity in 2018	-	-	-	(758)	(758)
Other payables	(5)	-	-	-	(5)
Interest rate swaps on amount due to Group entity in 2018	-	-	-	602	602
Other interest rate swaps ¹	-	-	(75)	-	(75)

2007**Floating rate**

Cash and cash equivalents	523	-	-	-	523
Amounts due from Group entities	50	-	-	-	50
Other receivables	-	-	20	30	50
Bank overdrafts	(259)	-	-	-	(259)
B shares liability	(10)	-	-	-	(10)
Amounts due to Group entities	(3,763)	-	-	-	(3,763)
Interest rate swaps on amount due to Group entity in 2018	-	-	-	(782)	(782)
Other interest rate swaps ¹	-	100	-	150	250

Fixed rate

Amounts due from Group entities	209	-	-	869	1,078
Amount due to Group entity in 2018	-	-	-	(740)	(740)
Other payables	(5)	-	-	-	(5)
Interest rate swaps on amount due to Group entity in 2018	-	-	-	782	782
Other interest rate swaps ¹	-	(100)	-	(150)	(250)

¹ Other interest rate swaps cancellable at the option of the counterparty.

30 Financial instruments continued

Foreign currency risk

The Group has net euro denominated trade creditors of £12 million (2007: £12 million) and US dollar denominated trade creditors of £4 million (2007: £(5) 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 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
2008				
Financial assets				
Amounts due from Group entities	-	-	921	860
Other receivables	55	55	55	55
Financial liabilities				
Amounts due to Group entities	-	-	(1,803)	(1,701)
Secured loans ¹	(2,035)	(1,782)	-	-
Obligations under finance leases	(49)	(49)	-	-
2007				
Financial assets				
Amounts due from Group entities	-	-	869	843
Other receivables	50	50	50	50
Financial liabilities				
Amounts due to Group entities	-	-	(740)	(740)
Secured loans ¹	(2,039)	(2,088)	-	-
Obligations under finance leases	(51)	(51)	-	-

¹ Includes £782 million accounted for as a fair value hedge.

Financial assets and liabilities by category

Set out below are the accounting classifications of each class of financial assets and liabilities as at 22 March 2008 and 24 March 2007.

	Loans and receivables £m	Available- for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Group						
2008						
Cash and cash equivalents	719	-	-	-	-	719
Trade and other receivables	171	-	-	-	-	171
Available-for-sale financial assets	-	106	-	-	-	106
Trade and other payables	-	-	-	-	(2,274)	(2,274)
Short-term borrowings	-	-	-	-	(118)	(118)
Long-term borrowings	-	-	-	-	(2,084)	(2,084)
Derivative financial instruments						
Cash flow hedges ¹	-	-	-	4	-	4
Interest rate swaps ²	-	-	(6)	(18)	-	(24)
	890	106	(6)	(14)	(4,476)	(3,500)
2007						
Cash and cash equivalents	1,128	-	-	-	-	1,128
Trade and other receivables	147	-	-	-	-	147
Available-for-sale financial assets	-	137	-	-	-	137
Trade and other payables	-	-	-	-	(2,259)	(2,259)
Short-term borrowings	-	-	-	-	(373)	(373)
Long-term borrowings	-	-	-	-	(2,090)	(2,090)
Derivative financial instruments						
Interest rate swaps ²	-	-	(2)	(43)	-	(45)
	1,275	137	(2)	(43)	(4,722)	(3,355)

¹ Cash flow hedges are deferred through equity.

² Interest rate swaps used for hedging are at fair value through profit or loss.

30 Financial instruments continued

	Loans and receivables £m	Available- for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Company						
2008						
Cash and cash equivalents	324	-	-	-	-	324
Trade and other receivables	1,335	-	-	-	-	1,335
Trade and other payables	-	-	-	-	(5,325)	(5,325)
Short-term borrowings	-	-	-	-	(88)	(88)
Derivative financial instruments						
Interest rate swaps ¹	-	-	(6)	(18)	-	(24)
	1,659	-	(6)	(18)	(5,413)	(3,778)
2007						
Cash and cash equivalents	523	-	-	-	-	523
Other receivables	1,294	-	-	-	-	1,294
Trade and other payables	-	-	-	-	(5,214)	(5,214)
Short-term borrowings	-	-	-	-	(269)	(269)
Derivative financial instruments						
Interest rate swaps ¹	-	-	(2)	(43)	-	(45)
	1,817	-	(2)	(43)	(5,483)	(3,711)

¹ Interest rate swaps used for hedging are at fair value through profit or loss.

31 Retirement benefit obligations

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

The defined benefit schemes were subject to a triennial valuation carried out by Watson Wyatt, the schemes' independent actuaries, at March 2006 on the projected unit basis. The results of this valuation were approved by the schemes' trustees in June 2007. The retirement benefit obligations at 22 March 2008 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:

	2008 £m	2007 £m
Present value of funded obligations	(3,668)	(4,395)
Fair value of plan assets	4,171	4,298
	503	(97)
Present value of unfunded obligations	(8)	(6)
Retirement benefit asset/(obligations)	495	(103)
Deferred income tax (liability)/asset	(129)	48
Net retirement benefit asset/(obligations)	366	(55)

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

31 Retirement benefit obligations continued

The amounts recognised in the income statement are as follows:

	2008 £m	2007 £m
Current service cost – funded schemes	(74)	(76)
Current service cost – unfunded scheme	(2)	–
Past service cost	(2)	(11)
Included in employee costs (note 6)	(78)	(87)
Past service gains on defined benefit schemes (note 6)	–	72
Total included in employee costs	(78)	(15)
Interest cost on pension scheme liabilities	(230)	(212)
Expected return on plan assets	284	253
Total included in finance income (note 5)	54	41
Total income statement (expense)/income	(24)	26

Of the expense recognised in operating profit, £70 million (2007: £11 million) is included in cost of sales and £8 million (2007: £4 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was a loss of £96 million (2007: gain of £342 million).

The amounts recognised in the statement of recognised income and expense are as follows:

	2008 £m	2007 £m
Net actuarial gains recognised during the year	542	179
Cumulative actuarial gains recognised	594	52

The movements in the funded retirement benefit obligations are as follows:

	2008 £m	2007 £m
Beginning of year	(4,395)	(4,361)
Current service cost	(74)	(76)
Past service cost	(2)	(11)
Past service gains (note 7)	–	72
Interest cost	(230)	(212)
Contributions by plan participants	(10)	(11)
Actuarial gains	922	90
Benefits paid	123	127
Transfer from provisions (note 22)	(2)	(13)
End of year	(3,668)	(4,395)

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

	2008 £m	2007 £m
Beginning of year	4,298	3,710
Expected return on plan assets	284	253
Actuarial (losses)/gains	(380)	89
Contributions by employer	82	362
Contributions by plan participants	10	11
Benefits paid	(123)	(127)
End of year	4,171	4,298

31 Retirement benefit obligations continued

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

	2008 %	2007 %
Discount rate	6.9	5.3
Expected return on plan assets	6.6	6.6
Future salary increases	3.50	3.00
Future pension increases	2.40–3.50	2.35–3.00

A movement of 0.5 per cent in the discount rate would increase or decrease the retirement benefit obligations by £335 million.

Consistent with the prior year, the discount rate is based on the annualised yield on an AA-rated sterling corporate bond index.

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 60 years for women) is as follows:

	2008 years	2007 years
Male pensioner	21.6	21.4
Female pensioner	23.1	22.9

The mortality assumptions used are the same as those adopted in the prior year.

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

	2008 %	2007 %
Equities	45	52
Bonds	46	37
Property	4	4
Other	5	7
	100	100

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.

The history of experience adjustments on the plans for the current and previous financial years is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m
Present value of retirement benefit obligations	(3,676)	(4,401)	(4,368)	(3,512)
Fair value of plan assets	4,171	4,298	3,710	2,976
Surplus/(deficit)	495	(103)	(658)	(536)
Experience loss on plan liabilities	(79)	(236)	(27)	(6)
Experience (loss)/gain on plan assets	(380)	89	428	134

The expected contributions to defined benefit schemes for the next financial year beginning 23 March 2008 are £125 million.

32 Share-based payments

The Group recognised £53 million (2007: £38 million) of employee costs (note 6) related to share-based payment transactions made during the financial year. Of these, £2 million (2007: £nil) are cash-settled.

National insurance contributions are payable in respect of certain share-based payment transactions and are treated as cash-settled transactions. At 22 March 2008, the carrying amount of national insurance contributions payable was £13 million (2007: £14 million) of which £nil (2007: £2 million) was in respect of vested grants.

The Group operates various share-based payment schemes as set out below:

(a) Savings Related Share Option Scheme ("SAYE")

The Group operates a Savings Related Share Option Scheme, which is open to all UK employees with more than three months' continuous service. This is an approved HMRC Scheme and was established in 1980. Under the SAYE scheme, participants remaining in the Group's employment at the end of the three-year or five-year savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price. Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

At 22 March 2008, UK employees held 22,074 five-year savings contracts (2007: 21,833) in respect of options over 20.6 million shares (2007: 20.5 million) and 28,332 three-year savings contracts (2007: 24,919) in respect of options over 15.3 million shares (2007: 14.1 million).

A reconciliation of option movements is shown below:

	2008 Number of options million	2008 Weighted average exercise price pence	2007 Number of options million	2007 Weighted average exercise price pence
Outstanding at beginning of year	34.5	256	35.4	237
Granted	10.0	331	9.1	328
Forfeited	(3.4)	272	(4.3)	236
Exercised	(4.9)	233	(4.4)	272
Expired	(0.3)	266	(1.3)	278
Outstanding at end of year	35.9	278	34.5	256
Exercisable at end of year	2.0	227	3.4	247

The weighted average share price during the period for options exercised over the year was 377 pence (2007: 510 pence).

Details of options at 22 March 2008 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2008 million	Options outstanding 2007 million
20 December 2001 (5 year period)	31 August 2007	302	-	0.4
3 January 2003 (5 year period)	31 August 2008	239	0.9	3.0
17 December 2003 (3 year period)	31 August 2007	241	-	0.4
17 December 2003 (5 year period)	31 August 2009	241	2.8	3.0
15 December 2004 (3 year period)	31 August 2008	217	1.1	3.5
15 December 2004 (5 year period)	31 August 2010	217	4.0	4.3
15 December 2005 (3 year period)	31 August 2009	231	4.6	5.3
15 December 2005 (5 year period)	31 August 2011	231	5.0	5.6
15 December 2006 (3 year period)	31 August 2010	328	4.0	4.8
15 December 2006 (5 year period)	31 August 2012	328	3.7	4.2
20 December 2007 (3 year period)	31 August 2011	331	5.6	-
20 December 2007 (5 year period)	31 August 2013	331	4.2	-
			35.9	34.5

32 Share-based payments continued

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:

	2008	2007
Share price at grant date (pence)	413	409
Exercise price (pence)	331	328
Expected volatility – 3 year period (%)	23.5	18.0
– 5 year period (%)	25.3	25.5
Option life – 3 year period (years)	3.2	3.2
– 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	1.9	2.3
Risk-free interest rate – 3 year period (%)	4.5	4.2
– 5 year period (%)	4.7	4.2
Fair value per option – 3 year period (pence)	122	105
– 5 year period (pence)	144	132

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 22 March 2008, a total of 10,547 UK employees (2007: 17,793) participated in the plan and held options over 3.4 million shares (2007: 5.7 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:

	2008 Number of options million	2008 Weighted average exercise price pence	2007 Number of options million	2007 Weighted average exercise price pence
Outstanding at beginning of year	5.7	365	18.6	366
Forfeited	(0.3)	352	(4.8)	363
Exercised	(2.0)	370	(7.9)	369
Expired	–	–	(0.2)	371
Outstanding at end of year	3.4	363	5.7	365
Exercisable at end of year	3.4	363	5.7	365

The weighted average share price during the period for options exercised over the year was 553 pence (2007: 500 pence).

Details of options at 22 March 2008 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2008 million	Options outstanding 2007 million
2 August 1999	1 August 2009	378	2.9	5.0
2 June 2000	1 June 2010	272	0.5	0.7
			3.4	5.7

32 Share-based payments continued

(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:

	2008 Number of options million	2008 Weighted average exercise price pence	2007 Number of options million	2007 Weighted average exercise price pence
Outstanding at beginning of year	20.4	362	36.8	358
Forfeited	(6.3)	332	(0.5)	400
Exercised	(5.9)	405	(11.5)	356
Expired	(4.1)	294	(4.4)	343
Outstanding at end of year	4.1	411	20.4	362
Exercisable at end of year	3.5	437	12.2	420

The weighted average share price during the period for options exercised over the year was 546 pence (2007: 460 pence).

Details of options at 22 March 2008 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2008 million	Options outstanding 2007 million
20 May 1997	19 May 2007	367	–	0.7
11 November 1997	10 November 2007	489	–	0.1
10 November 1998	9 November 2008	545	1.0	2.4
2 August 1999	1 August 2009	378	0.4	1.8
2 June 2000	1 June 2010	272	0.3	1.1
7 June 2001	6 June 2011	427	0.9	2.9
26 July 2001	25 July 2011	407	0.9	3.2
25 July 2002	24 July 2012	287	–	3.7
22 May 2003	21 May 2013	257	0.4	3.1
20 May 2004	19 May 2014	275	0.2	1.4
			4.1	20.4

32 Share-based payments continued

(d) Performance Share Plan ("PSP")

The Performance Share Plan was a long-term incentive scheme through which shares were awarded to senior managers on a conditional basis. Under the PSP, participants remaining in the Group's employment or leaving for certain reasons, were entitled to receive a grant of options after a performance period of three years to acquire the shares awarded to them, at any time during the ten years following the date of grant.

The participant's entitlement to receive the grant depended on the Company's Total Shareholder Return ("TSR") – being the increase in the value of a share, including reinvested dividends, compared with a peer group of 11 companies (namely Ahold, Alliance Boots, Carrefour, Casino, DSG International, Kingfisher, Loblaw, Marks & Spencer, Morrisons, Next and Tesco), over the three-year performance period.

If the median performance of the TSR against the comparator group was not achieved at the end of the three-year performance period, the entitlement to receive the grant of options lapsed. At median level, shares to the value of 30 per cent of salary would be released and the award will be pro rated at every position between the median and first position in the comparator group. The maximum allocation for Directors was a conditional grant of shares equal to 75 per cent of salary.

No further allocations will be made under this plan.

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

	Number of shares 2008 million	Number of shares 2007 million
Outstanding at beginning of year	0.9	2.2
Forfeited	–	(0.2)
Released to participants	(0.7)	(0.6)
Lapsed	(0.2)	(0.5)
Outstanding at end of year	–	0.9

Details of shares conditionally allocated at 22 March 2008 are set out below:

	Shares conditionally allocated 2008 million	Shares conditionally allocated 2007 million
20 May 2004	–	0.9
	–	0.9

Conditional awards of shares that have fulfilled all conditions at the end of the performance period are represented by options granted to participants to acquire the shares awarded to them. Details of the options outstanding at year-end are set out below:

Date of grant	Date of expiry	Exercise price pence	2008 Options	2008 Shares in respect of options granted	2007 Options	2007 Shares in respect of options granted
17 May 2006 ¹	16 May 2016	–	–	–	1	13,187
16 May 2007	15 May 2017	–	2	37,627	–	–
			2	37,627	1	13,187

¹ Options granted in respect of shares conditionally allocated on 22 May 2003.

32 Share-based payments continued

(e) All-Employee Share Ownership Plan

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 2008 million	Number of shares 2007 million
Outstanding at beginning of year	1.5	1.7
Forfeited	-	(0.1)
Released to participants	(0.1)	(0.1)
Outstanding at end of year	1.4	1.5

(f) J Sainsbury plc Share Plan 2005

Under the J Sainsbury plc Share Plan 2005, shares were awarded to participants on the conditional basis that the performance targets are achieved within the four-year performance period, from the financial year beginning 27 March 2005 until the financial year ending March 2009. The levels of awards are scaled according to seniority and there is an opportunity for Executive Directors and eligible Operating Board members to make a personal investment of up to 50 per cent of salary in the plan.

The awards will vest if stretching sales and earnings per share ("EPS") targets are achieved, as shown in table 1 below. The relevant performance multiplier, which is on a sliding scale up to a maximum of five times, will be calculated and applied to the core award of shares, as well as the personal investment of shares i.e. shares acquired by Executive Directors and eligible Operating Board members. Further, there is an opportunity for partial vesting of up to half the award, if the accelerated performance targets have been met at the end of year three (i.e. financial year ended March 2008) as shown in table 2. No awards will vest unless threshold levels of growth in both sales and EPS are achieved.

Once performance targets have been achieved, options will be granted to participants remaining in the Group's employment or leaving for certain reasons to acquire the shares awarded to them, at nil cost. The options will expire within a year after the end of the four-year performance period. Dividends will accrue on the shares that vest in the form of additional shares.

In order to participate in the plan, participants agreed to surrender options granted to them under the Company's Executive Share Option Plan in 2002, 2003 and 2004.

Table 1 – Maturity vesting (multiplier applied to the shares)

4 year EPS growth (compound annual)						
Sales growth in £ billion	<5%	5%	10%	14%	17%	21%
2.50	0.0	1.0	2.0	3.0	4.5	5.0
2.25	0.0	1.0	1.5	2.5	4.0	5.0
2.00	0.0	0.0	1.5	2.0	3.0	4.5
1.75	0.0	0.0	1.5	2.0	2.5	4.0
1.50	0.0	0.0	1.0	1.5	2.0	3.0
1.25	0.0	0.0	0.0	1.0	1.5	2.5
1.00	0.0	0.0	0.0	0.0	1.0	2.0

Table 2 – Interim vesting (multiplier applied to 50% of the shares)

3 year EPS growth (compound annual)						
Sales growth in £ billion	<5%	5%	10%	15%	20%	25%
2.50	0.0	1.0	2.0	3.0	4.5	5.0
2.25	0.0	1.0	1.5	2.5	4.0	5.0
2.00	0.0	0.0	1.5	2.0	3.0	4.5
1.75	0.0	0.0	1.5	2.0	2.5	4.0
1.50	0.0	0.0	1.0	1.5	2.0	3.0
1.25	0.0	0.0	0.0	1.0	1.5	2.5
1.00	0.0	0.0	0.0	0.0	1.0	2.0

32 Share-based payments continued

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

	Number of shares 2008 million	Number of shares 2007 million
Outstanding at beginning of year	6.5	7.0
Forfeited	(0.4)	(0.5)
Outstanding at end of year	6.1	6.5

Details of shares conditionally allocated at 22 March 2008 are set out below:

Date of conditional award	Shares conditionally allocated 2008 million	Shares conditionally allocated 2007 million
13 July 2005	6.1	6.5

(g) Long-Term Incentive Plan 2006

Under the Long-Term Incentive Plan 2006, shares were conditionally awarded to the top 1,000 managers in the Company, from the Chief Executive to the supermarket store managers. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

The awards will vest if the threshold levels of two co-dependent performance conditions – Return on Capital Employed ("ROCE") and growth in cash flow per share, are achieved over the three-year performance period. As set out in table 3 below, 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 be released on the fourth anniversary of the date of award. Options granted to acquire the award of shares will expire two years from vesting date. Dividends will accrue on the shares that vest in the form of additional shares.

Table 3 – Level of awards

3 year cash flow per share growth (compound annual)

	6%	9%	12%	15%	>18%
ROCE					
>=14%	1.5	2.5	3.0	3.5	4.0
13%	1.0	1.5	2.0	3.0	3.5
12%	0.5	1.0	1.5	2.0	3.0
11%	0.0	0.5	1.0	1.5	2.5
10%	0.0	0.0	0.5	1.0	1.5

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

	Number of shares 2008 million	Number of shares 2007 million
Outstanding at beginning of year	2.5	–
Conditionally allocated	2.1	2.6
Forfeited	(0.1)	(0.1)
Outstanding at end of year	4.5	2.5

Details of shares conditionally awarded at 22 March 2008 are set out below:

Date of conditional award	Shares conditionally allocated 2008 million	Shares conditionally allocated 2007 million
13 July 2006	2.4	2.5
20 June 2007	2.1	–
	4.5	2.5

32 Share-based payments continued

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:

	2008	2007
Share price at grant date (pence)	558	335
Exercise price (pence)	–	–
Expected volatility (%)	19.0	29.0
Option life (years)	4.2	4.1
Expected dividends (expressed as dividend yield %)	–	–
Risk-free interest rate (%)	5.6	4.7
Fair value per option (pence)	558	335

The expected volatility is based on the standard deviation of the Group's share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

(h) Deferred Annual Bonus Plan

The Deferred Annual Bonus Plan, applies to the top levels of management including Executive Directors and currently comprises around 40 participants in total. The first deferral took place in June 2007, in respect of the bonus awards for the financial year ended 24 March 2007. The next deferral will take place in June 2008.

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

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

	Number of shares 2008 million	Number of shares 2007 million
Outstanding at beginning of year	–	–
Granted during the year	0.6	–
Outstanding at end of year	0.6	–

Details of shares allocated at 22 March 2008 are set out below:

Date of award	Shares conditionally allocated 2008 million	Shares conditionally allocated 2007 million
20 June 2007	0.6	–

33 Acquisition of subsidiary

On 27 November 2007, the Group acquired 100 per cent of the shares in S.W. Dewsbury Limited for a total cash consideration of £3 million, net of cash acquired (note 13).

34 Related party transactions

Group

(a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc's Board of Directors and the Operating Board.

The key management personnel compensation is as follows:

	2008 £m	2007 £m
Short-term employee benefits	7	7
Post-employment employee benefits	1	1
Share-based payments	9	7
	17	15

Details of transactions, in the normal course of business, with the key management personnel are provided below. 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 £000	Saving deposit accounts Number of key management personnel	Saving deposit accounts £000
At 25 March 2007	4	8	2	(287)
Amounts advanced/(received) ¹	3	113	4	(722)
Interest earned/(paid)	1	-	1	-
Amounts (repaid)/withdrawn ²	4	(111)	3	392
At 22 March 2008	4	10	2	(617)
At 26 March 2006	4	9	2	(1)
Amounts advanced/(received) ¹	4	115	1	(769)
Interest earned/(paid)	1	-	2	(3)
Amounts (repaid)/withdrawn ²	4	(116)	1	486
At 24 March 2007	4	8	2	(287)

¹ Includes existing balances of new appointments.

² Includes existing balances of resignations.

34 Related party transactions continued**(b) Joint ventures****Transactions with joint ventures**

For the 52 weeks to 22 March 2008, the Group entered into various transactions with joint ventures as set out below.

	2008 £m	2007 £m
Sales of inventories	6	4
Management services provided	20	3
Interest income received in respect of interest bearing loans	3	–
Sale of assets	74	–
Rental expenses paid	(4)	–

Year-end balances arising from transactions with joint ventures

	2008 £m	2007 £m
Receivables		
Other receivables	7	8
Loans due from joint ventures		
Floating rate subordinated undated loan capital ¹	25	20
Floating rate subordinated dated loan capital ²	30	30
Payables		
Loans due to joint ventures	(5)	(5)

1 The undated subordinated loan capital shall be repaid on such date as the Financial Services Authority shall agree in writing for such repayment and in any event not less than five years and one day from the dates of draw down. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 1.0 per cent per annum for the duration of the loan.

2 No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Financial Services Authority. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 0.6 per cent per annum for the duration of the loan.

(c) HBOS plc group

In the prior financial year up to 8 February 2007, Sainsbury's Bank plc was a subsidiary of the Company and had as shareholders the Company and Bank of Scotland (part of the HBOS plc group), which held 55 per cent and 45 per cent respectively of the issued share capital.

Transaction with the HBOS plc group

Companies within the HBOS plc group provided both management and banking services to Sainsbury's Bank. Sainsbury's Bank also entered into financial transactions with, and earned commission from, companies within the HBOS plc group, all under normal commercial terms.

	2008 £m	2007 £m
Loans given to, and commission received from HBOS plc group		
Total loans and advances made during the year	–	5,589
Net interest received in respect of interest rate swaps, loans and advances	–	40
Commission income earned	–	18
Services and loans provided by HBOS plc group		
Management and banking services	–	(40)
Interest expense paid in respect of subordinated loan capital	–	(2)
Deposits by banks		
Fixed-term borrowing	–	(79)
Net interest paid in respect of interest rate swaps, loans and advances	–	(36)

34 Related party transactions continued**Company****(a) Key management personnel**

The key management personnel of the Company comprise members of the J Sainsbury plc's Board of Directors. The Directors do not receive any remuneration from the Company (2007: £nil) as their emoluments are borne by subsidiaries. The Company did not have any transactions with the Directors during the financial year (2007: £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

	2008 £m	2007 £m
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	284	69
Loans and advances repaid by subsidiaries	(360)	(802)
Loans and advances disposed of with part disposal of Sainsbury's Bank	-	(50)
Interest income received in respect of interest bearing loans and advances	115	127
Dividend income received	250	270
Loans and advances received from subsidiaries		
Loans and advances received	(321)	(1,559)
Loans and advances repaid	202	2,167
Interest expense paid in respect of interest bearing loans and advances	(277)	(224)

Year-end balances arising from transactions with subsidiaries

	2008 £m	2007 £m
Receivables		
Loans and advances due from subsidiaries	1,279	1,243
Payables		
Loans and advances due to subsidiaries	(5,315)	(5,203)

(c) Joint ventures**Transactions with joint ventures**

For the 52 weeks to 22 March 2008, the Company entered into transactions with joint ventures as set out below.

	2008 £m	2007 £m
Services and loans provided to joint ventures		
Interest income received in respect of interest bearing loans	3	-

Year-end balances arising from transactions with joint ventures

	2008 £m	2007 £m
Receivables		
Other receivables	1	1
Loans due from joint ventures		
Floating rate subordinated undated loan capital ¹	25	20
Floating rate subordinated dated loan capital ²	30	30
Payables		
Loans due to joint ventures	(5)	(5)

¹ The undated subordinated loan capital shall be repaid on such date as the Financial Services Authority shall agree in writing for such repayment and in any event not less than five years and one day from the dates of draw down. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 1.0 per cent per annum for the duration of the loan.

² No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Financial Services Authority. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 0.6 per cent per annum for the duration of the loan.

35 Operating lease commitments

The Group leases various retail stores, offices, depots and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

	Land and buildings 2008 £m	Land and buildings 2007 £m	Other leases 2008 £m	Other leases 2007 £m
Commitments under non-cancellable operating leases payable as follows:				
Within 1 year	305	291	48	42
Within 2 to 5 years inclusive	1,187	1,125	82	82
After 5 years	4,686	4,679	2	7
	6,178	6,095	132	131

The Group sublets certain leased properties and the total future minimum sublease payments to be received under non-cancellable subleases at 22 March 2008 are £254 million (2007: £262 million).

The Company does not have any operating lease commitments (2007: £nil).

36 Capital commitments

During the current financial year, the Group entered into contracts of £316 million (2007: £305 million) for future capital expenditure not provided for in the financial statements.

The Company does not have any capital commitments (2007: £nil).

37 Contingent liabilities and financial commitments

Contingent liabilities

Operating lease commitments (note 35) include payments in respect of 26 supermarket properties sold (16 supermarket properties sold in March 2000 for £325 million and ten supermarket properties sold in July 2000 for £226 million) and leased back to the Group for a period of 23 years. Under the arrangement, the Company has provided a residual value guarantee of £170 million for the 16 supermarket properties and £39 million for the ten supermarket properties at the end of the lease period.

In view of the relatively low amount of the guarantees when compared to the present market value of the freehold interests, the Directors believe that the likelihood of the guarantees being invoked is remote, therefore no provision has been recognised in these financial statements.

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 to extend credit to customers. The prior year figure has been adjusted to remove undrawn lines on credit cards. This credit line may be revoked at any time and is not considered to meet the definition of a commitment.

	2008 £m	2007 £m
Commitments to extend credit	24.6	18.2

38 Post balance sheet events

On the 26 March 2008, the Group announced an investment of £273 million to create a £1.2 billion property joint venture with The British Land Company PLC.

Five year financial record

	IFRS 2008	IFRS 2007	IFRS 2006	IFRS 2005	UK GAAP 2005	UK GAAP 2004
Financial results (£m)						
Revenue¹	19,287	18,518	17,317	16,573	16,573	18,239
Revenue (inc VAT) – continuing operations	19,287	18,518	17,317	16,364	16,364	15,517
Underlying operating profit						
Sainsbury's Supermarkets	535	429	352	308	321	564
Sainsbury's Bank	-	2	(10)	17	13	26
	535	431	342	325	334	590
Underlying net finance costs ²	(45)	(51)	(75)	(88)	(92)	(60)
Share of post-tax (loss)/profit from joint ventures	(2)	-	-	1	1	-
	488	380	267	238	243	530
Underlying profit from continuing operations³	488	380	267	238	243	530
Increase on previous year (%)	28.4	42.3	12.2	n/a		
Underlying profit from discontinued operations	-	-	-	11	11	145
	488	380	267	249	254	675
Underlying profit before tax⁴	488	380	267	249	254	675
Increase/(decrease) on previous year (%)	28.4	42.3	7.2	n/a	(62.4)	(2.9)
Earnings per share						
Basic (pence)	19.1	19.2	3.8	4.1	3.5	20.7
(Decrease)/increase on previous year (%)	(0.5)	405.3	(7.3)	n/a	(83.1)	(12.7)
Underlying basic (pence)	19.6	14.7	10.5	8.3	9.0	23.4
Increase/(decrease) on previous year (%)	33.3	40.0	26.5	n/a	(61.5)	(3.3)
Proposed dividend per share (pence) ⁵	12.00	9.75	8.00	7.80	7.80	15.69
Retail statistics for UK food retailing						
Number of outlets at financial year-end including checkout space⁶						
Sainsbury's Supermarkets						
over 60,000 sq ft sales area	25	21	16	16	16	14
40,001 – 60,000 sq ft sales area	165	157	150	142	142	143
25,001 – 40,000 sq ft sales area	155	163	168	176	176	163
15,000 – 25,000 sq ft sales area	94	91	88	79	79	77
under 15,000 sq ft sales area	384	356	330	314	314	186
	823	788	752	727	727	583
Retail statistics for UK food retailing						
Number of outlets at financial year-end excluding checkout space^{6,7}						
Sainsbury's Supermarkets						
over 55,000 sq ft sales area	24	20	15	15	15	14
40,001 – 55,000 sq ft sales area	130	124	116	110	110	109
25,001 – 40,000 sq ft sales area	161	167	177	182	182	173
15,000 – 25,000 sq ft sales area	100	98	92	83	83	78
under 15,000 sq ft sales area	408	379	352	337	337	209
	823	788	752	727	727	583
Sales area including checkout space (000 sq ft)⁶						
Sainsbury's Supermarkets	17,901	17,364	16,725	16,370	16,370	15,570
Net increase on previous year						
Sainsbury's Supermarkets (%)	3.1	3.8	2.2	5.1	5.1	2.4
Sales area excluding checkout space (000 sq ft)^{6,7}						
Sainsbury's Supermarkets	16,191	15,715	15,166	14,891	14,891	14,132
Net increase on previous year:						
Sainsbury's Supermarkets (%) ^{6,7}	3.0	3.6	1.8	5.4	5.4	2.8
New Sainsbury's Supermarkets openings^{6,7}	35	40	34	36	36	35
Sainsbury's Supermarkets' sales intensity						
Excluding checkout space (including VAT) ^{6,7}						
Per square foot (£ per week)	19.69	19.30	18.40	17.99	17.99	18.25

1 Includes VAT at Sainsbury's Supermarkets and sales tax at Shaw's Supermarkets.

2 Net finance costs pre financing fair value movements and one-off items that are material and infrequent in nature.

3 IFRS – Profit before tax from continuing operations before any gain or loss on the sale of properties, impairment of goodwill, financing fair value movements and one-off items that are material and infrequent in nature.

4 UK GAAP – Underlying profit before tax is stated before exceptional items.

5 Total proposed dividend in relation to the financial year.

6 Includes all convenience stores and convenience acquisitions.

7 Restated to measure space excluding checkouts, consistent with the rest of the market.

Additional shareholder information

End of year information at 22 March 2008

Number of shareholders:	123,214 (2007: 127,354)
Number of shares in issue:	1,747,013,518 (2007: 1,734,239,672)

By size of holding

	Shareholders % 2008	Shareholders % 2007	Shares % 2008	Shares % 2007
500 and under	67.90	67.62	0.54	0.57
501 to 1,000	12.64	12.59	0.66	0.69
1,001 to 10,000	18.13	18.31	3.15	3.34
10,001 to 100,000	0.90	0.95	1.68	1.86
100,001 to 1,000,000	0.28	0.36	6.96	8.68
Over 1,000,000	0.15	0.17	87.01	84.86
	100.00	100.00	100.00	100.00

By category of shareholder

	Shareholders % 2008	Shareholders % 2007	Shares % 2008	Shares % 2007
Individual and other shareholders	95.64	96.04	18.12	21.91
Insurance companies	0.04	0.05	0.02	0.03
Banks and Nominees	3.93	3.52	70.27	69.71
Investment Trusts	0.03	0.03	0.01	0.01
Pension Funds	0.01	0.01	0.08	0.13
Other Corporate Bodies	0.35	0.35	11.50	8.21
	100.00	100.00	100.00	100.00

Annual Report and Financial Statements

The Annual Report and Financial Statements is published on our website at www.j-sainsbury.co.uk/report2008 and has only been sent to those shareholders who have asked for a copy. Shareholders who have not requested a paper copy of the Annual Report have been notified of its availability on the website.

A paper copy of the Annual Report is available by writing to the Company Secretary, J Sainsbury plc, 33 Holborn, London EC1N 2HT or you can email your request to investor.relations2@sainsburys.co.uk.

Annual General Meeting ("AGM")

The AGM will be held at 11.00am on Tuesday 15 July 2008 at The International Convention Centre, Broad Street, Birmingham B1 2EA. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report.

Company website

J Sainsbury plc Interim and Annual Reports and results announcements are available via the internet on our website (www.j-sainsbury.co.uk). As well as providing share price data and financial history, the site also provides background information about the Company, regulatory and news releases and current issues. Shareholders can receive email notification of results and press announcements as they are released by registering on the page called Email news service in the Investor section of the website.

Registrar

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact: Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgewater Road, Bristol BS99 7NH.

Telephone: 0870 702 0106 (www.computershare.com).

Dividend Reinvestment Plan ("DRIP")

The Company has a DRIP, which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. No new shares are allotted under this Plan and some 32,580 shareholders participate in it. Full details of the Plan and its charges, together with mandate forms, are available from the Registrars.

Key dates for the final dividend are as follows:

Last date for return or revocation of Plan mandates	27 June 2008
Plan shares purchased for participants	18 July 2008
Plan share certificates issued	31 July 2008

Individual Savings Account ("ISA")

A corporate ISA is available from The Share Centre Ltd and offers a tax efficient way of holding shares in the Company. Both a Maxi and Mini ISA are available. For further information contact: The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB.

Telephone: 01296 414141 or freephone: 08000 282812 and quote "Sainsbury's".

Low cost share dealing service

The Company offers a low cost share dealing service for J Sainsbury plc ordinary shares through The Share Centre Ltd. For further information contact: The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB.

Telephone: 01296 414141 or freephone: 08000 282812 and quote "Sainsbury's".

ShareGift

Shareholders who wish to donate shares to charity can do so through ShareGift, the independent charity share donation scheme (registered charity no. 1052686). Further information about ShareGift may be obtained from Computershare Investor Services PLC or from ShareGift on 020 7930 3737 or at www.sharegift.org. There are no implications for capital gains tax purposes (on gain or loss) on gifts of shares to charity and it is also possible to claim income tax relief.

Tax information – Capital Gains Tax (“CGT”)

For CGT purposes, the market value of ordinary shares on 31 March 1982 adjusted for all capital adjustments was 91.99 pence and B shares 10.941 pence.

Share capital consolidation

The original base cost of shares apportioned between ordinary shares of 28^{4/7} pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding comes into existence. The market value for CGT purposes of any share or security quoted on the Stock Exchange Daily Official List is generally the lower of the two quotations on any day plus one quarter of the difference between the values.

On Monday 19 July 2004 the values were determined as follows:

New ordinary shares 257.5 pence
B shares 35 pence

Investor relations

For investor enquiries please contact: Elliot Jordan, Head of Investor Relations, J Sainsbury plc, Store Support Centre, 33 Holborn, London EC1N 2HT.

American Depositary Receipts (“ADRs”)

The Company has a sponsored Level I ADR programme for which The Bank of New York acts as depositary.

The ADRs are traded on the over-the-counter (“OTC”) market in the US under the symbol JSYNSY, where one ADR is equal to four ordinary shares.

All enquiries relating to ADRs should be addressed to:

The Bank of New York, Investor Relations, PO Box 11258, Church Street Station, New York, NY 10286-1258. Toll Free Telephone # for domestic callers: 1-888-BNY-ADRS
International callers can call: +1-610-382-7836
Email: shareowners@bankofny.com

General contact details

An audio tape of the Chairman's statement and the Business review can be obtained by calling: 01435 862 737.

Share price information is available on the Company's website, in the financial press and the Cityline service operated by the Financial Times (Telephone: 0906 003 3904).

For general enquiries about Sainsbury's Bank call: 0500 405 060.

For any customer enquiries please contact our Customer Careline by calling: 0800 636 262.

Additional shareholder information continued

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 Financial Statements on the day it is published
- register your email address so that future shareholder information can be sent to you electronically
- check the balance and current value of your shareholding and view your dividend history
- submit your vote online prior to a general meeting

Log on to (www.j-sainsbury.co.uk) and complete the following steps:

- 1 click on "Investors"
- 2 click on "Shareholder Services"
- 3 click on "Computershare"
- 4 enter the required information and click on "submit".
You will need your 11 character shareholder reference number located on your latest tax voucher
- 5 click on "Electronic Shareholder Communication" and register online.

Registered office

J Sainsbury plc
33 Holborn
London EC1N 2HT
Registered number 185647

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Stockbrokers

UBS
1 Finsbury Avenue
London EC2M 2PP

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Financial calendar 2008/09

Dividend and interest payments

Ordinary dividend

Ex-dividend date	21 May 2008
Record date	23 May 2008
Final dividend payable	18 July 2008
Interim dividend payable	January 2009

Other dates

Annual General Meeting – Birmingham	15 July 2008
Interim results announced	12 November 2008
Interim report available	November 2008
Annual General Meeting – London	15 July 2009

Glossary

'Active Kids' – Our nationwide scheme to help inspire school children to take more exercise and to eat more healthily. Launched in 2005, Active Kids is open to all nursery, primary and secondary schools as well as Scouts and Girl Guides in the UK.
www.sainsburys.co.uk/activekids

AGM – Annual General Meeting – This year the AGM will be held on Tuesday 15 July 2008 at The International Convention Centre, Broad Street, Birmingham B1 2EA 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 core 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 is undertaking an investigation into the supply of groceries by retailers in the UK.
www.competition-commission.org.uk

CR – Corporate responsibility – The need to act responsibly in managing the impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment.

'Different by design' – Sainsbury's general merchandise brand which mirrors the premium 'Taste the difference' food range.

'Different values' – Campaign launched in 2007 to emphasise the higher quality specifications and great value of Sainsbury's own brand products.

Dividend cover – Underlying profit after tax from continuing operations attributable to equity shareholders divided by total value of dividends declared during the year.

DRIP – Dividend Reinvestment Plan – Allows shareholders to reinvest their cash dividend in shares of the Company through a specially arranged share dealing service.

EBITDAR – Earnings before income tax, depreciation, amortisation and rent.

EPS – Earnings per share – Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year, excluding those held by ESOP trusts, which are treated as cancelled.

Easter adjustment – To adjust for the timing of Easter falling on 8 April 2007 and 23 March 2008.

ESOP trusts – Employee Share Ownership Plan trusts.

Fairtrade – The Fairtrade label is an independent consumer label that guarantees a fair deal for marginalised workers and small scale farmers in developing countries. Producers receive a minimum price that covers the cost of production and an extra premium that is invested in the local community.
www.fairtrade.org.uk

Fair value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

'freefrom' – Sainsbury's range of products guaranteed to be wheat, gluten or dairy free.

FSA – Food Standards Agency.
www.food.gov.uk

FTSE4Good – The FTSE Group, an indexing company, runs the FTSE4Good index series to measure the performance of companies that meet CR standards, and to facilitate investment in those companies.
www.ftse.com/ftse4good

GDAs – Guideline Daily Amounts.

Gearing – Net debt divided by total equity.

Group – The Company and its subsidiaries.

IFRIC – International Financial Reporting Interpretations Committee.

IFRS – International Financial Reporting Standard(s).

IGD – Institute of Grocery Distribution.
www.igd.com

Income statement – Formerly known as the profit and loss account under UK GAAP.

ISA – Individual Savings Account.

JV – Joint venture – A business jointly owned by two or more parties.

Like-for-like sales – The measure of year on year same store sales growth.

LTIP – Long-Term Incentive Plan.

'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.

SORIE – Statement of recognised income and expense.

TSR – Total Shareholder Return – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

'Ttd' – 'Taste the difference' – Sainsbury's premium sub brand range of products.

'Try something new today' – The marketing campaign in support of Making Sainsbury's Great Again.

'TU' – Sainsbury's own label clothing range.

'TU home' – Sainsbury's sub brand homeware range of products.

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

Underlying profit before tax – Profit before tax from continuing operations before any gain or loss on the sale of properties, impairment of goodwill, impairment of properties held within joint ventures, financing fair value movements and one-off items that are material and infrequent in nature.

Underlying operating profit/(loss) – Underlying profit before tax from continuing operations before finance income and finance costs.

Notes

A large area of horizontal dotted lines for writing notes.

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This Report is printed on Revive Uncoated, a recycled paper containing 100% post consumer collected waste.
The paper is FSC accredited as a recycled grade.
The printer is certified to the environmental management system ISO 14001 and is also Carbon Neutral.

**Our annual report can be found online
at www.j-sainsbury.co.uk/report2008**

Providing information in this way has significantly reduced the amount of paper printed and distributed and is in keeping with our principle of 'respect for our environment'.

We hope you agree this is a change for the better.

