



J Sainsbury plc Annual Report and Financial Statements

2011

Values and highlights

Sainsbury's values underpin our goal to provide healthy, safe, fresh and tasty food at fair prices

As a leading food retailer we focus on being

Best for food and health



5,000

Over 5,000 of our own-brand products are labelled with front of pack Multi Traffic Light labelling

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

Sourcing with integrity



£280 million

We are the world's largest retailer of Fairtrade

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

Respect for our environment



£5.7m

Through our supermarket Energy Reset programme we saved £5.7 million, which has cut our energy bill and environmental footprint

...and play an active role in the communities in which we operate

Making a positive difference to our community



£100 million

Active Kids: We have donated over £100 million worth of equipment and experiences to date

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

A great place to work



Gold

We were the first retailer to be awarded a gold accreditation from 'Investors in People' for our commitment to improving our business by investing in our colleagues

Our business model

About Sainsbury's

J Sainsbury plc was founded in 1869 and today operates a total of 934 stores comprising 557 supermarkets and 377 convenience stores. It jointly owns Sainsbury's Bank with Lloyds Banking Group and has two property joint ventures with Land Securities Group PLC and The British Land Company PLC.

The Sainsbury's brand is built upon a heritage of providing customers with healthy, safe, fresh and tasty food. Quality and fair prices go hand-in-hand with a responsible approach

to business. Sainsbury's stores have a particular emphasis on fresh food and we strive to innovate continuously and improve products in line with our customer needs.

We now have 21 million customer transactions a week and have a market share of over 16 per cent. Our large stores offer around 30,000 products and we offer complementary non-food products and services in many of our stores.

An internet-based home delivery shopping service is also available to over 93 per cent of UK households. We employ around 150,000 colleagues.



Great food at fair prices

21m

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

- 21 million customer transactions on average every week, a million more than last year
- A 16.3 per cent market share in the UK, up by 0.2 per cent on last year
- Over 5,000 new or improved own-brand products launched, including the major re-launch of *Taste the Difference*
- Six food colleges opened as part of our *Great Food* programme. Up to 10,000 colleagues will receive training at them each year
- *Meat and Fish Retailer of the Year* and *Drinks Retailer of the Year*

Accelerating the growth of complementary non-food ranges and services

3x

Complementary non-food grew more than three times faster than food sales

- Non-food sales grew more than three times faster than food sales, with many areas of general merchandise growing in excess of 20 per cent
- *TU* clothing is now the seventh largest clothing brand in the UK by volume
- We re-launched Sainsbury's Energy in a new partnership with British Gas
- Sainsbury's Bank had a strong year, with pre-tax operating profit up over 50 per cent

Reaching more customers through additional channels

£1bn

Our convenience business now provides annual sales of over £1 billion

- Our convenience business now provides annual sales of over £1 billion and we opened a further 47 stores this year
- We were awarded *Convenience Retailer of the Year* at the annual Retail Industry Awards
- Our online groceries business continues to grow, with annual sales up over 20 per cent and weekly orders now over 130,000
- *Click and Collect*, allowing customers to order non-food items online and collect in-store, has been rolled out to over 160 stores this year

Growing supermarket space

15.9%

of gross new space added since March 2009

- We exceeded our two-year space growth target of 15 per cent, as we have grown gross space by 15.9 per cent since March 2009
- This year we opened 21 new stores, 24 extensions and 47 convenience stores
- We added a gross 1.5 million sq ft of space this year, equivalent to 8.5 per cent, and we expect to maintain this momentum into next year
- We were awarded *Community Retailer of the Year* at the annual Retail Industry Awards

Active property management

£10.5bn

Estimated market value of freehold property

- Estimated market value of freehold property increased to £10.5 billion
- Increase of £0.7 billion on last year, including £0.5 billion of property value created through our investment and development activity
- Generated £275 million proceeds from sale and leaseback of property with no further development potential, contributing to total property profits of £108 million

Financial highlights

Sales

+7.1%

Sales (including VAT, including fuel) up 7.1%

Underlying operating profit

£738m

Underlying operating profit up 10.0%

Underlying profit before tax

£665m

Underlying profit before tax up 9.0%

Underlying basic earnings per share

26.5p

Underlying basic earnings per share up 10.9%

Financial summary	2010/11 £m	2009/10 £m	Change %
Sales (including VAT)	22,943	21,421	7.1
Sales (excluding VAT)	21,102	19,964	5.7
Underlying operating profit	738	671	10.0
Underlying profit before tax	665	610	9.0
Profit before tax	827	733	12.8
Profit after tax	640	585	9.4
Underlying basic earnings per share	26.5p	23.9p	10.9
Basic earnings per share	34.4p	32.1p	7.2
Full year dividend per share	15.1p	14.2p	6.3

Notes

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

Underlying profit before tax: profit before tax from continuing operations before any gain or loss on the disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing (credit)/charge and one-off items that are material and infrequent in nature.

Underlying basic earnings per share: underlying profit, net of attributable taxation, divided by the weighted average number of ordinary shares in issue during the period, excluding those held by the ESOP trusts, which are treated as cancelled.

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Business review

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Governance

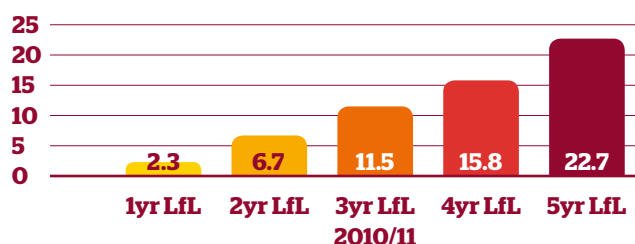
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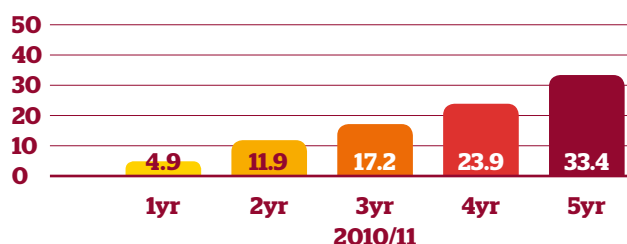
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Key financial performance indicators

Like-for-like sales growth¹ (%)



Total sales growth¹ (%)



Trading intensity per sq ft^{2,3} (£ per week)

2006/07	£19.30
2007/08	£19.69
2008/09	£20.01
2009/10	£20.42

2010/11 **£20.04**

Underlying EBITDAR⁴ (%)



Underlying operating margin⁵ (%)



Underlying profit before tax⁶ (£m)



Underlying basic earnings per share⁷

2006/07	13.0p
2007/08	17.4p
2008/09	21.2p
2009/10	23.9p

2010/11 **26.5p**

Net capital expenditure (£m)



Return on capital employed⁸ (%)



Operating cash flow (£m)



Notes

- Sales including VAT, excluding fuel.
- Trading intensity per sq ft: sales per week (including VAT, excluding fuel) divided by sales area.
- 2008/09 and 2009/10 adjusted for comparative purposes to remove the dilutive effect of the temporary VAT reduction to 15 per cent between 1 December 2008 and 31 December 2009.
- Underlying EBITDAR: underlying profit before tax before underlying net finance costs, underlying share of post-tax results from joint ventures, depreciation, amortisation and rent, divided by sales excluding VAT, including fuel.
- Underlying operating margin: underlying profit before tax before underlying net finance costs and underlying share of post-tax results from joint ventures, divided by sales excluding VAT, including fuel.
- Underlying profit before tax: profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing element and one-off items that are material and infrequent in nature.
- Underlying basic earnings per share: underlying profit, net of attributable taxation, divided by the weighted average number of ordinary shares in issue during the period, excluding those held by the ESOP trusts, which are treated as cancelled.
- Return on capital employed: underlying profit before interest and tax, divided by the average of opening and closing capital employed (net assets before net debt).

Chairman's statement

David Tyler
Chairman



Our Performance

The Board is pleased with the performance of Sainsbury's over the last year. We have gained market share and we now have 21 million customer transactions a week, an increase of one million on last year. We have attracted new customers to our existing estate as well as to our new stores. This is a strong demonstration of our universal appeal in what has been a challenging year for customers with increases in the cost of living and uncertainty about job prospects causing them to shop around for the best value. This performance has been achieved through continued focus on providing great product at fair prices; this year alone we launched over 5,000 new or improved products into our stores and we have continued to communicate our great value, for example through our *Value where it matters* campaign.

We have also made excellent progress against our strategic objectives as we aim to continue to improve profitability by appealing to an ever wider range of customers and increasing our reach across the UK. In particular, in the past two years we have increased gross store space by 15.9 per cent, exceeding the target we set ourselves in 2009. This increase in space, particularly through supermarket extensions, has helped our clothing and general merchandise grow at over three times the rate of food in the year. Our online business has also seen significant growth of over 20 per cent as we extend our offer and make it easier for customers to shop online with us.

Our Values

Our values are core to the way we conduct our business. Our customers expect us to trade responsibly and ethically without compromising on quality or value, and this remains at the heart of everything we do. We are proud that we continue to be the world's largest retailer of Fairtrade goods and also the UK's largest retailer of RSPCA Freedom Food products. Our hat-trick of awards at the 2010 Retail Industry Awards - *Community Retailer of the Year*, *Convenience Retailer of the Year* and *Seafood Retailer of the Year* demonstrates that our strengths and values are recognised throughout our industry.

Our Colleagues

Our colleagues share Sainsbury's values, and the Board and I are indebted to them for the way they provide a great experience for our customers with such energy and responsibility. I would like to thank them all for their commitment throughout the year. Our colleagues are also a great example of the benefits a diverse workforce can bring. New and different perspectives on the many challenges we face help us to understand and adapt to the changing needs of our customers. I am delighted our colleagues will share in a bonus of around £60 million this year.

Our Financial Results

We have delivered another strong set of results. Good sales growth combined with cost efficiency savings offsetting inflationary increases, helped deliver growth in both operating margin and return on capital. Underlying profit before tax is up nine per cent to £665 million and underlying earnings per share are up 10.9 per cent.

In addition to this, shareholders benefited from our progress in increasing the estimated value of our property estate by £0.7 billion to £10.5 billion in the year. The sale and leaseback of a number of supermarkets that had no further property development potential contributed to property profits of £108 million.

The Board recommends a final dividend of 10.8 pence per share, making a full year dividend of 15.1 pence, an increase of 6.3 per cent over the previous year.

Our Board

In June 2010, Mike Coupe and Darren Shapland assumed new roles as Group Commercial Director and Group Development Director respectively and John Rogers, Property Director, was appointed to the Board as the new Chief Financial Officer. In January 2011 Matt Brittin, UK and Ireland Managing Director of Google, joined as a Non-Executive Director. We also appointed Helen Buck to the Operating Board as Convenience Director in June 2010.

In May this year, we announced that Darren Shapland intended to stand down from the Board with effect from this year's AGM. Darren plans to pursue a number of personal interests in the future but he will, however, remain with Sainsbury's as Non-Executive Chairman of Sainsbury's Bank. I would like to thank Darren very much for the extremely important role he has played in helping to reposition Sainsbury's from recovery to growth.

Luke Jensen, who is currently Managing Director Non-Food, and a member of the Operating Board, will take over the role of Group Development Director assuming Darren's responsibilities except for Convenience, the Bank and Property. Direct responsibility for Convenience and Property will move to Justin King and John Rogers respectively.

It is testament to the strength in depth of the team and to the Sainsbury's brand that we are able to implement these changes. I would like to wish each of these colleagues every success in their new roles and I am sure their experience will serve us well.

Outlook

We have a wonderful set of assets at Sainsbury's: strong relationships with our customers; a trusted and respected brand; 934 stores across the UK; deep knowledge of the sector; 150,000 loyal and dedicated colleagues and developing complementary businesses. With this background, we believe that significant further value for shareholders can be created in the years ahead by investing further in the business: in our products, in our channels, in our store portfolio, and in other related businesses. Even in the difficult economic environment for UK consumers that we can anticipate during the next year, we expect to make further good progress.

David Tyler
Chairman



Justin King Chief Executive

Good sales and profit performance; continued delivery against growth plans.

Financial summary

- Total sales (including VAT, including fuel) up 7.1 per cent to £22,943 million (2009/10: £21,421 million)
- Total sales (including VAT, excluding fuel) up 4.9 per cent, like-for-like sales (including VAT, excluding fuel) up 2.3 per cent
- Underlying profit before tax up 9.0 per cent to £665 million (2009/10: £610 million)
- Underlying basic earnings per share up 10.9 per cent to 26.5 pence (2009/10: 23.9 pence)
- Return on capital employed of 11.1 per cent, up 11 bps (2009/10: 11.0 per cent)
- Proposed full year dividend of 15.1 pence, up 6.3 per cent, cover 1.75x (2009/10: 14.2 pence, cover 1.68x)

Statutory

- Revenue (excluding VAT, including fuel) up 5.7 per cent to £21,102 million (2009/10: £19,964 million)
- Profit before tax up 12.8 per cent to £827 million (2009/10: £733 million)
- Basic earnings per share up 7.2 per cent to 34.4 pence (2009/10: 32.1 pence)

Operating highlights

- Outperformed the market in challenging environment, increasing market share

- Weekly customer transactions now 21 million, up one million on last year
- Over 6,000 jobs created through store investment
- Hat-trick of awards at 2010 Retail Industry Awards: *Community Retailer of the Year, Convenience Retailer of the Year, Seafood Retailer of the Year*
- Cost savings fully offset inflationary increases
- Underlying operating margin accretion of 14 bps (20 bps at constant fuel prices)

Making Sainsbury's Great Again

- *Food*: Opened six new food colleges to train over 10,000 colleagues each year. Successful re-launch of £1 billion 'Taste the Difference' brand. Largest ever investment in own-brand underway with review of 6,500 'by Sainsbury's' products
- *Non-food*: Growing at more than three times rate of food. Now UK's seventh largest clothing retailer
- *Channels*: Convenience now £1 billion business; groceries online growing at over 20 per cent; 'Click & Collect' in over 160 stores; Sainsbury's Bank pre-tax operating profit up over 50 per cent
- *Space*: 1.5 million square feet gross new space this year, exceeding 15 per cent two-year target
- *Property*: Value of portfolio now £10.5 billion, up £0.7 billion. £275 million net proceeds from sale and leasebacks and £108 million property profits

Overview

Sainsbury's has continued to grow market share with customers responding well to our offer of healthy, fresh and tasty food at great value. Customer numbers are now at an all-time high with 21 million transactions a week, which is one million higher than this time last year.

We have made strong progress in each of our five areas of focus. Offering great food at fair prices remains at the heart of our offer, as we have continued to invest in our own-brand products. For example, we had a major re-launch of our *Taste the Difference* range, whilst our *Great Food* initiative is ensuring we offer the very best quality and service at our fresh food counters. We are accelerating the growth of complementary non-food and services with an expansion of our range, which we have made available to more customers through the development of our estate and online offer. We are reaching more customers through additional channels, with our convenience stores now bringing in annual sales of over £1 billion and online sales continuing to grow strongly. We continue to grow supermarket space successfully and have exceeded the space growth target of 15 per cent we set ourselves two years ago. Finally, we continue to focus on active property management and during the year we generated £275 million proceeds from the sale and leaseback of stores with no further property development potential, contributing to total property profits of £108 million.

Trading and operational review

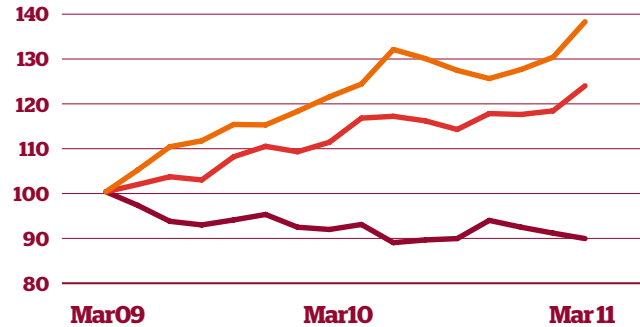
Sainsbury's has continued to outperform the market in challenging economic conditions. Total sales (excluding fuel) were up 4.9 per cent, with like-for-like sales up 2.3 per cent. This was delivered during a period when household budgets have been under significant pressure, most notably from record fuel price inflation. Customer transactions are now at an all-time high of 21 million per week. We attracted new customers not only to our new stores but also to our existing stores, demonstrating the strength of our universal customer appeal. In particular, we have worked hard to keep our prices as low as possible despite the rising costs of ingredients, while not compromising on quality or choice.

Trading intensity in our existing estate continued to grow. However, this progression was offset by a greater number of new stores whose sales are still in their growth stage, the higher proportion of space dedicated to non-food and the disruption experienced at the increased number of extensions this year. Overall trading intensity therefore decreased year-on-year.

Over the year, we have done much to help customers manage their weekly spend as they are increasingly savvy with their shopping and look around for the best value. Our *Value where it matters* campaign offers savings on leading brands; we check over 30,000 competitor prices each week to ensure our prices remain great value and this is supported by other campaigns such as offering over 1,000 products for £1 or less. Our meal planner tip cards have also been very popular, helping shoppers feed a family of four with five tasty and nutritious meals cooked from scratch for £20. In addition, sales of our expanding *Basics*

Impact of fuel price inflation

- Petrol price
- Customer spend
- Volume per transaction



(Source: Internal data, indexed to March 2009)

range of over 650 products are growing year-on-year, as customers continue to look for ways to save money.

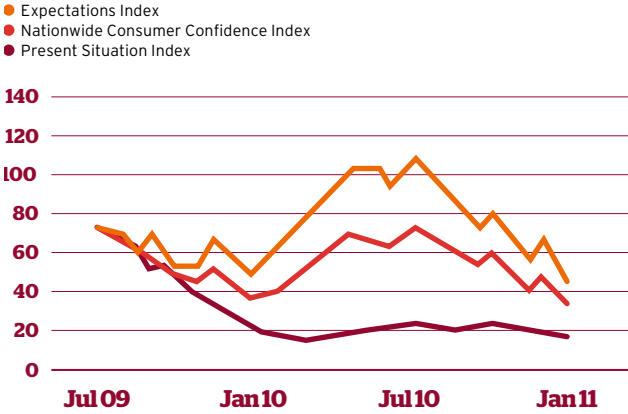
In addition we benefit from the competitive advantages the Nectar loyalty programme brings us. The scheme is now even stronger through the addition of British Gas and easyJet, offering our customers even more ways to earn or spend their points. There are now 17.5 million Nectar card holders and there are 800,000 more card holders shopping at Sainsbury's than this time last year.

Responsible sourcing



We moved all our own-brand canned tuna to pole and line caught in 2009, and as a result this year we were rated No. 1 by Greenpeace for responsible sourcing. We have since seen tinned tuna sales rise by nearly 15 per cent in the final quarter. We also announced that all tuna used as an ingredient would be moving to pole and line caught by the end of January 2011. Tuna is the third biggest-selling fish in Sainsbury's and the move will now see 1,500 tonnes of fish move to the more sustainable catch method every year.

Nationwide consumer confidence index



(Source: Nationwide)

Customers have enjoyed targeted offers through our coupon at till programme, unique in the UK, and in the last year alone we issued over 240 million coupons. Our ability to apply the unique insight Nectar data provides was recognised at the Data Strategy Awards with the *Best Use of Data in Retail* award.

More than ever, customers expect high ethical standards in our sourcing and this shows in our sales figures. For example, having been rated by Greenpeace as the best UK retailer for sustainable tuna and, through wider recognition of our sustainable sourcing methods, sales of our tinned tuna rose by nearly 15 per cent in the final quarter alone. Also, Christmas sales of our Freedom Food Norfolk Black turkeys were up 30 per cent on last year. In fact, despite the challenging weather conditions, we had a record-breaking Christmas. Our colleagues worked extremely hard to provide great service to our customers, serving over 24.6 million of them in the seven days up to and including Christmas Eve.

We continue to look for opportunities to streamline our operations, improve the customer shopping experience and make things simpler for colleagues, while also making significant cost savings. We now offer the option of self-scan checkouts in nearly 700 stores and they account for over 40 per cent of transactions in these stores. We have reduced the amount of paper used for store receipts by two fifths, equivalent to over 350 tonnes annually, by using double-sided printing. Over the last four years our Energy Reset programme has saved the equivalent energy needed for 90 supermarkets, reducing energy usage by 16 per cent in each store.

We have also introduced further efficiencies within our supply chain to get products onto our shelves more quickly and to improve the efficiency of our warehouses, vehicle use and driver deployment. For example, we have reduced the distance our products travel from depot to store by around 2.5 per cent and our investment in new supply chain technology will significantly reduce waste and cut CO₂ emissions by almost 70,000 tonnes a year. Additionally we have reduced own-brand packaging by 8,000 tonnes in the last year, as we make it easier for our customers to

Reducing our packaging

Some highlights from the last year

Fresh tomatoes saved

150 tonnes

Soft fruit saved over

440 tonnes

Total own-brand packaging saved

8,000 tonnes

reduce, re-use and recycle. On Easter eggs alone we have reduced our packaging by nearly 60 per cent since 2008.

Our in-house procurement team has helped keep a tight control on operating costs and was independently recognised as world-class for its effectiveness and efficiency. This, together with productivity savings and our strong sales performance, has increased underlying operating margins by 14 bps and has helped to achieve good underlying profit before tax growth of nine per cent. We are proud of the strong achievements we have made and are pleased that colleagues will share in a bonus of around £60 million as a result of their hard work. This is less than last year's record bonus award as we set ourselves stretching targets and will continue to do so.

Our five areas of focus

We continue to operate around our five areas of focus that are key to achieving a successful business performance. These areas of strategic focus are underpinned by our five key values which help us to prioritise and ensure we conduct ourselves in an ethical and sustainable manner. We believe they set us apart from other retailers.



1

Great food at fair prices



Offering safe, healthy, fresh and tasty food is at the heart of what we do. A major area of development this year has been our *Great Food* programme, which aims to ensure we continue to have a market-leading food and wine offer. In particular, our investment in our food counters has made them a destination for many of our customers. We refreshed the offer, from the range to the display, in 110 stores and have now introduced fresh pizza counters to nearly 140 stores. Over the coming year we will recruit and train more than 500 new counter and café colleagues to meet increased demand at the counters and to support the growth in our cafés. These recruits, as well as up to 10,000 colleagues already working on the meat, fish, deli, hot food counters and cafés, will receive training at one of the six food colleges we have opened across the UK. The colleges provide in-depth training from experts in areas like product knowledge and food preparation, helping us to offer the very best food and service to customers.

Customers remain very loyal to our own-brand products and we sell more proportionately than any of the major supermarkets. This gives us a significant competitive advantage and is an important way of offering our customers great value. We have invested across all our own-brand ranges this year, with over 5,000 new or improved products introduced, including a major re-launch of our *Taste the Difference* range prior to Christmas. This re-launch covered the entire range of over 1,000 products and was our largest ever one-off investment in own-brand. Our core own-brand range offers quality equal to or better than the leading brand but is at least 20 per cent cheaper. Over the next year we will be reviewing this 6,500 product range individually and benchmarking all aspects, including taste, nutrition and packaging, to ensure we offer the best products on the market. This will be our largest ever investment in our own-brand products.

We go to great lengths to source with integrity, and continue to support British agriculture. In recognition of

Taste the Difference re-launch



In September we re-launched our premium *Taste the Difference* range, a range of over 1,000 products, to give our tastiest food range ever. This was our biggest ever investment in own-brand, with over 700 new and improved products. The re-launch included a new 'Bistro' range which offers a selection of restaurant-quality starters, mains and desserts made using premium ingredients and the very best cooking methods. Sales of *Taste the Difference* were up by nearly ten per cent over Christmas.

this, we were awarded a BBC Radio 4 *Food and Farming Award* for our work in helping farmers reduce their carbon footprint. We offer British products at their best, when in season and when quality meets our customers' expectations. In Spring, we were number one in the UK for British asparagus and Jersey Royals. We are also number one for English pears and we sell almost one in four of all British apples when in season. We continued our direct-to-store initiative, with over 80 stores receiving strawberries or potatoes direct from local farmers. Nearly 80 per cent of our bakeries bake a selection of products from scratch and they only use British flour for this.

Our British seasonal fish sales were up over 50 per cent over the year and we now offer 100 per cent fresh fish (never frozen) on our counters; in addition we were the first UK supermarket to sell fresh dab as a way to reduce fish being discarded from the catch. We are also proud to be the UK's leading retailer of Marine Stewardship Certified (MSC) fish, with over 80 different sustainable MSC products. In recognition of our efforts, we were awarded *Seafood Retailer of the Year* at the 2010 Retail Industry Awards, a credit to our buying teams and a reflection of our commitment to do the right thing for our environment and sustainable sourcing.

Ethical issues remain important to our customers and, with over 12 per cent of our own-brand products coming from certified sustainable sources, we are meeting their needs. One pound in every four spent on Fairtrade in the UK is spent at a Sainsbury's store and, as more products have been added, our sales of Fairtrade products have reached over £280 million this year. Having been the first ever UK retailer to offer eggs from cage-free birds, all our fresh eggs now meet this standard and the RSPCA Freedom Food criteria. The RSPCA recognised our commitment to animal welfare with the *Most Progress* award at their annual Good Business Awards.

Six new Food Colleges



This year we opened six new food colleges across the country, to help us deliver the very best food and service to customers. The colleges offer training to colleagues working on the meat, fish, deli and hot food counters, as well as our cafés and we anticipate that over 10,000 colleagues will pass through the colleges each year. The food colleges follow on from the successful opening of Sainsbury's bakery college earlier in the year.

£1 in £4 of all Fairtrade sales in the UK are at Sainsbury's



It has been an outstanding year for the quality and value of our products and our high standards have been recognised by many other industry awards this year. In July, we won *Meat and Fish Retailer of the Year* at the Supermeat and Fish Awards; we won over 100 awards at the Nantwich International Cheese Awards; and we won nine Quality Food Awards, more than any other retailer. Great food is complemented by great wine and our new *House* range is now one of the UK's fastest-growing wine brands. We won *Drinks Retailer of the Year* at the Drinks Business Awards and enjoyed the most wins at both the International Wines and Spirits Competition and the Quality Drink Awards.

Our leadership position in offering great food, which is also sustainably and ethically sourced, remains key to our customers and we will continue to invest further in our offer as we strive to exceed the standards they expect of us.

2

Accelerating the growth of complementary non-food and services



At present, supermarkets account for less than 15 per cent of the UK non-food market and this represents a significant opportunity for us. This year we have made excellent progress in the development and accessibility of our non-food ranges and sales are growing at more than three times the rate of food. Our focus on high street style at supermarket prices is clearly popular with customers and, together with the convenience of buying general merchandise at the same time as shopping for food, this has helped to grow our market share.

Clothing market share positions

Schoolwear	4 th
Childrenswear	7 th
Womenswear	9 th
Clothing	7 th

(Source: Sales by volume, Kantar 24 weeks ending 20 March 2011)

In clothing, our *TU* brand is now the seventh largest in the UK market by volume, which underlines our fashion credibility. In womenswear, we are expanding successfully into accessories and lingerie. Our childrenswear is now seventh in the market by volume, with sales having grown by over 20 per cent year-on-year, and the success of our *Back to School* range makes us now fourth in that market, up from sixth last year. Menswear has also grown by over 18 per cent on last year. As we continue to expand our ranges, we were delighted to announce that Gok Wan will create a number of womenswear collections for us, with the first collection hitting the shelves later this year.

Operating review continued

Our general merchandise ranges have been important to our non-food growth. We are enjoying growth rates of over 20 per cent in many areas, including books and home textiles. In entertainment and electricals market-leading offers on key titles have been a great success. For example, prior to Christmas, nearly one in four of all copies of *Shrek 4* DVDs sold in shops were bought at Sainsbury's. These figures will continue to become more significant as it is expected that 40 per cent of new space will be devoted to our non-food ranges, which will account for one third of our supermarket sales growth. As a result of the growth of our non-food business, and the further development of direct sourcing in this area, we have seen an increase in the levels of our inventory at the end of the year.

There is a clear opportunity to turn more of our supermarkets into larger, destination stores. Our new 100,000 sq ft stores in Crayford, Lincoln and Stanway are good examples. They represent a major change in the scale and presentation of our clothing, general merchandise and electrical goods ranges, and feature leading popular brands such as Disney, Clarks, O₂ and Speedo. To support our growth in non-food we have also invested in people, IT and the supply chain. Our Shanghai office is improving our buying capacity and we have strengthened our clothing sourcing capabilities by opening an office in Bangladesh. Through these and logistics efficiencies in warehouse operation and route planning we ensure we keep the environmental footprint of our non-food business as low as possible.

We are extending our brand into other complementary non-food areas, while also maximising the benefits of the Nectar scheme for customers. Sainsbury's Energy, in partnership with British Gas and linked to Nectar, offers customers convenient access to products such as solar panels and insulation, as well as advice such as home energy assessments, to help make their homes more efficient, keep their bills down and reduce their impact on the environment.

Sainsbury's Bank, providing insurance products, banking services and transactional services such as travel money, had a strong year with pre-tax operating profit growing by over 50 per cent. We have continued to focus on growing customer loyalty and have strengthened our relationship with our customers through the Double Nectar Reward proposition, which is now available on five finance products. Our insurance business has also grown strongly, with new business up 25 per cent on the year. We now have 118 travel money kiosks in our stores, attracting over half a million customers this year alone, and we also provide our customers with over 1,200 ATM machines.

Our industry-leading offer has been recognised by a number of high-profile consumer and industry awards in the last year including: *Best Credit Card Provider* (Consumer Moneyfacts Awards 2011); *Best New Credit Card* and *Best Personal Loan Provider* (Money.net Personal Finance Awards 2011); and *Best Overall Online Provider* (Your Money Awards 2010).

Sainsbury's Energy re-launch

Sainsbury's Energy
In partnership with **British Gas**

In February, Sainsbury's Energy was re-launched in a ground-breaking partnership with British Gas. We are working together to help British households get the right information about how they can produce and manage their energy now and in the years ahead. Our aim is to become the number one destination for customers looking for new energy technologies, energy efficiency measures and great energy deals, so we can help them to reduce costs, while also reducing carbon emissions.

3

**Reaching
more customers
through
additional
channels**



With 377 stores and over 900,000 sq ft of space our convenience store business is well established and delivers annual sales of over £1 billion with like-for-like sales growth ahead of our supermarkets. The stores give our customers an opportunity to top up their supermarket shop, while providing local communities with a strong fresh food offer, easy shopping and excellent customer service, which was recognised with the award of *Convenience Retailer of the Year* at the Retail Industry Awards.

Operating review continued

The convenience store market is still unconsolidated, with supermarket chains owning only 15 per cent of the market's 50,000 shops. We opened 47 new stores this year and we plan to open one to two stores per week over the next year, with a healthy pipeline of prospective stores and opportunities for leasehold sites. We have also recently opened a trial *Fresh Kitchen* store in Central London, serving hot and cold food and drink for breakfast and lunch customers.

Our online groceries business continues to grow, with annual sales up over 20 per cent and weekly orders now regularly over 130,000. The service can now reach over 93 per cent of UK households, through 187 stores. Non-food online sales also continue to grow, supported by the introduction of our *Click and Collect* service, now in over 160 stores, which allows customers the freedom to pick up non-food items ordered online at a store and time convenient for them, rather than waiting at home for a delivery.

Click and Collect



This was rolled out to over 160 stores over the year and now takes more than 1 in 3 of non-food online orders.



We continue to take advantage of the unique opportunity that we have to grow our space. This year, we opened 21 new stores, 24 extensions and 47 convenience stores, equivalent to 1.5 million sq ft of gross new space, or 8.5 per cent growth year-on-year. In the two years to March 2011 we have grown our gross space by 15.9 per cent, beating the 15 per cent target we set in March 2009. Of our new stores opened in the last two years, over 70 per cent were in Scotland, Wales or the South West where we are under-represented. Our extensions are largely in the South and East where we are principally introducing or extending our non-food offer. We expect to maintain this momentum into next year, growing gross space by seven to eight per cent in 2011/12 including 15-20 new stores, 15-20 extensions and one to two convenience stores a week.

In future years, we plan to add around 1.25 million sq ft of new space per year and we expect to continue to be able to secure new development opportunities as quickly as we open stores, which offers us growth potential for many years to come. We now have a strong property pipeline with clear line of sight on new stores and extensions we will open in the future. This pipeline is supported by over 70 planning consents for future store extensions. At the same time, economies of scale are enabling us to carry out our store expansion programme more cost-effectively and build to standard specifications with minimum customer disruption. Over the past three years we have reduced standard build and fit-out costs by 15-20 per cent per sq ft and we continue to improve on this. As a result of our cost efficiency savings and good sales growth we have achieved growth in return on capital employed in spite of the cumulative effect of our accelerated investment in space growth since June 2009 and the greater proportion of our stores yet to reach maturity. We expect to achieve a pre-tax rate of return in excess of 15 per cent on our investment programme.

Growing our space

In the last two years we have opened



59
New supermarkets



37
Extensions



98
Convenience stores

Store numbers

- Supermarkets
- Convenience stores

2010/11 **557**

2010/11 **377**

934
Stores in total

Environmentally responsible development



As we grow our estate we now include several environmental features as standard. These include: rain water harvesting to supply water for flushing all the toilets; CO₂ refrigeration; biomass boilers, which reduce mains energy use by 30 per cent and CO₂ emissions by ten per cent; sun pipes to maximise use of natural light through the roof; daylight dimming for the electric lights across the sales area; and our Zero Waste to Landfill programme.

As we grow our estate, we are conducting industry-leading initiatives aimed at reducing our environmental impact as our aim is to grow our sales but minimise our emissions. These include rainwater harvesting, biomass boilers which reduce mains energy use by 30 per cent and CO₂ emissions by ten per cent, and the use of natural light and energy-saving lighting. The extension of our Crayford store also achieved a world first by using Geo Exchange technology to capture unused heat and store it deep underground for later use. Despite the store doubling in size, we have capped its carbon emissions at the same level as the former store.

We set out to generate a positive economic and social impact in the communities we serve. In the past year alone, we have created over 6,000 new jobs through our store expansion plans and over the next three years we will create over 20,000 new full and part-time positions, with opportunities to suit all members of the community. We know the success of our business relies on lively, productive and customer-focused colleagues and through our *You Can* training and skills programme we aim to be the employer of choice in the retail sector. Our progress is demonstrated through being the first-ever major food retailer to have been awarded a gold accreditation from Investors in People. Our colleagues invest a large amount of time supporting local charities and community groups; through our support for local charities, over £1.5 million has gone to local causes in the last year and our colleagues have volunteered over 6,500 days. Our efforts have been recognised with the *Community Retailer of the Year* award, which acknowledged in particular the time and investment given by our colleagues in their local communities.

Supporting the community

Last year we donated



Over £1.5m

Food donations

Over £1.5m

Donated to local charities

We believe we have built and maintained a very strong property portfolio. It includes 304 freehold and long leasehold supermarkets, plus 41 stores in property joint ventures in which we have a 50 per cent share. Our freehold to leasehold split across our supermarket property portfolio remains around 65 per cent. Of the supermarkets we own, 86 are in our development plan, with a further 16 having potential for mixed-use schemes, and 143 having longer-term potential subject to planning, economic and physical viability. Of the properties held in joint ventures, 16 are in the development plan, with a further 16 having longer-term potential. There are also three potential mixed-use schemes.

Growth in property value



In the last two years our estimated property value has increased by

Over £3 bn

This is due to £2.2 billion yield improvement, £1.2 billion from our investment and development of assets, and £(0.4) billion from disposals.

A key element of our property strategy is recycling capital to invest in profitable growth. Stores which are fully developed, we consider for sale. By taking advantage of attractive yields on these assets, we generated £275 million proceeds during the year contributing to property profits of £108 million, up from £27 million last year.

Going forward, the creation of value through our property portfolio and our growth in supermarket space is key to increasing the return on our investments.

5

Active property management

At 19 March 2011, the market value of the property we own was estimated at £10.5 billion, an increase of £0.7 billion over the year. Of this increase, £0.5 billion has been from an improvement in yields and a further £0.5 billion has come from the value created through our development activity, offset by disposals of £0.3 billion. Owning this valuable property asset allows us to retain operational flexibility, provide security for funding, make the most of development opportunities, as well as unlock value through sale and leasebacks when these properties are fully developed. All of these factors serve to maximise value for shareholders.

Corporate responsibility review

Anna Ford
Chair of the
Corporate
Responsibility
Committee



As chair of the Corporate Responsibility Committee, I report to the Board twice a year on our plans and the progress made on each of our values. Sainsbury's approach to Corporate Responsibility is not just an add-on; these values are an integral part of our daily actions and are at the heart of our policy and decision-making. Here we highlight some of the challenges and opportunities presented by sustainability, alongside key achievements which have been recognised by awards. We were proud to be awarded Sector leadership and Gold Class in the Dow Jones Sustainability Index, as well as awards for our approach to supporting farmers and high animal welfare standards, from Radio 4 Food and Farming, Compassion in World Farming and the RSPCA, to name but a few.

With an average of 21 million customer transactions each week, as well as around 150,000 colleagues and more than 2,000 suppliers, Sainsbury's has a real impact on the economy, environment and society. Our values underpin our goal to provide healthy, safe, fresh and tasty food at fair prices. They are at the heart of our business; they determine our priorities and ensure we conduct ourselves in an ethical and sustainable manner. As a leading food retailer we focus on being 'Best for food and health' which is why we are committed to 'Sourcing with integrity'. As we source from all over the world to sell in the UK we aim to always show 'Respect for our environment' and play an active role in 'Making a positive difference to our community'. All this is possible through the commitment of our colleagues, so that Sainsbury's is 'A great place to work'.

We raised a record breaking sum of £11.4 million for Comic Relief during this economically challenging year and I would like to extend my sincere gratitude to all of our colleagues and those customers that contributed so willingly to such a great cause.

Anna Ford
Chair of the Corporate Responsibility Committee

An award-winning year for Corporate Responsibility at Sainsbury's



Dow Jones Sustainability Index 2010/11
- Gold Class and Sector leader



FTSE4Good Index



Business in the Community Corporate Responsibility Index - Platinum status



Gold accreditation from 'Investors in People'



'Community Retailer of the Year' and 'Seafood Retailer of the Year' at the Retail Industry Awards



'Best Volume Supermarket' and 'Good Chicken Award' at the Compassion in World Farming Awards



'Retailer of the Year' at the Farm Business Award

'Best Retail Initiative' at BBC Radio 4 Food & Farming Awards



'Most Progress in Animal Welfare' at the RSPCA Good Business Awards



'Green Retailer of the Year' at Drinks Business Green Awards 2011

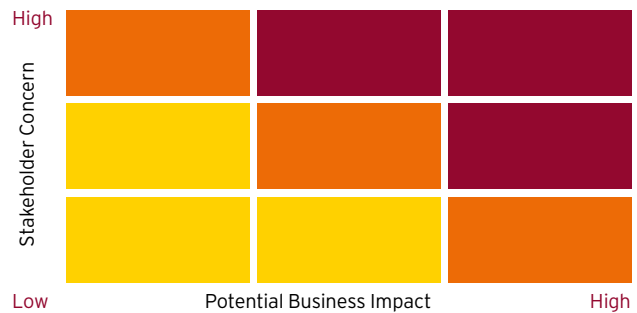
Corporate Responsibility Governance

The importance we attach to our values is reflected in our corporate responsibility governance structure, where members of our Operating Board are responsible for each of our five values and sit on our Corporate Responsibility Steering Group. To complete the governance process, our plc Board oversees Corporate Responsibility through its own committee.



The 'Materiality' Process

When we set our goals and priorities, we are guided by a 'materiality' process which enables us to focus our attention on those areas of greatest impact and importance. We chart all related sustainability issues against the level of potential concern and how much the issue could affect our business. We are then able to make a direct link between the sustainability challenges we face and our commercial strategy. Examples of the most significant issues are clear nutrition labelling, supporting suppliers and farmers, and ensuring we have a diverse workforce.



We map a wide range of issues to the level of stakeholder concern and potential to impact our business. The outputs of this process have been used to inform our CR strategy, set new commitments and select the topics covered in this report.

Customers and many other interested parties trust Sainsbury's to act responsibly on their behalf. They also look to us to take the lead in encouraging people to shop with the environment and ethics in mind. Throughout the challenging economic environment, customers have told us that ethical and environmental issues remain important to them. Therefore, while customers have demanded better value from their purchases, this has not been at the expense of the environment or society. Sainsbury's publishes an extensive Corporate Responsibility report that covers our five values in more detail and this is available at www.j-sainsbury.co.uk/cr. We have reported on Corporate Responsibility in some form since 1996, when we were the first UK food retailer to publish an Environment Report.

Best for food and health

Strategy

Our goal is to offer our customers great quality food at fair prices and, as a leading food retailer, we aim to be 'Best for food and health'. Our approach is to help and inspire customers to eat a healthy, balanced diet by promoting healthy eating and active lifestyles. In addition to making healthy, high-quality and tasty food easily available in our stores, we ensure that we have clear and straightforward labelling to help people make more informed choices.

Challenges and opportunities

We respond rapidly to changing customer needs. For example, after heavily promoting the benefits of a healthier diet, we saw an increase in demand for healthy products and responded by introducing 20 new and improved lines to our *Be Good to Yourself* range. We also saw an increase in demand for products designed for customers with allergies and intolerances. Rather than lose customers who are not able to buy our own-brand products due to these allergies, we reformulated much of our range and provided detailed relevant information on our website. We have also increased our *Freefrom* range, which now accounts for 22.7 per cent of the allergy and intolerance market.

In March 2011 the Coalition Government launched its Public Health Responsibility Deal involving the Department of Health, industry and the third sector. We were pleased to have been part of the discussions about the Responsibility Deal from the outset and to have signed up to pledges that build on the work we have done over a number of years, for example to make food products healthier and to address irresponsible alcohol consumption.

We encourage our customers to make informed choices about the alcohol they purchase by printing the units of alcohol per glass or bottle on all our own-brand beers, wines and spirits. We are aware of the reputational and financial risks associated with the irresponsible sale of alcohol and as a responsible retailer take every effort not to sell alcohol to those under 18. We adopt a Think-25 policy in all our stores, meaning if the customer looks under 25, we ask for proof of age. We are also an active supporter of Drinkaware, a charity that increases awareness of the results of alcohol abuse and helps individuals make informed choices about their drinking. New product development of lower alcohol wine has increased choice for our customers.

Achievements and performance

- 1.8 per cent of our own-brand products are from healthy ranges.
- Over 5,000 of our own-brand products are labelled with front of pack Multi Traffic Light labelling.

Sourcing with integrity

Strategy

'Sourcing with integrity' is central to our ability to provide great products at fair prices. In practice this means working with our suppliers to build sustainable supply chains, taking into consideration their economic, environmental and social impacts. We aim to bring value to the communities we source our products from, as well as promoting high standards of animal welfare and responsible sourcing. Our strategy is to be a world leader in selling food using certified sustainable sources.

Challenges and opportunities

While we are a UK retailer of food, we source products from across the world. In the longer term, the impact of population growth and land use pressures could lead to increases in costs. By working with our suppliers on initiatives such as our development groups, we are working together to meet these challenges, and becoming more efficient in managing social, ethical and environmental issues.

The development groups are an entirely new way of working with our suppliers in our main agricultural supply chains. We share best practice across a supply group, providing training on new farming techniques as well as introducing technology where it is helpful and appropriate. Since 2006 we have invested over £30 million in developing these relationships, initially with our dairy development group and more recently broadening out to cover the main agricultural supply chains. We currently have over 2,000 farmers and growers participating in our development groups. This approach will ensure that the majority of our own label products come from supply chains that are dedicated to us, and are environmentally sustainable, ethical and fit for the future.

Achievements and performance

- 12.2 per cent of our own-brand products are from certified sustainable sources, such as Marine Stewardship Council, Fairtrade, RSPCA Freedom Foods, Forest Stewardship Council, Soil Association, equivalent to over £1 billion in sales in 2010/11.
- Over £280 million of our sales in 2010/11 were from Fairtrade products alone, making us the world's largest Fairtrade retailer by value. Despite the challenging economic climate our customers' interest in Fairtrade has continued, with sales increasing by 19 per cent from the previous year.

Respect for our environment

Strategy

We manage our environmental impact through our climate change strategy. This divides the business into three elements: our operations, our products and our customers. We aim to reduce our environmental impact by introducing programmes of co-ordinated activity across the business between now and 2020, with the aim of becoming the UK's greenest grocer.

Challenges and opportunities

Climate change represents a significant challenge both for our business and the world's population. We take a long-term view of our environmental impact and intend to reduce our direct environmental footprint, as well as manage the environmental impact of our supply chain. In the UK we anticipate the increase in direct costs associated with environmental regulation will rise over the coming years, and is already impacting the business through, for example, changes to the Carbon Reduction Commitment. It is important that we continue to work closely with our suppliers to minimise their impact on the environment and manage the challenges presented by climate change, such as water scarcity and land use.

Corporate responsibility review continued

Over the last two years we have opened 14 per cent more supermarket sales space with no net increase in carbon intensity, meaning that while our business grows, our environmental footprint does not. By working in this way we enhance our environmental credentials as well as reducing our operating costs over time.

Achievements and performance

- Through our supermarket energy reset programme we saved £5.7 million.
- We have reduced our own-label packaging by 8,000 tonnes over the last year.

Making a positive difference to our community

Strategy

Our stores are at the very heart of the communities they serve, and our successful planning applications demonstrate how we will provide local employment and enhance a local community by taking an active role in community life. Our Local Charity Partnership initiative ensures our stores support the charities most relevant to the communities we serve. Our aim is to be the food retailer of choice for local communities, by standing out as being 'more than a store'. Our commitment as the first ever Paralympic Games only sponsor complements our aim to promote a healthier lifestyle across all ages and abilities.

Challenges and opportunities

The challenging economic climate of recent years has had a significant impact on the communities in which we operate. This, combined with the way in which the retail sector competes for customers' weekly shop, means that we need to use all store benefits to ensure we are the retailer of choice when new planning applications are considered. Our Company values play a key role in the planning process and can be the difference in winning or losing an application.

Through new store openings and extensions we create new jobs and opportunities. We look to recruit from the local community and, in many cases, provide employment for people who traditionally find it hard to get work, such as the long-term unemployed or people with disabilities. Through our support of Comic Relief and our Active Kids programme, we regularly see an increase in sales as well as improving levels of colleague involvement.

Achievements and performance

- Over 6,000 new jobs created over the last financial year.
- £22.9 million raised by colleagues, customers and suppliers through donations and charitable activity.

A great place to work

Strategy

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

We champion equality, diversity, inclusion and flexible working options for our colleagues. We aim to recruit and retain the best people, from backgrounds that reflect the communities we serve. We believe we should encourage every colleague, no matter where they work or what role they perform, to develop their skills and make the best use of them.

Challenges and opportunities

In an industry that traditionally has a high labour turnover, and faces competition for talent from competitors, it is vital that Sainsbury's provides 'A great place to work', to ensure we are able to attract and retain the best colleagues. Turnover of employees, and absenteeism, add significant costs to our business, and managing these challenges requires investment in training and development. We are already seeing a reduction in turnover, which is down by 11 per cent over the past four years.

From our research it is clear that colleagues who are more 'engaged' are more productive, so it is essential we use all of our communication channels to ensure this. In addition, we believe satisfied colleagues will recommend us to their neighbours, and enhance our reputation in the community. We are investing in training that will increase the skills of our colleagues. This not only helps us run our business better, but has been shown to make a huge difference to job satisfaction and employee retention.

A healthy workplace is always a more productive one and that is why safety is a key part of all our training and management systems. Over 86 per cent of our colleagues believe that safety is taken seriously at Sainsbury's - this is a one per cent year-on-year improvement, building on an already strongly positive base.

Achievements and performance

- 88 per cent average colleague engagement score. Talkback, our colleague engagement survey, provides a regular check of how our colleagues are feeling. There is a clear correlation between high engagement scores and high productivity, therefore at a high average score of 88 per cent we know our colleagues are very engaged with the business.
- We were the first retailer to be awarded gold accreditation from 'Investors in People' for our commitment to improving our business by investing in our colleagues.



John Rogers Chief Financial Officer

Sainsbury's has increased its market share in an increasingly challenging economic environment, whilst delivering its growth strategy and maintaining the strength of its balance sheet. Sainsbury's is also investing in the long-term growth of the business and taking advantage of market conditions to generate funds from the sale and leaseback of supermarkets that have no further development potential. This leaves the Company well placed to deliver sustainable growth going forward.

Sales (including VAT) increased by 7.1 per cent to £22,943 million (2009/10: £21,421 million). Underlying profit before tax improved by 9.0 per cent to £665 million (2009/10: £610 million). Profit before tax was up 12.8 per cent, at £827 million (2009/10: £733 million), supported by

property profits of £108 million (2009/10: £27 million) and a surplus on the revaluation of properties within the joint ventures ("JV") of £39 million (2009/10: £123 million).

Underlying basic earnings per share increased to 26.5 pence (2009/10: 23.9 pence), up 10.9 per cent. This was higher than the growth in underlying profit before tax, as the impact of additional shares from the June 2009 equity placing was more than offset by a lower tax rate. Basic earnings per share increased to 34.4 pence (2009/10: 32.1 pence). This was higher than the underlying basic earnings per share due mainly to the property profits and the surplus on the revaluation of JV properties.

A final dividend of 10.8 pence has been proposed by the Board (2009/10: 10.2 pence) making a full year dividend of 15.1 pence, up 6.3 per cent year-on-year (2009/10: 14.2 pence).

Summary income statement

52 weeks to 19 March 2011

	2011 £m	2010 £m	Change %
Sales (including VAT)¹	22,943	21,421	7.1
Sales (excluding VAT)	21,102	19,964	5.7
Underlying operating profit	738	671	10.0
Underlying net finance costs ²	(97)	(79)	(22.8)
Underlying share of post-tax profit from JVs ³	24	18	33.3
Underlying profit before tax	665	610	9.0
Profit on disposal of properties	108	27	n/a
Investment property fair value movements	39	123	n/a
Financing fair value movements	7	(15)	n/a
IAS 19 pension financing credit/(charge)	3	(24)	n/a
One-off items	5	12	n/a
Profit before tax	827	733	12.8
Income tax expense	(187)	(148)	(26.4)
Profit for the financial period	640	585	9.4
Underlying basic earnings per share	26.5p	23.9p	10.9
Basic earnings per share	34.4p	32.1p	7.2
Dividend per share	15.1p	14.2p	6.3

1 The standard rate of VAT increased from 15 per cent to 17.5 per cent on 1 January 2010 and to 20 per cent on 4 January 2011.

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

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

Sales (including VAT) and space

Sales (including fuel) increased by 7.1 per cent through a combination of market-beating like-for-like (“LFL”) sales growth in difficult trading conditions, an increased contribution from new space and higher fuel sales, driven by good volume growth as well as higher fuel prices.

The 7.1 per cent growth includes a 2.4 per cent contribution from net new space (excluding extensions and replacements). LFL sales (including fuel) were up 4.7 per cent, higher than for sales excluding fuel due to the impact of higher fuel sales.

Sales growth (including VAT, including fuel)

52 weeks to 19 March 2011

	2011 %	2010 %
Like-for-like sales (including fuel)	4.7	3.0
Easter impact ¹	-	0.3
Net new space (excluding extensions and replacements)	2.4	1.8
Total sales growth	7.1	5.1

¹ Like-for-like sales growth in 2009/10 included an element of growth due to the timing of Easter in 2009.

Sales (excluding fuel) grew by 4.9 per cent. LFL growth of 2.3 per cent was below Sainsbury’s medium-term planning assumption of between three and four per cent, but ahead of the market. Sainsbury’s market share for the year to 19 March 2011 grew by 18 bps, to 16.3 per cent (as measured by Kantar).

LFL sales growth was 2.0 per cent in the first half, and 2.6 per cent in the second half. The second half performance reflected a strong third quarter, with LFL sales up 3.6 per cent, but a more subdued fourth quarter, with LFL growth of 1.0 per cent. The contribution from net new space (excluding extensions and replacements) of 2.6 per cent was in line with Sainsbury’s expectations. Non-food sales grew at more than three times the rate of grocery growth, and online sales increased by over 20 per cent.

Sales growth (including VAT, excluding fuel)

52 weeks to 19 March 2011

	2011 %	2010 %
Like-for-like sales ¹	2.3	4.3
Easter impact ²	-	0.4
Net new space (excluding extensions and replacements)	2.6	2.0
Total sales growth	4.9	6.7

¹ This includes 0.6 per cent growth from stores extended in 2010/11, net of disruption.

² Like-for-like sales growth in 2009/10 included an element of growth due to the timing of Easter in 2009.

Average trading intensity excluding fuel (“TI”) decreased from £20.42 to £20.04 per sq ft per week. Whilst the TI in those stores not newly opened or extended continued to increase, this progression was offset by the increased proportion of stores not trading at maturity, the higher proportion of space dedicated to complementary non-food, which trades less intensively than food, and the disruption caused at the 29 supermarkets replaced or extended in the year (2009/10: 16 replacements or extensions).

Sainsbury’s added a gross 1,516,000 sq ft of selling space in the year (including extensions and replacements), an increase of 8.5 per cent since the start of the year (2009/10: 6.8 per cent). Sainsbury’s has opened a gross 2,659,000 sq ft of selling space since March 2009, equivalent to a 15.9 per cent increase, and ahead of its two-year target of 15.0 per cent.

The pace of supermarket property activity continued with 1,416,000 sq ft either opened or extended (2009/10: 1,021,000 sq ft). The number of stores opened or extended (45 stores) was slightly lower than in 2009/10 (51 stores),

which included the acquisition of former Co-op and Somerfield stores. The 2010/11 opening programme included 21 new supermarkets, of which five were replacement stores. These created an additional 829,000 sq ft of gross selling space (net 673,000 sq ft) and there were no other closures apart from the replaced stores. The 24 supermarket extensions added 558,000 sq ft of selling space, with a further 29,000 sq ft from five full and 26 minor refurbishments. In the last two years, over 70 per cent of supermarket new store openings have been in areas in which Sainsbury’s has been under-represented, such as Scotland, Wales and South West England.

There was also continued growth in the convenience estate, with 47 stores added during the year, of which one was a replacement, and 19 stores refurbished.

Net of replacements, closures and disposals, closing space of 19,108,000 sq ft was 1,358,000 sq ft higher than last year (20 March 2010: 17,750,000 sq ft). The 7.7 per cent year-on-year increase was a further step-up from the 2009/10 growth of 6.3 per cent.

Store numbers and retailing space at 19 March 2011	Supermarkets		Convenience		Total	
	Number	Area 000 sq ft	Number	Area 000 sq ft	Number	Area 000 sq ft
At 20 March 2010	537	16,909	335	841	872	17,750
New stores	21	829	47	104	68	933
Disposals/closures	(5)	(156)	(1)	(2)	(6)	(158)
Extensions/downsizes/refurbishments	-	587	-	(4)	-	583
Reclassifications ¹	4	30	(4)	(30)	-	-
At 19 March 2011	557	18,199	377	909	934	19,108
Memorandum:						
Extensions	24	558	-	-	24	558
Refurbishments/downsizes	31	29	19	(4)	50	25
Total projects	55	587	19	(4)	74	583

¹ Four stores previously classified as convenience now operate under the supermarket fascia.

Gross space growth of seven to eight per cent is expected in 2011/12. Net new store space excluding extensions and replacements is expected to contribute around 2.5 per cent to total sales growth (excluding fuel) in 2011/12.

Underlying operating profit

Underlying operating profit increased by 10.0 per cent to £738 million (2009/10: £671 million). This reflected the solid sales performance and the delivery of cost efficiency savings which have fully offset cost inflation as well as supporting sustained investment in the customer offer.

Underlying operating margin improved by 14 bps, to 3.50 per cent (2009/10: 3.36 per cent), which was an increase of 20 bps at constant fuel prices. Underlying EBITDAR margin improved to 7.81 per cent and increased by 17 bps at constant fuel prices.

Underlying operating profit 52 weeks to 19 March 2011	2011	2010	Change	Change at constant fuel prices
Underlying operating profit (£m) ¹	738	671	10.0%	
Underlying operating margin (%) ²	3.50	3.36	14 bps	20 bps
Underlying EBITDAR (£m) ³	1,649	1,555	6.0%	
Underlying EBITDAR margin (%) ⁴	7.81	7.79	2 bps	17 bps

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

Cost inflation for 2011/12 is expected to fall at the higher end of the two to three per cent medium-term range, with cost savings expected to offset around 75 per cent of this inflation.

Sainsbury's Bank joint venture

Sainsbury's share of Sainsbury's Bank post-tax profit amounted to £11 million (2009/10: £7 million). The bank performed strongly in a challenging economic climate with loans and advances to customers continuing to grow against the backdrop of strong back book management. The Sainsbury's Bank JV is expected to contribute a further step-up in profit in 2011/12.

Property joint ventures

Sainsbury's underlying share of post-tax profit from the JV with British Land was £11 million (2009/10: £10 million). Its underlying share of post-tax profit from its JV with Land Securities was £2 million (2009/10: £1 million). Property JVs are expected to deliver a similar level of profit in 2011/12.

At the year end, a total surplus on revaluation of £39 million was recognised within the share of post-tax profit from the JVs in the income statement (2009/10: £123 million). This represents an increase on revaluation of these properties to an average yield of 4.9 per cent (2009/10: 5.2 per cent).

Financial review continued

Underlying net finance costs

Underlying net finance costs increased by £18 million to £97 million (2009/10: £79 million), in part as a result of the higher RPI rate, which increases the rate on Sainsbury's inflation-linked debt.

Interest cover was 7.9 times (2009/10: 8.7 times) and fixed charge cover was 2.3 times (2009/10: 2.3 times).

Underlying net finance costs 52 weeks to 19 March 2011	2011 £m	2010 £m
Underlying finance income¹	19	33
Interest costs	(143)	(127)
Capitalised interest	27	15
Underlying finance costs¹	(116)	(112)
Underlying net finance costs¹	(97)	(79)

¹ Finance income/costs pre financing fair value movements and IAS 19 pension financing element.

Sainsbury's expects underlying net finance costs in 2011/12 to increase by £10 to £15 million due to the effect of the increase in RPI on the interest rate charged on its inflation-linked debt. The interest rate on the inflation-linked debt resets annually in April by reference to the RPI rate (capped at five per cent) prevailing in January.

Taxation

The income tax charge was £187 million (2009/10: £148 million), with an underlying tax rate of 26.0 per cent (2009/10: 28.5 per cent) and an effective tax rate of 22.6 per cent (2009/10: 20.2 per cent). The underlying rate is lower than last year primarily due to the resolution of a number of outstanding items and the effect of the change in the corporation tax rate on deferred tax balances. These factors, in addition to the non-taxable profit on disposal of properties and investment property fair value movements, result in the effective tax rate being lower than the statutory rate.

Underlying tax rate calculation 52 weeks to 19 March 2011	Profit £m	Tax £m	Rate %
Profit before tax, and tax thereon	827	187	22.6
Adjustments (and tax thereon) for:			
Profit on disposal of properties	(108)	(3)	
Investment property fair value movements	(39)	-	
Financing fair value movements	(7)	(3)	
IAS 19 pension financing element	(3)	(1)	
One-off items	(5)	-	
Revaluation of deferred tax balances	-	(7)	
Underlying profit before tax, and tax thereon	665	173	26.0

Sainsbury's expects the underlying tax rate to be around 27 per cent in 2011/12, with the impact of disallowable depreciation being partly offset by the further reduction in the statutory corporation tax rate.

Earnings per share

Underlying basic earnings per share increased by 10.9 per cent to 26.5 pence (2009/10: 23.9 pence), reflecting the improvement in underlying profit before tax and the year-on-year reduction in the underlying tax rate. These more than offset the full-year effect of the additional shares issued in June 2009.

The weighted average number of shares in issue rose by 2.0 per cent to 1,858.7 million (2009/10: 1,821.7 million). Basic earnings per share were up 7.2 per cent, at 34.4 pence (2009/10: 32.1 pence).

Underlying earnings per share calculation 52 weeks to 19 March 2011	2011 pence	2010 pence
Basic earnings per share	34.4	32.1
Adjustments (net of tax) for:		
Profit on disposal of properties	(5.6)	(2.3)
Investment property fair value movements	(2.1)	(6.7)
Financing fair value movements	(0.2)	0.6
IAS 19 pension financing element	(0.1)	0.9
One-off items	(0.3)	(0.7)
Revaluation of deferred tax balances	0.4	-
Underlying basic earnings	26.5	23.9

Dividends

The Board has recommended a final dividend of 10.8 pence per share (2009/10: 10.2 pence), which will be paid on 15 July 2011 to shareholders on the Register of Members at the close of business on 20 May 2011, subject to approval. This will increase the full year dividend by 6.3 per cent to 15.1 pence per share (2009/10: 14.2 pence). The proposed final dividend was recommended by the Board on 10 May 2011 and, as such, has not been included as a liability as at 19 March 2011.

The dividend is covered 1.75 times by underlying earnings (2009/10: 1.68 times), in line with Sainsbury's policy of providing cover of between 1.50 and 1.75 times.

Return on capital employed

The return on average capital employed ("ROCE") over the 52 weeks to 19 March 2011 was 11.1 per cent, a year-on-year increase of 11 bps (2009/10: 11.0 per cent). ROCE growth was lower than last year in part due to the cumulative effect of Sainsbury's accelerated investment in space growth since June 2009. This has an initially dilutive impact on profits as the stores mature, whilst increasing the value of capital employed.

Return on capital employed 52 weeks to 19 March 2011	2011	2010
Underlying operating profit (£m)	738	671
Underlying share of post-tax profit from joint ventures (£m)	24	18
Underlying profit before interest and tax (£m)	762	689
Average capital employed (£m) ¹	6,877	6,281
Return on capital employed (%)	11.1	11.0
Year-on-year improvement	11 bps	85 bps

¹ Average of opening and closing net assets before net debt.

Net debt and cash flows

Sainsbury's net debt as at 19 March 2011 was £1,814 million (20 March 2010: £1,549 million), a year-on-year increase of £265 million. The increase was driven primarily by the accelerated estate development, partially funded by sale and leasebacks, and the increase in working capital.

Working capital increased by £78 million, mainly due to increased inventories, which are £110 million higher than at 20 March 2010 with higher levels of non-food stock to support sales growth and an increase in the level of goods-in-transit, driven by increased direct sourcing operations.

Summary cash flow statement 52 weeks to 19 March 2011	2011 £m	2010 £m
Operating cash flow before changes in working capital	1,216	1,114
(Increase)/decrease in working capital	(78)	92
Cash generated from operations	1,138	1,206
Interest paid	(126)	(111)
Corporation tax paid	(158)	(89)
Net cash from operating activities	854	1,006
Net cash used in investing activities	(902)	(900)
Proceeds from issue of shares	17	250
Proceeds from borrowings	45	235
Repayment of borrowings	(79)	(115)
Dividends paid	(269)	(241)
(Decrease)/increase in cash and cash equivalents	(334)	235
Increase/(decrease) in debt	71	(83)
Fair value and other non-cash movements	(2)	(30)
Movement in net debt	(265)	122

Sainsbury's expects net debt to be around £2.0 billion at the end of 2011/12.

Financing

Sainsbury's seeks to manage its financing by diversifying funding sources, minimising refinancing risk and maintaining sufficient stand-by liquidity. Sainsbury's has overall debt and credit facilities of £3 billion at its disposal.

The principal elements of Sainsbury's core funding comprise two long-term loans of £1,069 million due 2018 and £840 million due 2031, secured over property assets. In addition, Sainsbury's has unsecured debt of £180 million and €50 million due between 2012 and 2015, together with £190 million of convertible bonds due July 2014.

In October 2010, Sainsbury's terminated its syndicated £400 million and £163 million revolving credit facilities and its £50 million bilateral revolving credit facility and replaced them with a £690 million syndicated revolving credit facility due October 2015. There were £nil drawings under the facility as at 19 March 2011 (20 March 2010: £nil drawings).

Capital expenditure

Core capital expenditure increased by £252 million to £1,138 million (2009/10: £886 million), driven by an acceleration of Sainsbury's extensions programme. Acquisition of freehold and trading properties reduced as 2009/10 included the purchase of 33 stores from the Co-op/Somerfield.

Sainsbury's also took advantage of good property yields to increase its sale and leaseback activity of mature stores with no further property development potential, generating proceeds of £275 million (2009/10: £131 million), which contributed to a total profit on disposal of properties of £108 million (2009/10: £27 million). Net capital expenditure was £880 million (2009/10: £915 million).

Capital expenditure 52 weeks to 19 March 2011	2011 £m	2010 £m
New store development	547	496
Extensions and refurbishments	470	320
Other - including supply chain and IT	121	70
Core capital expenditure	1,138	886
Acquisition of freehold and trading properties	17	160
Proceeds from property transactions	(275)	(131)
Net capital expenditure	880	915

Sainsbury's expects 2011/12 core capital expenditure of around £1.2 billion.

Summary balance sheet

Shareholders' funds as at 19 March 2011 were £5,424 million (20 March 2010: £4,966 million), a rise of £458 million, mainly attributable to the continued profitable growth of the underlying business.

Property, plant and equipment assets have increased by £581 million as a result of increased space growth and the increase in the value of properties held within the property JVs.

Net debt is £265 million higher than at 20 March 2010, less than the increase in non-current assets mainly as a result of the sale and leasebacks and the timing of capital expenditure and property disposals. Gearing increased to 33.4 per cent (2009/10: 31.2 per cent), as a result of the higher net debt.

Summary balance sheet at 19 March 2011	2011 £m	2010 £m	Movement £m
Land and buildings (freehold and long leasehold)	6,440	6,059	381
Land and buildings (short leasehold)	622	559	63
Fixtures and fittings	1,722	1,585	137
Property, plant and equipment	8,784	8,203	581
Other non-current assets	842	811	31
Inventories	812	702	110
Trade and other receivables	303	215	88
Cash and cash equivalents	501	837	(336)
Debt	(2,315)	(2,386)	71
Net debt	(1,814)	(1,549)	(265)
Trade and other payables and provisions	(3,262)	(3,113)	(149)
Retirement benefit obligations, net of deferred tax	(241)	(303)	62
Net assets	5,424	4,966	458

As at 19 March 2011, Sainsbury's estimated market value of properties is £10.5 billion (20 March 2010: £9.8 billion), equivalent to a yield of 4.9 per cent and including a 50 per cent share of properties held within its property joint ventures.

Pensions

As at 19 March 2011, the post-tax pension deficit was £241 million (20 March 2010: £303 million), supported by a nine per cent increase in the value of plan assets. Liabilities increased by £0.3 billion, with a 0.2 per cent reduction in the real discount rate being offset by adopting the legislative change to apply CPI rather than RPI in the calculation of future pension increases.

The IAS 19 pension service cost included within UPBT was £55 million, £7 million higher than last year. Sainsbury's expects this to be around £60 million in 2011/12.

Retirement benefit obligations at 19 March 2011	2011 £m	2010 £m
Present value of funded obligations	(4,945)	(4,649)
Fair value of plan assets	4,614	4,237
Pension deficit	(331)	(412)
Present value of unfunded obligations	(9)	(9)
Retirement benefit obligations	(340)	(421)
Deferred income tax asset	99	118
Net retirement benefit obligations	(241)	(303)

J Sainsbury plc: Board of Directors



Board of Directors

1. David Tyler Chairman *

Appointed to the Board on 1 October 2009. David became Chairman on 1 November 2009. He is Non-Executive Chairman of Logica plc and a Non-Executive Director of Experian plc and Burberry Group plc, where he also chairs the Remuneration Committee. He was previously Finance Director of GUS plc (1997-2006) and has held senior financial and general management roles with Christie's International plc (1989-96), County NatWest Limited (1986-89) and Unilever PLC (1974-86). He was also Chairman of 3i Quoted Private Equity plc (2007-09) and a Non-Executive Director of Reckitt Benckiser Group plc over the same period. Age 58.

2. Justin King Chief Executive ♥

Appointed to the Board on 29 March 2004. Justin is also Chairman of the Operating Board. He has been a Non-Executive Director of Staples, Inc. since September 2007 and was appointed to the board of the London Organising Committee of the Olympic Games and Paralympic Games in January 2009. He is a member of the CBI President's Committee, is a patron of Skillsmart Retail, the national sector skills council for retail, and is a Visiting Fellow of Oxford University's Centre for Corporate Reputation. Justin was formerly Director of Food at Marks and Spencer Group plc and prior to this held a number of senior positions at ASDA/WalMart and Häagen Dazs UK. He spent much of his early career with Mars Confectionery and Pepsi International. Age 49.

3. John Rogers Chief Financial Officer

Appointed to the Board on 19 July 2010. John is also a member of the Board of Sainsbury's Bank plc. John joined Sainsbury's in March 2005 as Director of Corporate Finance and then became Director of Group Finance from March 2007 to June 2008. In June 2008 John was appointed to the Operating Board as Property Director. Prior to Sainsbury's, John was Group Finance Director for Hanover Acceptances, a diversified corporation with wholly owned subsidiaries in the food manufacturing, real estate and agri-business sectors. Age 42.

4. Mike Coupe Group Commercial Director

Appointed Group Commercial Director on 19 July 2010, and is responsible for trading, marketing, IT and online. Mike has been a member of the Operating Board since October 2004 and an Executive Director since 1 August 2007. He joined Sainsbury's from Big Food Group where he was a Board Director of Big Food Group plc and Managing Director of Iceland Food Stores. He previously worked for both ASDA and Tesco, where he served in a variety of senior management roles. He is also a member of the supervisory board of GSI UK. Age 50.

5. Darren Shapland Group Development Director

Appointed Group Development Director on 19 July 2010 and is responsible for Convenience, Property, Sainsbury's Bank, Strategy and New Business Development. Before taking on this role, Darren was Chief Financial Officer from 1 August 2005. He is also Chairman of Sainsbury's Bank plc. Darren was appointed a Non-Executive Director of Ladbroke's plc in November 2009. He was formerly Group Finance Director of Carpetright plc (2002-05) and Finance Director of Superdrug Stores plc (2000-02). Between 1988 and 2000, Darren held a number of financial and operational management roles at Arcadia plc including Joint Managing Director, Arcadia Home Shopping; Finance Director of Arcadia brands; Finance Director, Top Shop/Top Man (Burton Group); and Director of Supply Chain Programme (Burton Group). Age 44.

6. Val Gooding Non-Executive Director ♦*

Appointed to the Board on 11 January 2007. Val was formerly Chief Executive of BUPA (1998-2008), which she joined from British Airways. She is a Non-Executive Director of Standard Chartered Bank plc, the Lawn Tennis Association, the BBC and the Home Office. She is a Trustee of the British Museum and the Rose Theatre. She was formerly a Non-Executive Director of Compass Group plc and BAA plc. Age 60.

7. Gary Hughes Non-Executive Director ●*

Appointed to the Board on 1 January 2005. Gary is Chief Financial Officer of the Gala Coral Group, a Director of the Scottish Exhibition Centre Limited and an advisor to Ibis Capital plc. Formerly he was Chief Executive of CMP Information Limited – a division of United Business Media plc (2006-08), Group Finance Director of Emap plc (2000-05), Group Finance Director of SMG plc (1996-2000), and Deputy Finance Director of Forte plc (1994-96). Prior to this Gary held a number of senior management positions with Guinness plc in the UK and in North America. Age 49.

8. Bob Stack Non-Executive Director ♦*

Appointed to the Board on 1 January 2005. Bob was a Director of Cadbury plc until December 2008, having joined Cadbury Beverages in the US in 1990, and was first appointed to the Board of Cadbury Schweppes plc in May 1996 as Group Human Resources Director. In March 2000 he was appointed Chief Human Resources Officer and took on responsibility for communication and external affairs in addition to HR. Bob is Trustee and Non-Executive Director of Earthwatch International and also a Non-Executive Director and Chairman of the Remuneration Committee of IMI plc. Age 60.

9. John McAdam Non-Executive Director ●*

Appointed to the Board on 1 September 2005. John is the Senior Independent Director. He is Chairman of Rentokil Initial plc and United Utilities plc. He is also a Non-Executive Director of Rolls-Royce Group plc and Sara Lee Corporation. John joined Unilever PLC as a management trainee in 1974 and went on to hold a number of senior positions in Birds Eye Walls, Quest and Unichema, before the sale of the Specialty Chemical Businesses to ICI in 1997. He was Chief Executive of ICI plc, until its sale to Akzo Nobel, and was formerly a Non-Executive Director of Severn Trent plc (2000-05). Age 63.

10. Anna Ford Non-Executive Director ♦*♥

Appointed to the Board on 2 May 2006. Anna retired from the BBC in 2006, after 32 years in News and Current Affairs. She is a Non-Executive Director of N Brown Group plc and has been a Trustee of the Royal Botanical Gardens in Kew, London; a Fellow of the Royal Geographical Society; a Trustee of Forum for the Future; Chancellor of Manchester University; and an Honorary Bencher of Middle Temple. Age 67.

11. Mary Harris Non-Executive Director ●*♥

Appointed to the Board on 1 August 2007. Mary is a member of the supervisory boards of TNT NV and Unibail-Rodamco S.E. She previously spent much of her career with McKinsey & Company, most recently as a partner, and her previous work experience included working for PepsiCo in Greece and the UK as a sales and marketing executive. Age 45.

12. Matt Brittin Non-Executive Director ●*

Appointed to the Board on 27 January 2011. Matt is Managing Director of Google in the UK & Ireland. Before joining Google at the start of 2007, Matt spent much of his career in media and marketing, with particular interests in strategy, commercial development and sales performance. This included Commercial and Digital leadership roles in UK media. He is also a Director of charities The Climate Group and The Media Trust. Age 42.

Lord Sainsbury of Preston Candover KG Life President

Key to Committee members

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

Following the year-end, an announcement of management changes was made on 9 May 2011, see page 28.

Operating Board



Operating Board



- 1. **Justin King** See page 25
- 2. **John Rogers** See page 25
- 3. **Mike Coupe** See page 25
- 4. **Darren Shapland** See page 25

5. Gwyn Burr Customer Service and Colleague Director

Gwyn is responsible for Human Resources, Customer Service, Corporate Responsibility and Corporate Communications as well as our key sponsorship schemes where she will lead our important Paralympic Games programme. She joined the Operating Board in 2004 and became a Director of Sainsbury's Bank plc in 2007. Gwyn has over 25 years' business experience, including five with Nestle Rowntree and over 13 with ASDA/WalMart where she held various board level positions. Before joining Sainsbury's, Gwyn founded her own marketing consultancy, The Resultant Team. She is currently chair of the Business in the Community, Cause Related Marketing Leadership team.

6. Tim Fallowfield Company Secretary and Corporate Services Director

Tim joined Sainsbury's in 2001 as Company Secretary and is a member of the Operating Board. In addition to his role as Company Secretary, Tim is responsible for Corporate Services comprising Legal Services, Insurance, Safety, Central Security and Shareholder Services. Tim joined Sainsbury's from Exel plc, the global logistics company, where he was Company Secretary and Head of Legal Services (1994-2001). Prior to this he worked at the international law firm Clifford Chance for six years and is a qualified solicitor.

7. Roger Burnley Retail and Logistics Director

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

8. Luke Jensen Managing Director Non-Food

Luke joined Sainsbury's and the Operating Board in June 2008 as Director of Strategy. He was appointed to the position of Managing Director Non-Food in 2009. In this role he is responsible for driving the profitable growth of Sainsbury's in General Merchandise, Clothing and Entertainment and for the development of the Company's Far East direct sourcing operation, Sainsbury's Asia. Previous roles include Director/Partner and Head of the Consumer and Retail Practice of OC&C Strategy Consultants (2004-08) and Founder and Group FD/Executive Director of M8 Group (internet and mail order specialist retailer) (2002-04).

9. Neil Sachdev Property Director

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

10. Rob Fraser IT Director

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

11. Helen Buck Convenience Director

Helen was appointed to the Operating Board on 19 July 2010 as Convenience Director. Helen joined Sainsbury's in 2005 and, after spending four years running Brand Communications, moved to Trading as Business Unit Director, Grocery in 2009. Before joining Sainsbury's, Helen held a number of senior positions at Marks & Spencer, Woolworths and Safeway and was a senior manager at McKinsey & Company. She sits on the General Media Panel.

Directors' report

The Directors present their report and audited financial statements for the 52 weeks to 19 March 2011.

Principal activities

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

Business review

The Business review sets out a comprehensive review of the development and performance of the business for the 52 weeks ended 19 March 2011 and future developments. The Business review is set out on pages 1 to 23 of this report. All the information detailed in these pages is incorporated by reference into this report and is deemed to form part of this report.

Corporate governance statement

The corporate governance statement as required by the Disclosure and Transparency Rules 7.2.1 is set out on pages 30 to 37 and is incorporated by reference into this report.

Dividends

The Directors recommend the payment of a final dividend of 10.8 pence per share (2010: 10.2 pence), making a total dividend for the year of 15.1 pence per share (2010: 14.2 pence), an increase of 6.3 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting ("AGM"), the dividend will be paid on 15 July 2011 to shareholders on the register at the close of business on 20 May 2011.

Changes to the Board

John Rogers was appointed Chief Financial Officer of the Company on 19 July 2010 and Darren Shapland, previously Chief Financial Officer, was appointed Group Development Director. Mike Coupe, previously Trading Director, became Group Commercial Director.

In addition, Matt Brittin, UK & Ireland Managing Director of Google, was appointed a Non-Executive Director and joined the Board on 27 January 2011.

On 9 May 2011 we announced that Darren Shapland had informed the Board that he intends to stand down from his position as a Director with effect from the AGM on 13 July 2011. Darren plans to pursue a number of personal interests in future but he will, however, remain with Sainsbury's as Non-Executive Chairman of Sainsbury's Bank.

Luke Jensen, currently Managing Director Non-Food, and a member of the Operating Board, will take over the role of Group Development Director assuming Darren's responsibilities except for Convenience, the Bank and Property. Luke will continue to be a Director on the Operating Board.

Justin King will assume direct responsibility for the Convenience business whilst John Rogers will add Property to his remit.

Re-election of Directors

In accordance with the Articles of Association, John Rogers and Matt Brittin, who were appointed to the Board since the last AGM, will retire and seek election at the AGM.

The new UK Corporate Governance Code provides for all directors of FTSE companies to be subject to election by shareholders every year. Accordingly all members of the Board, other than Darren Shapland, will retire and seek re-election at this year's AGM. Full biographical details of all of the current Directors are set out on page 25.

Annual General Meeting

The AGM will be held on Wednesday, 13 July 2011 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am. The Chairman's letter and the Notice of Meeting accompany this report, together with notes explaining the business to be transacted at the meeting.

At the meeting, resolutions will be proposed to declare a final dividend, to receive the Annual Report and Financial Statements and approve the Remuneration Report, to re-elect all of the Directors, other than Darren Shapland, and to re-appoint PricewaterhouseCoopers LLP as auditors. In addition, shareholders will be asked to renew both the general authority of the Directors to issue shares and to authorise the Directors to issue shares without applying the statutory pre-emption rights. In this regard the Company

will continue to adhere to the provisions in the Pre-emption Group's Statement of Principles.

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

Share capital and control

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

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

Shares acquired through the Company's employee share plans rank *pari passu* with shares in issue and have no special rights. Where, under the Company's All Employee Share Ownership Plan, participants are beneficial owners of the shares but the Trustee is the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participants. The J Sainsbury Employee Benefit Trusts waive their right to vote and to dividends on the shares they hold which are unallocated. Some of the Company's employee share plans include restrictions on transfer of shares while the shares are held within the plan.

At the AGM held in July 2010, the Company was authorised by shareholders to purchase its own shares, within certain limits and as permitted by the Articles of Association. The Company made no purchases of its own shares during the year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge.

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

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

Ordinary shares

Details of the changes to the ordinary issued share capital during the year are shown on page 80. At the date of this report, 1,871,567,531 ordinary shares of 28⁴/₇ pence have been issued, are fully paid up and are listed on the London Stock Exchange.

Major interests in shares

As at 10 May 2011, the Company had been notified by the following investors of their interests in 3 per cent or more of the Company's shares. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5:

	% of voting rights
Judith Portrait (a trustee of various settlements, including charitable trusts)	4.09
Legal and General Group plc	3.99
Lord Sainsbury of Turville	4.99
Qatar Holdings LLC	25.99

Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown in the Remuneration Report on page 47. The Company's Register of Directors' Interests contains full details of Directors' interests, shareholdings and options over ordinary shares of the Company.

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

Directors' indemnities

The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company has executed deeds of indemnity for the benefit of each Director in respect of liabilities which may attach to them in their capacity as Directors of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2010/11, which has been renewed for 2011/12. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

Market value of properties

The Directors believe that the aggregate open market value of Group properties exceeds the net book value as set out in note 11 on page 68 to the financial statements.

Essential contracts

Sainsbury's has contractual and other arrangements with numerous third parties in support of its business activities. None of the arrangements is individually considered to be essential to the business of Sainsbury's.

Policy on payment of creditors

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

Corporate responsibility

Sainsbury's has a strong record in its commitment to corporate responsibility, which is an everyday part of how the Company does business. Sainsbury's company values underpin its goal to provide healthy, safe, fresh and tasty food at fair prices. Details of the Company's principal corporate responsibility initiatives and activities are set out on pages 14 to 17. This year, we have further integrated the reporting of corporate responsibility into this Annual Report and Financial Statements to illustrate how our values underpin and influence our broader business strategy.

The Company's Corporate Responsibility Report will be issued alongside our annual report in June 2011. This report will be available online (www.j-sainsbury.co.uk/crreport2011), and provides a comprehensive statement on corporate responsibility and describes the Company's policies and progress made in relation to our five corporate responsibility principles: 'Best for food and health', 'Sourcing with integrity', 'Respect for our environment', 'Making a positive difference to our community' and 'A great place to work'.

As part of 'A great place to work' the Company has well-developed policies for fair and equal treatment of all colleagues, employment of disadvantaged persons and colleague participation. It is our policy that people with disabilities are given full and just consideration for all vacancies and over the year we have conducted a number of training sessions to raise awareness and understanding of our customers and colleagues with disabilities and how we can better support them. Under the banner of 'You Can', the Company also actively works with a number of organisations which seek to promote employment for disadvantaged persons and inclusion within the workplace. These

include Local Employment Partnerships, The Employers' Forum on Disability (Gold member), the Shaw Trust, Remploy and Mencap.

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

Donations

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

During the year, Sainsbury's colleagues, customers and suppliers raised £22.9 million (2010: £15.7 million) for charities through events supported by the Company, including Comic Relief. Cash and in-kind donations totalled £2.1 million (2010: £1.9 million).

The Company made no political donations in 2011 (2010: £nil).

Post balance sheet events

There are no post balance sheet events.

Financial risk management

The financial risk management and policies of the Group are disclosed in note 28 on pages 84 to 88 to the financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 1 to 23. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial review on pages 18 to 23. The Group manages its financing by diversifying funding sources, configuring core borrowings with long-term maturities and maintaining sufficient standby liquidity. Full details of the Group's financing arrangements can be found in note 20 on pages 75 and 76 to the financial statements. In addition, notes 28 and 29 on pages 84 to 93 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The debt refinancing in March 2006 removed the Group's reliance on unsecured credit markets for medium and long-term finance and the Group's first significant re-financing exposure is not until 2015.

As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current challenging economic outlook. The Directors have a reasonable expectation that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements which are shown on pages 50 to 102.

Disclosure of information to auditors

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

Auditors

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

By order of the Board
Tim Fallowfield
 Company Secretary
 10 May 2011

Corporate governance statement

David Tyler
Chairman



Dear Shareholder,

Since the financial crisis, there has been a great deal of focus on ensuring effective corporate governance in the UK's largest companies. An extensive consultation process resulted in the Financial Reporting Council issuing the new UK Corporate Governance Code in May 2010 (the '2010 Code'), which updated the existing code and which set out the standards of governance for listed companies that apply to financial years beginning on or after 29 June 2010.

Although the 2010 Code is not applicable to Sainsbury's in the 2010/11 financial year, the Board believes that we are well placed to comply with its key principles which emphasise the need for well balanced, effective boards, strong oversight of risk management, alignment of remuneration policies with shareholder interests and sound shareholder relations. The following pages explain how we apply these principles in order to help to create long-term, sustainable growth in value for shareholders. I can also confirm that we are adopting the 2010 Code's recommendation for annual election of all directors at this year's AGM.

One of the new governance principles requires an external review of Board performance to be conducted every three years. The Board agreed in the autumn that we should appoint independent consultants to facilitate such an evaluation so that we could consider the way in which we carry out our role and conduct ourselves, as well as our structure and processes. I am pleased to report that the thorough exercise by Manchester Square Partners confirmed that the Board is seen as being effective, with a number of specific strengths. Some of the conclusions were that:

- The Board has high standards of ethics, organisation, information, analysis and governance, with an open culture between Executives and Non-Executives.
- Decision-making processes are effective.
- There is a high degree of alignment among Directors on current strategic priorities.
- Our Committees are well run and effective.

The evaluation exercise also enabled us to confirm the priorities on which we will focus over coming years in order to continue to drive shareholder value.

The report commented that the different backgrounds and styles of the Non-Executive Directors create a good balance of complementary skills and approaches which enhance the breadth, quality and openness of Board debate. There has been much recent discussion about ensuring that there is appropriate diversity on boards, and Sainsbury's has an excellent record of appointing women at Board and senior executive levels, and throughout the business, based on merit. Three of our Board Directors are women, we have had between two and four women on our Operating Board over the last six years, and women currently hold more than a third of our 40 most senior executive positions. Of all our 150,000 colleagues, 55 per cent are women. Our diversity is one of our strengths and we will maintain our successful merit-based approach into the future.

David Tyler
Chairman

Compliance

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

The role of the Board

The Board is chaired by David Tyler and, at the year-end, there were four Executive Directors and seven Non-Executive Directors. John McAdam is the Senior Independent Director. The Directors' biographical details are set out on page 25.

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

During the year, we increased the number of informal meetings of the Board and these enable all the Directors to spend more time together and to discuss specific areas of the business with individual Operating Board members.

The Board continued to focus on strategic matters during the year. We hold a two-day Strategy Conference in the autumn, with the Operating Board Directors in attendance for the first day. This enables the Board to conduct an in-depth review of the market and key opportunities and threats, consider the draft budget and corporate plan and agree the strategic goals for the short-term and longer term perspectives. The Board receives a detailed half-year update on progress against the agreed priorities and then, to complete the cycle, agrees the objectives and principal areas of focus for the next conference. Specific projects are considered at other meetings during the year as necessary.

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

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

Turning to investor relations ("IR"), the Board receives an annual independent survey at the Strategy Conference which reports on the views of major shareholders and analysts, together with regular updates throughout the year on the IR programme and feedback from major shareholders.

Succession plans and management development are considered by the Nomination Committee each year at the time of the Strategy Conference with specific follow up and updates thereafter as necessary. In June 2010, we announced changes to the Board and Operating Board which were the result of this detailed succession planning process.

These changes were supported by a number of other internal promotions at senior levels in the business, showing the strength of the talent pipeline in the Company and the effectiveness of the long-term succession planning process.

The Nomination Committee also reviews succession to the Board. In January 2011, we announced that Matt Brittin, Managing Director of Google UK & Ireland, had been appointed a Non-Executive Director, to complement the skills and experience of the existing Board.

Division of responsibilities

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

The Chief Executive is responsible for the day-to-day management of the Company and executing the strategy, once agreed by the Board. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. He takes a leading role, with the Chairman, in the relationship with all external agencies and in promoting Sainsbury's.

Independence

The Non-Executive Directors bring wide and varied commercial experience to Board and Committee deliberations. On appointment they confirm that they will have sufficient time available to be able to discharge their responsibilities effectively. They are appointed for an initial three-year term, subject to election by shareholders at the first AGM after their appointment, after which their appointment may be extended for a second term, subject to mutual agreement. All members of the Board (other than Darren Shapland) will retire by rotation and seek re-election by shareholders at this year's AGM in accordance with the 2010 Code.

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

The 2006 Companies Act provides that directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's articles of association permit. Shareholders approved the appropriate amendments to the Company's Articles at the 2008 AGM. The Board has established procedures for the disclosure by Directors of any such conflicts, and also for the consideration and authorisation of these conflicts by the Board. In accordance with the Act, the Board considered and authorised each Director's reported potential conflicts of interest during the year. Whenever a Director takes on additional external responsibilities, the Board considers any potential conflicts that may arise and whether the Director continues to have sufficient time to fulfil his or her role as a Director of the Company. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

Information and development

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

We have a programme for meeting Directors' training and development requirements. Newly appointed Directors who do not have previous public company experience at Board level are provided with detailed training on their role and responsibilities. All new Directors participate in a comprehensive and tailored induction programme including store and depot visits and meetings with other members of the Board, members of the Operating Board, senior management and external advisors. The induction programme includes a full review of corporate responsibility. Subsequent training is available on an ongoing basis to meet any particular needs. During the year the Company Secretary, Tim Fallowfield, has provided updates to the Board on relevant governance matters, new legislation and on Directors' duties and obligations, whilst the Audit Committee regularly considers new accounting developments through presentations from management and the external auditors. The consultants to the Remuneration Committee advise the Committee on relevant governance and trends in remuneration. The Board programme includes both presentations from management and informal meetings which increase the Non-Executive Directors' understanding of the business and the sector. During the year the Board held a Board meeting at a supplier's site and received presentations from members of the supplier's management team, as well as from colleagues from within the Sainsbury's Trading Division. Directors have visited stores and other sites as part of their continuing engagement with the business.

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

Board evaluation

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

Manchester Square Partners presented their detailed report to the Board and it was discussed at a meeting held for that specific purpose. It identified the ways in which the Board was working well and the areas for further consideration. As described in the Chairman's statement above, the report concluded that the Board was working effectively across many dimensions. The Board identified actions to develop some aspects of Board succession and management transition, and to strengthen further the focus on strategic initiatives.

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

Attendance

The table shows the attendance of Directors at scheduled Board and Committee meetings. The Board scheduled eight meetings during the year, including the two-day Strategy Conference, and additional ad hoc conference calls were also convened to deal with specific matters which required attention between scheduled meetings.

	Board	Audit Committee	CR Committee	Nomination Committee	Remuneration Committee
Matt Brittin	1(1)	1(1)	-	-	-
Mike Coupe	8(8)	-	-	-	-
Anna Ford	8(8)	-	2(2)	3(3)	5(5)
Val Gooding	8(8)	-	-	3(3)	5(5)
Mary Harris	8(8)	4(4)	2(2)	3(3)	-
Gary Hughes	8(8)	4(4)	-	3(3)	-
Justin King	8(8)	-	2(2)	-	-
John McAdam	8(8)	4(4)	-	3(3)	-
John Rogers	5(5)	-	-	-	-
Darren Shapland	8(8)	-	-	-	-
Bob Stack	8(8)	-	-	3(3)	5(5)
David Tyler	8(8)	-	-	3(3)	-

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

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

Investor relations

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

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

The Board regularly receives feedback on the views of major investors and the IR programme. In addition, Makinson Cowell provide investor relations consultancy services to the Company and give an external analysis to the Board 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 IR department.

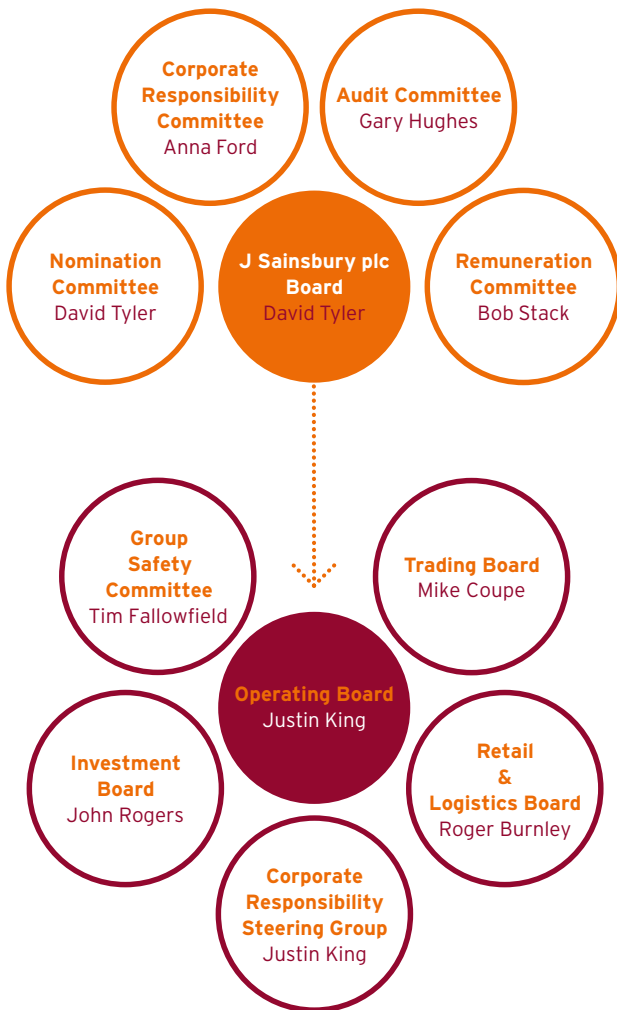
Shareholders have the opportunity to meet and question the Board at the AGM, which this year will be held on 13 July 2011. There will be a display of various aspects of the Company's activities and Justin King will make a business presentation. A detailed explanation of each item of special business to be considered at the AGM is included with the Notice of Meeting which will be sent to shareholders at least 20 working days before the meeting. All resolutions proposed at the AGM will be taken on a poll vote. This follows best practice guidelines and enables the Company to count all votes, not just those of shareholders who attend the meeting.

Information on matters of particular interest to investors is set out on pages 104 to 106 and on the Company's website (www.j-sainsbury.co.uk/investors).

Board Committees

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

Governance structure



Operating Board

Day-to-day management of the Group is delegated to the Operating Board, which is chaired by Justin King. The Operating Board held ten scheduled meetings during the year and each Director's responsibilities are set out on pages 25 and 27. It has formal terms of reference setting out its key responsibilities. Minutes are copied to the Chairman and Non-Executive Directors.

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

Nomination Committee

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

During the year the Committee was fully engaged in the succession planning which resulted in the Board changes announced in June 2010 whereby Darren Shapland became Group Development Director, Mike Coupe took on additional responsibilities and became Group Commercial Director and John Rogers was appointed to the Board as Chief Financial Officer.

In addition, the Committee reviewed the structure of the Board during the year and recommended that a further Non-Executive Director be appointed. Search consultants, Egon Zehnder, were instructed in connection with this process. The skills, knowledge, background and experience required for the role were considered, and a job specification was prepared. The Committee specified the time commitment expected of the role. Following an extensive search, the Committee recommended to the Board that Matt Brittin be appointed. He was appointed to the Board on 27 January 2011.

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 conducts a review of management development and succession planning at the time of the Strategy Conference and meets on such further occasions as are necessary and in 2010/11 held three meetings in total.

Remuneration Committee

The Committee is chaired by Bob Stack, with Anna Ford and Val Gooding as its other members. The Remuneration Report is set out on pages 38 to 47.

Corporate Responsibility Committee

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

The Committee is supported by an internal corporate responsibility governance structure whereby members of the Operating Board have responsibility for each of our five values and sit on our Corporate Responsibility Steering Group, which meets quarterly and is chaired by Justin King. Other members of the Steering Group are shown on page 15.

A summary of the Company's corporate responsibility priorities and activities is set out on pages 14 to 17. This year's Corporate Responsibility Report will be published in June 2011.

Audit Committee

The Committee is chaired by Gary Hughes with John McAdam, Mary Harris and Matt Brittin as its other members, all of whom are independent Non-Executive Directors. Matt Brittin was appointed on 27 January 2011. The Board has determined that Gary Hughes has recent and relevant financial experience. The Chairman, Justin King, John Rogers, Susannah Hall (Director of Internal Audit), other senior members of the Finance Division and the external auditors are invited to attend Committee meetings. Tim Fallowfield is secretary to the Committee.

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

During the year the Committee met on four occasions, the agendas being organised around the Company's reporting cycle. The Committee regularly meets with the external auditors without management being present. It monitored the integrity of the financial statements and any formal announcements relating to the Company's financial performance and reviewed any significant financial judgements contained in them.

As described in detail below the Committee has also reviewed:

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

The Committee also regularly reviews the Company's funding and liquidity position and has considered its impact on the Company's financial and operational capabilities. The Committee's detailed review of the year-end position assisted the Board in making the going concern statement set out on page 29.

The Committee reviewed PricewaterhouseCoopers LLP's ("PwC") overall work plan and approved their remuneration and terms of engagement and considered in detail the results of the audit, PwC's performance and independence and the effectiveness of the overall audit process. PwC have been the Company's auditors since 1995. PwC are required to rotate the audit partner responsible for the Group and subsidiary audits every five years. Richard Hughes, the current audit partner, was appointed in 2010 and he has undertaken a programme of induction meetings during the year. 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 majority of the non-audit work undertaken by PwC during 2010/11 related to indirect tax, sustainability and pensions accounting advice. The non-audit fees for the year were £0.2 million, and the audit fee for the year in respect of the Group, Company and its subsidiaries (including the fee for the interim review) totalled £0.8 million.

The policy was reviewed during the year and is consistent with the Auditing Practices Board's Ethical Standards No. 5 - Non Audit Services. The policy is designed to ensure that the provision of such services does not have an impact on the external auditors' independence and objectivity. It identifies certain types of engagement that the external auditors shall not undertake, including internal audit and actuarial services relating to the preparation of accounting estimates for the financial statements. It also requires that individual engagements above a certain fee level may only be undertaken with appropriate authority from the Committee Chairman or the Committee. The policy also recognises that there are some types of work, such as accounting and tax advice, where a detailed understanding of the Company's business is advantageous. The policy is designed to ensure that PwC is only appointed to provide a non-audit service where it is considered to be the most suitable supplier of the service. The Committee receives a report at each meeting on the non-audit services being provided and the cumulative total of non-audit fees. In the event that cumulative non-audit fees exceed the audit fee then all subsequent non-audit expenditure must be approved by the Committee Chairman.

The Committee has regularly reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of its recommendations. Susannah Hall, who was appointed to the role of Director of Internal Audit during the year, has direct access to all members of the Committee including the Chairman and the Committee Chairman. She has regular meetings with all Committee members.

The Company's 'whistleblowing' procedures ensure that arrangements are in place to enable colleagues and suppliers to raise concerns about possible improprieties on a confidential basis. All issues raised have been investigated and appropriate actions taken. Any significant issues have been highlighted to the Audit Committee.

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

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

Grocery Supply Code of Practice

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

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

Summary Annual Compliance Report

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

A very small number of alleged breaches of GSCOP has been received in the reporting period, all of which have been resolved to the supplier's satisfaction within the Trading Division using our standard internal escalation procedure. None of the alleged breaches has required any involvement by the Code Compliance Officer.

Risk management and internal controls

The Board has overall responsibility for risk management and the system of internal controls and for reviewing their effectiveness. Certain of these responsibilities have been delegated to the Audit Committee as outlined on page 34. The system is designed to manage rather than eliminate the risk of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

Risk management

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

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

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

- the divisional operating management teams are responsible for managing the risks to their business objectives and for identification and implementation of internal controls so as to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed;

- this divisional risk process is achieved through twice yearly workshops held by the divisional management and facilitated by Internal Audit. Each divisional management team produces and maintains a divisional key risk register. The likelihood and impact of each key risk is evaluated and actions deemed necessary to mitigate them are identified. In addition, the risks and the robustness of the mitigating controls are regularly reviewed by divisional management as part of their normal business activities;
- management certify annually that they are responsible for managing their business objectives and that the internal controls are such that they provide responsible but not absolute assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed;
- the Operating Board reviews and challenges the output of the divisional risk process and then updates the overall corporate risk register as appropriate;
- the corporate and divisional risk registers form the basis of the risk based plan of Internal Audit for the subsequent half-year period; and
- Internal Audit provides independent assurance to management and the Audit Committee as to the existence and effectiveness of the risk management process.

Internal controls

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

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

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

Principal Risks and Uncertainties

The risk management process is closely aligned to accelerating our growth plan which focuses on growing the business through the addition of new range, space, channels to market and property management. Risk is an inherent part of doing business. The system of risk management used to identify the principal risks the Group faces and to develop and closely monitor key controls, is described on page 35. The management of the risks is based on a balance of risk and reward determined through careful assessment of both the potential likelihood and impact. Consideration is given to both reputational as well as financial impact, recognising the significant commercial value attributable to the Sainsbury's brand. The principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority.

A Business continuity and acts of terrorism

Risk

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

Mitigation

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

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

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

B Business strategy

Risk

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

Mitigation

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

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

Progress against these areas of focus and any risks to delivery, such as the availability of suitable new store sites, are regularly reviewed by the Board and the overall strategy is reviewed at the two-day Strategy Conference. The Operating Board also holds regular sessions to discuss strategy. This activity is supported by a dedicated Strategy team. To ensure the strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, colleagues, customers and suppliers on a continual basis.

C Colleague engagement, retention and capability

Risk

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

Mitigation

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

D Environment and sustainability

Risk

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

Mitigation

A number of initiatives are in place, which are being led by the Environmental Action Team and the Corporate Responsibility Steering Group to reduce our environmental impact and to meet our customers' requirements in this area. Further details are included in the Corporate responsibility review on pages 14 to 17.

E Financial strategy and treasury risk

Risk

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

Mitigation

The central Group Treasury function is responsible for managing the Group's liquid resources, funding requirements, and interest rate and currency exposures and the associated risks as set out in note 28 on pages 84 to 88. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.

F Fraud

Risk

As with any business, there is always a risk of fraudulent activity.

Mitigation

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

G Health and safety

Risk

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

Mitigation

Clear policies and procedures are in place detailing the controls required to mitigate health and safety risks across the business. These capture the end-to-end operation, from the auditing and vetting of construction contractors, to the health and safety processes in place in our depots, stores and offices. Compliance to these processes is closely monitored and reported.

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

H IT systems and infrastructure

Risk

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

Mitigation

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

I Pension risk

Risk

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

Mitigation

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

J Product Quality

Risk

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

Mitigation

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

K Regulatory environment

Risk

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

Two key pieces of new legislation are the Grocery Supply Code of Practice (GSCOP), which came into effect in 2010/11, and the Bribery Act 2010, which is expected to come into force in the second half of 2011.

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

Mitigation

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

Sainsbury's has invested significant time and resource in providing comprehensive training to the relevant members of the Buying Team in the requirements of GSCOP. This training is reinforced by online post training testing and supported by training and reference materials on our intranet. Sainsbury's also has a dedicated internal legal resource to provide its Buying Team with advice and guidance.

L Trading Environment

Risk

The continued economic downturn could affect the performance of the Group in terms of sales, costs and operations, through:

- the ongoing challenges to household disposable income;
- competitor pricing positions; and
- commodity costs driving up the cost of goods.

In addition, the downturn may also affect the risk of supplier or other counterparty failure, with possible operational or financial consequences for the Group.

Mitigation

We continue to focus on delivering quality products with 'universal appeal', at a range of price points ensuring value for all our customers. This is achieved through the continuous review of our key customer metrics, active management of price positions, development of sales propositions and increased promotion and marketing activity. While external cost pressures including oil-related costs, commodity pricing and business rates affect our business, the Group continues to work hard to mitigate the impact of these cost pressures on customers and on our overall profitability through the delivery of cost savings. Sainsbury's undertakes credit checks on suppliers and maintains regular, open dialogue with key suppliers concerning their ability to trade.

Remuneration report

Bob Stack
Chairman,
Remuneration
Committee



Dear Shareholder,

Once again, it has been a challenging but successful year for Sainsbury's. Notwithstanding a tough consumer environment and a highly competitive market place, the Company has delivered another year of strong performance, increasing both its customer base and market share. Under the experienced leadership team, sustained growth across a range of key financial indicators has been achieved over time, as highlighted in the tables below:

Like-for-like sales (%)



Underlying operating margin (%)



Underlying profit before tax (£m)



Building on this context, I would like to share with you a summary of Sainsbury's remuneration policy and practice over the last year.

- Below-inflation salary increases were awarded to the Executive Directors at the start of the 2011/12 financial year, consistent with the approach taken across the wider Company. Justin King's salary was last increased in March 2009, and it rose from £900,000 to £920,000 (2.2 per cent) in March 2011.

- As covered in the Chairman's statement on page four, Darren Shapland will be stepping down from the Board at the AGM on 13 July 2011 and he will be appointed as Non-Executive Chairman of Sainsbury's Bank; details of Darren's remuneration are provided on page 45. John Rogers' responsibilities will be expanding following Darren's departure from the Board and his salary will increase in July 2011 as a consequence, as noted on page 40.
- Sainsbury's performed well during the year, particularly when compared to its closest competitors. The bonuses awarded to the Executive Directors for 2010/11 averaged 48 per cent of the maximum bonus opportunity, reflecting the highly stretching performance targets that were set at the start of the financial year.
- The Deferred Share Award demonstrates the link between Sainsbury's strategic goals and its incentive plan framework. Awards made under the second plan cycle, covering 2010/11, recognised the progress that has been made on the annual targets that are firmly focused on building long-term, sustainable success. Most of the targets set were either achieved or exceeded, further contributing to the creation of shareholder value, and awards will be made at 83 per cent of the maximum available under the plan.
- The Committee gave consideration to the short-term incentive plan awards that could be earned by the Executive Directors reporting to Justin King. It agreed that the maximum award that could be earned by them for the annual bonus plan and the Deferred Share Award would each rise by 10 per cent of salary to 90 per cent of salary. The award opportunity under each of these plans for Justin King remains unchanged at 125 per cent of salary.
- The third cycle of the Value Builder Share Plan, which covers the three financial years to 19 March 2011, incentivises growth in return on capital employed and cash flow per share. Awards vested at 48 per cent of the maximum opportunity; one half of the shares to vest become exercisable in May 2011, and the balance will be exercisable in May 2012.
- The Executive Directors continue to maintain a high level of personal share ownership in accordance with Sainsbury's shareholding guidelines, and this is detailed on page 43.
- Following the Committee's annual review of the Value Builder Share Plan, the performance matrix has been refined for the 2011/12 grant cycle. The threshold targets have been increased on both the return on capital employed and cash flow per share measures to maintain a suitable degree of stretch. Recognising that Sainsbury's has now progressed beyond its turnaround phase, the maximum cash flow per share growth target has been reduced, whilst remaining appropriately demanding. As a consequence of these refinements, the scale of awards within the vesting matrix has been readjusted, providing a more even-handed performance and reward profile.
- Finally, annual share grants through the Value Builder Share Plan will be restricted to a smaller population of Sainsbury's top 200 leaders from 2011/12 onwards, including the Executive Directors. This focuses the plan on the senior management who are best positioned to drive the Company's long-term performance and grow shareholder value. An alternative reward framework has been designed for supermarket store managers and managers of an equivalent grade, containing measures and targets tailored to their roles.

Sainsbury's continues to move through the next phase of its growth strategy; the performance achieved in 2010/11 demonstrates its ability to make year-on-year improvements across all key areas. The outlook for 2011/12 remains challenging in terms of the customer environment, but our remuneration policy and framework provide a platform to incentivise, motivate, retain and reward our experienced leadership team.

Bob Stack
Chairman, Remuneration Committee

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report sets out the remuneration policy, while the second part details the remuneration, pensions and share plan interests of the Directors for the 52 weeks to 19 March 2011. The Directors confirm that this report has been prepared in accordance with the Companies Act 2006 and reflects the provision of Schedule 8 of the Large & Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008.

A resolution will be put to shareholders at the Annual General Meeting ("AGM") on 13 July 2011 asking them to approve this report.

Remuneration Committee

The Remuneration Committee comprises Bob Stack (Remuneration Committee Chairman), Anna Ford and Val Gooding, all of whom are independent Non-Executive Directors. The Committee met five times during the year.

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

The 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 supported by its appointed advisers, Deloitte LLP ("Deloitte"), whose consultants attended four Committee meetings. Deloitte provided the Company with unrelated advice and consultancy regarding online strategy, internal audit training and across a range of accountancy and tax areas. Towers Watson provided comparative data which was considered by the Committee in setting remuneration levels and it also provided the Company with pension scheme services in the year. Total Shareholder Return ("TSR") calculations are supplied by UBS, who provided broking and banking services to the Company during the year.

Remuneration Policy

The Committee considers that the Remuneration Policy should drive performance and complement the overall strategy of the Company. It believes that the ongoing growth and success of the Company during challenging market conditions is testament to this approach. It is committed to ensuring that the management team is rewarded for continuing to deliver the Company's growth plans and long-term shareholder value. The Company's current arrangements, therefore, incorporate performance metrics which link to the business strategy and specifically the five areas of focus (as described in the Business review) which are directed towards generating good long-term growth.

The Company's Remuneration Policy is as follows:

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

- Basic salaries should be market competitive, determined by drawing on a range of factors. The Committee considers the individual's experience, potential, performance, job size and scope, along with data that takes into account the remuneration of similar executive roles in similar companies. The Committee also has regard to the external business environment and the general level of increases applied across the Company.
- The design and scale of pension provision and other employment benefits should be in line with wider market practice, placing a particular emphasis on the retail sector.
- Incentive plans should be linked to stretching performance measures and targets, covering a mix of financial and non-financial measures. The measures are reviewed and monitored to ensure that they do not drive unacceptable behaviours or encourage excessive risk-taking. Incentive plan awards are not pensionable.
- A significant proportion of the total remuneration package is performance-related, aligning management's and shareholders' interests. Exceptional levels of performance will be rewarded with exceptional levels of total reward.
- The Committee expects the Executive Directors and Operating Board Directors to acquire and maintain a shareholding in the Company sufficient to align their interests with those of shareholders.

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

Components of remuneration

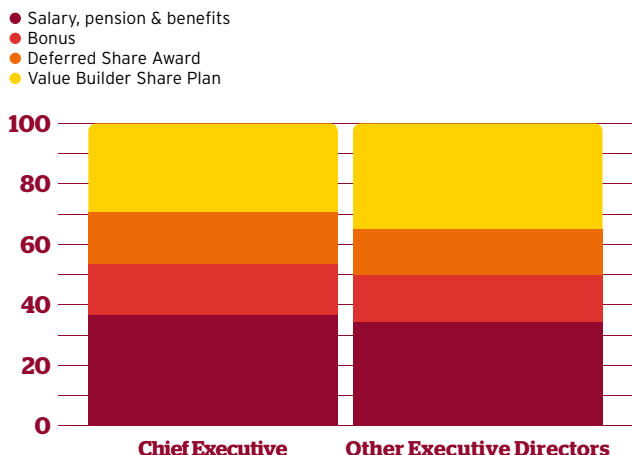
The main remuneration components for the Executive Directors and Operating Board Directors comprise basic salary, incentive plans, pensions and benefits. The balance between the fixed (basic salary and pension) and variable (annual bonus, Deferred Share Award and Value Builder Share Plan) elements of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

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

During the year, the Committee reviewed the short-term incentive opportunity available under the annual bonus plan and the Deferred Share Award for the Executive Directors reporting to the Chief Executive. Taking into account a number of factors, including the strategic importance of the roles and the market competitive position, the Committee agreed that for 2011/12 onwards, the maximum potential under each of these plans will rise from 80 to 90 per cent of salary. The award opportunity under these plans for Justin King will remain unchanged at 125 per cent of salary. For awards to be granted under the Value Builder Share Plan in 2011/12, the Committee has determined that grant levels will remain unchanged from last year.

The following diagram shows the balance between the fixed and variable remuneration components for 2011/12. The analysis assumes that target performance is achieved and it indicates that around 60 per cent of the package is variable.

Fixed vs variable remuneration (%)



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

i) Fixed remuneration

Basic salary

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

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

On 21 June 2010, the Company announced changes at Executive Director and Operating Board Director level, which realigned responsibilities across a number of areas. In recognition of the increased breadth to Mike Coupe's role as Group Commercial Director, the Committee agreed that his annual basic salary would rise from £510,000 to £560,000 on 19 July 2010. Darren Shapland was appointed to the role of Group Development Director and his salary remained unchanged at £560,000. John Rogers was appointed as Chief Financial Officer on an annual basic salary of £425,000, with effect from 19 July 2010.

The Committee reviewed the Executive Directors' salaries for the 2011/12 financial year. It agreed a set of salary increases that were broadly in line with the range of awards applied to management and non-management central colleagues, and these took effect on 20 March 2011.

- Justin King's annual basic salary, which has remained at £900,000 since March 2009, increased by 2.2 per cent to £920,000.
- Mike Coupe and Darren Shapland were each awarded an increase of £5,000 (0.9 per cent) taking their annual basic salaries from £560,000 to £565,000.
- On appointment to the Board as Chief Financial Officer, John Rogers' salary was set at a conservative level against the market. The Committee considered that it was important to recognise the progress that John is making since his appointment, and increased his salary by £20,000 to £445,000 (4.7 per cent). Subsequently, following Darren Shapland's decision to step down from the Board, John will assume responsibility for the Company's property division. As a consequence of this expansion to his role, John's salary will increase to £500,000 in July 2011.

Pensions

The Company's Defined Benefit Pension Plan was closed to new members on 31 January 2002 and none of the Executive Directors participate in it. In lieu of pension plan participation for 2010/11, Justin King received a pension supplement of 30 per cent of salary. Darren Shapland and Mike Coupe each received pension supplements of 25 per cent of salary.

John Rogers participates in the JS Self Invested Pension Plan, a defined contribution arrangement which is open to all senior management. In return for contributing five per cent of his salary, the Company contributes 12.5 per cent of his salary up to an internal earnings cap (£123,600 for 2010/11). For 2010/11, he received a pension supplement of 25 per cent of the pensionable salary he was paid in excess of the earnings cap.

Benefits

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

ii) Variable remuneration - current plans

Annual bonus plan

All bonus plans across the Company are aligned under a set of common principles. For 2010/11, Board and management plans retained the same key metrics based on profit and sales growth, product availability, plus an element for individual performance. Bonus awards are weighted to the achievement of profit, and it continues to act as the overall "gateway" measure for the plan reflecting the emphasis on growing profit. For Executive Directors, at least half of the bonus is based on profit, and the remainder is based on sales, product availability and the achievement of individual objectives.

The profit, sales and availability targets were also shared across all store colleague bonus plans. Availability is measured across all stores on a regular basis by an independent third party, conducting random and unannounced store visits. Individual performance objectives are set annually for each Executive Director and are reviewed by the Committee. These objectives cover a variety of financial and operational targets that contribute to the achievement of longer-term strategic goals; some of these objectives relate, either directly or indirectly, to the Company's corporate values.

The maximum cash bonus that could have been earned for 2010/11 was 125 per cent of salary in respect of Justin King and 80 per cent of salary in respect of the other Executive Directors.

In determining bonus payments for 2010/11, the Committee took into account performance against each of the plan's measures in addition to individual objectives. The Company has continued to out-perform in a tough consumer environment to deliver a strong set of results. During the year, sales and profit grew consistently and availability in stores was improved. However, the highly stretching nature of the bonus targets has led to lower overall levels of payments, compared to last year. Awards ranging from 46 to 50 per cent of the maximum opportunity will be paid to the Executive Directors in respect of 2010/11.

The 2010/11 bonus plan for store colleagues was based on the achievement of a corporate sales target as well as availability and customer service targets measured in their individual stores. No bonus awards are paid unless a threshold level of corporate profit is met. The Company's performance has enabled over 124,000 colleagues to earn awards from a bonus pool totalling around £60 million.

For 2011/12, the bonus measures will remain unchanged and the targets will be set to incentivise stretching year-on-year growth.

Deferred Share Award

The Deferred Share Award (“DSA”) was introduced to replace the Deferred Annual Bonus Plan at the start of 2009/10. This incentive arrangement targets a diverse range of business-critical financial and non-financial scorecard measures. These are intended to reward Directors for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company.

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

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

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

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

When developing the DSA, the Committee gave careful consideration to the selection of its performance measures and targets, as well as to the robustness of the plan design. In reviewing the plan for 2010/11, the Committee agreed that as the Company’s values underpin its goals, appropriate corporate responsibility targets would be added within the strategic goals category.

During 2010/11, the Committee conducted an interim appraisal to gauge the progress of performance and the plan’s effectiveness based on half-year results.

The Company has performed well in 2010/11, and this has flowed through to the basket of measures that the Committee considered for the purposes of making awards under the DSA. Although some of the specific measures and targets are commercially sensitive, the sections below present a selection of performance highlights within each of the four categories.

Financial Performance

Underlying profit before tax improved by nine per cent year-on-year to £665 million. Underlying basic earnings per share increased by 10.9 per cent to 26.5 pence.

Return to Shareholders

Underpinning performance in the year was a 2.3 per cent rise in like-for-like sales (including VAT and excluding fuel). This is the sixth consecutive year of growth and it has enabled the Company to maintain a good level of shareholder returns. The recommended full year dividend of 15.1p is 6.3 per cent higher than last year. TSR was assessed on both a relative and absolute basis over one, three and five-year periods.

Relative Performance

The Company has a 16.3 per cent market share in the UK, up by 0.2 per cent on last year, and therefore sales grew ahead of the market in spite of the tough consumer environment. There were on average, 21 million customer transactions each week – a year-on-year increase of one million – demonstrating, more than ever, customers’ recognition that Sainsbury’s offers great food at fair prices.

Strategic Goals

The Company’s strategy centres around five areas of focus. These areas are underpinned by Sainsbury’s strong heritage and brand which consistently set it apart from major competitors. Further details on the corporate objectives are contained on the inside front cover, and details on corporate responsibility are summarised on pages 14 to 17.

- Significant investment has continued across the Company’s own-brand ranges, with over 5,000 new or improved products launched in the year, including the major re-launch of the *Taste the Difference* brand. Further progress was made on the Great Food Programme by the opening of a bakery college and six food colleges, providing technical training to colleagues. This is an industry-leading approach to customer service, and it is anticipated that over 10,000 colleagues will receive training by the end of 2011/12.
- Non-food sales continue to grow at over three times the rate of food, and one in three of all non-food online orders placed is by *Click and Collect* which is now offered in over 160 stores. In Clothing, the *TU* brand is now seventh in the market by volume. The non-food offer has been further strengthened by an investment made across the infrastructure, with improved IT capability and additional resources put into the sourcing offices to build strategic supplier relationships.
- Sainsbury’s Bank has performed strongly in the year, returning year-on-year pre-tax profit growth of over 50 per cent. It has introduced several new products, including a gold credit card, fixed-rate savings bonds and a cash ISA. Convenience is now a £1 billion business, and the Company opened 47 new convenience stores in 2010/11, with plans to open one to two stores per week over the next 12 months. It won *Convenience Chain of the Year* at the Retail Industry Awards in 2010. While the grocery online business continues to grow at over 20 per cent year-on-year, and is reaching more geographic locations than ever before.
- Expanding the store estate continues to be at the heart of the Company’s strategy. During the year, we added a gross 1.5 million sq ft of space achieved through the opening of 68 new stores and the extension of a further 24 stores, to beat the 15 per cent space growth target set in 2009. Of the new stores opened in the last two years, over 70 per cent are located in Scotland, Wales and the South West, where the Company has been under-represented in the market. The Company has a strong pipeline of sites for future development, which will extend its customer reach across the UK supported by over 70 planning consents which have been obtained for future store extensions.
- The market value of the Company’s freehold property portfolio has increased to £10.5 billion – an increase of £0.7 billion over the year, including £0.5 billion of property value from investment and development activity. By taking advantage of attractive yields on dry assets, the Company generated £275 million proceeds during the year and a property profit of £108 million, up from £27 million on last year.
- The Company’s corporate responsibility commitments touch each part of the business, and have an impact from suppliers to customers. It is proud to be a sponsor of the London 2012 Paralympic Games. The biggest ever donation to Comic Relief was made in 2011 of £11.4 million through store and customer fund-raising. During the year, the Company won an array of awards for its sourcing policies and environmental initiatives, including *Community Food Retailer of the Year*, and was the first food retailer to be awarded a gold accreditation by Investors in People, reinforcing its commitment to be ‘A great place to work’.

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

The Committee agreed that for 2010/11, awards would be made at 83 per cent of the maximum level. This translates into a share award of 104 per cent of salary for Justin King and 66 per cent of salary for the other Executive Directors.

The Committee has reviewed the DSA's performance framework for 2011/12; the four performance categories and metrics will remain consistent with those agreed for 2010/11.

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

The Value Builder Share Plan is the Company's long-term incentive arrangement. Since its launch in 2006, it has covered the Company's core management from the Chief Executive to supermarket store managers. Under the plan, a core award of shares in the Company is granted to all participants, calculated as a percentage of their salaries and scaled according to grade. As set out below, dependent upon performance, core awards can grow by up to four times. No awards vest for performance below the threshold levels.

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

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

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

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

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

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

- The improvement in normalised working capital over the performance period. This reflects the Company's aggregate contribution to cash from improvements in working capital over the three-year period.

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

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

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

Each year, the Committee reviews the Value Builder Share Plan, which includes its performance conditions, targets and matrix scale. From 2011/12 onwards, participation in the plan will cover around 200 of the Company's top leaders only, including the Executive Directors. An alternative reward framework has been designed for supermarket store managers and other managers of an equivalent grade, which incentivises them against a range of operational and financial measures that are closely aligned to their roles.

For 2011/12 awards, the Committee has refined the performance matrix, to align with the Company's objectives over the next performance cycle. The Committee approved raising the threshold targets to maintain a high degree of stretch in the measures. Accordingly, ROCE will increase from 11 per cent to 12.5 per cent; and cash flow per share growth will increase from three per cent to four per cent per annum. Furthermore, as the Company has progressed beyond its turnaround phase, the Committee has narrowed the performance range so that the maximum target applied to cash flow per share growth will reduce from 15 per cent to 12 per cent per annum. Overall, the degree of challenge inherent in the targets is commensurate with stretch performance from both an internal as well as a UK food sector perspective.

Finally, the Committee approved a rebalancing of the vesting multipliers within the performance matrix to complement the new target ranges and to ensure that participants continue to be appropriately rewarded for delivering against each performance outcome. This rebalancing exercise has resulted in the development of a more symmetrical risk and reward profile, which the Committee considers to be even-handed and appropriate.

The matrices overleaf detail the performance targets and corresponding vesting multipliers that applied to awards made in 2010/11, and that will apply to awards for 2011/12.

2010/11					
Pre-tax adjusted ROCE	Cash flow per share				
	3%	6%	9%	12%	15%
15%	1.5	2.5	3.0	3.5	4.0
14%	1.0	1.5	2.5	3.0	3.5
13%	0.5	1.0	1.5	2.5	3.0
12%	-	0.5	1.0	1.5	2.5
11%	-	-	0.5	1.0	1.5

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

The Committee reviewed the Executive Directors' grant policy in preparation for making awards in 2011/12. It considered the level of business performance that will be required over the next three years to deliver the stretching plan targets, and balanced this against the highly competitive market-place for executive talent. The Committee agreed that the grant policy it approved for awards made in 2010/11 remains suitable for a further year. Accordingly, for 2011/12, Justin King will be granted a core award of 55 per cent of salary. With the exception of Darren Shapland, the Executive Directors reporting to Justin King will each be granted a core award of 50 per cent of salary.

Performance was assessed in May 2010 in respect of the Value Builder Share Plan awards granted in 2007/08. Pre-tax adjusted ROCE of 12.4 per cent and cash flow per share of 20.1 per cent were achieved over the three-year performance period, which gave rise to a performance multiplier of 3.2 out of a maximum four times. This performance outcome led to the vesting of 80 per cent of the total award for all plan participants, including the Executive Directors. One half of the award becomes exercisable in May 2010, with the remaining portion exercisable in May 2011. The number of shares awarded from this grant cycle to the Executive Directors is set out on page 45.

The performance period for the 2008/09 Value Builder Share Plan grant ended in March 2011, and its performance conditions were assessed. Pre-tax adjusted ROCE of 13.4 per cent and cash flow per share of 9.9 per cent were achieved, resulting in a performance multiplier of 1.9 out of a maximum four times. This outcome has resulted in 48 per cent of the total award vesting for all plan participants, including the Executive Directors. One half of the award becomes exercisable in May 2011, with the remaining portion exercisable in May 2012.

iii) Variable remuneration - dormant share plan

Deferred Annual Bonus Plan 2006

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

Following the year end, performance was tested in respect of the deferral made in 2008/09. Over the three-year performance period ending on 19 March 2011, the Company's relative TSR performance was ranked sixth within a comparative group of 13 companies. This resulted in 0.91 matching shares vesting for every deferred share, out of a maximum of two matching shares. Details of the Executive Directors' vested and outstanding awards under this incentive plan are set out in the table on page 47.

iv) All employee share plans

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

The 2005 (five-year) SAYE reached maturity on 1 March 2011. Around 3,700 colleagues could use their savings and a tax-free bonus to buy Sainsbury's shares at a 231 pence option price. The 2007 (three-year) SAYE matured at the same time covering around 7,000 colleagues who could use their savings and a tax-free bonus to buy Sainsbury's shares at a 331 pence option price. Using the market price on the date of the first exercise, the value of all the shares subject to the maturity was nearly £27 million. The Company currently has over 26,000 colleagues participating in the SAYE with around 53,000 individual savings contracts.

In August 2008, the Company introduced a matching element to the partnership element of the All Employee Share Ownership Plan on a 'buy four get one free' basis. This arrangement ceased in August 2010. These matching shares must be held for five years to receive all of the relevant tax benefits and will be forfeited if the individual resigns from the Company within the first three years. Justin King and Darren Shapland have each received 51 matching shares during the year.

Shareholding guidelines

The Committee introduced shareholding guidelines in 2006/07 to create greater alignment of the Directors' interests with those of shareholders, which is a key objective within the remuneration policy. It reviewed these guidelines in 2009/10 and determined that the level of shareholding expected of the Executive Directors would rise with effect from 2010/11, from 1x salary to 2.5x salary for the Chief Executive and from 1x salary to 1.5x salary for the other Executive Directors. The shareholding guidelines in respect of the Operating Board Directors remain unchanged at 1x salary. Newly-appointed Directors have five years from their appointment date in which to build up their shareholding.

The table below sets out the Executive Directors' shareholdings as at the year end on 19 March 2011.

	Shareholding	Valuation ¹ (£000)	Percentage of salary ²
Justin King	1,399,878	4,914	546%
Mike Coupe	798,285	2,802	500%
John Rogers	145,998	512	121%
Darren Shapland	766,975	2,692	481%

1 The valuation is calculated against the closing mid-market share price on 18 March 2011 of 351.0 pence.
 2 The percentage of salary figures have been calculated using the salaries as at 19 March 2011.

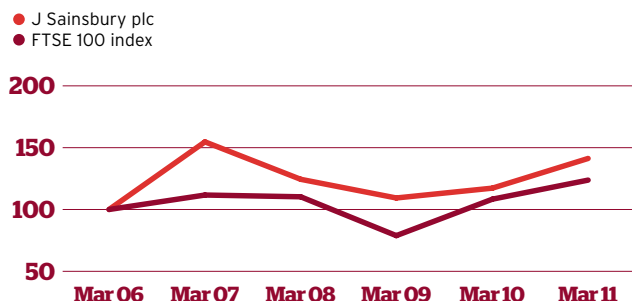
Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines so that dilution from employee share awards does not exceed ten per cent of the Company's issued share capital for all-employee share plans and five per cent in respect of executive share plans in any ten-year rolling period. The Company monitors dilution levels on a regular basis and the Committee reviews these at least once a year. Up to 19 March 2011, an estimated eight per cent of the Company's issued share capital has been allocated for the purposes of all its employee share plans over a ten-year period, and an estimated four per cent in respect of its executive share plans.

Performance graph

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

Performance graph (£)



Service contracts

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

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

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

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

Justin King	29 March 2004
Mike Coupe	1 August 2007
John Rogers	19 July 2010
Darren Shapland	1 August 2005

Darren Shapland

As announced on 9 May 2011, Darren Shapland will step down from the Board at the Annual General Meeting on 13 July 2011. He will be appointed to the position of Non-Executive Chairman of Sainsbury's Bank and will receive a fixed annual fee of £150,000 plus benefits. As a result of this role change, he will not participate in any of the Company's incentives for 2011/12. Darren has also agreed to remain available to provide consultancy services to the Group on matters

unrelated to Sainsbury's Bank, to be separately remunerated on a per diem basis.

It should be noted that Darren will not receive either a severance payment or an ex gratia payment as a result of his change in employment status.

Darren's outstanding awards, as granted prior to his departure from the Board, will be treated in accordance with the relevant plan rules. Awards under the Value Builder Share Plan and the Deferred Annual Bonus Plan will be subject to time pro-rating (calculated as at the point of departure from the Board). The relevant performance conditions will continue to apply and a service condition must be satisfied, otherwise the shares will lapse. Shares granted to Darren under the Deferred Share Award will be exercisable in full following the end of the plan's retention period if a service condition is met, otherwise they will be pro-rated on a time basis.

External appointments

The Company's normal practice is that Executive Directors may take up one public company non-executive role outside the Company, subject to a consideration of the role and the time commitment. Directors are entitled to retain the fees earned from such appointments. Details of the Executive Directors' external fees are set out on page 45.

Chairman

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

David Tyler was appointed as Chairman on a basic fee of £450,000 per annum. His fee was reviewed on the anniversary of his appointment during 2010/11 and it was not changed. He devotes such time as is necessary to perform his duties. He does not participate in any performance-related incentive plans and he does not receive any benefits except for an annual medical assessment and a colleague discount card.

Non-Executive Directors

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

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

The Non-Executive Directors' fees were last increased in September 2009; they were reviewed during 2010/11 and remain unchanged:

Basic fee	£55,000
Senior Independent Director fee	£15,000
Chairman of Remuneration Committee fee	£15,000
Chairman of Audit Committee fee	£15,000
Chairman of Corporate Responsibility Committee fee	£10,000

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

Matt Brittin	27 January 2011
Anna Ford	2 May 2006
Val Gooding	11 January 2007
Mary Harris	1 August 2007
Gary Hughes	1 January 2005
John McAdam	1 September 2005
Bob Stack	1 January 2005

Remuneration report continued

The following section provides details of the remuneration, pension and share plan interests of the Directors for the 52 weeks ended 19 March 2011 and has been audited.

i) Directors' remuneration

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

	Note	Cash components and benefits						Total 2011	Total 2010
		Salary/fees £000	Bonus ⁷ £000	Pension supplement ⁸ £000	Benefits ¹⁰ £000	Total cash and benefits 2011 £000	Deferred share award ¹ £000	£000	£000
Justin King	2,11	900	520	270	31	1,721	934	2,655	3,348
Mike Coupe		544	213	136	17	910	372	1,282	1,407
John Rogers	3,9	286	170	51	11	518	282	800	-
Darren Shapland	11	560	202	140	17	919	372	1,291	1,542
David Tyler	4	450	-	-	1	451	-	451	211
Matt Brittin	5	8	-	-	-	8	-	8	-
Anna Ford		65	-	-	-	65	-	65	62
Val Gooding		55	-	-	-	55	-	55	52
Mary Harris		55	-	-	-	55	-	55	52
Gary Hughes		70	-	-	-	70	-	70	65
John McAdam		70	-	-	-	70	-	70	65
Bob Stack		70	-	-	-	70	-	70	65
Philip Hampton	6	-	-	-	-	-	-	-	244
Total 2011		3,133	1,105	597	77	4,912	1,960	6,872	
Total 2010		2,785	1,911	537	137	5,370	1,743		7,113

1 The deferred share award is an award of shares with the value shown above. These shares are retained by the Company for two financial years and will not become exercisable by the participants until after the year-end in 2013.

2 Highest-paid Director.

3 Appointed to the Board on 19 July 2010.

4 Appointed to the Board on 1 October 2009 and became Chairman on 1 November 2009.

5 Appointed to the Board on 27 January 2011.

6 Resigned from the Board on 1 November 2009.

7 Includes performance bonuses earned in the period under review but paid following the end of the financial year.

8 Justin King is not a member of the Company's pension plans and received 30 per cent of his basic salary as a cash pension supplement. In addition to this supplement, £440 (2010: £440) of interest has been earned on a notional fund during the year from his previous membership of the Executive Stakeholder Pension Plan. Neither Darren Shapland nor Mike Coupe are members of the Company's pension plans - each received 25 per cent of basic salary as a cash pension supplement. John Rogers is a member of the Company's Stakeholder Pension Plan. Contributions to the Stakeholder Plan by the Company in 2010/11 in respect of his membership were £15,450. He received a cash supplement equal to 25 per cent of the amount by which his salary exceeded the Company's earnings cap (2010/11: £123,600).

9 The totals for 2011 in the case of John Rogers do not include deductions made from basic salary for Saving Money and Reducing Tax ("SMART") pensions.

10 Benefits include a combination of cash and non-cash benefits. Non-cash benefits for John Rogers, Darren Shapland and Mike Coupe includes private medical cover.

Justin King received non-cash benefits which include company car benefits and private medical cover.

11 Directors are entitled to retain the fees earned from non-executive appointments outside the Company. Justin King was appointed a Non-Executive Director of Staples, Inc. on 17 September 2007. He received US \$75,000 for his services during 2010/11 (2009/10: \$75,000). During the year 11,540 (2009/10: nil) of restricted Staples stock was released to Justin and a further award over 8,653 shares was granted (2009/10: 10,340 restricted shares awarded and 34,168 options). Justin King is also a Director of Olympic Games and Paralympic Games Limited and a member of the London Organising Committee of the Olympic and Paralympic Games. Justin received £12,000 (2009/10: £9,500) during the year for his services which after deductions for National Insurance was donated directly to charity. Darren Shapland was appointed a Non-Executive Director of Ladbrokes plc on 18 November 2009 and received £58,800 for his services during 2010/11 (2009/10: £16,600).

ii) Long-term incentive plans

Long-term Incentive Plan 2006

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

	Date of grant	Maximum share award ¹	Share price at date of award pence	Number of shares lapsed	Number of dividend shares allocated 19 May 2010 ²	Number of options released	First exercise date	Last exercise date
Justin King	20.06.07	380,844	583.5	76,169	20,109	172,446	12.05.10	11.05.12
	28.05.08	630,876	352.0	-	-	-	11.05.11	10.05.13
	24.06.09	570,984	314.0	-	-	-	10.05.12	09.05.14
	21.06.10	611,488	329.3	-	-	-	09.05.13	08.05.15
Mike Coupe	20.06.07	163,092	583.5	32,619	8,611	73,847	12.05.10	11.05.12
	28.05.08	281,868	352.0	-	-	-	11.05.11	10.05.13
	24.06.09	258,844	314.0	-	-	-	10.05.12	09.05.14
John Rogers	21.06.10	315,008	329.3	-	-	-	09.05.13	08.05.15
	20.06.07	22,581 ³	583.5	-	-	-	12.05.10	11.05.12
	28.05.08	144,696	352.0	-	-	-	11.05.11	10.05.13
Darren Shapland	24.06.09	137,036	314.0	-	-	-	10.05.12	09.05.14
	21.06.10	191,476	329.3	-	-	-	09.05.13	08.05.15
	20.06.07	179,220	583.5	35,844	9,463	81,151	12.05.10	11.05.12
Darren Shapland	28.05.08	296,916	352.0	-	-	-	11.05.11	10.05.13
	24.06.09	284,224	314.0	-	-	-	10.05.12	09.05.14
	21.06.10	345,892	329.3	-	-	-	09.05.13	08.05.15

1 The maximum share award assumes full vesting.

2 The performance conditions attaching to the award are return on capital employed and growth in cash flow per share. Further information is provided on pages 98 to 99. The performance of the award made in June 2007 was tested in May 2010 and a multiplier of 3.2 was achieved. The number of shares between the maximum multiplier (4.0) and the multiplier achieved have been lapsed. Half of the achieved award vested in May 2010 whilst the remainder of the achieved award will vest in May 2011. The number of dividend shares on the first vesting was determined by a five-day average share price from 13 to 19 May 2010.

3 This figure indicated the number of awards outstanding for John Rogers at his date of appointment.

Note:

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

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

	Number of options held 20 March 2010	Number of options released during the year	Number of options exercised during the year	Mid-market price on date of exercise pence	Gains on option exercises £000	Lapsed during the year	Number of options held 19 March 2011	Exercise price pence
Justin King	-	172,446	172,446	341.0	588	-	-	nil
Mike Coupe	-	73,847	73,847	320.0	236	-	-	nil
Darren Shapland	-	81,151	81,151	352.3	286	-	-	nil

Note:

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

Deferred Share Award

The table below shows the number of deferred shares awarded to participants in May 2010. There are no further performance measures attached to the awards. They will be released in the form of nil-cost options.

	Date of grant	Deferred share award	Share price at date of award pence	First exercise date	Last exercise date
Justin King	20.05.10	298,570	316.6	10.05.12	09.05.20
Mike Coupe	20.05.10	108,281	316.6	10.05.12	09.05.20
John Rogers	20.05.10	57,325	316.6	10.05.12	09.05.20
Darren Shapland	20.05.10	118,897	316.6	10.05.12	09.05.20

Notes:

- There were no exercises or lapses under this Plan during the year.
 - The exercise price is nil.

Deferred Annual Bonus Plan

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

	Date of grant	Deferred bonus share award	Maximum matching share award ¹	Share price at date of award pence	Matching share award lapsed during the year	First exercise date	Last exercise date
Justin King	20.06.07	86,026	-	-	172,052	-	-
	20.06.08	158,042	316,084	325.75	-	21.03.11	21.03.13
	24.06.09	81,319	275,658	314.00	-	20.03.12	20.03.14
Mike Coupe	20.06.07	21,294	-	-	42,588	-	-
	20.06.08	18,292	36,584	325.75	-	21.03.11	21.03.13
	24.06.09	23,280	78,920	314.00	-	20.03.12	20.03.14
John Rogers	20.06.08	7,513	15,026	325.75	-	21.03.11	21.03.13
	20.06.07	29,033	-	-	58,066	-	-
Darren Shapland	20.06.08	52,043	104,086	325.75	-	21.03.11	21.03.13
	24.06.09	24,030	81,460	314.00	-	20.03.12	20.03.14

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

Notes:

- There were no exercises of matching share awards under this Plan during the year.
 - A number of the shares deferred in June 2007 have been sold to fund the participants' income tax and National Insurance liabilities. The remainder were released to participants on 26 March 2010.
 - The performance of the awards granted in June 2007 was tested and no matching shares have been awarded.
 - The 2008 deferred bonus share award was made on a gross basis. The 2009 deferral was made on a net basis.
 - The exercise price is nil.

iii) Saving-Related Share Option Plan ("SAYE")

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

	Number of Options						Date			
	20 March 2010	Granted during the year	Exercised during the year	Mid market price on date of exercise pence	Gains on option exercise £000	Lapsed during the year	19 March 2011	Exercise price pence	From which exercisable	Of expiry
Justin King	6,969	-	6,969	368.6	10	-	-	-	-	-
	-	3,030	-	-	-	-	3,030	297.0	01.03.14	31.08.14
Mike Coupe	3,324	-	-	-	-	-	3,324	273.0	01.03.13	31.08.13
Darren Shapland	2,881	-	2,881	345.9	1	-	-	-	-	-
	3,324	-	-	-	-	-	3,324	273.0	01.03.13	31.08.13

Note:

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

In the period from 20 March 2010 to 19 March 2011, the highest mid-market price of the Company's shares was 395.0 pence and the lowest mid-market price was 312.9 pence. At 19 March 2011 the Company's share price was 351.0 pence.

iv) Directors' interests

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

	Ordinary shares ³		
	20 March 2010	19 March 2011	10 May 2011 ²
Justin King	1,777,764	1,399,878	1,319,223
Mike Coupe	743,769	798,285	788,942
John Rogers	145,998	145,998	142,160
Darren Shapland	885,851	766,975	740,461
David Tyler	50,000	50,000	50,000
Matt Brittin	-	-	-
Anna Ford	1,000	1,000	1,000
Val Gooding	1,320	1,320	1,320
Mary Harris	5,000	5,000	5,000
Gary Hughes	25,455	26,480	26,480
John McAdam	1,000	1,000	1,000
Bob Stack ¹	2,800	2,800	2,800

1 Held in the form of 700 American Depository Receipts.

2 Shares deferred in 2008 under the Deferred Annual Bonus Plan were released to participants and a number of shares were sold to fund income tax and National Insurance liabilities following the year-end. The total includes shares purchased under the Sainsbury's Share Purchase Plan between 19 March 2011 and 10 May 2011.

3 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.

Notes:

- The totals above for Justin King, Darren Shapland and Mike Coupe include the deferred annual bonus shares purchased under the Plan, which have to be held until the end of the performance period.
- The Executive Directors are potential beneficiaries of the Company's employee benefit trust, which is used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 6.1 million shares (2010: 6.2 million) held by the Trustees.

Approved by the Board on 10 May 2011

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed on page 25 confirm that, to the best of their knowledge:

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

By order of the Board

Tim Fallowfield
Company Secretary
10 May 2011

Independent Auditors' report to the members of J Sainsbury plc

We have audited the financial statements of J Sainsbury plc for the 52 weeks ended 19 March 2011 which comprise the Group income statement, the Group and Company Statements of comprehensive income, the Group and Company Balance sheets, the Group and Company Cash flow statements, the Group and Company Statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 48, the Directors are responsible for the preparation of the financial statements. The Directors are responsible for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 19 March 2011 and of the Group's profit and Group's and Company's cash flows for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 29, in relation to going concern;
- the parts of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Richard Hughes (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 May 2011

Group income statement

for the 52 weeks to 19 March 2011

	Note	2011 £m	2010 £m
Revenue	4	21,102	19,964
Cost of sales		(19,942)	(18,882)
Gross profit		1,160	1,082
Administrative expenses		(417)	(399)
Other income		108	27
Operating profit	5	851	710
Finance income	6	32	33
Finance costs	6	(116)	(148)
Share of post-tax profit from joint ventures	14	60	138
Profit before taxation		827	733
Analysed as:			
Underlying profit before tax		665	610
Profit on disposal of properties	3	108	27
Investment property fair value movements	3	39	123
Financing fair value movements	3	7	(15)
IAS 19 pension financing credit/(charge)	3	3	(24)
One-off items	3	5	12
		827	733
Income tax expense	8	(187)	(148)
Profit for the financial year		640	585
Earnings per share	9	pence	pence
Basic		34.4	32.1
Diluted		33.8	31.6
Underlying basic		26.5	23.9
Underlying diluted		26.1	23.6

Statements of comprehensive income

for the 52 weeks to 19 March 2011

	Note	Group		Company	
		2011 £m	2010 £m	2011 £m	2010 £m
Profit for the period		640	585	280	250
Other comprehensive income/(expense):					
Net actuarial gains/(losses) on defined benefit pension scheme	30	29	(173)	-	-
Available-for-sale financial assets fair value movements:					
Group		14	43	2	7
Joint ventures		2	24	-	-
Cash flow hedges effective portion of fair value movements:					
Group		(8)	(3)	-	-
Joint ventures		2	-	-	-
Current tax on items recognised directly in other comprehensive income	8	(1)	16	(1)	(1)
Deferred tax on items recognised directly in other comprehensive income	8	(5)	21	-	-
Total other comprehensive income/(expense) for the period (net of tax)		33	(72)	1	6
Total comprehensive income for the period		673	513	281	256

Balance sheets

At 19 March 2011 and 20 March 2010

	Note	Group		Company	
		2011 £m	2010 £m	2011 £m	2010 £m
Non-current assets					
Property, plant and equipment	11	8,784	8,203	42	42
Intangible assets	12	151	144	-	-
Investments in subsidiaries	13	-	-	7,309	7,276
Investments in joint ventures	14	502	449	91	91
Available-for-sale financial assets	15	176	150	36	24
Other receivables	17	36	36	1,181	1,115
Derivative financial instruments	29	29	20	25	19
Deferred income tax asset	21	-	-	1	1
		9,678	9,002	8,685	8,568
Current assets					
Inventories	16	812	702	-	-
Trade and other receivables	17	343	215	1,069	566
Derivative financial instruments	29	52	43	43	32
Cash and cash equivalents	26b	501	837	169	670
		1,708	1,797	1,281	1,268
Non-current assets held for sale	18	13	56	-	-
		1,721	1,853	1,281	1,268
Total assets		11,399	10,855	9,966	9,836
Current liabilities					
Trade and other payables	19	(2,597)	(2,466)	(4,443)	(4,460)
Borrowings	20	(74)	(73)	(17)	(3)
Derivative financial instruments	29	(59)	(41)	(51)	(40)
Taxes payable		(201)	(200)	(15)	(7)
Provisions	22	(11)	(13)	(1)	(1)
		(2,942)	(2,793)	(4,527)	(4,511)
Net current liabilities		(1,221)	(940)	(3,246)	(3,243)
Non-current liabilities					
Other payables	19	(120)	(106)	(861)	(821)
Borrowings	20	(2,339)	(2,357)	(338)	(323)
Derivative financial instruments	29	-	(2)	-	-
Deferred income tax liability	21	(172)	(144)	-	-
Provisions	22	(62)	(66)	(19)	(24)
Retirement benefit obligations	30	(340)	(421)	-	-
		(3,033)	(3,096)	(1,218)	(1,168)
Net assets		5,424	4,966	4,221	4,157
Equity					
Called up share capital	23	535	532	535	532
Share premium account	23	1,048	1,033	1,048	1,033
Capital redemption reserve	24	680	680	680	680
Other reserves	24	(213)	(242)	23	26
Retained earnings	25	3,374	2,963	1,935	1,886
Total equity		5,424	4,966	4,221	4,157

The financial statements on pages 50 to 102 were approved by the Board of Directors on 10 May 2011, and are signed on its behalf by:

Justin King Chief Executive

John Rogers Chief Financial Officer

Cash flow statements

for the 52 weeks to 19 March 2011

	Note	Group		Company	
		2011 £m	2010 £m	2011 £m	2010 £m
Cash flows from operating activities					
Cash generated from operations	26	1,138	1,206	(535)	(251)
Interest paid		(126)	(111)	(66)	(40)
Corporation tax paid		(158)	(89)	-	-
Net cash generated from/(used in) operating activities		854	1,006	(601)	(291)
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,136)	(1,036)	(36)	-
Purchase of intangible assets		(15)	(11)	-	-
Proceeds from disposal of property, plant and equipment		282	139	36	-
Acquisition of and investment in subsidiaries, net of cash acquired	12	(1)	-	-	(5)
Investment in joint ventures		(2)	(2)	-	-
Investment in financial assets		(50)	(10)	(10)	(10)
Interest received		19	18	87	83
Dividends received		1	2	251	252
Net cash (used in)/generated from investing activities		(902)	(900)	328	320
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		17	250	17	250
Repayment of short-term borrowings		(11)	(36)	-	(35)
Proceeds from long-term borrowings		45	235	45	235
Repayment of long-term borrowings		(61)	(74)	(20)	(21)
Repayment of capital element of obligations under finance lease payments		(3)	(2)	-	-
Interest elements of obligations under finance lease payments		(4)	(3)	-	-
Dividends paid	10	(269)	(241)	(269)	(241)
Net cash (used in)/generated from financing activities		(286)	129	(227)	188
Net (decrease)/increase in cash and cash equivalents		(334)	235	(500)	217
Opening cash and cash equivalents		834	599	669	452
Closing cash and cash equivalents	26	500	834	169	669

Group statement of changes in equity

for the 52 weeks to 19 March 2011

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
At 21 March 2010		532	1,033	438	2,963	4,966
Profit for the period		-	-	-	640	640
Other comprehensive income/(expense):						
Actuarial gains on defined benefit pension scheme (net of tax)	24	-	-	26	-	26
Available-for-sale financial assets fair value movements (net of tax):						
Group	24	-	-	11	-	11
Joint ventures	24	-	-	2	-	2
Cash flow hedges effective portion of changes in fair value (net of tax):						
Group	24	-	-	(8)	-	(8)
Joint ventures	24	-	-	2	-	2
Total comprehensive income/(expense) for the 52 weeks ended 19 March 2011		-	-	33	640	673
Transactions with owners:						
Dividends paid	10	-	-	-	(269)	(269)
Amortisation of convertible bond equity component	24	-	-	(4)	4	-
Share-based payment (net of tax)	31	-	-	-	37	37
Allotted in respect of share option schemes	23,25	3	15	-	(1)	17
At 19 March 2011		535	1,048	467	3,374	5,424
At 22 March 2009		501	909	489	2,477	4,376
Profit for the period		-	-	-	585	585
Other comprehensive income/(expense):						
Actuarial losses on defined benefit pension schemes (net of tax)	24	-	-	(125)	-	(125)
Available-for-sale financial assets fair value movements (net of tax):						
Group	24	-	-	32	-	32
Joint ventures	24	-	-	24	-	24
Cash flow hedges effective portion of changes in fair value (net of tax):						
Group	24	-	-	(3)	-	(3)
Total comprehensive income/(expense) for the 52 weeks ended 20 March 2010		-	-	(72)	585	513
Transactions with owners:						
Dividends paid	10	-	-	-	(241)	(241)
Convertible bond - equity component		-	-	24	-	24
Amortisation of convertible bond equity component		-	-	(3)	3	-
Share-based payment (net of tax)	31	-	-	-	44	44
Shares issued	23,24	22	113	102	-	237
Transfer to retained earnings	24	-	-	(102)	102	-
Shares vested		-	-	-	12	12
Allotted in respect of share option schemes	23,25	9	11	-	(19)	1
At 20 March 2010		532	1,033	438	2,963	4,966

Company statement of changes in equity

for the 52 weeks to 19 March 2011

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
At 21 March 2010		532	1,033	706	1,886	4,157
Profit for the period		-	-	-	280	280
Other comprehensive income/(expense):						
Available-for-sale financial assets fair value movements (net of tax)	24	-	-	1	-	1
Total comprehensive income/(expense) for the 52 weeks ended 19 March 2011		-	-	1	280	281
Transactions with owners:						
Dividends paid	10	-	-	-	(269)	(269)
Amortisation of convertible bond equity component		-	-	(4)	4	-
Allotted in respect of share option schemes	23,25	3	15	-	35	53
Utilised in respect of share option schemes		-	-	-	(1)	(1)
At 19 March 2011		535	1,048	703	1,935	4,221
At 22 March 2009		501	909	679	1,737	3,826
Profit for the period		-	-	-	250	250
Other comprehensive income/(expense):						
Available-for-sale financial assets fair value movements (net of tax)	24	-	-	6	-	6
Total comprehensive income/(expense) for the 52 weeks ended 20 March 2010		-	-	6	250	256
Transactions with owners:						
Dividends paid	10	-	-	-	(241)	(241)
Convertible bond - equity component		-	-	24	-	24
Amortisation of convertible bond equity component		-	-	(3)	3	-
Shares issued	23,24	22	113	102	-	237
Transfer to retained earnings	24	-	-	(102)	102	-
Allotted in respect of share option schemes	23,25	9	11	-	42	62
Utilised in respect of share option schemes		-	-	-	(7)	(7)
At 20 March 2010		532	1,033	706	1,886	4,157

Notes to the financial statements

1 General information

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

The financial year represents the 52 weeks to 19 March 2011 (prior financial year 52 weeks to 20 March 2010). The consolidated financial statements for the 52 weeks to 19 March 2011 comprise the financial statements of the Company and its subsidiaries ("the Group") and the Group's share of the post-tax results of its joint ventures.

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

2 Accounting policies

(a) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRICs") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The Company's financial statements have been prepared on the same basis and, as permitted by Section 408(3) of the Companies Act 2006, no income statement is presented for the Company.

(b) Basis of preparation

The financial statements are presented in sterling, rounded to the nearest million ("£m") unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments, investment properties, available-for-sale financial assets, share-based payments and retirement benefit plan assets that have been measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2c.

New standards, interpretations and amendments to published standards

Effective for the Group in these financial statements:

- IFRS 3 'Business Combinations' (revised). The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments subsequently re-measured through the Group Income Statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed as they are incurred.
- IAS 27 'Consolidated and Separate Financial Statements' (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the Group Income Statement.

The following new standards, interpretations and amendments to published standards were also effective for the Group for the financial year beginning 21 March 2010:

- Amendments to IAS 1 'Presentation of Financial Statements'
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement'
- IFRIC 17 'Distribution of non-cash assets to owners'
- IFRIC 18 'Transfers of assets from customers'
- Amendments to IFRS 2 'Share-based Payment' relating to group cash-settled share-based payment transactions which clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements
- Amendments to certain IFRSs and IASs arising from the April 2009 Annual Improvements to IFRS by the International Accounting Standards Board ("IASB")
- Amendments to IFRS 5 'Non current assets held for sale and discontinued operations'
- Amendments to IAS 32 'Classification of rights issues'

The Group has considered the above new standards, interpretations and amendments to published standards and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements, apart from additional disclosures.

Effective for the Group for the financial year beginning 20 March 2011:

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

The Group has considered the above new standards, interpretations and amendments to published standards that are not yet effective and concluded that they are either not relevant to the Group or that they would not have a significant impact on the Group's financial statements, apart from additional disclosures.

The following new standards and interpretations have not yet been endorsed by the EU:

- Amendments to IFRS 7 'Financial Instruments: Disclosures' enhancing disclosures about transfers of financial assets
- IFRS 9 'Financial Instruments'
- Limited scope amendments to IAS 12 'Income Taxes'

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

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The results of subsidiaries are included in the 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.

2 Accounting policies continued

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

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

Joint ventures

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

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

Investments in joint ventures are carried in the Company balance sheet at cost less any impairment loss.

Revenue

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

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

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

Sainsbury's Bank

Fees and commissions earned by Sainsbury's Bank plc ("Sainsbury's Bank"), that are not integral to the yield, are recognised in the income statement as the service is provided to the extent reliably measurable. Where there is a risk of potential claw back of commission of a related insurance product sold, an appropriate element of the insurance commission receivable is deferred reflective of contractual provisions and expectations of future cancellation or early settlement activity.

Interest income

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

Cost of sales

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

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

Property, plant and equipment

Land and buildings

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

Fixtures, equipment and vehicles

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

Depreciation

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

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

Buildings under construction are not depreciated.

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

Intangible assets

Pharmacy licences

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

Computer software

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

Other

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

Goodwill

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

Investment property

Investment properties are those properties held for capital appreciation and/or to earn rental income. They are initially measured at cost, including related transaction costs. After initial recognition at cost, they are carried at their fair values based on market value determined by professional valuers at each reporting

2 Accounting policies continued

date. The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included within the income statement but is excluded from underlying profit in order to provide a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. Currently, the only investment properties the Group holds are those contained within its joint ventures with Land Securities Group PLC and The British Land Company PLC.

Impairment of non-financial assets

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

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

Leased assets

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

Finance leases

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

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement on a straight-line basis over the lease term.

Sale and leaseback

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

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

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

Lease incentives

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

Leases with predetermined fixed rental increases

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

Operating lease income

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

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

Cash and cash equivalents

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

Current taxation

Current tax is accounted for on the basis of tax laws enacted or substantively enacted at the balance sheet date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity or other comprehensive income, in which case the current tax is also dealt with in equity, or other comprehensive income, respectively.

Deferred taxation

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

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

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

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

2 Accounting policies continued

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

Provisions

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

Onerous leases

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

Employee benefits

Pensions

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

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

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

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

Long service awards

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

Share-based payments

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

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

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

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

Foreign currencies

Foreign operations

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

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

Foreign currency transactions

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

Financial instruments

Financial assets

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

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

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

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

2 Accounting policies continued

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

Trade receivables

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

Financial liabilities

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

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

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

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

Trade payables

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

Impairment of financial assets

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

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

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

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

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

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

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

Fair value estimation

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

Derivative financial instruments and hedge accounting

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

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

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

2 Accounting policies continued

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

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

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

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

Offsetting financial instruments

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

(c) Judgements and estimates

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

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

Goodwill impairment

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

Impairment of assets

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows using suitable discount rates and 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 scheme. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 30.

Provisions

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

Income taxes

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

3 Non-GAAP performance measures

Certain items recognised in reported profit before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. The Directors believe that the 'underlying profit before tax' ("UPBT") and 'underlying diluted and basic earnings per share' measures presented provide a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies. The adjusted items are:

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

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

	2011 £m	2010 £m
Underlying profit before tax	665	610
Profit on disposal of properties	108	27
Investment property fair value movements	39	123
Financing fair value movements ¹	7	(15)
IAS 19 pension financing credit/(charge)	3	(24)
One-off items	5	12
Total adjustments	162	123
Profit before tax	827	733

¹ Financing fair value movements for the financial year comprised a £10 million gain for the Group (2010: £(12) million loss) and £(3) million loss for the joint ventures (2010: £(3) million loss).

One-off items

The £5 million one-off item in the current financial year relates to the release of a disposal provision which is no longer required.

In the prior financial year, the Group reversed £12 million of costs associated with the Office of Fair Trading dairy inquiry.

4 Segment reporting

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

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

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

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

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

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

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

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

4 Segment reporting continued

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

1 Capital expenditure consists of property, plant and equipment additions of £1,297 million and intangibles additions of £22 million.

52 weeks to 20 March 2010	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue	19,964	-	-	19,964
Underlying operating profit	671	-	-	671
Underlying finance income	33	-	-	33
Underlying finance costs	(112)	-	-	(112)
Underlying share of post-tax profit from joint ventures	-	7	11	18
Underlying profit before tax	592	7	11	610
Profit on disposal of properties	27	-	-	27
Investment property fair value movements	-	-	123	123
Financing fair value movements	(12)	-	(3)	(15)
IAS 19 pension financing charge	(24)	-	-	(24)
One-off item (note 3)	12	-	-	12
Profit before tax	595	7	131	733
Income tax expense				(148)
Profit for the financial year				585
Assets	10,406	-	-	10,406
Investment in joint ventures	-	102	347	449
Segment assets	10,406	102	347	10,855
Segment liabilities	(5,889)	-	-	(5,889)
Other segment items				
Capital expenditure ²	1,003	-	-	1,003
Depreciation expense	466	-	-	466
Amortisation expense	13	-	-	13
Provision for impairment of receivables	1	-	-	1
Share-based payments	42	-	-	42

2 Capital expenditure consists of property, plant and equipment additions of £992 million and intangibles additions of £11 million.

5 Operating profit

	2011 £m	2010 £m
Operating profit is stated after charging/(crediting) the following items:		
Employee costs (note 7)	2,119	2,074
Depreciation expense (note 11)	468	466
Amortisation expense (note 12)	14	13
Profit on disposal of properties (note 3)	(108)	(27)
Operating lease rentals - land and buildings	405	388
- other leases	57	54
- sublease payments received	(33)	(37)
Foreign exchange gains/(losses)	5	(6)
One-off items (note 3)	(5)	(12)

Group	2011 £m	2010 £m
Auditors' remuneration		
Audit and audit related services		
Fees payable to the Company's auditor for the audit of the Group and the Company financial statements	0.2	0.2
Audit of the Company's subsidiaries pursuant to legislation	0.5	0.5
Audit related services pursuant to legislation	0.1	0.1
	0.8	0.8
Non-audit services		
Fees payable to the Company's auditor and its associates for all other services	0.2	0.5
	1.0	1.3

6 Finance income and finance costs

	2011 £m	2010 £m
Interest on bank deposits and other financial assets	19	33
Financing fair value gains ¹	10	-
IAS 19 pension financing credit (note 30)	3	-
Finance income	32	33
Borrowing costs:		
Secured borrowings	(97)	(75)
Unsecured borrowings	(39)	(47)
Obligations under finance leases	(4)	(3)
Provisions - amortisation of discount (note 22)	(3)	(2)
	(143)	(127)
Other finance costs:		
Interest capitalised - qualifying assets	27	15
IAS 19 pension financing charge (note 30)	-	(24)
Financing fair value losses ¹	-	(12)
	27	(21)
Finance costs	(116)	(148)

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

7 Employee costs

	2011 £m	2010 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	1,859	1,822
Social security costs	132	128
Pension costs - defined contribution schemes	37	33
Pension costs - defined benefit schemes (note 30)	56	49
Share-based payments expense (note 31)	35	42
	2,119	2,074

	Number 000's	Number 000's
The average number of employees, including Directors, during the year were:		
Full-time	48.1	47.3
Part-time	100.3	99.6
	148.4	146.9
Full-time equivalent	99.3	97.3

Details of key management compensation can be found in note 32.

8 Income tax expense

	2011 £m	2010 £m
Current tax expense:		
Current year	214	152
Over provision in prior years	(51)	(73)
	163	79
Deferred tax expense:		
Origination and reversal of temporary differences	9	38
Under provision in prior years	15	31
Total deferred tax (note 21)	24	69
Total income tax expense in income statement	187	148
Income tax expense on underlying profit	173	174
Tax on items below:		
Profit on disposal of properties	3	(15)
Financing fair value movements	3	(4)
IAS 19 pension financing credit/(charge)	1	(7)
Revaluation of deferred tax balances	7	-
Total income tax expense in income statement	187	148

The effective tax rate of 22.6 per cent (2010: 20.2 per cent) is lower than (2010: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2011 £m	2010 £m
Profit before taxation	827	733
Income tax at UK corporation tax rate of 28.0% (2010: 28.0%)	232	205
Effects of:		
Disallowed depreciation on UK properties	28	22
Investment property fair value movements	(11)	(34)
Over provision in prior years	(35)	(42)
Profit on disposal of property	(27)	(4)
Other	-	1
Total income tax expense in income statement	187	148

On 22 June 2010, the Chancellor announced that the main rate of UK corporation tax would reduce from 28.0 per cent to 27.0 per cent with effect from 1 April 2011. This change was substantively enacted in July 2010 and hence the effect of the change on the deferred tax balances has been included in the figures above.

8 Income tax expense continued

In addition to this, a number of further changes to the UK corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26.0 per cent from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26.0 per cent to 25.0 per cent from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1.0 per cent per annum to 23.0 per cent by 1 April 2014. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, their effect is not included in these financial statements.

The effect of a 1.0 per cent reduction in the corporation tax rate on the deferred tax balances at the balance sheet date would reduce the deferred tax liability by £6 million which is primarily recognised in other comprehensive income.

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

	Share based payments £m	Pension scheme £m	Fair value movements £m	Total £m
52 weeks to 19 March 2011				
Current tax recognised in equity	(1)	-	1	-
Deferred tax recognised in equity	(1)	8	3	10
Revaluation of deferred tax balances	-	(5)	(1)	(6)
Income tax charged to equity	(2)	3	3	4
52 weeks to 20 March 2010				
Current tax recognised in equity	(3)	(17)	1	(19)
Deferred tax recognised in equity	1	(31)	10	(20)
Income tax charged to equity	(2)	(48)	11	(39)

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

9 Earnings per share

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

For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the convertible bonds (net of tax). The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the number of shares that would be issued if all convertible bonds are assumed to be converted.

Underlying earnings per share is provided by excluding the effect of any profit or loss on disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing element and one-off items that are material and infrequent in nature. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance.

All operations are continuing for the periods presented.

	2011 million	2010 million
Weighted average number of shares in issue	1,858.7	1,821.7
Weighted average number of dilutive share options	16.9	16.0
Weighted average number of dilutive convertible bonds	45.4	34.9
Total number of shares for calculating diluted earnings per share	1,921.0	1,872.6

	£m	£m
Profit for the financial year	640	585
Add interest on convertible bonds, net of tax	10	6
Diluted earnings for calculating diluted earnings per share	650	591

	£m	£m
Profit for the financial period attributable to equity holders of the parent (Less)/add (net of tax):	640	585
Profit on disposal of properties	(105)	(42)
Investment property fair value movements	(39)	(123)
Financing fair value movements	(4)	11
IAS 19 pension financing (credit)/charge	(2)	17
One-off items	(5)	(12)
Revaluation of deferred tax balances	7	-
Underlying profit after tax	492	436
Add interest on convertible bonds, net of tax	10	6
Diluted underlying profit after tax	502	442

	pence per share	pence per share
Basic earnings	34.4	32.1
Diluted earnings	33.8	31.6
Underlying basic earnings	26.5	23.9
Underlying diluted earnings	26.1	23.6

10 Dividend

	2011 pence per share	2010 pence per share	2011 £m	2010 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	10.20	9.60	189	167
Interim dividend of current financial year	4.30	4.00	80	74
	14.50	13.60	269	241

After the balance sheet date, a final dividend of 10.80 pence per share (2010: 10.20 pence per share) was proposed by the Directors in respect of the 52 weeks to 19 March 2011, resulting in a total final proposed dividend of £201 million (2010: £189 million). The proposed final dividend has not been included as a liability at 19 March 2011.

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 21 March 2010	7,927	5,129	13,056	45
Additions	749	487	1,236	36
Acquisitions	61	-	61	-
Disposals	(264)	(509)	(773)	(36)
Transfer to assets held for sale	(13)	(2)	(15)	-
At 19 March 2011	8,460	5,105	13,565	45
Accumulated depreciation and impairment				
At 21 March 2010	1,309	3,544	4,853	3
Depreciation expense for the year	138	330	468	-
Disposals	(47)	(490)	(537)	-
Transfer to assets held for sale	(2)	(1)	(3)	-
At 19 March 2011	1,398	3,383	4,781	3
Net book value at 19 March 2011	7,062	1,722	8,784	42
Capital work-in-progress included above	380	102	482	-
Cost				
At 22 March 2009	7,454	4,897	12,351	45
Additions	624	368	992	-
Disposals	(95)	(130)	(225)	-
Transfer to assets held for sale	(56)	(6)	(62)	-
At 20 March 2010	7,927	5,129	13,056	45
Accumulated depreciation and impairment				
At 22 March 2009	1,206	3,324	4,530	3
Depreciation expense for the year	125	341	466	-
Disposals	(14)	(118)	(132)	-
Transfer to assets held for sale	(8)	(3)	(11)	-
At 20 March 2010	1,309	3,544	4,853	3
Net book value at 20 March 2010	6,618	1,585	8,203	42
Capital work-in-progress included above	354	94	448	-

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
The net book value of land and buildings comprised:				
Freehold land and building	5,367	5,046	42	42
Long leasehold	1,073	1,013	-	-
Short leasehold	622	559	-	-
	7,062	6,618	42	42

On 21 June 2010 three companies were acquired for a total consideration of £59 million, of which £0.5 million was cash and the remainder being satisfied by the transfer of properties from the Group. These companies owned land and buildings valued at £59 million. No goodwill arose. On 23 July 2010 a further company was acquired for a total consideration of £1 million. This company included land and buildings valued at £2 million. £1 million was paid in cash and goodwill of £1 million has been recognised (see note 12).

11 Property, plant and equipment continued

Impairment of property, plant and equipment

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

The recoverable amounts for the CGUs are based on value in use which is calculated on the cash flows expected to be generated by the units using the latest budget and forecast data, the results of which are reviewed by the Board. The key assumptions in the value in use calculation are the discount rate, growth rates and expected changes in margin. Changes in income and expenditure are based on past experience and expectations of future changes in the market. The forecasts are extrapolated beyond five years based on estimated long-term growth rates of three per cent to four per cent. The discount rate is based on the Group's pre-tax weighted average cost of capital of ten per cent (2010: ten per cent).

Interest capitalised

Interest capitalised included in additions amounted to £27 million (2010: £15 million) for the Group and £nil (2010: £nil) for the Company. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £273 million (2010: £267 million) for the Group and £nil (2010: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.0 per cent (2010: 4.0 per cent).

Security

Property, plant and equipment of 130 (2010: 129) supermarket properties, with a net book value of £2,323 million (2010: £2,344 million) has been pledged as security for the long-term financing (note 20).

In addition, property, plant and equipment of a further six supermarket properties, with a net book value of £69 million (2010: £70 million) has been pledged as security to underpin the residual value guarantee given by the Group with regards to 16 supermarket properties sold in March 2000 and ten supermarket properties sold in July 2000.

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

Analysis of assets held under finance leases

Group	2011 Land and buildings £m	2011 Fixtures and equipment £m	2011 Total £m	2010 Land and buildings £m	2010 Fixtures and equipment £m	2010 Total £m
Cost	48	15	63	50	15	65
Accumulated depreciation and impairment	(22)	(4)	(26)	(22)	(1)	(23)
Net book value	26	11	37	28	14	42

12 Intangible assets

Group	Goodwill £m	Software £m	Other £m	Total £m
Cost				
At 21 March 2010	100	141	36	277
Additions	-	11	10	21
Acquisitions (note 11)	1	-	-	1
Disposals	(1)	-	-	(1)
At 19 March 2011	100	152	46	298
Accumulated amortisation and impairment				
At 21 March 2010	-	109	24	133
Amortisation expense for the year	-	8	6	14
At 19 March 2011	-	117	30	147
Net book value at 19 March 2011	100	35	16	151
Cost				
At 22 March 2009	114	131	35	280
Additions	-	10	1	11
Disposals	(14)	-	-	(14)
At 20 March 2010	100	141	36	277
Accumulated amortisation and impairment				
At 22 March 2009	-	98	22	120
Amortisation expense for the year	-	11	2	13
At 20 March 2010	-	109	24	133
Net book value at 20 March 2010	100	32	12	144

Other intangibles primarily comprise of pharmacy licences.

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

To calculate the CGU's value in use, Board approved cash flows for the following financial year are assumed to inflate at the long-term average growth rate for the UK food retail sector and are discounted at a pre-tax rate of ten per cent (2010: ten per cent) over a 25 year period. Changes in income and expenditure are based on past experience and expectations of future changes in the market. Based on the operating performance of the respective CGUs, no impairment loss was identified in the current financial year (2010: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

13 Investments in subsidiaries

Company	2011 £m	2010 £m
Beginning of year	7,276	7,262
Additions	35	339
Disposal of subsidiaries	-	(165)
Provision for diminution in value of investment	(4)	(160)
Release of provision for diminution in value of investment	2	-
End of year	7,309	7,276

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

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

All principal operating subsidiaries operate in the countries of their registration or incorporation, and have been consolidated up to and as at 19 March 2011. The Company has taken advantage of the exemption in s410 of the Companies Act 2006 only to disclose a list comprising solely the principal subsidiaries. A full list of subsidiaries will be sent to Companies House with the next annual return.

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

14 Investments in joint ventures

	Group shares at cost £m	Group share of post-acquisition reserves £m	Group Total £m	Company shares at cost £m
At 21 March 2010	431	18	449	91
Additions in year	2	-	2	-
Release of provision for diminution in value of investment	-	1	1	-
Share of retained profit:				
Underlying profit after tax	-	24	24	-
Investment property fair value movements	-	39	39	-
Financing fair value movements	-	(3)	(3)	-
	-	60	60	-
Dividends received	-	(1)	(1)	-
Unrealised profit on disposal of properties	-	(13)	(13)	-
Movements in other comprehensive income (note 24)	-	4	4	-
At 19 March 2011	433	69	502	91
At 22 March 2009	429	(141)	288	91
Additions in year	2	-	2	-
Provision for diminution in value of investment	-	(1)	(1)	-
Share of retained profit:				
Underlying profit after tax	-	18	18	-
Investment property fair value movements	-	123	123	-
Financing fair value movements	-	(3)	(3)	-
	-	138	138	-
Dividends received	-	(2)	(2)	-
Movements in other comprehensive income (note 24)	-	24	24	-
At 20 March 2010	431	18	449	91

The Group's principal joint ventures were:

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

Where relevant, management accounts for the joint ventures have been used to include the results up to 19 March 2011.

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

	2011 £m	2010 £m
Non-current assets	1,487	1,611
Current assets	1,767	1,824
Current liabilities	(1,848)	(2,092)
Non-current liabilities	(909)	(899)
Net assets	497	444
Income	196	186
Expenses	(175)	(171)
Investment property fair value movements	39	123
Profit after tax	60	138

Investments in joint ventures at 19 March 2011 include £5 million of goodwill (2010: £5 million).

15 Available-for-sale financial assets

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Non-current				
Interest bearing financial assets	36	24	36	24
Other financial asset	140	126	-	-
	176	150	36	24

The other financial asset represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of 3.2 per cent (2010: 3.1 per cent) and a weighted average cost of capital of ten per cent (2010: ten per cent). There were no disposals or impairment provisions on available-for-sale financial assets in either the current or the previous financial year (see note 28 for sensitivity analysis).

16 Inventories

	2011 £m	2010 £m
Goods held for resale	812	702

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 19 March 2011 was £16,053 million (2010: £15,192 million).

17 Receivables

Trade and other receivables

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Non-current				
Amounts due from Group entities	-	-	1,146	1,080
Other receivables	36	35	35	35
	36	35	1,181	1,115
Prepayments and accrued income	-	1	-	-
	36	36	1,181	1,115
Current				
Trade receivables	93	71	-	-
Amounts due from Group entities	-	-	1,045	545
Other receivables	188	101	20	21
	281	172	1,065	566
Prepayments and accrued income	62	43	4	-
	343	215	1,069	566

Non-current other receivables of £36 million (2010: £35 million) comprise £5 million of floating rate subordinated undated loan capital (2010: £5 million) and £30 million of floating rate subordinated dated loan capital due from Sainsbury's Bank (2010: £30 million) (note 32).

Trade receivables are non-interest bearing and are on commercial terms. Current other receivables are generally non-interest bearing, other than the £20 million of floating rate subordinated undated loan capital due from Sainsbury's Bank (2010: £20 million) (note 32) and also include a fixed term interest-bearing deposit of £40 million (2010: £nil). The carrying amounts of trade and other receivables are denominated in sterling.

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

17 Receivables continued

Major counterparties are identified as follows:

	2011 Number of counterparties	2011 Balance £m	2010 Number of counterparties	2010 Balance £m
Trade receivables	3	34	1	9
Other receivables	2	58	1	18
Related parties	1	56	1	56

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

At 19 March 2011, significant other receivables identified were amounts due from the National Health Service of £18 million (2010: £18 million) and an interest-bearing deposit of £40 million.

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

No major counterparty balances are considered overdue or impaired.

18 Non-current assets held for sale

Non-current assets held for sale of £13 million (2010: £56 million) consist of non-current assets relating to properties held in the Retailing segment. Sale of these assets is expected to occur in the financial year beginning 20 March 2011.

19 Payables**Trade and other payables**

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Current				
Trade payables	1,836	1,782	-	-
Amounts due to Group entities	-	-	4,421	4,446
Other payables	511	461	22	14
Accruals and deferred income	250	223	-	-
	2,597	2,466	4,443	4,460
Non-current				
Amounts due to Group entities	-	-	861	821
Other payables	3	-	-	-
Accruals and deferred income	117	106	-	-
	120	106	861	821

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	2011 Current £m	2011 Non-current £m	2011 Total £m	2010 Current £m	2010 Non-current £m	2010 Total £m
Secured loans:						
Loan due 2018	40	1,047	1,087	38	1,074	1,112
Loan due 2031	10	860	870	15	861	876
Unsecured loans:						
Bank overdrafts	1	-	1	3	-	3
Bank loan due 2012	-	50	50	-	50	50
Bank loans due 2015	20	152	172	4	142	146
Convertible bond due 2014	-	176	176	1	171	172
Loan notes	-	-	-	9	-	9
Finance lease obligations	3	54	57	3	59	62
Total borrowings	74	2,339	2,413	73	2,357	2,430

Company	2011 Current £m	2011 Non-current £m	2011 Total £m	2010 Current £m	2010 Non-current £m	2010 Total £m
Bank overdrafts	-	-	-	1	-	1
Bank loan due 2012	-	50	50	-	50	50
Bank loans due 2015	17	112	129	1	102	103
Convertible bond due 2014	-	176	176	1	171	172
Total borrowings	17	338	355	3	323	326

Secured loans

The loans are secured on 130 (2010: 129) supermarket properties (note 11) and comprise loans from two finance companies:

- a fixed rate amortising loan with an outstanding principal value of £1,069 million (2010: £1,100 million) at a weighted average rate of 4.98 per cent stepping up to 5.36 per cent from April 2013 with an effective interest rate of 5.24 per cent and carrying amount of £1,087 million (2010: £1,112 million) with a final repayment date of July 2018; and
- an inflation linked amortising loan with an outstanding principal value of £840 million (2010: £850 million) at a fixed real rate of 2.36 per cent where principal and interest are uplifted annually by RPI subject to a cap at five per cent and floor at nil per cent with a carrying amount of £870 million (2010: £876 million) with a final repayment date of April 2031.

The Group has entered into interest rate swaps to convert £211 million (2010: £211 million) of the £1,069 million (2010: £1,100 million) loan due 2018 from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 29). In previous years, £572 million of swaps accounted for as fair value hedges were de-designated from their fair value hedging relationship. The fair value of the debt previously hedged by these swaps is being amortised over the remaining life of the loans, resulting in an amortisation charge to the income statement in the current financial year of £1 million (2010: £1 million).

Bank overdrafts

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

Bank loan due 2012

The bank loan due 2012 is a bilateral loan with an outstanding principal of £50 million due May 2012 at floating rates of interest subject to a cap.

20 Borrowings continued**Bank loans due 2015**

The Group has three bank loans due 2015, a £90 million bilateral loan at floating rates of interest, a £40 million bilateral loan at floating rates of interest subject to a cap and a €50 million bilateral loan at floating rates of interest. The €50 million loan has been swapped into a £45 million sterling floating rate loan with a cross currency swap. Those transactions have been accounted for as fair value movements in future interest payments deferred through the cash flow hedge reserve.

Convertible bond due 2014

In July 2009, the Group issued £190 million of unsecured convertible bonds due July 2014. The bonds pay a coupon of 4.25 per cent payable semi-annually. Each bond is convertible into ordinary shares of J Sainsbury plc at any time up to 9 July 2014 with an initial conversion price of 418.5 pence.

The Group has entered into interest rate swaps to convert all of the £190 million convertible bond from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 29).

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

	2011 £m	2010 £m
Liability component as at 21 March 2010 and on initial recognition in July 2009	172	166
Interest expense	13	8
Interest paid	(8)	(4)
Other ¹	(1)	2
Liability component as at 19 March 2011 and 20 March 2010	176	172

¹ Other relates to fair value movements and fees.

Borrowing facilities

In October 2010 the Group entered into a £690 million syndicated revolving credit facility maturing in October 2015 to provide standby liquidity. At the same time, the existing £163 million syndicated revolving credit facility (due May 2011), the £400 million syndicated revolving credit facility (due February 2012) and the £50 million bilateral revolving credit facility (due May 2012) were cancelled.

At 19 March 2011, no advance had been made under the new £690 million borrowing facility (2010: £nil).

Obligations under finance leases

	Minimum lease payments 2011 £m	Minimum lease payments 2010 £m	Present value of minimum lease payments 2011 £m	Present value of minimum lease payments 2010 £m
Amounts payable under finance leases:				
Within 1 year	7	7	3	3
Within 2 to 5 years inclusive	21	25	10	13
After 5 years	168	177	44	46
	196	209	57	62
Less: future finance charges	(139)	(147)		
Present value of lease obligations	57	62		
Disclosed as:				
Current	3	3		
Non-current	54	59		
	57	62		

Finance leases have effective interest rates of 4.30 per cent to 9.00 per cent (2010: 4.30 per cent to 9.00 per cent). The average remaining lease term is 62 years (2010: 64 years).

21 Deferred taxation

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

Group	Accelerated tax depreciation £m	Fair value gains £m	Other property £m	Other £m	Total £m
Deferred income tax liabilities					
At 21 March 2010	(177)	(36)	(84)	(30)	(327)
Charge to income statement	(15)	-	(8)	(3)	(26)
Charge to equity/other comprehensive income	-	(3)	-	-	(3)
Rate change adjustment to income statement	7	-	3	1	11
Rate change adjustment to equity/other comprehensive income	-	1	-	-	1
At 19 March 2011	(185)	(38)	(89)	(32)	(344)
<hr/>					
At 22 March 2009	(138)	(26)	(93)	(27)	(284)
(Charge)/credit to income statement	(39)	-	9	(3)	(33)
Charge to equity/other comprehensive income	-	(10)	-	-	(10)
At 20 March 2010	(177)	(36)	(84)	(30)	(327)
<hr/>					
Group	Provisions £m	Retirement benefit obligations £m	Share-based payment £m	Capital losses £m	Total £m
Deferred income tax assets					
At 21 March 2010	3	118	13	49	183
(Charge)/credit to income statement	-	(7)	4	5	2
(Charge)/credit to equity/other comprehensive income	-	(8)	1	-	(7)
Rate change adjustment to income statement	-	(9)	(1)	(1)	(11)
Rate change adjustment to equity/other comprehensive income	-	5	-	-	5
At 19 March 2011	3	99	17	53	172
<hr/>					
At 22 March 2009	3	87	27	72	189
Charge to income statement	-	-	(13)	(23)	(36)
Credit/(charge) to equity/other comprehensive income	-	31	(1)	-	30
At 20 March 2010	3	118	13	49	183
<hr/>					
Net deferred income tax liability					
At 19 March 2011					(172)
At 20 March 2010					(144)

21 Deferred taxation continued

Company	Other property £m	Total £m
Deferred income tax liabilities		
At 21 March 2010	(35)	(35)
Rate change adjustment to income statement	1	1
At 19 March 2011	(34)	(34)
At 22 March 2009	(65)	(65)
Charge to income statement	30	30
At 20 March 2010	(35)	(35)

Company	Fair value losses £m	Capital losses £m	Total £m
Deferred income tax assets			
At 21 March 2010	1	35	36
Rate change adjustment to income statement	-	(1)	(1)
At 19 March 2011	1	34	35
At 22 March 2009	1	65	66
Charge to income statement	-	(30)	(30)
At 20 March 2010	1	35	36

	£m
Net deferred income tax asset	
At 19 March 2011	1
At 20 March 2010	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 21 March 2010	49	23	7	79	3	22	25
Charge/(credit) to income statement:							
Additional provisions	13	-	-	13	2	-	2
Unused amounts reversed	(1)	(5)	-	(6)	-	(5)	(5)
Utilisation of provision	(15)	(1)	-	(16)	(2)	-	(2)
Amortisation of discount	3	-	-	3	-	-	-
At 19 March 2011	49	17	7	73	3	17	20
At 22 March 2009	37	32	7	76	4	24	28
Charge/(credit) to income statement:							
Additional provisions	19	1	-	20	-	-	-
Unused amounts reversed	(1)	(1)	-	(2)	-	(1)	(1)
Utilisation of provision	(8)	(9)	-	(17)	(1)	(1)	(2)
Amortisation of discount	2	-	-	2	-	-	-
At 20 March 2010	49	23	7	79	3	22	25
				Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Disclosed as:							
Current				11	13	1	1
Non-current				62	66	19	24
				73	79	20	25

The onerous lease provision covers residual lease commitments of up to an average of 29 years (2010: 32 years), after allowance for existing or anticipated sublet rental income.

The restructuring provisions were fully utilised in the financial year ended 20 March 2010. The disposal provisions relate to indemnities arising from the disposal of subsidiaries, the timing of utilisation of which is uncertain. £5 million was released during the year.

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

23 Called up share capital and share premium account

Group and Company	2011 million	2010 million	2011 £m	2010 £m
Authorised share capital				
Ordinary shares of 28 ⁴ / ₇ pence each (2010: 28 ⁴ / ₇ pence)	2,450	2,450	700	700
Preference B shares of 35 pence each (2010: 35 pence)	2,100	2,100	735	735
Called up share capital				
Allotted and fully paid - ordinary shares	1,871	1,860	535	532
Share premium account				
Share premium			1,048	1,033

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

	Ordinary shares million	Ordinary shares £m	Share premium £m
At 21 March 2010	1,860	532	1,033
Allotted in respect of share option schemes	11	3	15
At 19 March 2011	1,871	535	1,048
At 22 March 2009	1,753	501	909
Issue of shares	78	22	113
Allotted in respect of share option schemes	29	9	11
At 20 March 2010	1,860	532	1,033

In the prior year, the Company issued 78.1 million ordinary shares with a nominal value of 28⁴/₇ pence each at £3.10 per share via an equity placing. This resulted in an increase in ordinary share capital of £22 million and share premium of £113 million net of transaction costs.

24 Capital redemption and other reserves

Group	Capital redemption reserve £m	Currency translation reserve £m	Actuarial (losses)/ gains £m	Available-for-sale assets £m	Cash flow hedge reserve £m	Group merger reserve £m	Convertible bond reserve £m	Total other reserves £m
At 21 March 2010	680	(1)	(348)	89	(3)	-	21	(242)
Actuarial gains on defined benefit pension scheme (net of tax)	-	-	26	-	-	-	-	26
Available-for-sale financial assets fair value movements (net of tax):								
Group	-	-	-	11	-	-	-	11
Joint ventures (note 14)	-	-	-	2	-	-	-	2
Cash flow hedges effective portion of fair value movements (net of tax):								
Group	-	-	-	-	(8)	-	-	(8)
Joint ventures (note 14)	-	-	-	-	2	-	-	2
Amortisation of convertible bond equity	-	-	-	-	-	-	(4)	(4)
At 19 March 2011	680	(1)	(322)	102	(9)	-	17	(213)
At 22 March 2009	680	(1)	(223)	33	-	-	-	(191)
Actuarial losses on defined benefit pension schemes (net of tax)	-	-	(125)	-	-	-	-	(125)
Available-for-sale financial assets fair value movements (net of tax):								
Group	-	-	-	32	-	-	-	32
Joint ventures (note 14)	-	-	-	24	-	-	-	24
Cash flow hedges effective portion of fair value movements (net of tax):								
Group	-	-	-	-	(3)	-	-	(3)
Placing and open offer	-	-	-	-	-	102	-	102
Transfer to retained earnings	-	-	-	-	-	(102)	-	(102)
Convertible bond - equity component	-	-	-	-	-	-	24	24
Amortisation of convertible bond equity	-	-	-	-	-	-	(3)	(3)
At 20 March 2010	680	(1)	(348)	89	(3)	-	21	(242)
Company								
At 21 March 2010				680	5	-	21	26
Available-for-sale financial assets fair value movements (net of tax)				-	1	-	-	1
Amortisation of convertible bond equity				-	-	-	(4)	(4)
At 19 March 2011				680	6	-	17	23
At 22 March 2009				680	(1)	-	-	(1)
Available-for-sale financial assets fair value movements (net of tax)				-	6	-	-	6
Placing and open offer				-	-	102	-	102
Transfer to retained earnings				-	-	(102)	-	(102)
Convertible bond - equity component				-	-	-	24	24
Amortisation of convertible bond equity				-	-	-	(3)	(3)
At 20 March 2010				680	5	-	21	26

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B Shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

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

24 Capital redemption and other reserves continued

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

The merger reserve was created in June 2009, when J Sainsbury plc issued 78.1 million ordinary shares with a nominal value of 28⁴/₇ pence each per share. This resulted in an increase in ordinary share capital of £22 million, share premium of £113 million net of transaction costs and creation of £102 million in the merger reserve. The transfer to retained earnings resulted from the operation of section 612 of the Companies Act 2006 with regard to the issue of shares by J Sainsbury plc in exchange for shares in a wholly owned subsidiary and the subsequent redemption of redeemable preference shares of that company for cash.

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

25 Retained earnings

	Group Own shares £m	Group Profit and loss account £m	Group Total retained earnings £m	Company Retained earnings £m
At 21 March 2010	(22)	2,985	2,963	1,886
Profit for the year	-	640	640	280
Dividends paid	-	(269)	(269)	(269)
Share-based payment (net of tax)	-	37	37	-
Allotted in respect of share option schemes	-	(1)	(1)	35
Utilised in respect of share option schemes	-	-	-	(1)
Amortisation of convertible bond equity	-	4	4	4
At 19 March 2011	(22)	3,396	3,374	1,935
At 22 March 2009	(34)	2,511	2,477	1,737
Profit for the year	-	585	585	250
Dividends paid	-	(241)	(241)	(241)
Share-based payment (net of tax)	-	44	44	-
Shares vested	12	-	12	-
Allotted in respect of share option schemes	-	(19)	(19)	42
Utilised in respect of share option schemes	-	-	-	(7)
Amortisation of convertible bond equity	-	3	3	3
Transfer from merger reserve	-	102	102	102
At 20 March 2010	(22)	2,985	2,963	1,886

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

The Group owned 6,099,104 (2010: 6,162,927) of its ordinary shares of 28⁴/₇ pence nominal value each. At 19 March 2011, the total nominal value of the own shares was £2 million (2010: £2 million).

All shares (2010: all shares) are held by an ESOP trust for the Executive Share Plans. The ESOP trusts waive the rights to the dividends receivable in respect of the shareholder under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 19 March 2011 was £21 million (2010: £21 million).

26 Notes to the cash flow statements

a. Reconciliation of operating profit to cash generated from operations

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Operating profit	851	710	2	(210)
Adjustments for:				
Depreciation expense	468	466	-	-
Amortisation expense	14	13	-	-
Profit on disposal of properties	(108)	(27)	-	-
Foreign exchange differences	5	(6)	-	-
Share-based payments expense	35	42	-	-
Retirement benefit obligations ¹	(49)	(85)	-	-
Provision for diminution in value of investment	-	1	2	160
Liquidation of subsidiaries	-	-	-	26
Operating cash flows before changes in working capital	1,216	1,114	4	(24)
Changes in working capital:				
Increase in inventories	(110)	(13)	-	-
(Increase)/decrease in trade and other receivables	(64)	1	(535)	(173)
Increase/(decrease) in trade and other payables	105	101	2	(51)
(Decrease)/increase in provisions and other liabilities	(9)	3	(6)	(3)
Cash generated from operations	1,138	1,206	(535)	(251)

¹ The adjustment for retirement benefit obligations reflects the difference between the service charge of £56 million (2010: £49 million) for the defined benefit scheme and the cash contributions of £105 million made by the Group to the defined benefit scheme (2010: £134 million).

b. Cash and cash equivalents

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

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Cash and cash equivalents	501	837	169	670
Bank overdrafts (note 20)	(1)	(3)	-	(1)
	500	834	169	669

27 Analysis of net debt

	2011 £m	2010 £m
Non-current assets		
Interest bearing available-for-sale financial assets	36	24
Derivative financial instruments	29	20
	65	44
Current assets		
Cash and cash equivalents	501	837
Interest bearing deposit	40	-
Derivative financial instruments	52	43
	593	880
Current liabilities		
Bank overdrafts	(1)	(3)
Borrowings	(70)	(67)
Finance leases	(3)	(3)
Derivative financial instruments	(59)	(41)
	(133)	(114)
Non-current liabilities		
Borrowings	(2,285)	(2,298)
Finance leases	(54)	(59)
Derivative financial instruments	-	(2)
	(2,339)	(2,359)
Total net debt	(1,814)	(1,549)

27 Analysis of net debt continued

Reconciliation of net cash flow to movement in net debt

	2011 £m	2010 £m
Net debt at beginning of the year	(1,549)	(1,671)
(Decrease)/increase in cash and cash equivalents	(334)	235
Increase in interest bearing available-for-sale assets ¹	10	10
Increase in interest bearing financial asset	40	-
Net decrease/(increase) in borrowings ¹	12	(72)
Net increase/(decrease) in derivatives ¹	6	(23)
Net repayment of obligations under finance leases	3	2
Fair value movements	(4)	(9)
Other non-cash movements	2	(21)
Net debt at the end of the year	(1,814)	(1,549)

1 Excluding fair value movements.

28 Financial risk management

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

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

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

Liquidity risk

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

The Group's liquidity policy requires that minimum funding headroom of £300 million is maintained in excess of forecast net debt over a rolling 12 month time horizon. The Group complies with this policy by minimising refinancing risk through long-dated core borrowings, pre-funding future cash flow and maintaining adequate standby liquidity.

The principal elements of the Group's core funding comprise two long-term loans of £1,069 million due 2018 and £840 million due 2031 secured over property assets held in two subsidiary companies. In addition the Group has four unsecured bank loans totalling £225 million maturing between 2012 and 2015 and £190 million of convertible bonds due 2014.

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

For standby purposes the Group maintains a £690 million syndicated committed revolving credit facility due October 2015. Interest on drawings under this facility is charged at various margins over LIBOR. There are £nil drawings under the facility as at 19 March 2011 (2010: £nil drawings).

28 Financial risk management continued

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

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 19 March 2011				
Secured loans:				
Secured loan due 2018	85	85	374	856
Secured loan due 2031 ¹	57	59	192	1,275
Unsecured loans:				
Notional overdraft	1	-	-	-
Bank loan due 2012 ²	3	51	-	-
Bank loans due 2015 ²	26	26	159	-
Convertible bond due 2014	8	8	202	-
Obligations under finance leases	7	7	14	168
Trade and other payables	2,571	4	-	-
At 20 March 2010				
Secured loans:				
Secured loan due 2018	85	85	331	984
Secured loan due 2031 ¹	54	56	177	1,226
Unsecured loans:				
Notional overdraft	3	-	-	-
Bank loan due 2012 ²	3	3	51	-
Bank loans due 2015 ²	7	7	23	156
Convertible bond due 2014	8	8	210	-
Loan notes ²	9	-	-	-
Obligations under finance leases	7	7	18	177
Trade and other payables	2,463	-	-	-

Company	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 19 March 2011				
Bank loan due 2012 ²	3	51	-	-
Bank loans due 2015 ²	21	21	103	-
Convertible bond due 2014	8	8	202	-
Amounts due to Group entities	4,043	43	208	848
Other payables	22	-	-	-
At 20 March 2010				
Notional overdraft	1	-	-	-
Bank loan ²	3	3	51	-
Bank loans due 2015 ²	2	2	7	111
Convertible bond due 2014	8	8	210	-
Amounts due to Group entities	4,496	41	129	940
Other payables	14	-	-	-

Assumptions:

1 Cash flows relating to debt linked to inflation rates have been calculated using a RPI of 3.7 per cent for the year ended 19 March 2011, 5.0 per cent for the years ended 2012 and 2013 and 3.5 per cent for future years (2010: RPI of 3.7 per cent for the year ended March 2011 and 3.0 per cent for future years).

2 Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates at 19 March 2011 and 20 March 2010.

28 Financial risk management continued

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

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 19 March 2011				
Commodity contracts:				
Inflow	6	-	-	-
Interest rate swaps in a hedging relationship:				
Inflow ¹	4	3	4	5
Other interest rate swaps:				
Inflow/(outflow)	1	1	4	(6)
At 20 March 2010				
Commodity contracts:				
Inflow	2	-	-	-
Interest rate swaps in a hedging relationship:				
Inflow ¹	4	4	8	9
Other interest rate swaps:				
Inflow ¹	2	2	7	3

Assumption:

¹ The swap rate which matches the remaining term of the interest rate swap at 19 March 2011 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2010: 20 March 2010).

The Group holds commodity contracts at fair values prevailing at the reporting dates. At 19 March 2011, £5 million gain relating to these financial instruments has been recognised in other comprehensive income (2010: gain of £2 million).

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

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 19 March 2011				
Forward foreign exchange contracts - cash flow hedges:				
Outflow	(326)	(51)	-	-
Inflow	319	50	-	-
At 20 March 2010				
Forward foreign exchange contracts - cash flow hedges:				
Outflow	(245)	(32)	-	-
Inflow	252	33	-	-

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 19 March 2011, £5 million loss relating to these financial instruments has been recognised in other comprehensive income (2010: gain of £7 million).

Credit risk

The Group's exposure to credit risk arises from holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities and trade receivables.

The Group deposits surplus funds directly with approved banks on the wholesale inter-bank money markets or with money market funds as pooled investments. Under the Group's credit policy investments are limited to counterparties with minimum credit ratings of A1 from Standard & Poor's and P1 from Moody's Investors Service or, in the case of sterling liquidity funds, AAAm from Standard & Poor's or Aaa/MR1+ from Moody's Investors Service.

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

Counterparty	Rating	2011 £m	2010 £m
Financial institutions - Money Market Funds	AAAm/Aaa	205	599
Financial institutions - Money Market Deposits	A1+/P1	15	40
Financial institutions - Money Market Deposits	A1/P1	40	20

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

28 Financial risk management continued

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

Counterparty	Short term Rating	2011 £m	2010 £m
Interest rate swaps	A1+/P1	1	1
Interest rate swaps	A1/P1	67	50
FX forward contracts	A1+/P1	1	4
FX forward contracts	A1/P1	2	5
Commodity contracts	A1+/P1	4	1
Commodity contracts	A1/P1	2	2

Market risk**(a) Currency risk**

The Group is exposed to currency risk with respect to inventory purchases denominated in currencies other than pound sterling, primarily euros and US dollars. The Group also has limited exposure in respect of recognised foreign currency assets and liabilities.

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

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

A 20 per cent change in the value of the US dollar versus sterling at the balance sheet date with all other variables held constant would have increased or decreased post-tax profit or loss for the year by £2 million (2010: £2 million), as a result of gains or losses on translation of US dollar cash balances and US dollar denominated trade payables and receivables.

A 20 per cent increase in the US dollar spot rate versus sterling at the balance sheet date with all other variables held constant would have decreased the cash flow hedge reserve by £46 million (2010: £30 million) in relation to forward foreign exchange contracts; a 20 per cent decrease in the same would increase the cash flow hedge reserve by £71 million (2010: £45 million).

A 20 per cent change in the value of euro versus sterling at the balance sheet date with all other variables held constant would have increased or decreased post-tax profit or loss for the year by £1 million (2010: £1 million), as a result of gains or losses on translation of euro cash balances and euro denominated trade payables and receivables.

A 20 per cent increase in the euro spot rate versus sterling at the balance sheet date with all other variables held constant would have decreased the cash flow hedge reserve by £12 million (2010: £17 million) in relation to forward foreign exchange contracts; a 20 per cent decrease in the same would increase the cash flow hedge reserve by £18 million (2010: £26 million).

Movements of this magnitude in the other currencies noted above would have an immaterial impact.

(b) Interest rate risk

The Group is exposed to interest rate risk on borrowings and deposits. Interest rate policy seeks to minimise the cost and volatility of the Group's interest expense by maintaining a diversified portfolio of fixed rate, floating rate and inflation-linked liabilities.

(i) Fair value sensitivity for fixed rate instruments

The Group holds £1,259 million of fixed rate debt (2010: £1,290 million), of which £401 million (2010: £401 million) has been swapped into floating rate debt using interest rate swaps. The remaining £858 million (2010: £889 million) portion of fixed rate debt is recorded at amortised cost and a change in interest rates at the reporting date would not affect the income statement.

For the year, the fair value movement in the interest rate swaps has resulted in a credit to the income statement of £6 million (2010: £nil). The fair value movement in the underlying fixed rate debt has resulted in a charge to the income statement of £3 million (2010: £2 million) which represents the ineffectiveness on the hedging relationship.

(ii) Cash flow sensitivity for variable rate instruments

The Group holds £686 million of floating rate borrowings (2010: £745 million), comprising £461 million of floating rate swaps (2010: £536 million) and £225 million of floating rate debt (2010: £209 million). An increase of 100 bps in the floating rate at the balance sheet date would have decreased post-tax profit by £5 million (2010: £5 million) and a decrease of 100 bps in the floating rate at the balance sheet date would have increased post-tax profit by £4 million (2010: £3 million). Where a decrease in interest rates of 100 bps would reflect a negative floating rate the assumed rate is nil.

The Group also holds £301 million of interest bearing assets (2010: £734 million). An increase of 100 bps in the floating rate at the balance sheet date would have increased post-tax profit by £2 million (2010: £5 million) and a decrease of 100 bps in the floating rate at the balance sheet date would have decreased post-tax profit by £2 million (2010: £3 million). Where a decrease in interest rates of 100 bps would reflect a negative floating rate the assumed rate is nil.

28 Financial risk management continued

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

The Group holds £840 million of inflation-linked debt (2010: £850 million) which is recorded at amortised cost. An increase of 100 bps in the RPI at the balance sheet date would have decreased post-tax profit by £6 million (2010: increase by £6 million) and a decrease of 100 bps in the RPI at the balance sheet date would have increased post-tax profit by £6 million (2010: decrease by £1 million). Where a decrease in RPI of 100 bps would reflect a negative rate, the assumed rate is nil.

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

Included within available-for-sale financial assets is £140 million (2010: £126 million) relating to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 3.2 per cent annum (2010: 3.1 per cent) and a discount rate of ten per cent (2010: ten per cent), (see note 15).

A change of 0.5 per cent in the assumed rate of property rental growth to 2.7 per cent or 3.7 per cent, holding other assumptions constant, would result in values for this asset of £128 million (2010: £116 million) and £149 million (2010: £136 million) respectively. A change of one per cent in the discount rate to nine per cent or 11 per cent, holding other assumptions constant, would result in values of £155 million (2010: £143 million) and £124 million (2010: £112 million) respectively.

Commodity risk

The Group is exposed to commodity price risk within its commercial buying operations and with respect to its own use consumption of electricity, gas and fuel.

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

The Group uses financial derivatives to hedge fuel exposures on a layered basis using contracts for difference. A 20 per cent change in the fair value of the commodity price at the balance sheet date would have increased or decreased the cash flow equity reserve by £5 million (2010: £3 million).

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

Capital risk management

The Board's policy is to maintain a strong capital structure consistent with the size and nature of the Group.

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

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

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

29 Financial instruments

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
Derivative assets				
Non-current				
Commodity forward contract - fair value through profit or loss	4	-	-	-
Interest rate swaps - fair value hedge	25	19	25	19
Foreign exchange forward contract - cash flow hedge	-	1	-	-
	29	20	25	19
Current				
Commodity and foreign exchange forward contract - cash flow hedge	9	11	-	-
Interest rate swaps - fair value through profit or loss	43	32	43	32
	52	43	43	32
Derivative liabilities				
Current				
Commodity and foreign exchange forward contract - cash flow hedge	(8)	(1)	-	-
Interest rate swaps - fair value through profit or loss	(51)	(40)	(51)	(40)
	(59)	(41)	(51)	(40)
Non-current				
Commodity forward contract - fair value through profit or loss	-	(2)	-	-
	-	(2)	-	-

Foreign exchange forward contracts - cash flow hedges

At 19 March 2011, the Group held a portfolio of foreign exchange forward contracts with a fair value loss of £6 million (2010: £9 million) to hedge its future foreign currency denominated trade purchases. The Group had purchased €83 million (2010: €115 million) and sold sterling at rates ranging from 1.13 to 1.21 (2010: 1.10 to 1.18) with maturities from March 2011 to April 2013 (2010: March 2010 to March 2011) and purchased US\$463 million (2010: US\$273 million) and sold sterling at rates ranging from 1.45 to 1.67 (2010: 1.45 to 1.70) with maturities from March 2011 to June 2012 (2010: March 2010 to June 2011).

At 19 March 2011, an unrealised loss of £5 million (2010: gain of £7 million) is included in other comprehensive income in respect of the forward contracts. This loss will be transferred to the income statement over the next 23 months. During the year a debit to the profit or loss of £8 million was transferred from the cash flow hedge equity reserve and included in cost of sales (2010: credit of £8 million).

Commodity contracts - cash flow hedges

At 19 March 2011, the Group held a portfolio of commodity forward contracts with a fair value of £5 million (2010: £2 million) to hedge its future own use fuel consumption over the next 12 months.

At 19 March 2011, an unrealised gain of £5 million (2010: gain of £2 million) is included in other comprehensive income in respect of these contracts. This gain will be transferred to the income statement over the next 12 months.

Interest rate swaps - fair value hedge

The Group holds a portfolio of £401 million of interest rate swaps (2010: £401 million) to hedge a portion of the fixed rate secured loan due in 2018 and the £190 million convertible bond due 2014. Under the terms of the swaps, the Group receives fixed interest and pays floating rate interest at a fixed spread above three-month LIBOR. The notional principal amount of one of the interest rate swaps amortises from £211 million to £111 million from April 2016 to April 2018.

Derivative financial instruments - fair value through profit or loss

At 19 March 2011, the Group held a portfolio of interest rate swaps at fair value through profit or loss which convert £331 million of the Group's floating rate obligations into fixed rates (2010: £256 million). Under the terms of these swaps the Group pays fixed rates of interest and receives three-month LIBOR for periods expiring from 19 April 2018 to 19 April 2031. Included in this portfolio is a £150 million swap under which the counterparty has a recurring option to cancel the swap on quarterly payment dates through to January 2031 at zero cost.

The Group holds a portfolio of non-designated interest rate swaps which convert £391 million of fixed rate borrowings into floating rates (2010: £391 million). Under the terms of the swap the Group receives fixed rates of interest and pays interest at various spreads above three-month LIBOR until 19 April 2018.

Interest rate risk

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

Foreign currency risk

The Group has net euro denominated trade creditors of £11 million (2010: £11 million) and US dollar denominated trade creditors of £14 million (2010: £11 million).

29 Financial instruments continued

Fair value

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

	Group Carrying amount £m	Group Fair value £m	Company Carrying amount £m	Company Fair Value £m
2011				
Financial assets				
Amounts due from Group entities	-	-	1,146	1,260
Other receivables	56	56	55	55
Financial liabilities				
Amounts due to Group entities	-	-	(861)	(923)
Secured loans ¹	(1,957)	(2,204)	-	-
Convertible bond ²	(176)	(227)	(176)	(227)
Bank loans due 2015	(172)	(186)	(129)	(133)
Bank loan due 2012	(50)	(51)	(50)	(51)
Obligations under finance leases	(54)	(54)	-	-
2010				
Financial assets				
Amounts due from Group entities	-	-	1,080	1,170
Other receivables	55	55	55	55
Financial liabilities				
Amounts due to Group entities	-	-	(821)	(881)
Secured loans ¹	(1,988)	(2,208)	-	-
Convertible bond ²	(172)	(219)	(172)	(219)
Bank loans due 2015	(146)	(161)	(103)	(103)
Bank loan due 2012	(50)	(50)	(50)	(50)
Obligations under finance leases	(59)	(59)	-	-

1 Includes £211 million accounted for as a fair value hedge (2010: £211 million).

2 Includes £190 million accounted for as a fair value hedge (2010: £190 million).

29 Financial instruments continued

Fair value measurements recognised in the Balance sheets

The following table provides an analysis of financial instruments that are recognised subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2011				
Available-for-sale financial assets				
Interest bearing financial assets	-	36	-	36
Other financial assets	-	-	140	140
Financial assets at FVTPL				
Derivative financial assets	-	81	-	81
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(59)	-	(59)

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2010				
Available-for-sale financial assets				
Interest bearing financial assets	-	24	-	24
Other financial assets	-	-	126	126
Financial assets at FVTPL				
Derivative financial assets	-	63	-	63
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(43)	-	(43)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2011				
Available-for-sale financial assets				
Interest bearing financial assets	-	36	-	36
Financial assets at FVTPL				
Derivative financial assets	-	68	-	68
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(51)	-	(51)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2010				
Available-for-sale financial assets				
Interest bearing financial assets	-	24	-	24
Financial assets at FVTPL				
Derivative financial assets	-	51	-	51
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(40)	-	(40)

There were no transfers between Level 1 and Level 2 during the year.

29 Financial instruments continued

Reconciliation of Level 3 fair value measurements of financial assets:

	Other financial assets 2011 £m	Other financial assets 2010 £m
Opening balance	126	90
Total gains or losses:		
In other comprehensive income	14	36
Closing balance	140	126

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 19 March 2011 and 20 March 2010.

Group	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
2011						
Cash and cash equivalents	501	-	-	-	-	501
Trade and other receivables	317	-	-	-	-	317
Available-for-sale financial assets	-	176	-	-	-	176
Trade and other payables	-	-	-	-	(2,571)	(2,571)
Current borrowings	-	-	-	-	(74)	(74)
Non-current borrowings	-	-	-	-	(2,339)	(2,339)
Derivative financial instruments:						
Cash flow hedges ¹	-	-	-	1	-	1
Interest rate swaps ²	-	-	(8)	25	-	17
Commodity contract	-	-	4	-	-	4
	818	176	(4)	26	(4,984)	(3,968)
2010						
Cash and cash equivalents	837	-	-	-	-	837
Trade and other receivables	207	-	-	-	-	207
Available-for-sale financial assets	-	150	-	-	-	150
Trade and other payables	-	-	-	-	(2,463)	(2,463)
Current borrowings	-	-	-	-	(73)	(73)
Non-current borrowings	-	-	-	-	(2,357)	(2,357)
Derivative financial instruments:						
Cash flow hedges ¹	-	-	-	11	-	11
Interest rate swaps ²	-	-	(8)	19	-	11
Commodity contract	-	-	(2)	-	-	(2)
	1,044	150	(10)	30	(4,893)	(3,679)

1 Cash flow hedges are deferred through other comprehensive income.

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

29 Financial instruments continued

Company	Loans and receivables £m	Available- for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
2011						
Cash and cash equivalents	169	-	-	-	-	169
Trade and other receivables	2,246	-	-	-	-	2,246
Available-for-sale financial assets	-	36	-	-	-	36
Trade and other payables	-	-	-	-	(5,304)	(5,304)
Current borrowings	-	-	-	-	(17)	(17)
Non-current borrowings	-	-	-	-	(338)	(338)
Derivative financial instruments:						
Interest rate swaps ¹	-	-	(8)	25	-	17
	2,415	36	(8)	25	(5,659)	(3,191)
2010						
Cash and cash equivalents	670	-	-	-	-	670
Trade and other receivables	1,681	-	-	-	-	1,681
Available-for-sale financial assets	-	24	-	-	-	24
Trade and other payables	-	-	-	-	(5,281)	(5,281)
Current borrowings	-	-	-	-	(3)	(3)
Non-current borrowings	-	-	-	-	(323)	(323)
Derivative financial instruments:						
Interest rate swaps ¹	-	-	(8)	19	-	11
	2,351	24	(8)	19	(5,607)	(3,221)

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

Financial instruments income, expense, gains and losses

Set out below are the accounting classifications of income, expense, gains and losses experienced on financial instruments in the 52 weeks to 19 March 2011 and 20 March 2010.

	2011 £m	2010 £m
At fair value through profit or loss, held for trading		
Net gains and losses	17	36
Loans and receivables		
Net gains and losses	2	1
Interest income	4	4
Other financial liabilities		
Net gains and losses	(1)	(30)
Interest expense	(134)	(110)

30 Retirement benefit obligations

Retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme, (the 'Scheme') and an unfunded pension liability relating to senior employees. The Scheme was closed to new employees on 31 January 2002. The assets of this scheme are held separately from the Group's assets.

The Scheme was subject to a triennial actuarial valuation carried out by Towers Watson, the scheme's independent actuaries, at March 2009 on the projected unit basis. The results of this valuation were approved by the Scheme's Trustees in June 2010. The retirement benefit obligations at 19 March 2011 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.

Sainsbury's Property Scottish Limited Partnership

Further to the funding plan agreed with the Scheme's Trustees, on 17 June 2010 Sainsbury's established the Sainsbury's Property Scottish Partnership (the "Partnership") with the Scheme. Under this arrangement, properties to a value of £256 million were transferred to the Partnership. On 25 March 2011, further properties to a value of £501 million were transferred to the Partnership. Both transfers were effected via a 30 year sale and leaseback arrangement.

The Scheme's interest in the Partnership entitles it to an annual distribution of approximately £35 million for 20 years. These contributions will be in addition to the Group's normal cash contributions paid to the Scheme annually. The properties transferred to the Partnership will revert to Sainsbury's ownership in 2030 in return for a cash payment equal to the amount of any remaining funding deficit on the Scheme at that time, up to a maximum of £600 million.

The Partnership is controlled by Sainsbury's and its results are consolidated by the Group. The Group's balance sheet, IAS 19 deficit and income statement are unchanged by the establishment of the Partnership. The investment held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets. The value of the properties transferred to the Partnership remains included within the Group's property, plant and equipment on the balance sheet. In addition, the Group retains full operational flexibility to extend, develop and substitute the properties within the Partnership.

Change to statutory basis for inflationary increases

On 8 July 2010 the Government announced that the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) will be used as the basis for inflationary increases to pensions in its next update of the statutory requirement. Accordingly, the value of liabilities due to the past service cost of deferred members has been reduced by £185 million with the corresponding credit to actuarial gains within other comprehensive income in the current year.

The amounts recognised in the balance sheet are as follows:

	2011 £m	2010 £m
Present value of funded obligations	(4,945)	(4,649)
Fair value of plan assets	4,614	4,237
	(331)	(412)
Present value of unfunded obligations	(9)	(9)
Retirement benefit obligations	(340)	(421)
Deferred income tax asset	99	118
Net retirement benefit obligations	(241)	(303)

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

a) Income statement

The amounts recognised in the income statement are as follows:

	2011 £m	2010 £m
Current service cost - funded scheme	(55)	(48)
Past service cost	(1)	(1)
Included in employee costs (note 7)	(56)	(49)
Interest cost on pension scheme liabilities	(265)	(230)
Expected return on plan assets	268	206
Total included in finance income/(expense) (note 6)	3	(24)
Total income statement expense	(53)	(73)

Of the expense recognised in operating profit, £54 million (2010: £44 million) is included in cost of sales and £2 million (2010: £5 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was a gain of £389 million (2010: a gain of £921 million).

30 Retirement benefit obligations continued**b) Other comprehensive income**

The amounts recognised in the statement of other comprehensive income are as follows:

	2011 £m	2010 £m
Net actuarial gains/(losses) recognised during the year	29	(173)
Cumulative actuarial losses recognised	(453)	(482)

c) Valuations

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

	2011 £m	2010 £m
Beginning of year	(4,649)	(3,610)
Current service cost	(55)	(48)
Past service cost	(1)	(1)
Interest cost	(265)	(230)
Contributions by plan participants	(7)	(7)
Actuarial losses	(92)	(888)
Benefits paid	124	135
End of year	(4,945)	(4,649)

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

	2011 £m	2010 £m
Beginning of year	4,237	3,310
Expected return on plan assets	268	206
Actuarial gains	121	715
Contributions by employer	105	134
Contributions by plan participants	7	7
Benefits paid	(124)	(135)
End of year	4,614	4,237

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

	2011 %	2010 %
Equities	39	42
Bonds	49	49
Property	3	2
Other	9	7
	100	100

d) Assumptions

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

	2011 %	2010 %
Discount rate	5.5	5.8
Inflation rate	3.3	3.4
Future salary increases	2.5 - 3.3	3.4
Future pension increases	2.1 - 3.2	2.2 - 3.4

The discount rate is based on the annualised yield on an AA-rated sterling corporate bond index adjusted for the difference in term between the index and the Scheme liabilities.

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking view of the financial markets (as suggested by the yield available) and the views of investment organisations.

	2011 Fair value £m	2011 Expected return %	2010 Fair value £m	2010 Expected return %
Equities	1,812	7.7	1,787	8.0
Government Bonds	726	4.2	1,203	4.5
Corporate Bonds	1,551	5.2	871	5.5
Property	146	6.7	101	7.0
Other	379	4.2 - 6.7	275	4.3 - 7.0
	4,614	6.2	4,237	6.4

30 Retirement benefit obligations continued

The life expectancy for the scheme operated at the balance sheet date for a pensioner at normal retirement age (now 65 years for men and women), is as follows:

	2011 years	2010 years
Male pensioner	22.3	22.2
Female pensioner	23.9	23.8

The base mortality tables were derived by projecting forward the latest standard mortality tables (PA00 tables) in line with the base 1992 series improvements up to 2006, and then in line with medium cohort improvements from 2006 onwards, subject to a minimum rate of improvement from 2010 onwards of 1 per cent per annum.

e) Sensitivities

An increase of 0.5 per cent in the discount rate would decrease the retirement benefit obligations by £471 million. A decrease of 0.5 per cent in the discount rate would increase the retirement benefit obligations by £523 million.

An increase of 0.5 per cent in the inflation rate would increase the retirement benefit obligations by £315 million. A decrease of 0.5 per cent in the inflation rate would decrease the retirement benefit obligations by £321 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £118 million.

The sensitivities are based on management's best estimate of a reasonably anticipated change.

f) Experience gains and losses

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of retirement benefit obligations	(4,954)	(4,658)	(3,619)	(3,676)	(4,401)
Fair value of plan assets	4,614	4,237	3,310	4,171	4,298
Retirement benefit (obligations)/assets	(340)	(421)	(309)	495	(103)
Experience (loss)/gain on plan liabilities	(79)	116	171	(79)	(236)
Experience gain/(loss) on plan assets	121	715	(1,149)	(380)	89

The Group's expected contributions to the defined benefit scheme for the next financial year beginning 20 March 2011 are £135 million (2010: £103 million).

31 Share-based payments

The Group recognised £35 million (2010: £42 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £nil (2010: £1 million) were cash-settled.

National insurance contributions are payable in respect of certain share-based payments transactions and are treated as cash-settled transactions. At 19 March 2011, the carrying amount of national insurance contributions payable was £7 million (2010: £5 million) of which £1 million (2010: £1 million) was in respect of vested grants.

The Group operates a number of share-based payment schemes as set out below:

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

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

At 19 March 2011, UK employees held 21,315 five-year savings contracts (2010: 20,980) in respect of options over 20.6 million shares (2010: 21.0 million) and 31,420 three-year savings contracts (2010: 33,407) in respect of options over 19.9 million shares (2010: 20.4 million).

A reconciliation of option movements is shown below:

	2011 Number of options million	2011 Weighted average exercise price pence	2010 Number of options million	2010 Weighted average exercise price pence
Outstanding at beginning of year	41.4	268	40.0	262
Granted	10.8	297	11.5	273
Forfeited	(5.8)	284	(4.3)	269
Exercised	(5.8)	272	(5.1)	235
Expired	(0.1)	247	(0.7)	236
Outstanding at end of year	40.5	273	41.4	268
Exercisable at end of year	2.7	282	3.2	300

31 Share-based payments continued

The weighted average share price during the period for options exercised over the year was 364 pence (2010: 332 pence). Details of options at 19 March 2011 are set out below:

	Date of expiry	Exercise price	Options outstanding 2011 million	Options outstanding 2010 million
15 December 2004 (5 year period)	31 August 2010	217	-	0.8
15 December 2005 (5 year period)	31 August 2011	231	1.3	4.1
15 December 2006 (3 year period)	31 August 2010	328	-	2.4
15 December 2006 (5 year period)	31 August 2012	328	2.6	2.8
20 December 2007 (3 year period)	31 August 2011	331	1.4	3.6
20 December 2007 (5 year period)	31 August 2013	331	2.7	2.9
17 December 2008 (3 year period)	31 August 2012	224	6.9	7.8
17 December 2008 (5 year period)	31 August 2014	224	5.2	5.7
10 December 2009 (3 year period)	31 August 2013	273	5.6	6.7
10 December 2009 (5 year period)	31 August 2015	273	4.1	4.6
10 December 2010 (3 year period)	31 August 2014	297	6.0	-
10 December 2010 (5 year period)	31 August 2016	297	4.7	-
			40.5	41.4

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:

	2011	2010
Share price at grant date (pence)	371	341
Exercise price (pence)	297	273
Expected volatility		
- 3 year period (%)	34.3	38.3
- 5 year period (%)	29.5	31.3
Option life		
- 3 year period (years)	3.2	3.2
- 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	3.5	3.7
Risk-free interest rate		
- 3 year period (%)	3.2	3.7
- 5 year period (%)	4.4	4.6
Fair value per option		
- 3 year period (pence)	109	107
- 5 year period (pence)	114	107

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")

At 19 March 2011, a total of nil UK employees (2010: 1,253) participated in the plan and held options over nil shares (2010: 0.4 million). Of the final options awarded in 1999 and 2000 as part of the CSOP 0.2 million options were exercised and 0.2 million options expired during the year. It is intended that there will be no further options granted under this plan. The weighted average exercise price for options exercised in the year was 321 pence (2010: 325 pence).

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.

31 Share-based payments continued

A reconciliation of option movements is shown below:

	2011 Number of options million	2011 Weighted average exercise price pence	2010 Number of options million	2010 Weighted average exercise price pence
Outstanding at beginning of year	1.5	397	2.4	387
Forfeited	(0.2)	416	(0.6)	321
Exercised	(0.2)	272	-	-
Expired	-	-	(0.3)	378
Outstanding at end of year	1.1	417	1.5	397
Exercisable at end of year	1.1	417	1.5	397

The weighted average exercise price during the period for options exercised over the year was 323 pence (2010: 336 pence).

Details of options at 19 March 2011 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2011 million	Options outstanding 2010 million
2 June 2000	1 June 2010	272	-	0.2
7 June 2001	6 June 2011	427	0.5	0.6
26 July 2001	25 July 2011	407	0.6	0.7
			1.1	1.5

d) All-Employee Share Ownership Plan

(i) In June 2003, under the All-Employee Share Ownership Plan, free shares were awarded to UK employees with more than 12 months' continuous service. 0.4 million free shares (2010: 0.4 million) are being held in a trust on behalf of participants unless they are released to participants upon cessation of employment with the Group.

(ii) From 18 September 2008, under the Sainsbury's share purchase plan, all employees were offered the opportunity to receive one free matching share for every four shares purchased through the Sainsbury's share purchase plan. Under this scheme, 297,981 matching shares have been awarded, of which 275,071 are outstanding at 19 March 2011 (2010: 229,431 matching shares, of which 212,115 were outstanding). The charge under IFRS for this scheme was not material.

e) Long-Term Incentive Plan 2006

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

The awards will vest if the threshold levels of two co-dependent performance conditions - return on capital employed ("ROCE") and growth in cash flow per share, are achieved over the three-year performance period. The core award can grow by up to four times, dependent on the level of performance. Straight-line vesting will apply if performance falls between two points.

Performance will be measured at the end of the three-year performance period. If the required level of performance has been reached, the awards vest and 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will then be released no later than on the fourth anniversary of the date of award. Options granted to acquire the award of shares will expire two years from the vesting date. Dividends will accrue on the shares that vest in the form of additional shares.

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

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

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

	2011 million	2010 million
Outstanding at beginning of year	8.5	7.4
Conditionally allocated	4.2	3.5
Forfeited	(0.7)	(0.3)
Released to participants	(1.3)	(2.1)
Outstanding at end of year	10.7	8.5

31 Share-based payments continued

Details of shares conditionally allocated at 19 March 2011 are set out below:

Date of conditional award	2011 million	2010 million
13 July 2006	0.1	0.1
20 June 2007	1.0	1.8
28 May 2008	2.8	3.1
24 June 2009	3.2	3.5
21 June 2010	3.6	-
	10.7	8.5

Options to acquire the award of shares were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

	2011	2010
Share price at grant date (pence)	324	315
Expected volatility (%)	22.8	48.1
Option life (years)	4.2	4.2
Risk-free interest rate (%)	3.7	3.7
Fair value per option (pence)	324	315

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

In March 2010, the three-year performance targets were met achieving a multiplier of 3.2 (2009: 3.7). During the year, a total number of 4.2 million shares were granted to employees as a result of achieving the performance target and 3.9 million options were exercised. The weighted average share price during the year for options exercised was 333 pence (2010: 330 pence).

f) Deferred Annual Bonus Plan

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

The Plan measures the Company's total shareholder return ("TSR") performance over a three-year period against a bespoke UK and European retail comparator group comprising: Tesco, Morrisons, DSG International, Kingfisher, Home Retail Group, Marks & Spencer, Next, Ahold, Carrefour, Casino, Delhaize and Metro. Alliance Boots was removed from the comparator group following its de-listing.

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

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

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

	2011 million	2010 million
Outstanding at beginning of year	1.5	1.1
Granted	-	0.5
Lapsed	(0.6)	(0.1)
Outstanding at end of year	0.9	1.5

Details of shares allocated at 19 March 2011 are set out below:

	2011 million	2010 million
20 June 2007	-	0.6
20 June 2008	0.5	0.5
24 June 2009	0.4	0.4
	0.9	1.5

31 Share-based payments continued**g) Deferred Share Award**

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

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

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

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

	2011 million	2010 million
Granted and outstanding at end of year	1.3	-

The number of share options outstanding at the end of the year are shown below:

	Shares conditionally allocated 2011 million	Shares conditionally allocated 2010 million
20 May 2010	1.3	-

32 Related party transactions**Group****a) Key management personnel**

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

The key management personnel compensation is as follows:

	2011 £m	2010 £m
Short-term employee benefits	8	17
Post-employment employee benefits	1	1
Share-based payments	10	8
	19	26

Six key management personnel had credit card balances with Sainsbury's Bank plc (2010: five). These arose in the normal course of business and were immaterial to the Group and the individuals. Four key management personnel held saving deposit accounts with Sainsbury's Bank plc (2010: six). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

b) Joint ventures**Transactions with joint ventures**

For the 52 weeks to 19 March 2011, the Group entered into various transactions with joint ventures as set out below.

	2011 £m	2010 £m
Sales of inventories	-	3
Management services provided	14	14
Interest income received in respect of interest bearing loans	1	1
Dividend income received	1	2
Sale of assets	74	-
Purchase of assets	(16)	-
Acquisition of companies	(58)	-
Rental expenses paid	(72)	(72)

32 Related party transactions continued

Year end balances arising from transactions with joint ventures

	2011 £m	2010 £m
Receivables		
Other receivables	1	2
Loans due from joint ventures:		
Floating rate subordinated undated loan capital ¹	25	25
Floating rate subordinated dated loan capital ²	30	30
Other	9	1
Payables		
Loans due to joint ventures	(48)	(48)

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) Retirement benefit obligations

As discussed in note 30, the Group has entered into an arrangement with the Pension Scheme Trustee as part of the funding plan for the actuarial deficit in the Scheme. Full details of this arrangement are set out in note 30 to these financial statements.

Company

a) Key management personnel

The key management personnel of the Company comprise members of the J Sainsbury plc Board of Directors. The Directors do not receive any remuneration from the Company (2010: £nil) as their emoluments are borne by subsidiaries. The Company did not have any transactions with the Directors during the financial year (2010: £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

	2011 £m	2010 £m
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	702	310
Loans and advances repaid by subsidiaries	(125)	(103)
Interest income received in respect of interest bearing loans and advances	135	126
Dividend income received	250	268
Loans and advances received from subsidiaries		
Loans and advances received	(321)	(350)
Loans and advances repaid	64	377
Interest expense paid in respect of interest bearing loans and advances	(64)	(69)

Year end balances arising from transactions with subsidiaries

	2011 £m	2010 £m
Receivables		
Loans and advances due from subsidiaries	2,191	1,625
Payables		
Loans and advances due to subsidiaries	(5,282)	(5,267)

c) Joint ventures

Transactions with joint ventures

For the 52 weeks to 19 March 2011, the Company entered into transactions with joint ventures as set out below.

	2011 £m	2010 £m
Services and loans provided to joint ventures		
Interest income received in respect of interest bearing loans	1	1
Dividend income received	1	2

32 Related party transactions continued*Year end balances arising from transactions with joint ventures*

	2011 £m	2010 £m
Receivables		
Loans due from joint ventures		
Floating rate subordinated undated loan capital ¹	25	25
Floating rate subordinated dated loan capital ²	30	30
Payables		
Loans due to joint ventures	(5)	(5)

- 1 The undated subordinated loan capital shall be repaid on such date as the Financial Services Authority shall agree in writing for such repayment and in any event not less than five years and one day from the dates of draw down. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 1.0 per cent per annum for the duration of the loan.
- 2 No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Financial Services Authority. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 0.6 per cent per annum for the duration of the loan.

33 Operating lease commitments

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

	Land and buildings 2011 £m	Land and buildings 2010 £m	Other leases 2011 £m	Other leases 2010 £m
Aggregate future minimum lease payments:				
Within 1 year	412	372	51	49
Within 2 to 5 years inclusive	1,602	1,449	73	74
After 5 years	5,957	5,343	-	4
	7,971	7,164	124	127

The Group sublets certain leased properties and the total future minimum sublease payments to be received under non-cancellable subleases at 19 March 2011 are £277 million (2010: £267 million).

The Company does not have any operating lease commitments (2010: £nil).

34 Capital commitments

The Group has entered into contracts totalling £265 million (2010: £216 million) for future capital expenditure not provided for in the financial statements.

The Company does not have any capital commitments (2010: £nil).

35 Financial commitments

Sainsbury's Bank plc, a 50 per cent joint venture of the Group, has off balance sheet financial instruments committing it to extend credit to customers of £46 million (2010: £33 million).

Five year financial record

	2011	2010	2009	2008	2007
Financial results (£m)					
Sales (including VAT, including fuel)	22,943	21,421	20,383	19,287	18,518
Underlying operating profit					
Retailing	738	671	616	535	429
Sainsbury's Bank	-	-	-	-	2
	738	671	616	535	431
Underlying net finance costs ^{1,2}	(97)	(79)	(113)	(99)	(92)
Share of post-tax profit/(loss) from joint ventures	24	18	16	(2)	-
Underlying profit before tax^{1,2,3}	665	610	519	434	339
Increase on previous year (%)	9.0	17.5	19.6	28.0	38.9
Retailing underlying operating profit margin (%)	3.50	3.36	3.26	3.00	2.54
Earnings per share					
Underlying basic (pence) ^{1,3}	26.5	23.9	21.2	17.4	13.0
Increase on previous year (%)	10.9	12.7	21.8	33.8	36.8
Proposed dividend per share (pence) ⁴	15.10	14.20	13.20	12.00	9.75
Retail statistics for UK food retailing					
Number of outlets at financial year end					
over 55,000 sq ft sales area	64	45	34	24	20
40,001 - 55,000 sq ft sales area	124	125	130	130	124
25,001 - 40,000 sq ft sales area	155	156	153	161	167
15,000 - 25,000 sq ft sales area	113	115	108	100	98
under 15,000 sq ft sales area	478	431	367	408	379
	934	872	792	823	788
Sales area (000 sq ft)	19,108	17,750	16,703	16,191	15,715
Net increase on previous year (%) ⁵	7.7	6.3	3.2	3.0	3.6
New stores ⁵	68	89	29	35	40
Sales intensity (including VAT)^{5,6}					
Per sq ft (£ per week)	20.04	20.42	20.01	19.69	19.30

1 2008/09 and prior periods are restated for the change in the definition of underlying profit before tax ("UPBT"). As communicated at the time of the 2008/09 year end announcement, the financing element of IAS 19 'Employee Benefits' pensions accounting has been excluded from UPBT.

2 Net finance costs pre-financing fair value movements, IAS 19 pension financing (charge)/credit and one-off items that are material and infrequent in nature.

3 Profit before tax from continuing operations before any gain or loss on the disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing (charge)/credit and one-off items that are material and infrequent in nature.

4 Total proposed dividend in relation to the financial year.

5 Includes all convenience stores and convenience acquisitions.

6 2008/09 and 2009/10 adjusted for comparative purposes to remove the dilutive effect of the temporary VAT reduction to 15 per cent between 1 December 2008 and 31 December 2009.

Additional shareholder information

End of year information at 19 March 2011

Number of shareholders	116,974 (2010: 121,423)
Number of shares in issue	1,870,802,529 (2010: 1,860,610,824)

By size of holding

	Shareholders		Shares	
	2011	% 2010	2011	% 2010
500 and under	64.13	64.60	0.46	0.48
501 to 1,000	12.95	13.08	0.60	0.64
1,001 to 10,000	21.16	20.60	3.47	3.48
10,001 to 100,000	1.28	1.22	2.01	1.97
100,001 to 1,000,000	0.32	0.33	7.00	7.40
Over 1,000,000	0.16	0.17	86.46	86.03
	100.00	100.00	100.00	100.00

By category of shareholder

	Shareholders		Shares	
	2011	% 2010	2011	% 2010
Individual and other shareholders	93.93	94.14	10.25	12.09
Insurance companies	0.05	0.05	0.03	0.03
Banks and Nominees	5.64	5.43	83.70	81.22
Investment Trusts	0.03	0.03	0.16	0.23
Pension Funds	0.01	0.01	0.07	0.00
Other Corporate Bodies	0.34	0.34	5.79	6.43
	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/report2011 and has only been sent to those shareholders who have asked for a paper copy. Shareholders who have not requested a paper copy of the Annual Report have been notified of its availability on the website.

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

Annual General Meeting ("AGM")

The AGM will be held at 11.00am on Wednesday, 13 July 2011 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report.

Company website

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

Registrars

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.

Telephone: 0870 702 0106

You can view and manage your shareholding online at www.investorcentre.co.uk. You will require your 11 character Shareholder Reference Number ("SRN") to log in. Your SRN starts with the letter C or G and is followed by 10 numbers. It can be found on share certificates and dividend tax vouchers.

Consolidated Tax Vouchers

The Company has adopted the Consolidated Tax Voucher ("CTV") process in relation to dividend payments. This means that those shareholders receiving their dividend direct into their bank account will receive a CTV once a year detailing all payments made throughout that year.

Dividend Reinvestment Plan ("DRIP")

The Company has a DRIP, which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. No new shares are allotted under this DRIP and 29,945 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from the Registrars. Alternatively, you can elect to join the DRIP by registering for Investor Centre at www.investorcentre.co.uk.

Key dates for the final dividend are as follows:

Last date for return of revocation of DRIP mandates	24 June 2011
DRIP shares purchased for participants	15 July 2011
DRIP share certificates issued	27 July 2011

Individual Savings Account ("ISA")

A corporate ISA is available from The Share Centre Ltd and offers a tax efficient way of holding shares in the Company. For further information contact: The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or freephone 08000 282812 and quote 'Sainsbury's'.

Electronic Shareholder Communications

The Company encourages all shareholders to receive their shareholder communications electronically in order to reduce our impact on the environment. Shareholders can register their email address at www.etreeuk.com/jsainsbury and for each new shareholder that does so we will make a donation to the Tree for All campaign run by the Woodland Trust.

Additional shareholder information continued

Share dealing services

To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or a High Street Bank who will usually be able to assist you. Alternatively, you may consider using:

- The Share Centre Ltd who offer a postal dealing service and they can be contacted at The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or freephone 08000 282812 and quote 'Sainsbury's'; or
- Computershare who offer a telephone and internet facility which gives shareholders the opportunity to trade at a known price. The telephone service is available from 8.00am to 4.30pm, Monday to Friday, excluding bank holidays, on telephone number 0870 703 0084. The internet share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting www.computershare.com/dealing/uk.

Further information and detailed terms and conditions are available on request by calling either provider.

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form may be obtained from Computershare Investor Services PLC. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from www.ShareGift.org.

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: Erica Judge, Head of Investor Relations, J Sainsbury plc, Store Support Centre, 33 Holborn, London EC1N 2HT.

American Depository Receipts ("ADRs")

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

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

All enquiries relating to ADRs should be addressed to:

BNY Mellon
Shareowner Services
PO Box 358516
Pittsburgh
PA 15252-8516
Toll Free Telephone # for domestic callers: 1-888-BNY-ADRS
International callers can call: +1-201-680-6825
Email: shrrelations@bnymellon.com

General contact details

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

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

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

Additional shareholder information continued

Financial calendar 2011/12

Dividend payments

Ordinary dividend:

Ex-dividend date	18 May 2011
Record date	20 May 2011
Final dividend payable	15 July 2011
Interim dividend payable	January 2012

Other dates

Annual General Meeting - London	13 July 2011
Interim results announced	9 November 2011
Interim report available	November 2011
Annual General Meeting - London	11 July 2012

Registered office and advisers

Registered office

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

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

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

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
- receive electronic notification of the availability of future shareholder information (you must register your email for this service)
- check the balance and current value of your shareholding and view your dividend history
- submit your vote online prior to a general meeting

For more information, to view the terms and conditions and to register for the service, log on to www.j-sainsbury.co.uk/investors, click on 'Shareholder Services' and then follow the instructions on screen.

Alternatively, register by visiting www-uk.computershare.com/investor. For both methods, you will require your 11 character shareholder reference number which can be found on your share certificate or latest tax voucher.

Glossary

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

AGM – Annual General Meeting – This year the AGM will be held on Wednesday, 13 July 2011 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, London SW1P 3EE at 11.00am.

B shares – Preference B shares issued on 12 July 2004 as part of the Return of Capital scheme in 2004/05.

'basics' – Sainsbury's entry level sub-brand range of products.

'BGTY' – 'Be Good to Yourself' – Sainsbury's healthier alternative sub-brand range of products. Products are either: those with less than three per cent fat or those with less calories, salt and saturated fat than standard lines.

bps – basis points.

CMBS – Commercial Mortgage Backed Securities.

Company – J Sainsbury plc.

CPI – Consumer Price Index.

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

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

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

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

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

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

FVTPL – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

GDAs – Guideline Daily Amounts.

Gearing – Net debt divided by total equity.

Group – The Company and its subsidiaries.

IFRIC – International Financial Reporting Interpretations Committee.

IFRSs – International Financial Reporting Standard(s).

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

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.

MTL – Multiple traffic lights – Nutritional labels which provide effective 'at-a-glance' information customers need to make healthier choices when shopping. Over 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.

Real discount rate – Discount rate less inflation rate.

ROCE – Return on capital employed.

RPI – Retail Price Index.

TSR – Total Shareholder Return – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

'Ttd' – 'Taste the difference' – Sainsbury's premium sub-brand range of products.

'Try something new today' – The marketing campaign in support of Making Sainsbury's Great Again.

'TU' – Sainsbury's own label clothing range.

'TU home' – Sainsbury's sub-brand homeware range of products.

Underlying basic earnings per share – Profit after tax from continuing operations attributable to equity holders before any profit or loss on the disposal of properties, investment property fair value movements, impairment of goodwill, financing fair value movements, IAS 19 pension financing element and one-off items that are material and infrequent in nature, divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the ESOP trusts, which are treated as cancelled.

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

Underlying operating profit/(loss) – Underlying profit before tax from continuing operations before underlying net finance costs and underlying share of post-tax profit or loss from joint ventures.

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Achievements & Awards



Best Convenience retailer

We won *Convenience Chain of the Year* at the Retail Industry Awards 2010. The judges praised us for the great product choice and excellent service we provide to Sainsbury's Local customers.



Making a difference in our communities

We were also recognised as *Community Retailer of the Year* for all the fantastic work our colleagues have been doing with local charities and communities including our Local Charity of the Year Scheme, as well as the work we have been doing with Comic Relief.



Number one for seafood

As the UK's largest MSC retailer, we also received the *Seafood Retailer of the Year* award in recognition of the industry-leading work we have been doing to make fish more sustainable.

Investing in our people

We're the first ever food retailer to receive a gold accreditation from 'Investors in People' for our commitment to improve our business through investment in our colleagues. Providing colleagues with opportunities at work has helped Sainsbury's to deliver against our Company goals and grow our business.



Raising animal welfare standards

Sainsbury's won Compassion in World Farming's *Best Volume Supermarket Award* for 2010 and also one of the first ever *Good Chicken Award* wins for our continued commitment to improving animal welfare standards.



Leader in quality

We picked up a total of nine Quality Food Awards this year, more than any other retailer. These awards show that we continue to offer the highest quality food at the lowest possible prices.

Striving for sustainability

We have been recognised as the global industry leader in the Dow Jones Sustainability Index, having been awarded Gold status, showing that sustainability really is at the heart of our business.



Official partner of the London 2012 Paralympic Games

With London 2012 just around the corner, we are proud to be the first ever sole-sponsor of the Paralympic Games. Our sponsorship is helping us to promote a healthier, more active lifestyle across all ages and abilities.

Want to know more about our year?

www.j-sainsbury.co.uk

J Sainsbury plc

