

J Sainsbury plc
Annual Report
and Financial
Statements
2013



LIVE
WELL
FOR
LESS

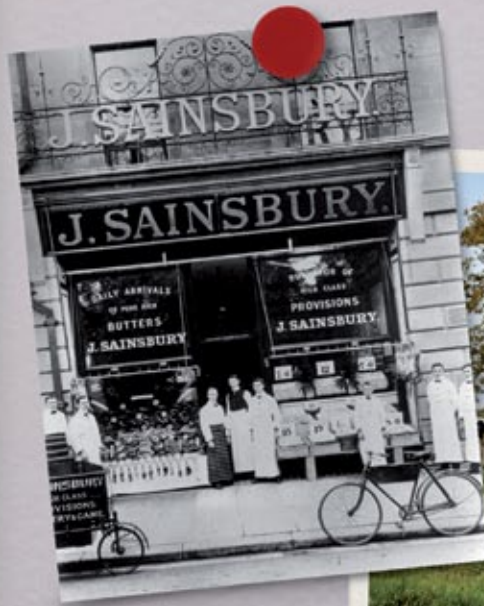




157,000
Colleagues

23
Million customer
transactions per week

1,106
Stores
583 supermarkets
523 convenience stores



It's an exciting time for Sainsbury's. Our long-term strategy continues to deliver quality, value and service to our customers and has led to good profit and sales growth together with continuing outperformance in a challenging market.



Our vision

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

Our goal

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

**About Sainsbury's
£25,632 million
annual sales:**

- Convenience over £1.5 billion
- General merchandise over £1 billion
- Groceries online nearly £1 billion

33 consecutive quarters of like-for-like sales growth

16.8 per cent UK market share

Our 144 year heritage

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



1869

First store opened on London's Drury Lane



1914

Began recruiting women to work in stores during the First World War



1950s

First self-service stores opened



1970s

Introduced the first bakeries, fresh fish counters, coffee shops and petrol stations



1994

First major supermarket in the UK to sell Fairtrade food

Our business strategy for growth: our five areas of focus are underpinned by our values and operational excellence



For more details
See pages 10 to 25

Helping customers Live Well For Less

Strong own-brand



- Outperforming the market as well as many branded equivalents
- by Sainsbury's named 'Own Label Brand of the Year' in The Grocer Gold Awards, with over 6,500 lines, many new or improved
- *Taste the Difference* sales growing at nearly 10 per cent and gaining market share
- *basics* is the second largest value brand in the market

Competitive pricing



- Brand Match reassures customers they won't pay more for brands than at Asda or Tesco
- Around 350 million coupons issued to date
- 'Cheaper than' coupons issued over half of the time

Loyalty and insight



- Nearly 12 million Sainsbury's customers regularly use their Nectar card
- Data enables us to understand our customers better and offer targeted promotions that they value
- £213 million Nectar points redeemed over the year
- New long-term partnership agreed with Nectar

20x
20

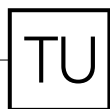
Our values make us different

- Our 20x20 Sustainability Plan is driving sector leading performance
- Dow Jones Sustainability Index Global Sector Leader for sixth consecutive year
- Sustainable Retailer of the Year - Retail Industry Awards
- Employer of the Year - Retail Week Awards



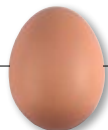
1996

Began our recycling partnership with Oxfam - from November 2011 to October 2012 collecting over nine million items of clothing



2004

Launched the *Tu* fashion range



2009

First major retailer to stop selling eggs from caged hens



2010

Opened the first of our seven food colleges - with over 20,000 colleagues since trained in traditional skills



2012

First-ever Paralympic-only sponsor and major partner of the Diamond Jubilee celebrations



2013

Our colleagues and customers helped raise over £10.5 million for Comic Relief

For more about Sainsbury's history visit j-sainsbury.co.uk/history

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Find out more at
j-sainsbury.co.uk



Financial highlights

Total sales

+4.3%

(including VAT, excluding fuel)

Like-for-like sales

+1.8%

(including VAT, excluding fuel)

Underlying operating profit

£829m

Up 5.1%

Underlying profit before tax

£756m

Up 6.2%

Return on capital employed

11.2%

Up 12 bps

Underlying basic earnings

30.7p

Up 9.3%

Full year dividend per share

16.7p

Up 3.7%

Financial summary

	2012/13 £m	2011/12 £m	Change %
Sales (including VAT)	25,632	24,511	4.6%
Sales (excluding VAT)	23,303	22,294	4.5%
Underlying operating profit	829	789	5.1%
Underlying profit before tax	756	712	6.2%
Profit before tax	788	799	(1.4)%
Profit after tax	614	598	2.7%
Underlying basic earnings per share	30.7p	28.1p	9.3%
Basic earnings per share	32.6p	32.0p	1.9%
Full year dividend per share	16.7p	16.1p	3.7%



David Tyler, Chairman

Dear Shareholder,
Your Board is pleased to report on what has been another good year for Sainsbury's. We have outperformed the market, as we have done for a number of years, by providing great quality, value and service, and by remaining true to our values and heritage.

We have improved profits while continuing to invest significantly in strengthening the business for the future. Underlying profit before tax was up 6.2 per cent to £756 million. Underlying basic earnings per share were up 9.3 per cent to 30.7 pence. This year your Board recommends a final dividend of 11.9 pence per share, making a full year dividend of 16.7 pence, which is an increase of 3.7 per cent over the previous year, and which is covered 1.83 times by underlying earnings. Sainsbury's remains focused on delivering returns to shareholders and the Board continues to plan to increase the dividend each year while building cover to two times over the medium term.

Sainsbury's Bank

The Bank, started in 1997, has delivered five consecutive years of profit growth. Its pre-tax profit this year was £59 million, half of which accrues to Sainsbury's shareholders. The Bank has built customer loyalty by offering good quality, value-for-money financial products together with attractive rewards and Nectar points.

We have now reached an agreement with Lloyds Banking Group to acquire its 50 per cent shareholding and take full ownership of Sainsbury's Bank. We are confident this is a move which will benefit customers and shareholders, allowing the full future potential of the Bank to be realised.

We have strengthened the management of the Bank and its Board during the course of the last 12 months. Peter Griffiths joined as CEO of Sainsbury's Bank last autumn and Roger Davis became Chairman in May 2013. Each brings wide retail banking experience at a senior level to the Bank.

£756m

Underlying profit before tax, up 6.2%



£90m+

Record bonus awarded to colleagues



16.7p

Proposed full year dividend, up 3.7%



A winning team

I would like to thank all of our 157,000 colleagues for their efforts in providing excellent service to our customers. Our people are the face of Sainsbury's and are central to our success. We continue to invest in their training and development, and in ensuring Sainsbury's is a great place to work. I am delighted that they share in a record bonus of over £90 million this year, meaning that over the last five years we will have awarded over £350 million to colleagues in this way.

In December 2012, Anna Ford stood down as a Non-Executive Director of our plc Board. I would like to thank Anna for the contribution she has made since her appointment in 2006, both as a valued member of the Board and as Chairman of our Corporate Responsibility Committee. During her tenure, Corporate Responsibility has become an integral part of the Group's business and we have benefited tremendously from Anna's experience and skills.

We appointed Jean Tomlin to the plc Board in January 2013. She chairs the Group's Corporate Responsibility Committee and sits on the Remuneration and Nomination Committees. Jean's experience and breadth of skills will be a great addition to the Board and we welcome her to Sainsbury's.

In addition, we have appointed Lady Susan Rice as a Non-Executive Director to the plc Board with effect from June 2013. Her extensive retail banking experience, mainly at NatWest and Lloyds Banking Group, is particularly relevant to us given our agreement to acquire full ownership of Sainsbury's Bank, and we also welcome her to Sainsbury's.

Gwyn Burr, Customer Service and Colleague Director, left the Operating Board in March 2013. Gwyn played a key role in delivering our business turn round and I am delighted that she will continue in her role as a Non-Executive Director of Sainsbury's Bank. In January 2013, we welcomed Angie Risley on to our Operating Board as Group HR Director. Angie was previously Group HR Director at Lloyds Banking Group and Whitbread, and brings a wealth of experience having worked at Board level in a number of large customer-facing companies.

The value of our values

Our unique values and strong culture are at the heart of our success, and this remains as true today as it was when we were founded 144 years ago. Our ambitious *20x20 Sustainability Plan* sets out our future commitments and is key to the long-term sustainability of our business. It is contributing to greater efficiency, stronger supplier partnerships, deeper customer loyalty and increased colleague engagement, all of which ultimately generate and enhance shareholder value.

Outlook

The wider economic situation looks likely to remain challenging, but we have consistently demonstrated we can succeed against this backdrop. Furthermore, we see exciting growth opportunities as we bring our great food, clothing and general merchandise to more customers across multiple channels, via our focused space, new technology and new business programmes.

We remain committed to delivering value for shareholders and growing profits while making investments for the future. The foundations for growth are in place and your Board believes this positions us well to achieve our vision to be the most trusted retailer, where people love to work and shop.

David Tyler
Chairman



Justin King, Chief Executive

Dear Shareholder,
We have delivered good sales and profit growth, with significant market outperformance. We are succeeding because we work hard to understand what our customers want, and we offer them quality and value every day through our promise to help people *Live Well For Less*. We will continue to invest in creating the best quality own-brand products, delivering first-rate service and bringing our food, clothing and general merchandise to more customers.

A year like no other

This truly has been a year like no other. The Queen's Diamond Jubilee festivities were not dampened by the great British weather, and the endeavours of our Olympians and Paralympians uplifted and inspired us as a nation. We were enormously proud to play our part in both events - as a partner for the Queen's Diamond Jubilee Beacons and Thames River Pageant, and by becoming the first-ever Paralympic-only sponsor of the London 2012 Paralympic Games.

For Sainsbury's too, it has been a year like no other as we helped more customers than ever before to *Live Well For Less*. With 33 consecutive quarters of like-for-like sales growth our market share is at its highest level for a decade and we are outperforming our major competitors. Our clear and proven long-term strategy continues to drive good sales and profit growth.

Our vision is to be the most trusted retailer, where people love to work and shop. Our success rests on the 157,000 colleagues working in our stores, depots and support centres. It is due to their hard work and dedication that we were once again named Supermarket of the Year at the Retail Industry

Awards - the fifth time in seven years - as well as Convenience Chain of the Year for the third year running.

With 23 million customer transactions a week, an increase of over 800,000 on last year, we believe our promise to help people *Live Well For Less* is more relevant than ever. Our customers trust us to make their lives simpler and easier and to help them save time and money. They are confident about the quality, provenance and integrity of the products they buy from us across all price brackets.

We have continued to address price perception. Brand Match, now in its second year, is reassuring customers that they won't pay more for brands at Sainsbury's than at either Asda or Tesco. We are also able to offer meaningful and targeted promotions through Nectar - the UK's largest loyalty scheme - and our coupon-at-till technology. Nearly 12 million Sainsbury's customers regularly use their Nectar loyalty card when they shop with us and the programme remains a source of considerable competitive advantage.

Great food

Our great food offer, in particular the strength and breadth of our own-brand products, is a key driver of growth and loyalty. Own-brand is outperforming the market as well as many branded equivalents, with most customers buying across our ranges - from *basics* to *by Sainsbury's* and *Taste the Difference*. The relaunch of our core *by Sainsbury's* range, which accounts for nearly 40 per cent of sales, is now complete, with many products new or improved. It has been very well received by our customers and is growing ahead of our major competitors' comparable products.

Compelling general merchandise & clothing

Sales of general merchandise and clothing continue to grow - at more than twice the rate of food over the year. We offer customers high street quality and style at supermarket prices and this is proving to be very successful. We also know that our non-food offer builds overall customer loyalty and, with only around a third of the population - up from 11 per cent five years ago - living within a 15 minute drive of our full non-food range, there are plenty of opportunities for future growth.

Complementary channels & services

Our long-standing investment in complementary channels and services continues to deliver. The amount customers spend more than doubles when they shop in our supermarkets, convenience stores and online. Sainsbury's Locals now account for nearly a third of the UK's convenience market growth with sales of over £1.5 billion and year-on-year growth of over 17 per cent. Annual sales in our groceries online business are at nearly £1 billion and continue to grow at around 20 per cent.

Sainsbury's Bank has enjoyed another successful year, with our share of joint venture post-tax profit up 38 per cent to £22 million and an eight per cent increase in active customer accounts over the year. We have reached an agreement to take full ownership of Sainsbury's Bank by acquiring Lloyds Banking Group's 50 per cent shareholding for £248 million, which comprises cash consideration for the shares of £193 million and the purchase of £55 million of loan stock. Developing complementary channels and services is a core part of Sainsbury's long-term strategy for growth and our ownership of the Bank will enable its full potential to be realised.

Developing new business

Our targeted programme of new business development continues, with Sainsbury's pharmacies now open in over 270 stores and in three hospitals. Sainsbury's Energy has achieved an 83 per cent increase in customers over the year and we are finding new ways to offer a range of digital products and services, from eBooks to Mobile Scan & Go.

Growing space & creating property value

We continue to deliver against our space growth plans, with the return to what we consider to be a prudent and steady state of growth. This year we opened just over one million sq ft of space adding 14 new supermarkets, 87 convenience stores and eight extensions to our estate. Our property portfolio is now valued at £11.5 billion and we generated £66 million of property profit from sale and leaseback activity in the year.

Our values make us different

We know that our values make us different from other supermarkets, and our customers and colleagues expect Sainsbury's to do the right thing. Our *20x20 Sustainability Plan*, published in 2011, lays out 20 commitments, each linked to one of our five core values. The plan provides a clear focus to our corporate responsibility programme - from doubling the amount of British food we sell, to positive commitments on the environment. In November, we updated on the progress we have made so far and further information is provided in this annual report.

Our values continue to be a source of long-term sustainable advantage and great pride. One example is our involvement in the London 2012 Paralympic Games. From the start we aimed to be much more than a sponsor and to play our part in ensuring the success of the Games, as well as creating a lasting legacy. Our legacy programme has already contributed £2 million of funding for schools, clubs

Market share

Source: Kantar Worldpanel total till roll for the 52 weeks to 17 March 2013



and organisations to ensure that the next generation of Paralympic athletes get the support and coaching they need. Building on our support of British Athletics' Paralympic programme, I am delighted that we are sponsoring the Sainsbury's Summer Series - three world-class athletics events being held this summer in Birmingham and at the Queen Elizabeth Olympic Park in London.

Being a great place to work is an essential part of our business plan. This is not only important to us but also to our customers - they consistently tell us that how we treat our colleagues is their number one priority for corporate responsibility. This year we have seen our highest levels of colleague engagement and commitment and we were recognised as the Employer of the Year by Retail Week.

In addition, Sainsbury's was once again rated global sector leader in the Dow Jones Sustainability Index and continued to be listed in the FTSE4Good Index.

Looking forward

Looking forward to the year ahead, whilst the economic climate is likely to remain challenging, we are well positioned to succeed for you, our shareholders, through the continued delivery of our long-term strategy for growth and by helping our customers *Live Well For Less*.

Justin King
Chief Executive

Our 'Make Your Roast Go Further' campaign encouraged customers to put less food in the bin and more money in their pockets by using their leftovers for an extra meal



Our marketplace

Many commentators assumed that the challenging economic climate would lead to low prices becoming the primary motivator in supermarket shopping. Yet consumer behaviour shows a more complex picture - one where quality and values remain an important part of the 'is it good value?' equation.



As in previous years, the UK economic climate in 2012/13 continued to be challenging. Consumers remained under pressure as inflation again outstripped wage growth, as it has done for the last four years, putting pressure on disposable income and squeezing household budgets (chart 1).

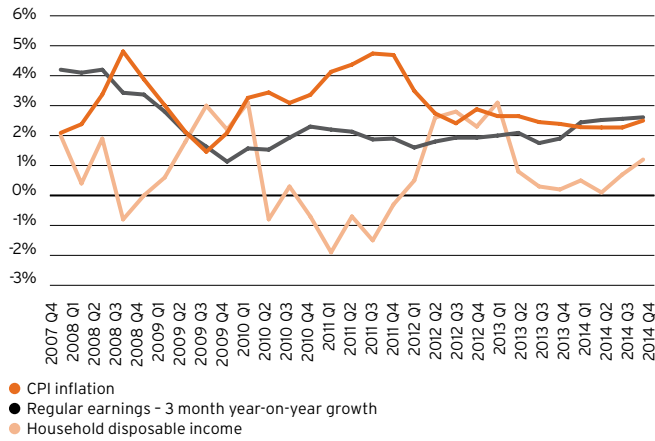
There has been a slight improvement in consumer confidence during the year due to low interest rates and falling unemployment (chart 2); however, it remains resolutely negative. Despite this slightly increased confidence and a small increase in discretionary spending power, there has not been a commensurate increase in consumer spending (chart 3). Although the outlook has improved over the year, consumer confidence remains depressed, largely due to rising living costs, limited wage increases in real terms, job insecurity and changes to tax and benefits (chart 4).

Over the past few years, we have seen significant changes in consumer behaviour, changes that we believe will continue over the coming years. Consumers have adapted to economic challenges by rediscovering the savvy housekeeping habits of earlier generations, leading to fundamental changes in the way they live and shop. There has been a shift to people buying slightly less in their weekly grocery shop and then topping it up locally in convenience stores. Across all demographics customers are more price conscious than ever, looking for discounts and offers to help them save money and make their household budget go further (chart 5). They are saving money by planning their meals ahead, writing and sticking to a shopping list, wasting less and using leftovers creatively for an extra meal or packed lunch (chart 6).

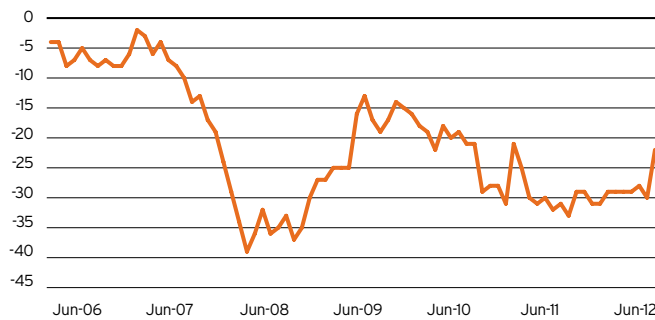
The credit crunch has not led to a values crunch. Instead, the downturn has led to a strengthening of values irrespective of income, as people carefully consider their spending decisions. Consumers have greater expectations of the goods and services they buy and are more interested than ever in the integrity of products and the companies they buy from. They want complex questions solved on their behalf and are prepared to pay a fair price for quality products. Across all age ranges and all demographics shoppers are looking for quality, values and value from companies they trust (chart 7).

1: CEBR economic indicators

Inflation, earnings growth and household discretionary spending power



2: GfK Consumer Confidence Index



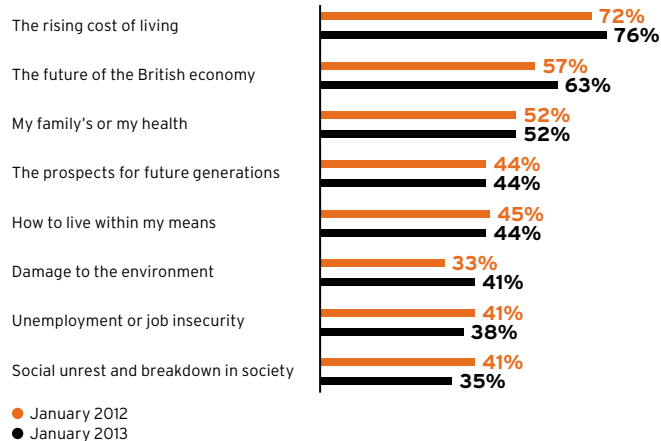
3: CEBR change in consumer spending

Year-on-year change in consumer spending



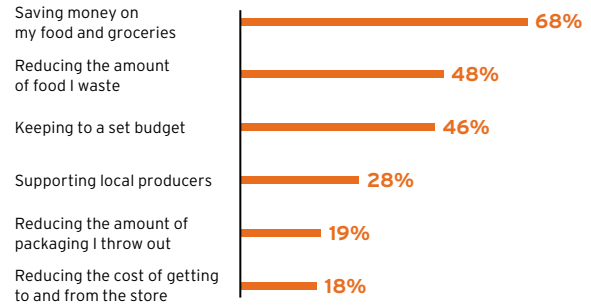
4: Shoppers' concerns

Which of these factors concern you?



Source: IGD ShopperVista (all shoppers)

5: When thinking about your food and grocery shopping, what are your priorities for the year ahead?



Source: IGD ShopperVista (all shoppers, January 2013)

6: Changes in consumer behaviour in the post-crunch shopping era

Nine out of ten people (90 per cent) say they now write a shopping list before they leave home



Nearly four out of ten people (37 per cent) plan meals for the full week



Nearly two thirds (64 per cent) look out for special offers



More than one in four (28 per cent) are now taking a packed lunch to work



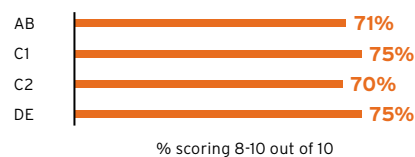
45 per cent bulk buy food when it's on offer



Source: 'The Rise of New Fashioned Values', Sainsbury's, November 2012

7: Importance of 'doing business in a responsible manner'

Importance of 'doing business in a responsible manner' by socio-economic group



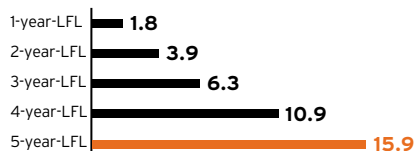
% scoring 8-10 out of 10

Source: 'The Rise of New Fashioned Values', Sainsbury's, November 2012

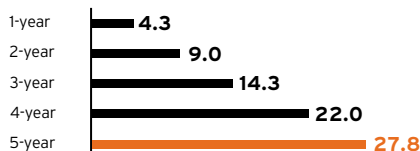
Key performance indicators

Financial KPIs

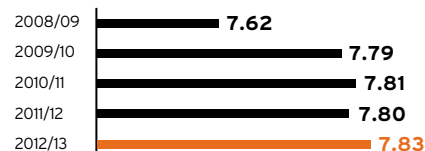
Like-for-like sales¹ 2012/13 (%)



Total sales growth¹ 2012/13 (%)



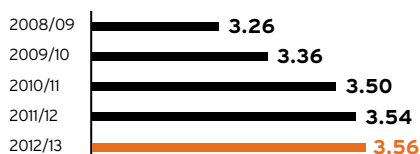
Underlying EBITDAR² margin (%)



Trading intensity per sq ft^{3,4} (£ per week)



Underlying operating margin⁵ (%)



Underlying profit before tax⁶ (£m)



Non-financial KPIs

Delivering against our 20x20 Sustainability Plan

Our values Commitments Progress

Best for food and health	Healthier baskets	<ul style="list-style-type: none"> Promoted the consumption of fruit and vegetables through 'Five-A-Day the basics way' Over the year, 30 per cent of fruit and vegetable sales were via promotion New My Goodness! ready meal range launched with controlled calories, fat and salt, as well as one of your five-a-day
	Alcohol	<ul style="list-style-type: none"> Since we set our target we have sold 17.5 per cent more bottles of lighter alcohol wine Started a roll-out programme for our front of pack labelling with clear labelling of alcohol by volume ('ABV') on our own label wines
Sourcing with integrity	Raw materials	<ul style="list-style-type: none"> Top 30 raw materials sourcing plans in development
	No deforestation	<ul style="list-style-type: none"> Over 1.8 million trees planted with the Woodland Trust since 2004, including one million planted as part of Sainsbury's £1.5 million donation to the Jubilee Woods project Products continue to be converted to Forest Stewardship Council standards
	Sustainable fish	<ul style="list-style-type: none"> Largest retailer of Marine Stewardship Council ('MSC') certified seafood for the fourth year running, with sales of £115 million 128 MSC products, including MSC pole and line caught tuna from the Maldives as of May 2013 Five tonnes of lesser known British fish distributed in the <i>Switch the Fish</i> campaign
	Fairly traded	<ul style="list-style-type: none"> World's largest retailer of Fairtrade with sales of over £319 million 555 Fairtrade products, from our Sainsbury's basics tea to our Taste the Difference chocolate £3 million commitment over four years to fund projects via Sainsbury's Fair Development Fund with Comic Relief
	British	<ul style="list-style-type: none"> £1.2 million in research and development grants to 14 projects to drive innovation and sustainability in British farming Introduced a unique dairy pricing model voted for by our dairy farmers, reflecting the cost of production UK's leading retailer of British apples and pears for the fourth year with 53 apple and 11 pear varieties
	Animal welfare	<ul style="list-style-type: none"> Leading retailer of Freedom Food products with sales of £465 million RSPCA 'Retailer of the Year' and winner of the Good Business Engagement Award British Freedom Food range extended to veal, with male calves from Sainsbury's Dairy Development Group 'Leadership & Innovation in Retail' award from Compassion in World Farming
	Supplier standards	<ul style="list-style-type: none"> Ethical training of suppliers, as well as conducting our fourth consecutive programme of African Supplier Conferences Supplier development projects directly impacting the lives of up to half a million small-scale producers and workers within supply chains in Kenya and the Democratic Republic of Congo

1 Sales including VAT, excluding fuel.

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

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

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

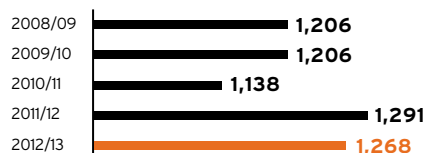
5 Underlying operating margin: underlying profit before tax before underlying net finance costs and underlying share of post-tax results from joint ventures, divided by sales excluding VAT, including fuel.

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

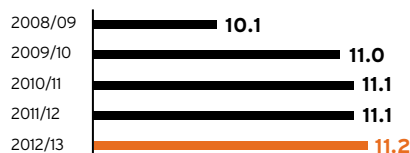
Business review

Key performance indicators continued

Operating cash flow (£m)



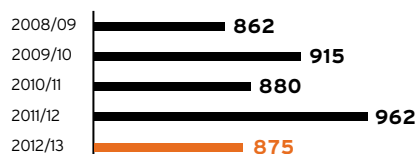
Pre-tax return on capital employed⁷ (%)



Underlying basic earnings per share⁸ (pence)



Net capital expenditure (£m)



Gearing⁹ (%)



Dividend per share¹⁰ (pence)



Our values Commitments Progress

Respect for our environment	Positive waste	<ul style="list-style-type: none"> 100 per cent of waste put to a positive use, with 75 per cent generating a positive income to the business All food waste generated in mainland UK goes to anaerobic digestion 14 per cent year-on-year absolute reduction in the amount of general waste produced in our logistics operations Over nine million items of clothing and 1.7 million books donated through store textile and book banks and recycled through Oxfam
	Packaging	<ul style="list-style-type: none"> Helped customers reduce food waste via amending 'display until' and 'freeze by' labelling 6.4 per cent of packaging removed from own-brand products in 2011/12
	Operational carbon	<ul style="list-style-type: none"> Investment in renewable energy with 19.3MW of photovoltaics installed in 189 stores, 67 biomass boilers and 12 geothermal ground source heat pumps Scored 82 and a 'B' rating in the Carbon Disclosure Project; up from 43 last year Ranked in the top ten of Carbon Clear's FTSE 100 companies with the best carbon management 26 per cent reduction in CO₂ emissions per 1,000 cases from our transport operations against 2005/06 baseline
	Supplier carbon	<ul style="list-style-type: none"> Worked with farmers across ten development groups, saving over 70,000 tonnes of carbon since 2007 New supplier sustainability scorecard, encouraging sustainable growth
	Water	<ul style="list-style-type: none"> 50 per cent reduction in relative water consumption against our baseline of 2005/06, including a 17 per cent absolute water reduction in logistics operations from prior year First retailer to obtain Carbon Trust Water standard independent certification for action to measure, manage and reduce water use
Making a positive difference to our community	Active youth	<ul style="list-style-type: none"> Ninth year of <i>Active Kids</i> programme to encourage children to lead healthier, more active lifestyles, with around £123 million worth of sports equipment and experiences donated since 2005 First-ever Paralympic-only sponsor and announced <i>Active Kids for All</i> programme for inclusive school sport
	Community investment	<ul style="list-style-type: none"> £41.5 million invested in communities by us, our colleagues, our customers and our suppliers Over two million meals donated in UK's largest food drive; one million meals donated by customers, matched by Sainsbury's
A great place to work	Commitment and engagement	<ul style="list-style-type: none"> Two percentage points year-on-year increase in colleague engagement as measured in Talkback, our annual colleague survey Three percentage points increase in colleagues who say they would recommend Sainsbury's as a great place to work Named Employer of the Year by Retail Week
	Jobs and skills	<ul style="list-style-type: none"> 26,000 colleagues visited Sainsbury's food colleges, including over 20,000 receiving City & Guilds' accredited training New apprentice scheme announced with 400 places available, developing future team leaders
	Long service	<ul style="list-style-type: none"> Over 15,000 colleagues with 20 years or more employment, with 178 reaching 40 years or more
	Disadvantaged groups	<ul style="list-style-type: none"> Over 17,000 people employed via <i>You Can</i> programme with Remploy, Mencap, A Fairer Chance, Shaw Trust and Job Centre Plus since 2008 One of a few companies to adopt a Carers Policy, as part of our Carers UK partnership <i>Youth Can</i> programme promoting employment to young people
	Sharing success	<ul style="list-style-type: none"> Eligible colleagues shared a record bonus pot of over £90 million, reflecting market beating performance 18,700 colleagues participated in this year's Save-As-You-Earn offer, making 31,330 in total 11,000 colleagues shared a £23 million payout in savings and profit via two of our Sharesave schemes

7 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).

8 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.

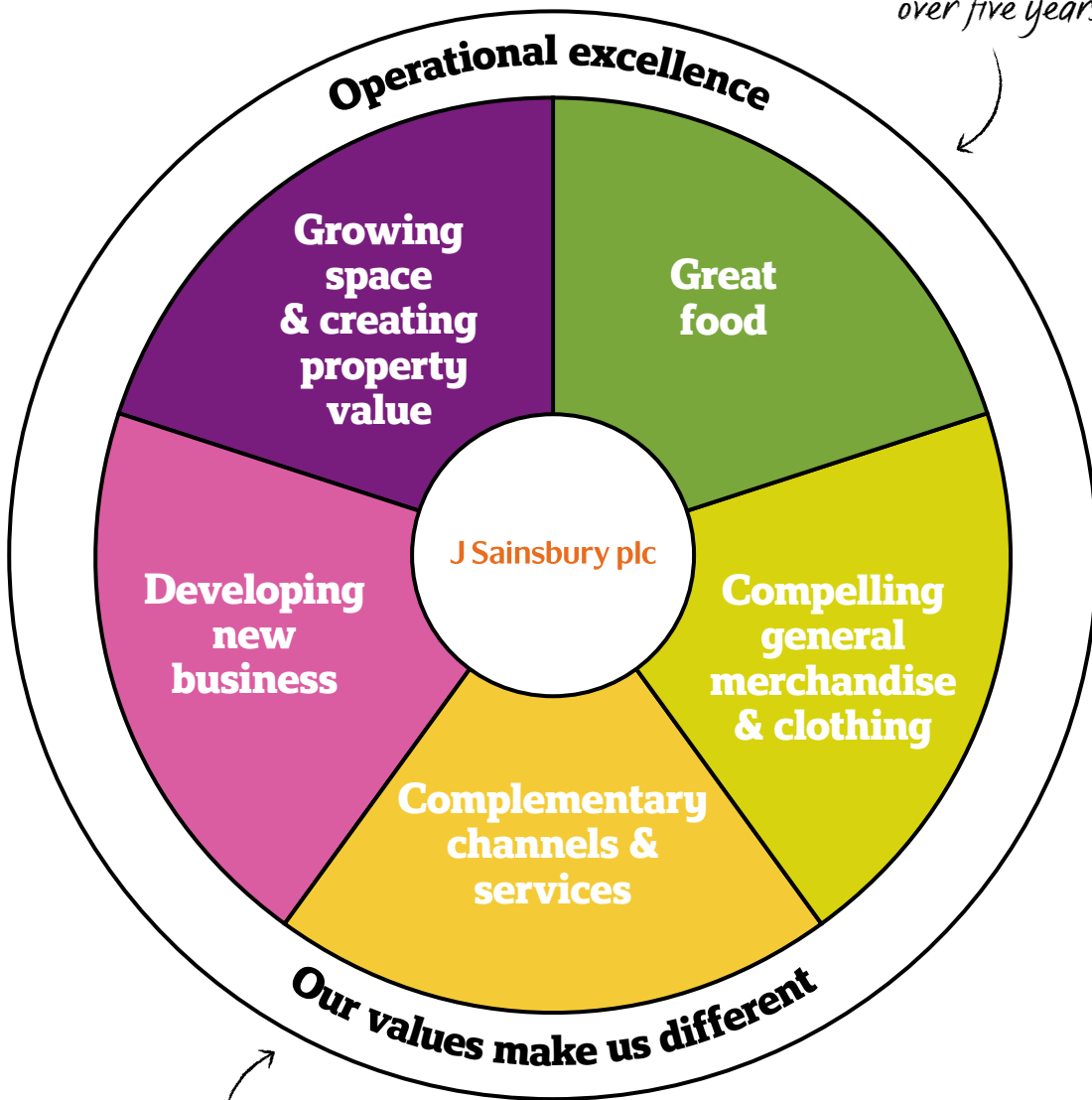
9 Gearing: net debt divided by net assets.

10 Dividend per share: total proposed dividend per share in relation to the financial year.

Our business strategy for growth: our five areas of focus are underpinned by our values and operational excellence

Our strategy

We have achieved over £100 million of operational cost savings over the year, totalling over £500 million over five years



Our values set us apart from other retailers. They underpin our strategy and the way we operate our business, and they govern the way we relate to customers, colleagues and stakeholders.

Read more about our values on pages 22 to 25



Great food

Fresh food is at the heart of what we do. The quality and value of our food, combined with our strong ethical standards and supplier relationships, differentiate us from other supermarkets and help our customers to *Live Well For Less*.



Compelling general merchandise & clothing

Our strategy of offering customers high street quality and style at supermarket prices is proving to be highly successful, with sales of general merchandise and clothing growing at over twice the rate of food.



Complementary channels & services

People have more choice than ever before of where, how and when to do their shopping. We offer a winning mix of supermarkets, convenience stores and a full online grocery and general merchandise offer.

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



Developing new business

Developing new business and investing beyond our core is an important part of our long-term strategy for the future. We are moving into areas that are a natural extension of our brand - such as pharmacy, energy and digital entertainment.

Growing space & creating property value

We have a clearly defined strategy for growing space and increasing property value. This falls into three main areas - new supermarkets, adding space to existing stores through extensions and new convenience stores.

Fresh food is at the heart of what we do. The quality and value of our food, combined with our strong ethical standards and supplier relationships, differentiate us from other supermarkets and help our customers to *Live Well For Less*.

Great food



by Sainsbury's

Re-launch now complete with over 6,500 lines, many new or improved

Own-brand

Sales are growing faster than brands, accounting for half of our food sales





£40m

**Invested
in Farmer
Development
Groups since
2006**



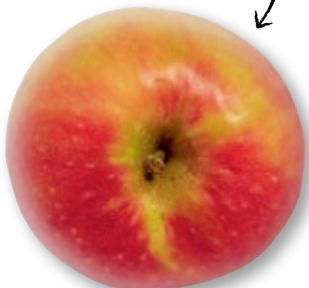
20,000+

**Colleagues with
City & Guilds'
accredited training
from our seven
food colleges**



£1 in £5

**Spent on fresh fruit
and vegetables
in UK supermarkets
is spent at Sainsbury's**



We know people want to eat more local food, and support British farmers. We source food from the UK whenever it is available and the quality is of the standard our customers expect. We are committed to doubling the amount of British food we sell by 2020.

We are proud of our close and long-standing relationships with our suppliers. We operate 10 Development Groups for farmers and growers across dairy, beef, pork, lamb, veal, eggs, chicken, cheese, wheat and produce and we have invested over £40 million in these groups since 2006. In May 2012, following an overwhelming majority vote from Sainsbury's Dairy Development Group farmers, we adopted a unique 'Cost of Production' payment model for milk. This increased the price we paid to dairy farmers and continues to reward them for good animal welfare and environmental responsibility. We also paid a premium to our Pork Development Group farmers when they faced rising feed prices.

Customers increasingly buy into our own-brand food offer, which has grown by nearly five per cent in the year and now accounts for half of our food sales. The successful re-launch of our core *by* Sainsbury's range is now complete with over 6,500 lines, many of which are new or improved. Sales grew ahead of our major competitors' comparable ranges and *by* Sainsbury's won the prestigious Grocer Gold Own Label Brand of the Year award. Our *Taste the Difference* range is also growing strongly at nearly 10 per cent and is gaining market share. *Basics* continues to be the second biggest selling supermarket value brand in the UK, purchased regularly by customers who buy across our own-brand ranges.

Our customers trust us to provide high quality food that is safe to eat, and whose provenance is clear. We found no horsemeat in any of our products. This is testimony to our exacting standards and to the DNA and other testing we have been carrying out regularly for many years to ensure the integrity and safety of our food.

Sainsbury's is committed to fishing responsibly and helping to change UK fish-eating habits. In January, we launched our second 'Switch the Fish' campaign. This was designed to encourage people to try lesser-known sustainable fish, with over five tonnes of lemon sole, mussels, Cornish sardines, coley fillets and loch trout fillets distributed over the three day campaign. Sales of these alternative species increased by 59 per cent following the campaign.

One pound in every five spent on fresh fruit and vegetables in UK supermarkets is spent at Sainsbury's, because our customers trust the quality, integrity and provenance of our offer. We were the biggest volume retailer of British apples and pears for the fourth year running.

We offer a fresh counter service in over 500 of our stores and sales from these counters are continuing to grow and outperform the market. Much of this success is driven by the enthusiasm, skill and expertise of over 20,000 colleagues who have benefited from City & Guilds' accredited training in our seven food colleges.

Ethical trading is a cornerstone of our food offer and with sales this year of £319 million we are once again the largest Fairtrade retailer in the world. All our bananas and own-brand tea, coffee and sugar are Fairtrade. Since 2007 we have given over £20 million to projects in developing countries from sales of bananas alone.

Our strategy of offering customers high street quality and style at supermarket prices is proving to be highly successful, with sales of general merchandise and clothing growing at more than twice the rate of food

Compelling general merchandise & clothing

Tu

7th largest clothing retailer in the UK



2nd

In the UK for children's fancy dress





"We sell more bakeware than our major competitors"

£1bn+

Annual general merchandise sales



Our non-food offer builds customer loyalty - customers who buy clothing and general merchandise, as well as food, shop with us more frequently and spend more than those who only buy food. In February, we achieved the significant milestone of £1 billion in annual general merchandise sales, a reflection of the investment we have made in space and the quality of our offer.

Two thirds of the UK population are still not within a 15 minute drive of our full non-food offer and only one in five of our supermarkets has a full non-food range. Future store extensions therefore present opportunities for growth in this area.

Our successful *Tu* clothing ranges are increasingly popular with our customers and have enjoyed strong double-digit growth during the year. *Tu* is the seventh biggest clothing line in the UK by volume and has risen to twelfth place by value. The sales of women's jeans increased by over 80 per cent after the successful roll-out of our new Denim Shop format, and our exclusive *Gok for Tu* collections, designed to be versatile, fashionable and flattering, continue to be hugely popular with our customers.

Parents appreciate the great value and quality of our childrenswear ranges and our biggest ever schoolwear event last summer delivered a sales increase of 25 per cent. We sold over one million polo shirts, 630,000 pairs of boys' trousers and 272,000 girls' skirts, consolidating our position of number four in the schoolwear market by volume. Another huge success has been our investment in children's fancy dress, where we are second in the UK market by value.

General merchandise sales outperformed the market, driven in part by strong sales on occasions such as Mother's Day, Back to School and our bi-annual sales, as well as by the events unique to the year - the Queen's Diamond Jubilee, Olympics and Paralympics. We sell more bakeware than our major competitors and as a result of our compelling offer and improved in-store experience, we are now the UK's seventh largest retailer for homeware by value.

We have grown market share across all four categories of entertainment - film, music, games and books - in what is a challenging market. We secured exclusive versions of some of the biggest DVD releases of the year including *Avengers Assemble*, *The Hunger Games*, *War Horse* and *Ice Age 4*. In the first week of its release, we achieved over 25 per cent market share on *Skyfall* - the biggest-selling DVD in the market since *Mamma Mia* in 2008.

We continue to increase direct sourcing and to forge better relationships and terms with our suppliers overseas through our offices in Shanghai, Hong Kong and most recently Bangladesh. We have rigorous technical and ethical processes to ensure we source with integrity and help our customers to *Live Well For Less*.

+25%

Last summer was our biggest ever schoolwear event, with sales up 25%



People have more choice than ever before of where, when and how to do their shopping

Complementary channels & services

190,000+

Online grocery orders per week



10,000

Convenience job opportunities over the next three years



1st retailer

In the UK to trial innovative 'Mobile Scan & Go' technology

We offer a winning mix of supermarkets, convenience stores and a full online grocery and general merchandise offer. Where customers shop all three of these channels, their total spend is more than double that of the average supermarket-only shopper.

The trend for local top-up shopping remains, as customers conserve fuel, minimise waste and manage their budgets. Our convenience business, which we have built and invested in over the past 15 years, is benefiting from this trend, with five million customer transactions each week and a turnover in excess of £1.5 billion. Convenience stores have delivered sales growth of over 17 per cent year-on-year, driven by both new space and like-for-like sales growth. We have continued to open one or two convenience stores each week, 87 during the year, bringing our total number of convenience stores to 523. In the next year the number of convenience stores will overtake that of supermarkets, and over the next three years this expansion will create 10,000 job opportunities.

We were named Convenience Chain of the Year for the third year running at the Retail Industry Awards in recognition of our breadth of range, customer service and community involvement.

Our groceries online business, which has been operating since 1999, is also growing strongly at around 20 per cent year-on-year. We have the ability to deliver to over 96 per cent of UK households. Grocery orders now regularly exceed 190,000 per week - 25,000 more than last year - and customer feedback relating to service and availability are at an all-time high. We have also seen double-digit improvements in the efficiency of our picking and delivery operations.

Maximising new and existing opportunities in the online and digital space is a key part of our long-term growth plans. This year, we were the first retailer in the UK to trial innovative 'Mobile Scan & Go' technology in three stores. It allows customers to track how much they are spending as they shop and view savings instantly on their mobile phone. When they have finished shopping they pay at the till without unloading their trolley, basket or bag.

Our general merchandise website continues to offer thousands of branded and own-brand lines across home and garden, appliances, technology, toys, games, sport and leisure. Over half our customers choose to collect their orders via our *Click & Collect* service which is available in nearly 1,000 of our stores.

Sainsbury's Bank has enjoyed another successful year, delivering its fifth consecutive year of profit growth, with our share of the joint venture post-tax profit up 38 per cent to £22 million. Our strategy remains to offer customers good quality financial services products that offer value for money. The strong performance is underpinned by a competitive offering which combines preferential deals on financial products with Nectar points to be spent at Sainsbury's or elsewhere.

The Bank's active accounts are up eight per cent on the year to 1.5 million and these customers spend more with us.

Our Nectar-based credit card, offering our most attractive reward to date, has exceeded all expectations and further deepened our relationship with Nectar and our customers. Growth in credit cards overall was 17 per cent year-on-year.

The Bank enjoyed continued success with car insurance with new business up 67 per cent year-on-year. Sainsbury's Travel Money increased turnover by 35 per cent, with both in-store bureaux and online ordering performing well.

The Bank was named Best Personal Loan Provider by Consumer Moneyfacts, Best Online Pet Insurance Provider by Your Money Direct, Best Credit Card for Rewards by Money.net and Best Term Assurance Provider Direct by Moneyfacts Investment Life & Pensions.

We have reached an agreement to take full ownership of Sainsbury's Bank by acquiring Lloyds Banking Group's 50 per cent shareholding for £248 million, which comprises cash consideration for the shares of £193 million and the purchase of £55 million of loan stock. Developing complementary channels and services is a core part of our long-term strategy for growth and ownership of the Bank will enable its full potential to be realised. As a consequence, given that loyal Bank customers spend more in our stores than non-Bank customers, and that customer penetration is low, there is a significant opportunity to grow the Bank and at the same time in-store sales and customer loyalty. As a result we expect strong returns over time for the Group from this investment.



5th

Consecutive year of profit growth at Sainsbury's Bank

Developing new business and investing beyond our core is an important part of our long-term strategy for the future

Developing new business



270+

Pharmacies in our stores and three hospital outpatient pharmacies





150,000+
Books available on eBooks by Sainsbury's

+83%

Customers signing up to Sainsbury's Energy increased by 83% year-on-year



One of our 20x20 sustainability commitments is to be a leading provider of health services. Research shows that people are more likely to discuss minor ailments with a pharmacist than go to their GP and this is borne out by the experience of our 270 plus in-store pharmacies. Our highly trained, professional pharmacists conducted 95,000 cholesterol checks, an increase of 25 per cent year-on-year, gave 56,000 flu vaccinations and worked with the Department of Health for the third year to help people stop smoking by giving out more than 30,000 Quit Kits. We have also taken over the management of the outpatient pharmacies at Guy's and St Thomas' Hospitals in London and James Cook University Hospital in Middlesbrough.

Customers in 35 of our stores can benefit from the NHS GP or nurse-led surgeries we host. Private dental surgeries also operate in 12 of our stores. Our convenient locations and good parking facilities lend themselves perfectly to these services, which are appreciated by our customers and the communities we serve.

Sainsbury's Energy provides customers with great value gas and electricity, together with the reward of Nectar points. We also offer advice on energy-saving products such as solar panels and insulation and home energy assessments. The number of customers signing up to Sainsbury's Energy increased by 83 per cent in the last year, as people shop around for the best deals in the market. Our online sales channel accounts for 36 per cent of the total number of customers acquired.

We have formed a joint venture with Aimia, owner of the Nectar programme. The new company, I²C (Insight 2 Communication), will benefit customers through timely, relevant and accessible offers, based on their likes and dislikes, while brands benefit from insight-based marketing solutions and a greater return on investment.

We continue our drive into the online and digital entertainment market with the purchase of a majority stake in Anobii, now operating as eBooks by Sainsbury's, and our partnership with Rovi Corporation, an on-demand video streaming service. These new and exciting business relationships underline our commitment to become a key player in the digital entertainment market.



In the last five years, we have added £4 billion to the value of our property portfolio, the market value of which is now £11.5 billion. Activity during the year delivered profits of £66 million and, over five years, we have raised £1.3 billion through disposals realising property profits of £341 million.

Growing space & creating property value

New space

This year we opened:
14 supermarkets
8 extensions
87 convenience stores



We have a clearly defined strategy for growing space and increasing our store portfolio. This falls into three main areas:

1. New supermarkets
2. Adding space to existing stores through extensions
3. New convenience stores

This year we have added 14 supermarkets, 87 convenience stores and eight extensions to our property portfolio - a total of just over one million sq ft, in line with our target of around five per cent gross space growth.

Some of this additional space has enabled us to bring our increasingly popular clothing and general merchandise ranges to more customers. It has also enabled us to expand our coverage of the UK to areas where our presence was previously limited - around 22 per cent of the UK population does not live within a 15 minute drive of a Sainsbury's store and we have less than five per cent market share in 35 per cent of UK postcodes.

A new Sainsbury's store brings a number of benefits to local communities. In October, we opened a new 60,000 sq ft supermarket in the Caldewgate area of Carlisle. The store has given a major regeneration boost to this area of the city, which had been badly affected by flooding and was becoming increasingly run-down. Our store created around 300 new local jobs, increased parking provision and brought a petrol filling station to the area.

We opened our 500th convenience store in Southsea, Hampshire in November and in the coming year will see the number of convenience stores we operate exceed the number of supermarkets. Convenience stores deliver particularly good returns and make a positive contribution to the regeneration of local high streets in terms of footfall, increased trade and employment opportunities.

Our store on Bellevue Road, Wandsworth, is a good example of this effect. Local traders were very supportive of us opening as they anticipated the benefits a Sainsbury's store could bring to their own businesses. This has been borne out by research, which shows that since our store opened footfall in the area has increased by almost 40 per cent.

We have a pipeline of space ready for development, including planning consents for a number of supermarket extensions, as well as a number of opportunities for new supermarkets and convenience stores. We ensure that all our investments, individually and overall, deliver good returns.

We work with joint venture partners to add property value and trading space to our estate. In April, as part of our British Land joint venture, we opened our newly extended store at Purley Way, Croydon, giving us an additional 10,200 sq ft of selling space. We also extended our store in Weedon Road, Northampton, by 23,600 sq ft, in November. Over the last few years, we have been successful in both securing mixed use planning permissions and ensuring we can get the maximum value for our land holdings via tactical sale and leaseback agreements. Work on a site in Fulham Wharf started in the summer and will deliver a replacement 76,000 sq ft supermarket and 267 residential apartments by mid 2015. Our partnership with Land Securities has seen work move forward at our Wandsworth Garratt Lane store where we are building an extension of 34,700 sq ft, a hotel and additional retail space due to open this autumn.

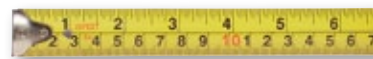


22%

Of the UK population does not live within a 15 minute drive of a Sainsbury's

£11.5bn property market value in 2012/13

£11.5bn
2012/13



£11.2bn
2011/12



£10.5bn
2010/11



£9.8bn
2009/10



£7.5bn
2008/09



£341 million property profits in five years



● Property proceeds
● Property profits

Our values set us apart from other retailers. They underpin our strategy and the way we operate our business, and they govern the way we relate to customers, colleagues and stakeholders. We see this as a competitive strength as well as a responsibility.

Our values make us different



£123m+

Worth of equipment and experiences donated to nearly 50,000 organisations through Active Kids

"We continue to make progress in reducing salt, fat and sugar in our own-brand food"



20x20 Sustainability Plan

In October 2011, we published our 20x20 Sustainability Plan comprising 20 ambitious goals, each linked to one of our five values, which we aim to achieve by the year 2020. It is our roadmap towards a more sustainable future and part of our promise to help customers *Live Well For Less*.

Best for food and health

We play a key role in helping our customers to achieve a healthier lifestyle, as well as encouraging co-operation between the food industry, Government, health and nutrition groups, suppliers and colleagues. We have been at the forefront of this type of positive action for many years: our innovative front-of-pack traffic light labelling - now on over 9,000 products - has changed customer buying patterns in favour of amber and green-rated products over red-rated ones.

We continue to make progress in reducing salt, fat and sugar in our own-brand food. About 30 per cent of our fruit and vegetable sales are through promotions and we are active supporters of the Government's Responsibility Deal 'Five-A-Day' pledge.

We are rolling out new ABV (alcohol by volume) labelling on our own-brand products to help customers identify quickly and easily the alcoholic strength of the products they buy. Since 2011 we have seen a 17.5 per cent increase in the number of bottles of lighter alcohol wine sold. This year we have trained pharmacists in over 270 stores as Healthy Eating Advisors to help our customers eat more healthily, lose weight and get active.

Sourcing with integrity

Our entire supply chain, from farm to store, is built around long-term sustainable relationships to ensure the best quality products at fair prices. We have one of the most extensive quality control programmes in the industry, employing over 100 people to ensure the integrity of our products. We apply the same checks and exacting standards across all our own-brand products - from *basics* to *Taste the Difference*.

We work with over 2,200 British farmers and growers and we are proud of the strong relationships we have built with them over time. We have invested over £40 million in our 10 British Farmer Development Groups since 2006 to promote and support good animal welfare, and improve environmental and ethical standards. In December, we awarded £1.2 million of agricultural

research and development grants to support the future of British farming through initiatives driven by our farmers, growers and suppliers.

The weather was particularly bad for our growers this winter, and by selling 'ugly' fruit and vegetables of different shapes and sizes, that are just as nutritious and tasty as our regular produce, we were able to support British farmers and reduce unnecessary waste.

The sustainability of the fishing industry is high on our agenda and we are the largest retailer of Marine Stewardship Council certified sustainable fish in the UK, with around 130 products - from *basics* fish fingers to *Taste the Difference* Wild Alaskan Salmon and from fish counters through to ready meals.

Respect for our environment

Using green energy and introducing proven and next-generation renewable technologies is fundamental to the long-term sustainability of our business. These technologies are helping to reduce our overall energy use, lower our energy bills and reduce our operational carbon emissions, even as we continue to grow floor space.

Investment in this area not only improves the long-term sustainability of our business, but also delivers a strong financial return. It makes good business sense for Sainsbury's, helps the environment and also supports job creation in the renewable energy sector.

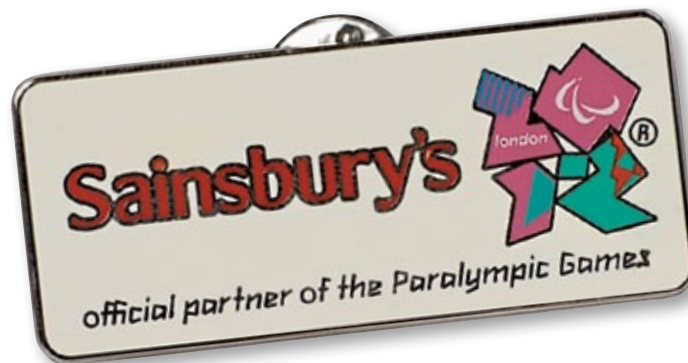
We are the UK's leading retail user of energy from anaerobic digestion ('AD'). Tamar Ltd, the strategic partnership we set up with Tamar Energy to produce energy from organic waste matter, is developing a UK network of over 40 AD plants that will generate 100MW of green electricity over the next five years.

Farm to store

Our entire supply chain is built around long-term sustainable relationships



Business review
Our strategy continued



Our well-established zero food waste to landfill policy means that any surplus food from our stores that has not been given to charity or used for animal feed is sent for AD to generate green energy. We are also working closely with our suppliers to ensure they have access to these AD plants to help them reduce the environmental impact of their operations, a key strand of our 20x20 Sustainability Plan.

In February, we became the first retailer to achieve the Carbon Trust Water Standard, showing that we are taking action to measure, manage and reduce water use year-on-year. We also saved 15,000 tonnes of carbon dioxide by switching to natural refrigerants in 150 stores.

We host the largest multi-roof solar panel array in Europe, having installed over 82,000 solar panels at 189 stores producing renewable energy for electricity.



We were awarded a number of environmental accolades this year, including the top award of 'Sustainable Business of the Year' at the Energy and Environmental Awards. This was in recognition of our industry-leading work on carbon and energy reduction, constant technological innovation, focus on recycling and water innovation.

Making a positive difference to our community

As the first-ever Paralympic-only sponsor, we played a full part in the London 2012 Games and experienced the power of sport to bring people and communities together. Over 18,000 Sainsbury's customers and colleagues were given the opportunity to attend the Games with our support, and 148 colleagues were seconded to LOCOG or acted as Games Makers. One hundred and fifty customers and colleagues took part in the Paralympic Torch Relay, generating high levels of customer and colleague engagement as it toured the UK - and our supermarkets.

148

Colleagues seconded to LOCOG or acted as Games Makers

2m meals

Donated to disadvantaged people in the UK's biggest ever single-charity food drive



82,000

Solar panels on the roofs of our stores



5,000

**Jobs created
this year**

Building on the success of Active Kids and the 'Million Kids Challenge', we launched our 'Active Kids for All' Paralympic legacy plan. Our £1 million commitment will fund teacher training to ensure that 500,000 children with a disability in mainstream education are included in school sports lessons. We are also extending our sponsorship of the British Paralympic Association to ensure that the next generation of Paralympic athletes get the support and coaching they need through to the Sochi Winter Paralympic Games in 2014 and Rio in 2016. Looking forward to this summer, we are proud to sponsor the Sainsbury's Summer Series - three world-class athletics events being held in Birmingham and at the Queen Elizabeth Olympic Park in London.

Working together with our customers, we donated a record-breaking £41.5 million to good causes in the year including our sponsorship of Comic Relief, support for the Royal British Legion Poppy Appeal and our nationwide Local Charity Partnership programme. Our second Million Meals Appeal saw a record-breaking two million meals donated to disadvantaged people across the country, with Sainsbury's matching our customers' donations, making it the UK's biggest ever single-charity food drive.

A great place to work

We have created 5,000 jobs this year, as part of our commitment to create 50,000 new job opportunities by 2020. Since 2011, we have recruited over 370 people on to our popular, fast-track Trainee Manager Scheme. Attracted by a long-term rewarding career and benefits including a contributory pension, discount card and eligibility for the Sainsbury's profit sharing and bonus schemes, as well as first class on and off-the-job training, they are now making their mark on our business across the country. We also created 400 apprenticeship places designed to train and develop team leaders of the future for our stores. Apprentices will be equipped with new skills and offered City & Guilds vocational training, including nationally recognised qualifications that are the equivalent of two A-levels.

To date over 20,000 colleagues who work on fresh counters and bakeries and in our in-store cafes have received job-related, City & Guilds' accredited training at our seven food colleges.

Over 80,000 colleagues are now saving for their retirement in a company Defined Contribution scheme. Last year, we were one of the first companies in the UK to introduce pension auto-enrolment. In light of changes to pensions over the last few years, and in line with other businesses, we have started a consultation about changes to our Defined Benefit pension scheme. The proposed changes will ensure that pension arrangements for all our colleagues are fair and sustainable for the future.

Our colleagues shared in a bonus of over £90 million this year, meaning that over the last five years we will have awarded over £350 million to colleagues in this way. In addition, 11,000 colleagues shared a £23 million payout in savings and profit via two of our Sharesave schemes which matured in March 2013, and nearly 19,000 colleagues participated in our most recent Save-As-You-Earn offer.

Our focus on the value of our values is an integral part of our business strategy and has again been recognised by key external benchmarks. We were recognised as Employer of the Year at the Retail Week Awards, highlighting how we engaged our colleagues in every aspect of the London 2012 Paralympic Games. We maintained our position in the FTSE4Good Index and we were recognised as global sector leader, for the sixth consecutive year, in the 2012 Dow Jones Sustainability Index review.

£350m+

**Awarded in colleague
bonuses over the last
five years**





John Rogers, Chief Financial Officer

Dear Shareholder,
In an eventful year, while the economic environment remained tough, Sainsbury's grew sales (including VAT) by 4.6 per cent to £25,632 million (2011/12: £24,511 million) and underlying profit before tax ('UPBT') by 6.2 per cent to £756 million (2011/12: £712 million). In so doing, we outperformed the market and increased market share to 16.8 per cent, the highest for a decade.

This performance was, in part, due to continued progress in our multi-channel strategy allowing customers to choose where, when and how they shop. Our online grocery business grew at around 20 per cent and annual sales are nearly £1.0 billion. Our convenience business grew at over 17 per cent and annual sales are now over £1.5 billion. Own-brand goes from strength to strength with not only top-line sales growth across all three ranges, *basics*, by Sainsbury's and *Taste the Difference*, but also good profit growth. Brand Match continued to reinforce the competitiveness of Sainsbury's price position along with Nectar and coupon-at-till technology, ensuring customers are rewarded with relevant offers.

Sainsbury's achieved over £100 million operational cost savings which offset most of the impact of inflationary pressures on costs during the year. Underlying operating profit increased by 5.1 per cent to £829 million (2011/12: £789 million), with operating margin improvement of two basis points (two basis points at constant fuel prices). UPBT improved by 6.2 per cent to £756 million (2011/12: £712 million). This growth was ahead of operating profit growth due to strong performance in underlying joint venture ('JV') profits, with our share of JV post-tax profit at Sainsbury's Bank up 38 per cent from £16 million to £22 million.

We are pleased to announce that we have reached an agreement with Lloyds Banking Group to acquire their 50 per cent shareholding of Sainsbury's Bank and take sole ownership. Sainsbury's intends to fund the future consideration from internal resources.

As well as the stand-alone growth potential of the Bank, full ownership will also allow future products to be even more tailored to Sainsbury's customers, leveraging Nectar data to drive sales uplift in both financial services and our supermarkets business. After taking out a Bank product, Sainsbury's shoppers become more loyal and spend more in-store, providing significant opportunity to unlock further value.

The Bank's results will be fully consolidated within our financial services segment from when the transaction completes, currently expected in January 2014.

New space and the investments made over the past few years continue to deliver an expected return above the Group's required hurdle rate, with core capital expenditure this year of £1,040 million (2011/12: £1,240 million). New space delivered a 2.5 per cent contribution to sales growth, slightly ahead of expectations due to stores opening earlier than anticipated and sales performing ahead of forecast in both supermarkets and convenience.

The return on capital employed ('ROCE') increased by 12 basis points to 11.2 per cent enhanced by the movement in the net pension deficit, which reduces capital employed. ROCE excluding the pension fund deficit was 10.4 per cent, a 15 basis point decrease year-on-year, held back by the cumulative effect of the Group's accelerated investment in space growth since June 2009 and slower sector growth and profitability.

Sainsbury's took advantage of continued good property yields and generated funds through the selective sale and leaseback of supermarkets that have no further development potential, generating £202 million of proceeds through property transactions (2011/12: £303 million). This delivered a profit from the disposal of properties of £66 million (2011/12: £83 million). The estimated market value of the Group's overall property portfolio increased by £0.3 billion, to £11.5 billion (17 March 2012: £11.2 billion).

The balance sheet remained strong and the business has funding in place of over £3 billion, including a revolving credit facility of £0.7 billion that remained un-drawn at the year-end. Net debt ended the year at £2.2 billion, in line with expectations.

Underlying basic earnings per share increased to 30.7 pence (2011/12: 28.1 pence), a 9.3 per cent improvement year-on-year. This was higher than the increase in underlying profit, primarily due to the impact of the reduction in the statutory corporation tax rate. Basic earnings per share increased by 1.9 per cent to 32.6 pence (2011/12: 32.0 pence).

The Board has recommended a final dividend of 11.9 pence (2011/12: 11.6 pence), making a full year dividend of 16.7 pence, up 3.7 per cent year-on-year (2011/12: 16.1 pence) and covered 1.83 times by underlying earnings. The Board intends to continue to increase the dividend each year and build dividend cover to around two times over the medium term.

Whilst the economic climate is likely to remain challenging, next year will be an exciting one for Sainsbury's as we take full ownership of Sainsbury's Bank and increase the pace of our convenience opening programme. Alongside this, our priority is to continue to drive returns from our investments, improve operational cash flow and working capital management, and maintain tight cost control.



John Rogers
Chief Financial Officer

Summary income statement

52 weeks to 16 March 2013

	2013 £m	2012 £m	Change %
Sales (including VAT)	25,632	24,511	4.6
Sales (excluding VAT)	23,303	22,294	4.5
Underlying operating profit	829	789	5.1
Underlying net finance costs ¹	(111)	(109)	(1.8)
Underlying share of post-tax profit from JVs ²	38	32	18.8
Underlying profit before tax	756	712	6.2
Profit on disposal of properties	66	83	(20.5)
Investment property fair value movements	(10)	-	n/a
Financing fair value movements	(10)	(16)	37.5
IAS 19 pension financing (charge)/credit	(5)	17	(129.4)
One-off items	(9)	3	(400.0)
Profit before tax	788	799	(1.4)
Income tax expense	(174)	(201)	13.4
Profit for the financial period	614	598	2.7
Underlying basic earnings per share	30.7p	28.1p	9.3
Basic earnings per share	32.6p	32.0p	1.9
Dividend per share	16.7p	16.1p	3.7

¹ Net finance costs before financing fair value movements and the IAS 19 pension financing element.

² The underlying share of post-tax profit from JVs is stated before investment property fair value movements, financing fair value movements and profit on disposal of properties.

Business review

Financial review continued

Sales (including VAT) and space

Sales (including fuel) increased by 4.6 per cent to £25,632 million (2011/12: £24,511 million).

This includes a 2.5 per cent contribution from new space (excluding extensions and replacements) and like-for-like ('LFL') sales growth of 2.1 per cent.

Sales growth (including VAT, including fuel)

52 weeks to 16 March 2013

	2013 %	2012 %
Like-for-like sales	2.1	4.5
Net new space (excluding extensions and replacements)	2.5	2.3
Total sales growth	4.6	6.8

Sales (excluding fuel) grew by 4.3 per cent, with LFL growth of 1.8 per cent, which was lower than the sales including fuel number due to the growth in fuel volume and fuel price inflation. The LFL increase was also below Sainsbury's medium-term planning objective of between three and four per cent, reflecting the challenging market conditions. Sainsbury's growth was, however, 1.2 percentage points ahead of the market, with market share growing by 19 basis points to 16.8 per cent for the 52 weeks to 17 March 2013 (as measured by Kantar).

LFL sales growth (excluding fuel) improved from 1.7 per cent in the first half to 1.9 per cent in the second half. Sainsbury's delivered growth of only 0.9 per cent in the third quarter, as competition intensified over the Christmas period. This eased off in the fourth quarter when Sainsbury's recorded the highest LFL growth of the year, at 3.6 per cent.

The contribution from net new space (excluding extensions and replacements) of 2.5 per cent was slightly ahead of Sainsbury's expectations due to stores opening earlier than anticipated and sales performing ahead of expectations in both new supermarket and convenience stores.

The convenience business grew sales at over 17 per cent to over £1.5 billion, well ahead of the market, and groceries online delivered nearly £1.0 billion of sales, a year-on-year increase of around 20 per cent. Our multi-channel strategy enables customers to shop where, when and how they want. Sainsbury's non-food offer continued to be challenged by the tough economic backdrop, and yet delivered growth ahead of the market and over twice that of the food business. This growth was supported by continued range development as well as investments in extensions and new space.

Sales growth (including VAT, excluding fuel)

52 weeks to 16 March 2013

	2013 %	2012 %
Like-for-like sales ¹	1.8	2.1
Net new space (excluding extensions and replacements)	2.5	2.4
Total sales growth	4.3	4.5

¹ This includes a 0.7 per cent contribution from stores extended in 2012/13, net of disruptions.

Average trading intensity ('TI') excluding fuel declined to £19.27 per sq ft per week (2011/12: £19.47 per sq ft), caused by: the higher proportion of space for general merchandise and clothing (which trades less intensively than food); an increasing presence in those parts of the country where TI is likely to be lower (albeit capital costs are also lower); and a drop in TI in the underlying estate due to the challenging economic environment. Convenience TIs continued to grow, as this offer meets changing customer shopping behaviours, with new stores performing well and sales from existing stores maturing.

New space, excluding extensions and replacements, contributed a net 2.5 per cent to the sales growth (excluding fuel) of 4.3 per cent. Sainsbury's added a gross 1,007,000 sq ft of selling space in the year (including replacements and extensions), an increase of 4.9 per cent (2011/12: 1,401,000 sq ft and 7.3 per cent). Including the impact of closures, this translated into net space growth of 918,000 sq ft, an increase of 4.5 per cent since the start of the year (2011/12: 1,239,000 sq ft and 6.5 per cent).

Space growth included 14 new supermarkets, of which two were replacement stores (2011/12: 19 new supermarkets, of which four were replacements). These generated an additional

634,000 sq ft of gross selling space (a net 551,000 sq ft), with one store closure. In line with previous guidance, we stepped up the number of supermarket refurbishments to 20 stores and consequently reduced the number of extensions to eight, adding 185,000 sq ft of selling space (2011/12: 28 extensions and seven refurbishments added 498,000 sq ft). Sainsbury's continued to open space in areas in which the brand is under-represented, with strong growth in East and North West England. These stores typically bring higher returns due to lower build costs, although ultimate TI is lower than in other parts of the country.

Convenience continues to be a key area of growth, with 87 stores added during the year (2011/12: 73 stores). Four stores were closed (2011/12: ten stores closed) and 15 refurbished (2011/12: 28 stores), with net convenience space growth of 182,000 sq ft, an increase of 17.7 per cent since the start of the year (2011/12: 118,000 sq ft and 13.0 per cent), meeting our target of opening one to two new stores per week.

Net of replacements, closures and disposals, closing space of 21,265,000 sq ft was 4.5 per cent higher than last year (2011/12: 20,347,000 sq ft).

Business review

Financial review continued

Store numbers and retailing space

52 weeks to 16 March 2013

	Supermarkets		Convenience		Total	
	Number	Area 000 sq ft	Number	Area 000 sq ft	Number	Area 000 sq ft
At 17 March 2012	572	19,320	440	1,027	1,012	20,347
New stores	14	634	87	190	101	824
Disposals/closures	(3)	(83)	(4)	(6)	(7)	(89)
Extensions/refurbishments/downsizes	-	185	-	(2)	-	183
At 16 March 2013	583	20,056	523	1,209	1,106	21,265
<i>Memorandum:</i>						
Extensions	8	165	-	-	8	165
Refurbishments/downsizes	20	20	15	(2)	35	18
Total projects	28	185	15	(2)	43	183

In 2013/14, Sainsbury's expects LFL sales to be between 1.0 per cent and 1.5 per cent, reflecting the tough economic environment and reduced contribution from extensions from 0.7 per cent in 2012/13 to 0.2 per cent. Contribution from new space (excluding extensions and replacements) is expected to be similar to 2012/13.

In 2013/14, Sainsbury's expects gross space growth of around one million sq ft with circa two new convenience store openings per week.

Underlying operating profit

Underlying operating profit increased by 5.1 per cent to £829 million (2011/12: £789 million), reflecting a good sales performance and cost savings of over £100 million in the year, helping to offset most of the impact of cost inflation.

Underlying operating margin improved by two basis points year-on-year to 3.56 per cent (2011/12: 3.54 per cent), which was also a two basis point improvement at constant fuel prices. Underlying EBITDAR margin increased by three basis points to 7.83 per cent, a four basis point improvement at constant fuel prices.

In 2013/14, Sainsbury's expects operating profit to grow in line with sales.

Underlying operating profit

52 weeks to 16 March 2013

	2013	2012	Change	Change at constant fuel prices
Underlying operating profit (£m) ¹	829	789	5.1%	
Underlying operating margin (%) ²	3.56	3.54	2 bps	2 bps
Underlying EBITDAR (£m) ³	1,824	1,740	4.8%	
Underlying EBITDAR margin (%) ⁴	7.83	7.80	3 bps	4 bps

1 Underlying earnings before interest, tax, and before Sainsbury's underlying share of post-tax profits from JVs.

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.

In 2013/14, Sainsbury's expects cost inflation at the middle of its two to three per cent range and cost savings of around £100 million.

Sainsbury's Bank joint venture ('JV')

Sainsbury's underlying share of Sainsbury's Bank post-tax profit increased by £6 million to £22 million (2011/12: £16 million). The Bank has continued to perform strongly, with profit growth driven through increasing commission income, particularly in car and home insurance, and lower bad debt levels.

Sainsbury's announced its intention to purchase the remaining 50 per cent of the Sainsbury's Bank JV on 8 May 2013, with expected completion in January 2014.

In 2013/14, Sainsbury's Bank expects to make a similar profit to 2012/13. 50 per cent of the Bank's post-tax profits will be included through equity accounting for around 46 weeks of 2013/14. The Bank's profits will be fully consolidated in the last six weeks of the financial year.

Property joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £14 million (2011/12: £14 million). Its underlying share of post-tax profits from the JV with Land Securities was £2 million (2011/12: £2 million).

At the year-end, a loss on revaluation of £10 million was recognised within the share of post-tax profit from the JVs in the income statement (2011/12: £nil loss). This represents a decrease on revaluation of properties in the JV to an average yield of 5.1 per cent (2011/12: 5.0 per cent) as a result of shorter lease terms within the portfolio.

In 2013/14, Sainsbury's expects the property JVs to make a similar profit to 2012/13.

Business review

Financial review continued

Underlying net finance costs

Underlying net finance costs increased by £2 million to £111 million (2011/12: £109 million), mainly as a result of an increase in average net debt and a reduction in capitalised interest, partly offset by a decrease in the RPI rate which reduced the rate on Sainsbury's inflation-linked debt¹.

Underlying net finance costs 52 weeks to 16 March 2013	2013 £m	2012 £m
Underlying finance income²	19	18
Interest costs	(162)	(162)
Capitalised interest	32	35
Underlying finance costs²	(130)	(127)
Underlying net finance costs²	(111)	(109)

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

Sainsbury's expects underlying net finance costs in 2013/14 to remain broadly flat, principally due to the effect of a decrease in the RPI rate on the component of the Group's inflation-linked debt, partly offset by the higher forecast average net debt balance.

Taxation

The income tax charge was £174 million (2011/12: £201 million), with an underlying tax rate of 23.7 per cent (2011/12: 26.1 per cent) and an effective tax rate of 22.1 per cent (2011/12: 25.2 per cent). The underlying and effective tax rates were lower than last year, primarily as a result of the two per cent lower statutory corporation tax rate and the impact of this on the revaluation of the deferred tax balances.

Underlying tax rate 52 weeks to 16 March 2013	Profit £m	Tax £m	Rate %
Profit before tax, and tax thereon	788	174	22.1
Adjustments (and tax thereon) for:			
Profit on disposal of properties	(66)	(11)	
Investment property fair value movements	10	-	
Financing fair value movements	10	2	
IAS 19 financing charge	5	2	
One-off items	9	1	
Deferred tax rate change	-	11	
Underlying profit before tax, and tax thereon	756	179	23.7

In 2013/14, Sainsbury's expects the underlying tax rate to be between 21 and 22 per cent, lower than 2012/13, principally due to the impact of further reductions in the statutory corporation tax rate.

Earnings per share

Underlying basic earnings per share increased by 9.3 per cent to 30.7 pence (2011/12: 28.1 pence), reflecting the improvement in underlying profit after tax and the lower underlying tax rate year-on-year, partially offset by the effect of the additional shares issued during the year.

The weighted average number of shares in issue was 1,881.5 million (2011/12: 1,870.3 million), an increase of 11.2 million shares or 0.6 per cent. Basic earnings per share increased to 32.6 pence (2011/12: 32.0 pence). Basic earnings per share were higher than the underlying basic earnings per share mainly due to the profit on disposal of properties.

Underlying earnings per share 52 weeks to 16 March 2013	2013 pence per share	2012 pence per share
Basic earnings per share	32.6	32.0
Adjustments (net of tax) for:		
Profit on disposal of properties	(2.8)	(4.3)
Investment property fair value movements	0.5	-
Financing fair value movements	0.4	0.7
IAS 19 financing charge/(credit)	0.2	(0.7)
One-off items	0.4	(0.2)
Deferred tax rate change	(0.6)	0.6
Underlying basic earnings per share	30.7	28.1

Dividends

The Board has recommended a final dividend of 11.9 pence per share (2011/12: 11.6 pence), which will be paid on 12 July 2013 to shareholders on the Register of Members at the close of business on 17 May 2013, subject to approval. This will increase the full year dividend by 3.7 per cent to 16.7 pence per share (2011/12: 16.1 pence). The dividend is covered 1.83 times by underlying earnings (2011/12: 1.75 times).

The proposed final dividend was recommended by the Board on 8 May 2013 and, as such, has not been included as a liability as at 16 March 2013.

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

Business review

Financial review continued

Return on capital employed

The return on capital employed ('ROCE') over the 52 weeks to 16 March 2013 was 11.2 per cent (2011/12: 11.1 per cent), an increase of 12 basis points year-on-year, enhanced by the increase in the net pension deficit, which reduces capital employed.

ROCE excluding the net pension deficit, over the 52 weeks to 16 March 2013 was 10.4 per cent, a year-on-year decrease of 15 basis points. ROCE growth was held back by slower sector growth, reduced industry profitability and 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 16 March 2013	2013	2012
Underlying operating profit (£m)	829	789
Underlying share of post-tax profit from JVs (£m)	38	32
Underlying profit before interest and tax (£m)	867	821
Average capital employed ¹ (£m)	7,753	7,424
Return on capital employed (%)	11.2	11.1
Return on capital employed (%) (excluding pension fund deficit)	10.4	10.6
52 week ROCE movement to 16 March 2013	12 bps	
52 week ROCE movement to 16 March 2013 (excluding pension fund deficit)	(15) bps	

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

Net debt and cash flows

Sainsbury's net debt as at 16 March 2013 was £2,162 million (2011/12: £1,980 million), an increase of £182 million. This was driven primarily by a small increase in working capital, an increase in corporation tax payments and lower sale and leaseback activity. This was offset by lower investments in estate development.

Operating cash flow before changes in working capital increased 4.5 per cent, but cash generated from operations decreased by 1.8 per cent to £1,268 million (2011/12: £1,291 million, 13.4 per cent increase) due to an adverse movement in working capital.

Working capital increased by £26 million year-on-year (2011/12: £53 million decrease) as inventory increased by £57 million, offset by £31 million of other working capital improvements.

Summary cash flow statement		
52 weeks to 16 March 2013	2013	2012
	£m	£m
Operating cash flow before changes in working capital	1,294	1,238
(Increase)/decrease in working capital	(26)	53
Cash generated from operations	1,268	1,291
Interest paid	(143)	(142)
Corporation tax paid	(144)	(82)
Net cash from operating activities	981	1,067
Net cash used in investing activities	(862)	(883)
Proceeds from issue of shares	17	14
Receipt of new debt	75	391
Repayment of borrowings	(138)	(65)
Dividends paid	(308)	(285)
(Decrease)/increase in cash and cash equivalents	(235)	239
Increase/(decrease) in debt	36	(386)
Fair value and other non-cash movements	17	(19)
Movement in net debt	(182)	(166)

Sainsbury's expects net debt to be around £2.4 billion at the end of 2013/14, assuming the quantum of sale and leaseback activity to be similar to previous years and excluding the consideration to be paid for the Bank. Including this consideration net debt is expected to increase to £2.6 billion. Future net debt guidance will exclude the consolidation of balances attributable to Sainsbury's Bank.

Financing

The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and maintain appropriate standby liquidity. Sainsbury's has drawn debt facilities of £2.7 billion and an un-drawn, committed credit facility of £0.7 billion at its disposal.

The principal elements of Sainsbury's core funding comprise two long-term loans of £1,002 million, due 2018, and £841 million, due 2031, secured over property assets. In addition, Sainsbury's has unsecured loans totalling £510 million with maturities ranging from 2014 to 2018, a £190 million convertible bond due July 2014 and £160 million of hire purchase facilities and other finance leases.

Sainsbury's maintains a £690 million syndicated revolving credit facility due October 2015 for standby purposes. There were £nil drawings under the facility as at 16 March 2013 (2011/12: £nil drawings).

Business review

Financial review continued

Capital expenditure

Core capital expenditure decreased by £200 million year-on-year to £1,040 million (2011/12: £1,240 million), due to a reduced supermarket opening and extension programme, partly offset by an increase in convenience store openings and supermarket refurbishments. Sainsbury's stepped up its convenience opening programme in the year with 87 new convenience stores (2011/12: 73 convenience stores) and completed 35 refurbishments (2011/12: 35 refurbishments), including 20 supermarkets (2011/12: seven supermarkets) and 15 convenience stores (2011/12: 28 convenience stores).

Core capital expenditure as a percentage of sales (including fuel, including VAT) was 4.1 per cent (2011/12: 5.1 per cent).

Sainsbury's also took advantage of continued good property yields in the year to achieve £202 million in sale and leaseback proceeds (2011/12: £303 million), although this was a reduction of £101 million year-on-year. This contributed to a total profit on disposal of properties of £66 million (2011/12: £83 million). Net capital expenditure was £875 million (2011/12: £962 million).

Capital expenditure	2013	2012
52 weeks to 16 March 2013	£m	£m
New store development	593	599
Extensions and refurbishments	271	478
Other - including supply chain and IT	176	163
Core capital expenditure	1,040	1,240
Acquisition of freehold and trading properties	37	25
Proceeds from property transactions	(202)	(303)
Net capital expenditure	875	962

In 2013/14, Sainsbury's expects core capital expenditure of around £1.1 billion, before any capital investment associated with Sainsbury's Bank, with core capital expenditure as a percentage of sales (including fuel, including VAT) to be similar to 2012/13. In the medium term, the Group expects core capital expenditure as a percentage of sales (including fuel, including VAT) to fall to below 3.5 per cent.

Summary balance sheet

Shareholders' funds as at 16 March 2013 were £5,734 million (2011/12: £5,629 million), an increase of £105 million. This is mainly attributable to the continued profitable growth of the underlying business and investment in space to support future growth, offset by the increase in the net retirement benefit obligation (net of deferred tax) and net debt.

The book value of property, plant and equipment, including land and buildings, has grown by £475 million, as a result of increased space growth, offset by the sale and leaseback of stores with no further development potential.

Net debt was £182 million higher than at 17 March 2012 due to investment in property, plant and equipment and lower cash balances at year-end as a result of lower sale and leaseback proceeds, a small increase in working capital and higher corporation tax payments.

Adjusted net debt to EBITDAR was in line with last year at 4.1 times (2011/12: 4.1 times) and interest cover improved to 7.8 times (2011/12: 7.5 times). Fixed charge cover was in line with last year at 3.1 times (2011/12: 3.1 times). Gearing increased year-on-year to 37.7 per cent (2011/12: 35.2 per cent) mainly as a result of the increase in net debt. Excluding the pension deficit, gearing reduces to 33.7 per cent (2011/12: 32.5 per cent).

Summary balance sheet	2013	2012	Movement
at 16 March 2013	£m	£m	£m
Land and buildings (freehold and long leasehold)	7,156	6,802	354
Land and buildings (short leasehold)	675	648	27
Fixtures and fittings	1,973	1,879	94
Property, plant and equipment	9,804	9,329	475
Other non-current assets	909	911	(2)
Inventories	987	938	49
Trade and other receivables	306	286	20
Cash and cash equivalents	517	739	(222)
Debt	(2,679)	(2,719)	40
Net debt	(2,162)	(1,980)	(182)
Trade and other payables and provisions	(3,422)	(3,400)	(22)
Retirement benefit obligations, net of deferred tax	(688)	(455)	(233)
Net assets	5,734	5,629	105

Key financial ratios:

Adjusted net debt to EBITDAR ¹	4.1 times	4.1 times
Interest cover ²	7.8 times	7.5 times
Fixed charge cover ³	3.1 times	3.1 times
Gearing ⁴	37.7%	35.2%
Gearing (excluding pension deficit) ⁵	33.7%	32.5%

1 Net debt plus capitalised lease obligations (5.5% NPV) divided by underlying EBITDAR, calculated on a rolling 52 week basis.

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

3 Underlying EBITDAR divided by net rent and underlying net finance costs.

4 Net debt divided by net assets.

5 Net debt divided by net assets, excluding pension deficit.

As at 16 March 2013, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £11.5 billion (2011/12: £11.2 billion). The £0.3 billion increase year-on-year was driven by property value added of £0.5 billion, partly offset by sale and leasebacks of £0.2 billion. The yield remained constant at 4.9 per cent.

Business review

Financial review continued

Pensions

As at 16 March 2013, the post-tax pension deficit was £233 million higher at £688 million (17 March 2012: £455 million) mainly due to a fall in the discount rate from 5.0 per cent to 4.6 per cent and a rise in RPI inflation expectations from 3.3 per cent to 3.5 per cent, partially offset by a 12.5 per cent increase in the value of plan assets.

Retirement benefit obligations at 16 March 2013	2013 £m	2012 £m
Present value of funded obligations	(6,594)	(5,654)
Fair value of plan assets	5,841	5,192
Pension deficit	(753)	(462)
Present value of unfunded obligations	(13)	(9)
Retirement benefit obligations	(766)	(471)
Deferred income tax asset	78	16
Net retirement benefit obligations	(688)	(455)

The IAS 19 pension current service cost included within UPBT for the 52 weeks to 16 March 2013 was £59 million (52 weeks to 17 March 2012: £59 million).

In 2013/14, including the effect of the application of IAS 19 Revised, Sainsbury's expects the pension service cost to increase by circa £5 million to £64 million; the pension financing charge reported outside of UPBT is expected to increase by £22 million to £27 million. Furthermore, all pension scheme expenses will now be shown as a charge outside of UPBT; Sainsbury's expects this cost to be circa £6 million in 2013/14. These changes are also expected to reduce the balance sheet pension deficit before tax by circa £135 million in 2013/14.

Pension costs	2014 forecast IAS 19 Revised £m	2013 IAS 19 £m
Current service cost - defined benefit scheme	(64)	(59)
Charge within underlying profit	(64)	(59)
Interest cost	(294)	(280)
Interest income on assets	267	275
Financing charge (outside underlying profit)	(27)	(5)
Scheme expenses (charge outside underlying profit)	(6)	-
Total charge to income statement	(97)	(64)

The defined benefit pension scheme was subject to a triennial actuarial valuation carried out by Towers Watson, the scheme's independent actuaries, at March 2012 on the projected unit basis. The results of this valuation are expected to be finalised in June 2013.

On 10 April 2013, the Group entered into a consultation period regarding the proposed cessation of the future benefits accrual within its defined benefit pension scheme. Under this proposal, impacted colleagues will be offered membership to the Group's existing defined contribution plans.

If the proposal proceeds, it is expected to result in a decrease in the defined benefit pension scheme service cost and an increase in contributions to the defined contribution plans, as well as a reduction in the defined benefit pension liability. Subject to the proposal being accepted, the financial impact will depend on both the implementation date and the extent to which impacted colleagues continue membership of the defined contribution plans and therefore until consultation completes, cannot be estimated with any degree of certainty.

J Sainsbury plc: Board of Directors



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Governance

J Sainsbury plc: Board of Directors continued

1. David Tyler Chairman

*

Appointed to the Board on 1 October 2009, David became Chairman on 1 November 2009. He is also Non-Executive Chairman of Hammerson plc and a Non-Executive Director of Burberry Group plc. 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 Chairman of Logica plc (2006-12) and of 3i Quoted Private Equity plc (2007-09), and a Non-Executive Director of Experian plc (2006-12) and of Reckitt Benckiser Group plc (2007-09). He has also been Chairman of Hampstead Theatre since September 2012. Age 60.

2. Justin King Chief Executive Officer

♥

Appointed Chief Executive Officer on 29 March 2004, Justin is also Chairman of the Operating Board. He has been a Non-Executive Director of Staples, Inc. since September 2007 and was appointed to the Board of The London Organising Committee of the Olympic Games and Paralympic Games in January 2009. He is a member of the CBI President's Committee and a Visiting Fellow of Oxford University's Centre for Corporate Reputation. Justin is a former member of the Prime Minister's Business Advisory Group (2010-12) and was previously the Director of Food at Marks and Spencer Group plc. Prior to this he 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 51.

3. Mike Coupe Group Commercial Director

Appointed Group Commercial Director on 19 July 2010, Mike is responsible for Trading, Marketing, IT and Online. He has been a member of the Operating Board since October 2004 and an Executive Director since 1 August 2007. He joined Sainsbury's from Big Food Group where he was a Board Director of Big Food Group plc and Managing Director of Iceland Food Stores. He previously worked for both ASDA and Tesco, where he served in a variety of senior management roles. Mike was appointed to the board of directors at Insight 2 Communication at its inception and he is also a Non-Executive Director at Greene King plc. Age 52.

4. John Rogers Chief Financial Officer

Appointed Chief Financial Officer on 19 July 2010, John is also a member of the Board of Sainsbury's Bank plc. John joined Sainsbury's in November 2005 as Director of Corporate Finance and then became Director of Group Finance from March 2007 to July 2008. In July 2008, he was appointed to the Operating Board as Property Director. Prior to Sainsbury's, John was Group Finance Director for Hanover Acceptances, a diversified corporation with wholly owned subsidiaries in the food manufacturing, real estate and agri-business sectors. Age 44.

5. Gary Hughes Non-Executive Director

●*

Appointed to the Board on 1 January 2005, Gary is a Senior Advisor within the Portfolio Support Group of Apax Partners LLP, the global equity firm, and a Director of the Scottish Exhibition Centre Limited. He is also Chairman of Get Me Media Limited. Formerly he was Chief Financial Officer of Gala Coral (2008-11) and 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 (1996-00), 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 51.

6. 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 and also a Non-Executive Director of Rolls-Royce Group plc. 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 Sara Lee Corporation (2008-12) and Severn Trent plc (2000-05). Age 65.

7. Jean Tomlin Non-Executive Director

◆♥*

Appointed to the Board on 1 January 2013, Jean is a Non-Executive Director of Michael Kors Holdings Limited. Formerly, she was the HR Director for The London Organising Committee of the Olympic and Paralympic Games where she oversaw the creation and execution of the hugely successful Games Maker volunteering programme. She was previously Group HR Director at Marks and Spencer Group plc, HR Director of Egg plc and Sales & Operations Director of Prudential Direct. Age 58.

8. Mary Harris Non-Executive Director

◆♥*

Appointed to the Board on 1 August 2007, Mary is a member of the supervisory boards of TNT Express NV and Unibail-Rodamco S.E. She previously spent much of her career with McKinsey & Company, most recently as a partner, where she worked primarily with retail/consumer clients in China, South East Asia and Europe. Her previous work experience includes working for PepsiCo in Greece and the UK, as a sales and marketing executive. Age 47.

9. Matt Brittin Non-Executive Director

●*

Appointed to the Board on 27 January 2011, Matt is Google's Vice President - Northern & Central Europe. Previously, he was Managing Director of Google in the UK & Ireland. Before joining Google at the start of 2007, Matt spent much of his career in media and marketing, with particular interests in strategy, commercial development and sales performance. This included commercial and digital leadership roles in UK media. He is also a Director of two charities, The Climate Group and The Media Trust. Age 44.

Key to Committee members

◆ Remuneration Committee

● Audit Committee

* Nomination Committee

♥ Corporate Responsibility Committee

◆●♥* Denotes Chairman of Committee

Life President

Lord Sainsbury of Preston Candover KG

Board of Directors as at 16 March 2013.

Operating Board



1



2



3



4



5



6



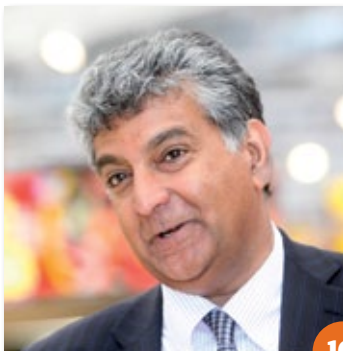
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8



9



10



11

Governance

Operating Board continued

1. Justin King Chief Executive

See page 35

2. John Rogers Chief Financial Officer

See page 35

3. Mike Coupe Group Commercial Director

See page 35

4. Helen Buck Retail Director

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

5. Roger Burnley Managing Director of General Merchandise, Clothing & Logistics

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

6. Angie Risley Group HR Director

Angie was appointed Group HR Director and a member of the Operating Board in January 2013. She was most recently Group HR Director at Lloyds Banking Group and prior to this Angie was Group HR Director at Whitbread. She is also a Non-Executive Director of Serco Group plc and chairs their Remuneration Committee.

7. Tim Fallowfield Company Secretary & 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 the Corporate Services Division comprising Central Security, Insurance, Legal Services, Public Affairs, Safety and Shareholder Services. Tim joined Sainsbury's from Exel plc, the global logistics company, where he was Company Secretary and Head of Legal Services (1994-2001). Prior to this, he worked at the international law firm Clifford Chance for six years and is a qualified solicitor.

8. Rob Fraser IT Director

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

9. Luke Jensen Group Development Director

Luke joined Sainsbury's and the Operating Board in June 2008 as Director of Strategy. He was appointed to the position of Managing Director Non-Food in 2009, with responsibility for Clothing, General Merchandise and Entertainment. He was appointed Group Development Director in September 2011. In this role he is responsible for the online businesses, new business development, digital and oversees the group strategy. He is also Chairman of Insight 2 Communication, our shopper marketing services joint venture with Aimia, and Chairman of Anobii. 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 (2002-04).

10. Neil Sachdev Property Director

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

11. Sarah Warby Marketing Director

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

Operating Board as at 16 March 2013.

Corporate governance statement



David Tyler, Chairman

Dear Shareholder,
This has been another good year for Sainsbury's. We have made progress on many different fronts. I firmly believe that our strong and established governance described in the following pages has played an important part in our progress.

Sainsbury's has again this year complied with all provisions of the UK Corporate Governance Code.

We take succession at Board and senior management level very seriously and we believe that we have a good record of identifying the resourcing needs of the business, developing our own people, attracting external talent and planning and implementing change over a number of years.

I have referred to our Board and management team changes in my introductory statement. Our new appointees during the year, Jean Tomlin at plc level, and Angie Risley on the Operating Board, are already bringing new skills and experience to our established teams. In addition, following the announcement that we plan to acquire the 50 per cent of Sainsbury's Bank that we currently do not own, we are pleased that Lady Susan Rice will join the Board on 1 June 2013 as a Non-Executive Director. Susan has wide experience as a Non-Executive Director and her career in retail banking is particularly relevant in light of our announcement about our plans to take full ownership of Sainsbury's Bank. I am sure she will make a very strong contribution to the Board.

Jean, Angie and Susan will also add to our broad diversity which has always been one of Sainsbury's strengths. As set out below, we have a high proportion of women in Board and senior positions who have been appointed on merit throughout the organisation. From 1 June, we will have three women on our Board (30 per cent), exceeding the aspirational target of the Davies report that 25 per cent of board positions at FTSE 100 companies should be filled by women by 2015.

I am delighted that Jean Tomlin has taken on the role of Chairman of our Corporate Responsibility ('CR') Committee. The Board takes CR very seriously as it is an integral part of Sainsbury's business. I am sure that Jean's unique experience and breadth of skills will be a great addition to the Board and provide inspirational leadership of the Committee. Sainsbury's was one of the first companies to establish a CR Committee at plc level, reflecting the key role that our five values play in achieving our vision to be the most trusted retailer where people love to work and shop. Jean's first letter to shareholders is on page 43.

We have made further change by appointing one of our established Non-Executive Directors, Mary Harris, as Chairman of our Remuneration Committee. Mary's first letter to you in her new role is set out on page 54. There has never been more external focus on executive remuneration in the UK's largest companies. Under Mary's leadership the Remuneration Committee has ensured that our consistent efforts to ensure a direct link between pay and performance in the areas most valued by our shareholders have contributed to building a focused leadership team.

The Board received a broad range of presentations from the senior management team during the year (see below), one of which was on colleague engagement. We know that setting the right culture and values throughout the business really helps to drive customer service and sales. As a Board, we take our own culture very seriously and always review it as part of our annual evaluation. We conducted an external review of our performance in 2011 when Manchester Square Partners confirmed that the Board was seen as effective, with a number of specific strengths as regards ethics, organisation, information and decision making. We have looked to build on these strengths to ensure that we have a consistent culture throughout the business. This year's evaluation, carried out internally, concluded that we have shared values and a common purpose and are able to debate matters openly and honestly, with a high degree of trust and integrity.

We believe that our strong culture and values will continue to hold us in good stead for the future.

David Tyler
Chairman

Governance

Corporate governance statement continued

Compliance

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

The role of the Board

The Board is chaired by David Tyler and, at the year-end, there were three Executive Directors and five Non-Executive Directors. John McAdam is the Senior Independent Director. The Directors' biographical details are set out on page 35. Susan Rice will join the Board as a Non-Executive Director with effect from 1 June 2013.

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, governance and succession planning, each of which is described below. The Board has a scheduled forward programme of meetings to ensure that we 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 for 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.

The Board's scheduled forward programme includes the following items, some of which are considered at each meeting and others are reviewed periodically throughout the year:

• Annual budget	• Dividend policy and recommendations	• Customer insights
• Corporate plan	• Committee reports	• Pensions
• CEO Report and trading update	• Investor relations	• Project updates
• Financial items	• Strategic items	• Treasury
• Preliminary and Interim results	• Safety reports (Health & Safety and Food)	• Governance
• Annual Report		• Risk management
		• Board evaluation

There are also a number of informal meetings of the Board, which enable all the Directors to spend more time together and to discuss specific areas of the business with individual Operating Board members.

Our annual Board evaluation exercise enables us to review whether Board meetings are structured with a clear focus on the key issues facing the Company, with a full and open debate before major decisions are taken. We ensure that all Directors are aware of the key discussions and decisions of each of the four principal Committees - the Chairman of each Committee provides a detailed summary to all Directors at the Board meeting following the relevant Committee meeting. Minutes of Board and Committee meetings are circulated to Directors shortly after those meetings take place. The Board has a schedule of formally reserved powers, which it reviews each year, and receives a number of in-depth presentations during the year.

Strategic leadership

The Board continued to focus on strategic matters during the year. We hold a two-day Strategy Conference in the autumn, which the Operating Board Directors attend. This enables the Board to conduct an in-depth review of relevant economic factors and their likely impact on customers and the market, to evaluate key opportunities and threats, consider the corporate plan and agree the strategic goals for the short-term and longer term perspectives, and the five areas of focus described on pages 10 to 21. The Board receives a detailed half-year update on progress against the agreed priorities and then, to complete the cycle in July, agrees the objectives and principal areas of focus for the next conference. Specific projects are considered at other meetings during the year as necessary. Our 2013 Board evaluation exercise concluded that the Board continued to make good progress in driving the strategic debate during the year.

The Board was fully involved in the decision to acquire full ownership of Sainsbury's Bank, announced in May 2013. In-depth reviews were presented at a number of meetings setting out the strategic opportunity, the risks and the funding options, together with the related regulatory requirements. In June 2012 the Board held one of its scheduled meetings at Sainsbury's Bank's offices in Edinburgh which provided the opportunity to meet the Bank's leadership team and senior management, and to review the Bank's operations and product range.

Performance management and operational matters

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

One of the Board's key roles is to ensure that Sainsbury's unique values and strong culture are safeguarded so that they remain at the heart of the Company's success, as they have been throughout the last 144 years. The Board reviewed our colleague engagement in September, as our colleagues are key to our success. The Board was pleased that Sainsbury's was a sponsor of the Paralympics and was delighted to host a reception for over 130 of our key suppliers and other stakeholders to mark the successful partnership.

Risk management

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 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. See page 48 for further details.

Investor relations

Turning to investor relations ('IR'), the Board receives an annual independent survey at the Strategy Conference from Makinson Cowell which reports on the views of major shareholders and analysts, together with updates at each Board meeting on the IR programme and feedback from major shareholders, particularly following each major announcement of the Company's results. See page 42 for further details.

Succession planning/Nomination Committee

The Board takes succession planning for both Board members and senior management very seriously. All of the Non-Executive Directors are members of the Nomination Committee which is chaired by David Tyler. Justin King is not a member of the Committee although he is invited to attend meetings.

As stated below, our Board evaluations consider the balance, skills and diversity of the Board. They also consider succession planning, reviewing whether it is working effectively. The evaluation reviews any senior appointment processes during the year and identifies priorities for the year ahead.

The changes to the Board which have been announced during the year are part of the succession planning process. In May 2012, we announced that Bob Stack had decided to stand down from the Board with effect from our Annual General Meeting ('AGM') in July. Mary Harris, who joined the Remuneration Committee in July 2011, then became Chairman of the Committee. The Nomination Committee instructed consultancy Egon Zehnder in connection with the recruitment of a new Non-Executive Director. The Committee considered the balance of skills, experience and diversity on the Board in determining the types of candidate who might best fit the specification of this role. The Board were delighted to be able to appoint Jean Tomlin as a Non-Executive Director on 1 January 2013.

Governance

Corporate governance statement continued

We believe we have a good balance and diversity amongst our Non-Executive Directors with several having deep experience of consumer facing businesses and other highly relevant skills partly derived from serving in a range of major executive and non-executive positions throughout their careers. Following the appointment of Jean Tomlin, our Non-Executive Directors' tenure on our Board as at the year-end is as follows:

Board tenure	Number	Percentage
0-1 years	1	17
2-3 years	2	33
4-5 years	1	17
6-8 years	2	33

The above table includes the Chairman.

Following the announcement that we plan to acquire the 50 per cent of Sainsbury's Bank that we currently do not own, Susan Rice will join the Board on 1 June 2013 as a Non-Executive Director. Egon Zehnder facilitated the recruitment process that led to Susan's appointment.

At the time of the annual Strategy Conference the Committee reviews succession plans for the Operating Board, as well as Divisional Director development, talent management and the graduate programme.

The Committee's terms of reference are available on the website and set out the Committee's responsibilities. The Committee meets on such occasions as are necessary and in 2012/13 held five meetings in total, particularly relating to the process which led to Jean Tomlin's appointment. The terms of reference of the Committee are available on the website at www.j-sainsbury.co.uk/investor-centre/corporate-governance.

Diversity

Fairness, diversity and inclusion are a core part of our values and heritage at Sainsbury's. For more information on our progress, see 'A great place to work' on page 25. We continue to work to ensure that colleagues from all backgrounds can progress in their careers.

As part of 'A great place to work' the Company has well-developed policies for fair and equal treatment of all colleagues. We encourage applications from all backgrounds to ensure a diverse and inclusive workforce. It is our policy that people with disabilities are given full and just consideration for 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. If a colleague were to become disabled while working for Sainsbury's we are committed to making reasonable adjustments to 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. One of our 20x20 *Sustainability Plan* commitments is that by 2020 we will provide 30,000 people from disadvantaged groups with work opportunities. These include Job Centre Plus, A Fairer Chance, Shaw Trust, Remploy and Mencap. Sainsbury's is a Gold partner of the Business Disability Forum. The Company also has a flexible working and carers policy making it possible for colleagues to achieve a balance between work and home. Further details of Sainsbury's diversity policy can be found at www.j-sainsbury.co.uk/diversity. Our focus for the year ahead is on gender and race equality in employment, and a legacy of inclusion following our sponsorship of the 2012 Paralympics.

One of our strengths is the diversity that results from having a high proportion of women in senior management positions and throughout the organisation who have been appointed on merit. Following the appointments of Jean Tomlin and Susan Rice to the Board, and of Angie Risley to the Operating Board, 30 per cent of our Board and 27 per cent of our Operating Board are women. Thirty two per cent of our most senior executive positions are filled by women, providing a strong pipeline of female leaders for the future. Overall 54 per cent of our 157,000 colleagues are female.

	Male	Female
Board	70%	30%
Operating Board	73%	27%
Senior executive positions	68%	32%
Company	46%	54%

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 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 further terms, subject to mutual agreement. All members of the Board will retire by rotation and seek re-election by shareholders at this year's AGM in accordance with the Code.

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

Directors' conflicts of interest

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

Governance

Corporate governance statement continued

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

Information

The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. The quality and supply of information provided to the Board is reviewed as part of the Board evaluation exercise. The conclusion from this year's evaluation was that Board meetings and processes were very effective.

Directors' induction and development

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.

Since her appointment to the Board in January 2013 Jean Tomlin's induction programme has included a session with PwC on her role and responsibilities as a non-executive director, and meetings with all of the plc and Operating Board Directors. She has also had meetings with the Remuneration Committee advisors, the Director of Corporate Affairs and senior members of the Finance Division. Jean has also presented to the Company's senior management on her experience at LOCOG. Her induction will continue into 2013/14. Following her appointment on 1 June 2013, Susan Rice will have a detailed induction programme during 2013/14.

During the year the Company Secretary, Tim Fallowfield, has provided updates to the Board on relevant governance matters, Directors' duties and obligations, and new legislation and its impact on the Company. The Audit Committee regularly considers new accounting developments through presentations from management and the external auditors. This year this included updates on the future of narrative reporting, changes to the UK Corporate Governance Code and revision of the IFRS conceptual framework. The consultants to the Remuneration Committee advise the Committee on relevant governance and trends in remuneration. They received updates on the new BIS requirements and the remuneration guidelines issued by investor representative bodies.

The Board programme includes regular presentations from management and informal meetings which increase the Non-Executive Directors' understanding of the business and the sector. During the year the Board held a Board meeting at our Sainsbury's Bank offices in Edinburgh and received presentations from members of the Sainsbury's Bank team on all of the keys aspects of the Bank's business. In addition, they met a number of the broader management team during their visit and held a question and answer session with all Bank colleagues. Directors have also 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 annual evaluation exercise was last conducted on an external basis in 2011 when Manchester Square Partners (who had no other relationship with Sainsbury's) led the review. Their report to the Board 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 and progress was reported in last year's report.

The Board agreed that this year's review should be carried out by the Company Secretary, as it had been in 2012. The Board is satisfied that these internal reviews follow an established process which enables a thorough review with full and open participation from all Directors. The key objectives were to determine whether year-on-year progress had continued on the key points identified by Manchester Square Partners, to review progress against last year's action points, to identify any emerging themes, and to consider whether the Board and its Committees were working effectively.

A questionnaire was circulated to all Directors seeking their evaluation of a number of matters, including strategy, Board and management succession, Board culture, balance and diversity, meetings and processes, investor relations, risk management and Board Committees. This was followed up in separate discussions with each of the Directors to take their detailed feedback on any emerging themes. The Company Secretary then presented the principal conclusions to the Board at a meeting convened for that purpose, and the Board discussed the key points and agreed certain actions.

The Board reviewed the action points from the 2012 evaluation and concluded, in particular that:

- the strategic debate had made good progress and there were common views on the strategic priorities;
- it would continue to develop strong links with the broader management team. The Board's visit to Sainsbury's Bank had been very successful and the regular informal sessions with the members of the Operating Board were an effective means of understanding their priorities. The Board noted that it will be visiting the new Store Support Centre offices in Coventry in June 2013 which will provide another excellent opportunity for engaging with the non-food and property teams located there; and
- Directors were working well together with an open and honest culture and a high degree of trust and integrity.

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

In line with the Code, the Board anticipates that the 2014 Board evaluation will be facilitated by an external provider.

Governance

Corporate governance statement continued

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 meetings and 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	8(8)	4(4)	-	5(5)	-
Mike Coupe	8(8)	-	-	-	-
Anna Ford	6(6)	-	2(2)	5(5)	2(2)
Mary Harris	8(8)	-	2(2)	5(5)	5(5)
Gary Hughes	8(8)	4(4)	-	5(5)	-
Justin King	8(8)	-	2(2)	-	-
John McAdam	7(8)	3(4)	-	4(5)	4(4)
John Rogers	8(8)	-	-	-	-
Bob Stack	3(3)	-	-	3(3)	1(1)
Jean Tomlin	2(2)	-	-	-	3(3)
David Tyler	8(8)	-	-	5(5)	-

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

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

Investor relations

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

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

The Board at each Board meeting receives feedback on the views of major investors and the IR programme. In addition, Makinson Cowell provide investor relations consultancy services to the Company and give an external analysis to the Board at the Strategy Conference on the views of institutional investors and sell-side analysts. Non-Executive Directors also receive regular market reports and broker updates from the Company's IR department.

Shareholders have the opportunity to meet and question the Board at the AGM, which this year will be held on 10 July 2013. 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 125 to 127 and on the Company's website (www.j-sainsbury.co.uk/investor-centre).

Board Committees

The Board has delegated certain responsibilities to the Operating Board and to the Audit, Corporate Responsibility, Nomination and Remuneration Committees. The terms of reference for each Committee are available on the website (www.j-sainsbury.co.uk/investor-centre/corporate-governance).



Operating Board

Day-to-day management of the Group is delegated to the Operating Board, which is chaired by Justin King. The Operating Board held ten scheduled meetings during the year and each Director's responsibilities are set out on page 37. It has formal terms of reference setting out its key responsibilities.

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

Corporate Responsibility

Dear Shareholder,
Corporate responsibility and sustainability remain an integral part of Sainsbury's overall business strategy and an important part of our vision to be the most trusted retailer where people love to work and shop.

I joined the Sainsbury's Board in January 2013, and was delighted to become Chairman of the Corporate Responsibility Committee from my predecessor Anna Ford, having been impressed with Sainsbury's approach to sustainability in recent years.

Our five corporate values of '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' remain as important as ever to our ongoing success. They frame the Company's work day-to-day and are part of our heritage. With 23 million customer transactions each week and employing around 157,000 colleagues and working with over 2,000 direct suppliers in over 70 countries, we need to manage our significant economic, social and environmental value chain.

Sainsbury's *20x20 Sustainability Plan* is both ambitious and essential to the future health of our business. In November, we updated on progress during the first year since its October 2011 launch. Two innovative 'crowd sourcing' events saw over 300 stakeholders provide detailed feedback and advice to inform the agenda's future direction and engage them in its delivery. The team has also been working with our own-brand and branded suppliers - both individually and collectively - to ensure they are playing their part and fully embracing the Plan.

Sainsbury's is also engaging customers in the ideas and actions that *20x20* stands for. The Company's overarching *Live Well For Less* mission chimes perfectly with this, and is underpinned by more specific campaigns such as Switch the Fish, Love Ugly Veg, Make Your Roast Go Further, Million Meals Appeal, Active Kids and of course Sainsbury's involvement in the Paralympics and inclusivity.

As a result, our customers now rate Sainsbury's ahead of our peers for taking our responsibilities seriously. In an environment where trust is an ever more precious asset for any business, the team are focused on ensuring Sainsbury's values continue to make us different.

Our 'New Fashioned Values' consumer insight report showed that more than ever people are looking to vote with their wallets and choose companies they trust to do the right thing and act on their behalf. Sainsbury's values and the *20x20 Sustainability Plan* offer both an assurance and a roadmap in this regard.



**Jean Tomlin, Chairman,
Corporate Responsibility Committee**

The year's key highlights are noted on pages 8 and 9 within the Non-Financial KPIs and other examples are integrated across the Business review.

This track record has once again been recognised by numerous awards and sustainability indices. A selection of these is listed on these pages with others noted on our corporate website. In particular, we maintained our Global Sector leader status in the Dow Jones Sustainability Index, for the sixth year running, having first joined in 2003. We retained our listing in the FTSE4Good Index, which we have been part of since its inception in 2001.

As the Chairman of the Corporate Responsibility Committee, I will report to the Board twice a year on our plans and on the progress we have made against each of our values.

We will once again be providing a further public update on progress in November for our customers, colleagues, partners and shareholders, as well as continuing our practice of providing a Corporate Responsibility and Sustainability update with every Trading Update.

In the meantime, I encourage you to find out more about this important aspect of our business at www.j-sainsbury.co.uk/responsibility.

A handwritten signature in black ink that reads 'J Tomlin'.

**Jean Tomlin
Chairman, Corporate Responsibility Committee**

Governance

Corporate governance statement continued

Corporate Responsibility Committee

During the year the Committee was chaired by Anna Ford, and Justin King and Mary Harris are its members. Jean Tomlin became Chairman of the Committee in January 2013 when Anna Ford stood down from the Board. David Tyler attends each meeting. It met twice during the year. These formal Committee meetings were supported by Corporate Responsibility and Sustainability ('CR&S') strategic meetings that were hosted by Anna Ford and Justin King. Each meeting is based around one of the five CR&S values and key external stakeholders are invited to attend. During the year five such meetings were held, relating to each of the five values, framed within our *20x20 Sustainability Plan* which was launched in October 2011.

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

The terms of reference of the Committee are available on the website at www.j-sainsbury.co.uk/investor-centre/corporate-governance.

This year's *20x20 Sustainability Plan* update will be published in November 2013.



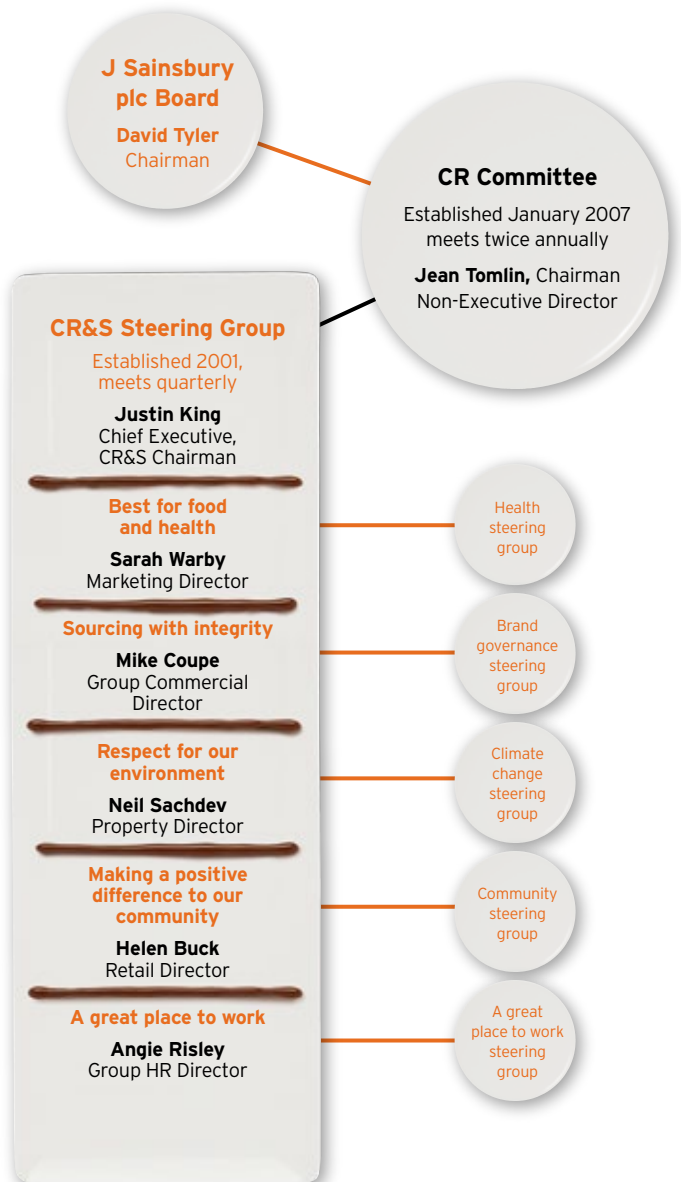
Our 20x20 Sustainability Plan

In many ways, the commitments encapsulated in our *20x20 Sustainability Plan* are not new to Sainsbury's. We have sought throughout our 144-year history to lead in matters of business responsibility and sustainability. Examples of our contribution over the past decade include transforming the market for fairly traded products and sustainable seafood, improving animal welfare, supporting British farming and championing community investment.

With our *20x20 Sustainability Plan*, we formalise our action against our values, as well as recognising the new and changing issues which today's world faces.

In developing the plan, in 2011 we undertook a detailed auditing and materiality process. This year, we continued to listen to our customers, suppliers and opinion formers to make sure we have the most relevant and effective agenda, leverage the knowledge and experience of experts and remain at the forefront of sustainability between now and 2020.

With the clarity of purpose that the *20x20 Sustainability Plan* brings, we are focused on its delivery, whilst also ensuring we continue to engage and look beyond 2020.






Governance

Corporate governance statement continued

Awards

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

 <p>Dow Jones Sustainability Indexes Member 2012/13</p>	<p>Global Sector Leader 2012/13 (sixth year running)</p>		<p>Most Sustainable Retailer of the Year, Retail Industry Awards, 2012</p>
 <p>FTSE4Good</p>	<p>Held since its inception in 2001</p>		<p>Retailer of the Year, RSPCA Good Business Awards, 2012</p>
	<p>Platinum Big Tick, BITC Corporate Responsibility Index, 2013</p>		<p>Leadership and Innovation in Retail, Compassion in World Farming Award, 2012</p>
	<p>Gold accreditation since 2010</p>		<p>Double winner, Carbon and Energy, Guardian Sustainable Business Awards, 2012</p>
	<p>Employer of the Year, Oracle Retail Week Awards, 2013</p>		<p>Carbon Disclosure Project score of 82/100, awarded 'B' performance rating</p>

Audit Committee



**Gary Hughes, Chairman,
Audit Committee**

Dear Shareholder,
The Committee remains satisfied that the business has maintained robust risk management and internal controls, supported by strong overall governance processes.

We have a good balance of skills and experience amongst Committee members, and we believe that our discussions with management are open, thorough and appropriately challenging. We are well supported by the internal audit function, and our external auditors also give us confidence in the Company's approach to controls and risk. Recent annual evaluations support our belief that governance of risk at Sainsbury's remains strong and that the Committee is working effectively.

As a Committee, we are keen to ensure that the identification and management of risks is embedded across all areas of the business, with effective oversight by the Operating Board. We regularly review the risk profiles for each business division and the actions they are taking or processes they have in place to manage or mitigate their risks. In addition, we frequently receive updates on specific areas of risk from the relevant members of the management team. We are satisfied that management has instilled a strong culture throughout the business.

Over recent years, the Committee has received updates on the matters discussed at the Sainsbury's Bank Audit Committee and on other key Bank matters including its liquidity, cash flows, capital adequacy and risk management processes. One of our priorities in 2013/14 will be to ensure our governance continues to be strong from an Audit Committee perspective as we move towards completion of our full ownership of the Bank.

A handwritten signature in black ink that reads "Gary W. Hughes".

Gary Hughes
Chairman, Audit Committee

Committee membership

The Audit Committee is chaired by Gary Hughes, with John McAdam and Matt Brittin as its other members, all of whom are independent Non-Executive Directors. 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 are available on the Company's website at www.j-sainsbury.co.uk/investor-centre/corporate-governance.

Governance

Corporate governance statement continued

Activities during the year

During the year, the Committee met on four occasions and the external auditors and the Director of Internal Audit were given the opportunity after each meeting to meet with the Committee, without management being present.

The Committee has a calendar of standard items within its remit which reflects the Company's reporting cycle:

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

During the year, the Committee has considered a number of matters under the general headings above. 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. Within the accounting update it considered provisions made by the Company, dilapidations of properties and land, impairments, promotional monies and the related accounting, and pensions. In addition, the Committee regularly reviewed the Company's funding and liquidity position and has considered its impact on the Company's financial and operational capabilities. The Committee's detailed review of the year-end position assisted the Board in making the going concern statement set out on page 70.

The Committee considered the key matters relating to the recently announced acquisition of the 50 per cent stake in Sainsbury's Bank that we do not currently own. These included the accounting and direct tax

implications, how the purchase would affect the Group balance sheet and how the Committee would continue to receive assurance around risk management and internal controls.

At each meeting the Committee receives a report on the internal controls framework and the Internal Audit department's activities. This year it received information on major IT projects, business continuity planning and details of any invocation of the business continuity management team. The Committee reviews the quarterly results of the store safe and legal audits to ensure that appropriate standards are being maintained.

The Committee also reviews:

- the effectiveness of the Company's financial controls and the systems of internal control by approving the Internal Audit plans twice yearly, reviewing the findings quarterly and by reviewing the scope of work and reports of the external auditors. The detailed actions for resolution of any identified weaknesses are closely monitored by the Committee through to completion; and
- the management of risk by reviewing the risk assessment process and corporate and divisional risk maps and registers twice yearly. These form the basis of the Internal Audit planning process.

Full descriptions of the risk management and internal controls processes are set out below.

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 are highlighted to the Audit Committee.

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

The Committee also 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.

Throughout the year, the Committee also reviewed a number of specific presentations and updates. For instance, it received an update on the Company's IT change framework, data security controls and significant new opportunities being explored beyond the core business.

Financial statements and significant issues

An accounting paper is prepared by management and presented to the Audit Committee four times a year, which provides detail on the main financial reporting judgements. Specific accounting papers will also be prepared where considered necessary. The significant issues considered in the year were as follows:

- Review of new contracts to ensure all accounting issues are identified and revenue is recognised correctly in line with IAS 18: Revenue. One example was our new joint venture, Insight 2 Communication, as disclosed within the Business review.
- Consideration of provisions held and whether they remain adequate and complete. As a result of the review, the majority of the disposal provision has been released. See note 22.
- Impairment of both financial and non-financial assets. As disclosed in note 2, a review for impairment triggers is performed at each reporting date by considering if any current or future events suggest their recoverable value may be less than their carrying value. This covers stores, depots and land. An impairment review is also performed for goodwill. As a result, a provision of £2 million has been made against investments in subsidiaries where the carrying value exceeded the recoverable amount, as disclosed in note 13.
- Pensions and, in particular, the revision to IAS 19: Employee Benefits, to ensure adequate IAS 8 disclosure could be provided within the Annual Report and the implications for 2013/14 are understood.

Governance

Corporate governance statement continued

- The presentation of certain items outside of underlying profit as defined within note 3. Our definition of such items remains clear and further disclosure is included where appropriate.
- A review for post balance sheet events has identified two recent announcements by the Group that require disclosure within the Annual Report. Firstly, the purchase of the remaining 50 per cent of Sainsbury's Bank and secondly, the proposed cessation of the future accrual of benefits within our defined benefit pension scheme. Both post balance sheet event disclosures have been included within note 37.

The Audit Committee remains satisfied that reasonable judgements have been made by management and adequate disclosures provided where appropriate.

Internal Audit

The Committee has regularly reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of its recommendations. In 2012, the Committee commissioned a review of the function by Deloitte. The overall assessment was that it was a high performing function which is well respected by its key stakeholders, compliant with the requirements of the Institute of Internal Auditors standards and achieving performance levels which were considered to be leading practice in many key areas. The review found there has been significant improvement since the last external review, which had been conducted five years previously.

The Director of Internal Audit reports to the Committee Chairman and has direct access to all members of the Committee and the Chairman. She is given the opportunity after each meeting to meet with the Committee separately without management being present. She has regular meetings with all Committee members. The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter. The Committee reviews the Charter annually.

External Audit

The Committee reviewed PricewaterhouseCoopers LLP's ('PwC') overall work plan, and approved their remuneration and terms of engagement. It considered in detail the results of the audit, PwC performance and independence and the effectiveness of the overall audit process. PwC have been the Company's auditors since 1995. They are required to rotate the audit partner responsible for the Group audit every five years. Richard Hughes, the current audit partner, was appointed in July 2010. The Committee recommended PwC's re-appointment as auditors to the Board and this resolution will be put to shareholders at the AGM.

Independence

In order to ensure their independence, the Committee has implemented the Company's policy which restricts the engagement of PwC in relation to non-audit services. The majority of the non-audit work undertaken by PwC during 2012/13 was audit related assurance services such as the interim review and the provision of accounting advice, fees for which totalled £0.2 million. In addition, PwC earned fees for other non-audit work of £58,000. The audit fee for the year in respect of the Group, Company and its subsidiaries totalled £0.8 million. The Committee remains satisfied with PwC's independence and their overall challenge to management.

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.

Grocery Supply Code of Practice

The Grocery Supply Code of Practice 2010 ('GSCOP') requires each grocery retailer to which it applies 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.

A further GSCOP requirement is 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. A summary of the compliance report must be included in our Annual Report and Financial Statements.

Summary Annual Compliance Report

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

A small number of alleged breaches of GSCOP have been received in the reporting period, all of which either have been or are in the process of being resolved to the supplier's satisfaction within the Trading Division using our standard internal escalation procedure. The resolution of one of these alleged breaches was facilitated 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 47. The system is designed to manage rather than eliminate the risk of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

Risk management

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

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

The risk management process is embedded at the Operating Board level and through the review of the risk registers of each of the operating divisions of the business:

- 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,

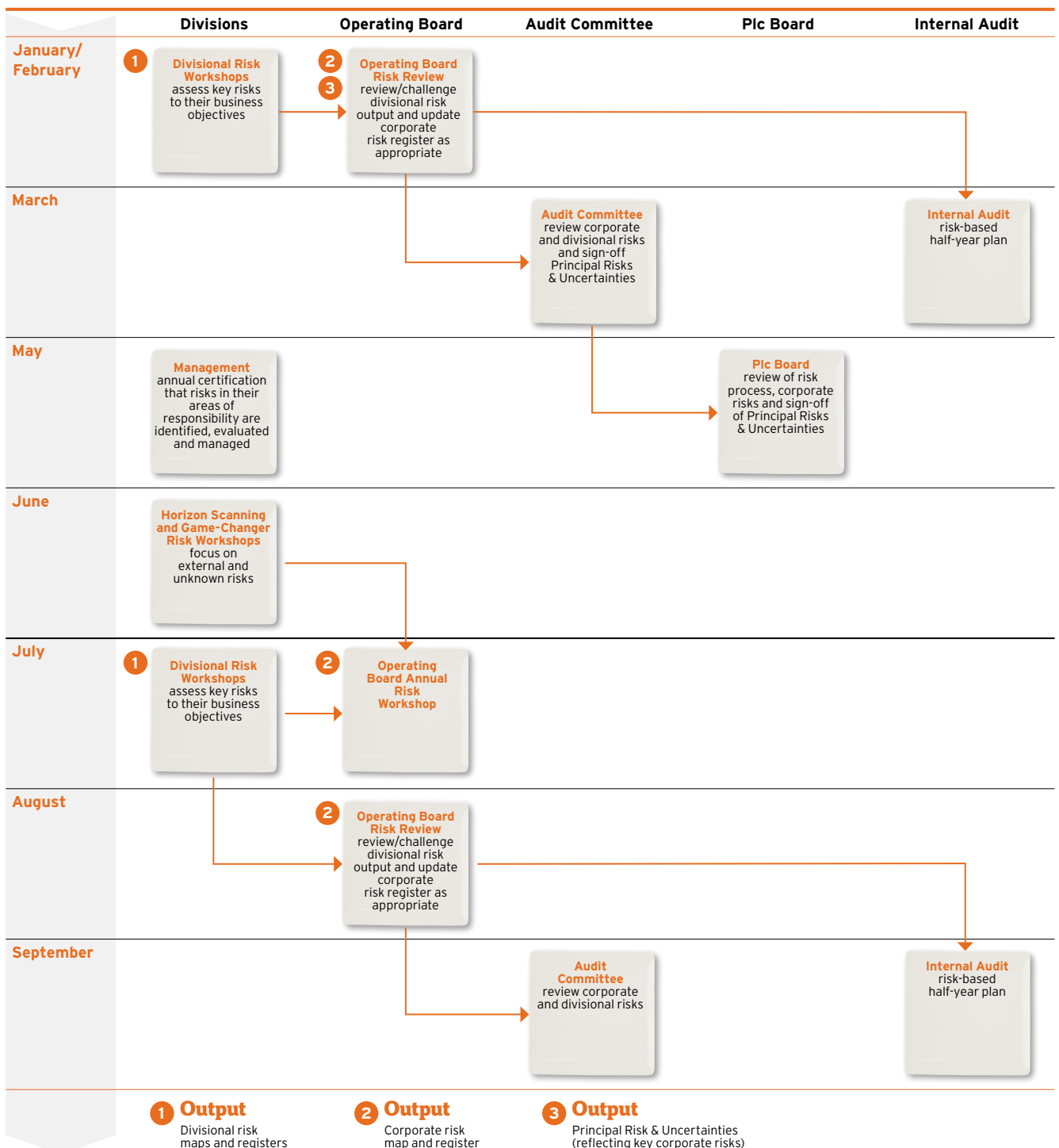
Governance

Corporate governance statement continued

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, management's risk appetite is discussed and actions deemed necessary to mitigate the risk are identified. In addition, the risks and the robustness of the mitigating controls are regularly reviewed by divisional management as part of their normal business activities;
- management certify annually (in May) that they are responsible for managing their business objectives and that the internal controls are such that they provide reasonable but not absolute assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed;
- the Operating Board reviews and challenges the output of the divisional risk process and then updates the overall corporate risk register as appropriate;
- game-changer and horizon scanning risk workshops are held annually to focus on external and unknown risks;
- the corporate and divisional risk registers form the basis of the risk based plan of Internal Audit for the subsequent half-year period;
- Internal Audit provides independent assurance to management and the Audit Committee as to the existence and effectiveness of the risk management process; and
- the Board reviews the risk process and corporate risks in May and approves the Company's Principal Risks and Uncertainties (as set out on page 51 to 53).

The risk management process is illustrated below:



Governance

Corporate governance statement continued

Internal controls

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

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

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

Our Principal Risks & Uncertainties

The risk management process is closely aligned to our strategy, which focuses on growing the business through the addition of new range, space, business development, channels to market and property management. Risk is an inherent part of doing business. The management of these risks is based on a balance of risk and reward determined through careful assessment of both the potential likelihood and impact as well as risk appetite. Consideration is given to both reputational as well as financial impact, recognising the significant commercial value attributable to the Sainsbury's brand. Each principal risk and uncertainty is considered in the context of how it relates to the achievement of the Group's strategic objectives. The current business strategy and objectives are categorised into five areas of focus as follows:



The most significant principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority.

Business continuity and major incidents response

Risk

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

Mitigation

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

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

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

Business strategy

Risk

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

Mitigation

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

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


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

Governance

Corporate governance statement continued

Colleague engagement, retention and capability

Risk


 The Group employs around 157,000 colleagues who are critical to the success of our business. Attracting and maintaining good relations with talented colleagues and investing in their training and development is essential to the efficiency and sustainability of the Group's operations.

Mitigation

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

Data security

Risk


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

Mitigation

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

Developing new business

Risk


 Exploring a range of new opportunities beyond our core business forms part of our five areas of focus. Robust identification and management of risks associated with the new business development agenda is essential to support successful delivery of objectives.

Mitigation

The existing risk management framework and processes embedded in the business extend to exploring new opportunities beyond the core. All projects have a steering group and subject matter experts are engaged as appropriate. A formal review and approval governance structure is also in place.

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 & Sustainability Steering Group, to reduce our environmental impact and to meet our customers' expectations in this area. Further details are included in the Corporate Responsibility review on pages 43 to 45.

Financial strategy and treasury risk

Risk


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

Mitigation

The Group Treasury function is responsible for managing the Group's liquid resources, funding requirements and interest rate and currency exposures and the associated risks as set out in note 28 on page 104. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.

Health and safety - people and product

Risk

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

Mitigation


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

In addition, established product testing programmes are also in place to support rigorous monitoring of product traceability and provide assurance over product safety and integrity. Supplier terms and conditions and product specifications set clear standards for product/raw material safety and quality which suppliers are expected to comply with.

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

IT systems and infrastructure

Risk

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

Mitigation


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

Governance

Corporate governance statement continued

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. In April 2013, a proposal was announced to close the Sainsbury's Defined Benefit Pension Scheme to future accrual, which will help us to manage the escalating costs of pensions and protect the pension that colleagues have already built up in the scheme. A consultation period is currently underway following which a final decision will be made.

Regulatory environment

Risk

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

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


Mitigation

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

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

Trading environment

Risk

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

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


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

Mitigation

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

Transitional risk - Sainsbury's Bank

Risk

 Acquiring full ownership of Sainsbury's Bank will introduce change-driven operational risk in particular through the transitional period. This transitional risk could have an adverse impact on people, processes, regulatory compliance and technical infrastructure. Failure to transition successfully may have an adverse impact on the Sainsbury's brand. A robust risk management process is essential to support successful transition.

Mitigation

Executive sponsorship and a change governance structure is in place to manage and oversee the transition, including engagement of management with financial services experience. The risk management process includes early identification of key transitional risks along with mitigation plans. Tracking of risk mitigation effectiveness will be ongoing throughout the transitional period.

Remuneration report

Dear Shareholder,
2012/13 has been a year of good performance, despite tough trading conditions. We have had record customer transactions, increased total sales by 4.3 per cent (excluding fuel), improved underlying profit before tax by 6.2 per cent and grown our market share to 16.8 per cent, its highest for a decade. This performance has been reflected in the payments under our incentive plans, where we have met, and in some cases exceeded, our stretching targets.

Our approach to pay is holistic, we consider the overall package, as well as each individual element to ensure it is appropriately balanced. We also take into account the pay and benefits of colleagues throughout the business, are extremely mindful of the economic and political environment regarding executive remuneration and exercise appropriate judgement to ensure that rewards are reflective of underlying performance. We are not proposing any changes to the remuneration policy for 2013/14 and the 2013 salary increases for Executive Directors and managers were in line with colleague increases and below inflation.

The over-arching principles of our remuneration policy are to balance reward with performance and encourage sustainable shareholder value creation. We ensure there is a sufficient weighting on variable pay to drive the delivery of business objectives, without undue risk-taking. The variable pay arrangements throughout the Company have been structured to reward short-term financial and operating performance (Annual Bonus), sustainable business development (Deferred Share Award) and creation of value to shareholders over the longer-term (Future Builder; previously Value Builder).

- Annual Bonus - our profit and sales growth over the year have resulted in a record bonus pool of over £90 million, which was shared by over 134,000 colleagues across the business. For the Executive Directors the average payment is 85 per cent of the maximum, compared to 47 per cent last year.
- Deferred Share Award - following the delivery of strong financial and strategic performance during the year, awards were made at 83 per cent of the maximum.
- Value Builder - in May 2013, the fifth cycle of Value Builder, in which over 1,000 managers participate, will mature at a performance multiplier of 1.75 times (44 per cent of the maximum), reflecting our performance over the previous three years.



**Mary Harris, Chairman,
Remuneration Committee**

We are keen to ensure that our shareholders fully understand our approach to pay. We await the final announcement from the Department for Business, Innovation & Skills ('BIS') on the new reporting requirements. While the new legislation will not come into effect until October 2013, we have already adopted some of the future changes, while retaining all content required under the existing regulations.

Finally, I would like to thank Bob Stack, following his retirement last year, for his leadership of the Committee since 2005, as well as welcoming John McAdam and Jean Tomlin to the Committee. We remain committed to rewarding the leadership team for the delivery of long-term shareholder value creation, while staying true to our Company values.

A handwritten signature in black ink, appearing to read 'Mary Harris', with a long horizontal flourish extending to the right.

**Mary Harris
Chairman, Remuneration Committee**

Governance

Remuneration report continued

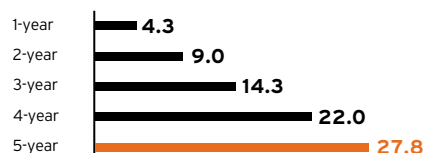
Summary of performance and pay for 2012/13

Despite a challenging year for the retail sector and wider economy, we continued to deliver a good performance in 2012/13, outperforming the market and growing our market share. Our colleagues and Executive team worked hard to provide a great service for customers and this, combined with a quality range of food and non-food, has led to continued sales growth and profitability. All of this was against the backdrop of what was truly a 'year like no other' with Sainsbury's

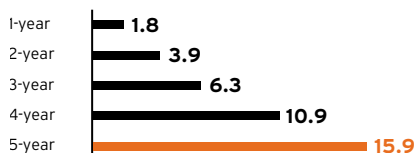
sponsorship of the Paralympics clearly resonating with customers and providing a great example of how our values make us different.

The charts below demonstrate the sustained performance and value that we have delivered to our shareholders over an extended period. Over the year the share price also rose from £3.03 to a high of £3.63 at the end of the year.

Total sales growth 2012/13¹ (%)



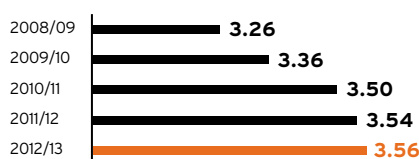
Like-for-like sales growth 2012/13¹ (%)



Underlying profit before tax² (£m)



Underlying operating margin³ (%)



1 Sales including VAT, excluding fuel.

2 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.

3 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.

As a Committee, we set highly stretching performance targets. We consider that our incentive plan payouts for 2012/13 are reflective of our strong growth this year and highlight the link between reward and performance.

Incentive arrangement	Performance achieved	Payout
Annual Bonus Annual financial, operating and individual performance	<ul style="list-style-type: none"> The Company achieved strong profit, sales and customer satisfaction performance Executive Directors also performed well against their personal objectives 	<ul style="list-style-type: none"> Bonuses awarded to Executive Directors for 2012/13 averaged 85 per cent (2011/12: 47 per cent) of the maximum
Deferred Share Award Sustainable business development - building for the future	<ul style="list-style-type: none"> The targets set were either achieved or exceeded, providing a platform for the creation of shareholder value 	<ul style="list-style-type: none"> Awards made to all participants (including Executive Directors) for 2012/13 were 83 per cent (2011/12: 78 per cent) of the maximum opportunity
Value Builder Long-term performance	<ul style="list-style-type: none"> Over the last three financial years, the Company made good progress in both cash generation and the returns achieved on our assets 	<ul style="list-style-type: none"> Awards vested at 44 per cent (2012: 43 per cent) of the maximum opportunity

The table below shows a breakdown of the Executive Directors' total remuneration for 2012/13 and 2011/12. The level of total remuneration reflects the Company's strong performance as demonstrated in the performance charts.

	Justin King (£'000s)		Mike Coupe (£'000s)		John Rogers (£'000s)	
	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12
Basic salary¹	£940	£920	£575	£565	£510	£484
Pension and benefits²	£313	£306	£160	£158	£127	£122
Annual Bonus³	£996	£514	£449	£238	£390	£219
Deferred Share Award⁴	£975	£897	£430	£397	£381	£351
Long-Term Incentive Plan^{5*}	£1,044	£846	£540	£383	£327	£203
Total	£4,268	£3,483	£2,154	£1,741	£1,735	£1,379

* The 2012/13 Long-Term Incentive Plan figure is based on the Q4 average share price of £3.370. The 2011/12 figure is based on the share price on the date of vesting of £2.998.

1 Paid in the year.

2 Paid in the year. For John Rogers includes Company contribution to a defined contribution plan.

3 Annual Bonus relates to performance during the financial year, paid in May following the relevant year-end.

4 Deferred Share Award relates to performance during the financial year, shares are granted in May following the relevant year-end and vest after a two-year deferral period.

5 The Long-Term Incentive Plan value relates to the Value Builder award vesting in May following the end of the relevant financial year, which is the third year of the performance period. 50 per cent of the shares are released in May after the end of the relevant performance period and the balance one year later. The figures include accrued dividends and are based on the share price on the date of vesting for 2011/12 and the Q4 average share price for 2012/13. For Mike Coupe, this figure also includes £2,420 relating to a SAYE share option which became exercisable during 2012/13 based on the share price on the first exercisable date.

The Remuneration Committee

This report

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report sets out the remuneration policy, while the second part details the remuneration, pensions and share plan interests of the Directors for the 52 weeks to 16 March 2013. The Directors confirm that this report has been prepared in accordance with the Companies Act 2006 and reflects the provisions of Schedule 8 of the Large & Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008. The Board has also applied the principles of good governance relating to Directors' remuneration contained within the UK Corporate Governance Code. This report includes many of the future BIS reporting requirements, while retaining all content required under the existing regulations.

A resolution will be put to shareholders at the Annual General Meeting ('AGM') on 10 July 2013 asking them to approve this report.

Committee membership

The Remuneration Committee comprises Mary Harris (member throughout the year and Chairman from 11 July 2012), John McAdam (appointed 11 July 2012) and Jean Tomlin (appointed 1 January 2013). Bob Stack was Chairman until 11 July 2012 and Anna Ford was a member of the Committee to 31 December 2012. All members of the Committee are independent Non-Executive Directors.

Role and responsibilities of the Committee

The Committee complies with relevant regulations and considers best practice when determining pay and policy. The specific responsibilities of the Committee include:

- Determining and agreeing with the Board the 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;
- Reviewing and noting the remuneration trends across the Company;
- Considering the achievement of the performance conditions under annual and long-term incentive/bonus arrangements; 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/investor-centre/corporate-governance).

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. David Tyler, Justin King and Gwyn Burr, Customer Service and Colleague Director (to 16 March 2013), Angie Risley, Group HR Director (from 7 January 2013) and Diana Breeze, Director of Corporate HR are invited to attend Committee meetings. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. Individuals who attend Remuneration Committee meetings do not participate in discussions concerning their own remuneration.

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was supported by its appointed advisers, Deloitte LLP ('Deloitte'), whose consultants attended all of the Committee meetings. Deloitte provided the Company with unrelated advice and consultancy regarding information technology, taxation and non-audit accounting matters. Towers Watson provided comparative data which was considered by the Committee in setting remuneration levels and it also provided other services relating to pensions. Deloitte and Towers Watson are members of the Remuneration Consulting Group and, as such, operate under the Code of Conduct in relation to executive remuneration consulting in the UK.

Shareholder voting on the 2011/12 Report

The 2012 Remuneration Report received a vote of 96.52 per cent in favour (1,184 million votes) at the last AGM, 3.48 per cent voted against (43 million votes) and 14.2 million votes were withheld.

The Remuneration Committee values the views of the Company's shareholders and guidance from shareholder representative bodies. Shareholder feedback received in relation to the AGM each year, as well as any additional feedback received during the year, is considered as part of the Company's annual remuneration review.

Governance

Remuneration report continued

Principal activities and matters addressed during 2012/13

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

as required. It met five times in 2012/13. The table below shows the standard items considered at each meeting, leading up to the meeting in May where the key decisions regarding performance, outcomes and grants for the coming year are determined.

Standard agenda items	
September	<ul style="list-style-type: none"> • Performance update on outstanding incentive awards • Review of dilution under Company share plans • Summary of share grants made in Q1 • Corporate governance and market update • Review of the Chairman's fee
January	<ul style="list-style-type: none"> • Competitive review of Directors' salary and total remuneration packages • Performance update on outstanding incentive awards • Initial discussions on long-term incentive plan for the next financial year • Corporate governance update
March	<ul style="list-style-type: none"> • Review of long-term incentive plan for the next financial year • Directors' salary review decisions • Performance update on outstanding incentive awards
May	<ul style="list-style-type: none"> • Review of performance and outcomes under the Annual Bonus and Deferred Share Award • Review of performance and vesting under long-term incentives • Determining incentive structure for the next financial year including finalisation of targets • Remuneration report

Remuneration policy

Our colleagues are central to the Company's ongoing success and the Company's overall reward strategy needs to support this. Our objective is to have a fair, equitable and competitive total reward package that supports our vision of being a place where colleagues love to work and shop, encourages colleagues to perform in ways that deliver great service for customers and drives sales and provides opportunities for colleagues to share in Sainsbury's success. This overall reward strategy is the foundation for the remuneration policy for senior executives.

The over-arching objectives of the remuneration policy are to ensure rewards are performance-based and encourage long-term shareholder value creation. Reflecting the scope and responsibilities of senior executives, the remuneration policy seeks to:

- Link rewards to the delivery of the business strategy, specifically the five areas of focus (as described in the Business review);
- Support the Company values as outlined in our *20x20 Sustainability Plan*;
- Drive the right behaviours for long-term growth;
- Secure high calibre leaders who can deliver operational excellence; and
- Encourage executives to become shareholders in the Company.

The Committee takes a rounded approach to pay and considers a variety of factors when determining the remuneration policy, setting executives' remuneration packages and implementing them. It believes it is important to exercise suitable judgement at all stages during the process to ensure that executive pay levels appropriately reflect the long-term shareholder experience.

The Committee regularly reviews the overall structure of remuneration for senior executives to ensure that it continues to evolve alongside the objectives of the business and supports the interests of shareholders.

When reviewing or amending remuneration arrangements, the Committee considers pay practices across the Company, the impact on colleague behaviour, the cost to the Company, share dilution, stakeholder views (including shareholders, governance bodies and colleagues), best practice corporate governance and market competitiveness, particularly within the retail sector. It also considers the overall performance of the Company within the context of the retail market and the wider economic environment.

The table overleaf summarises each element of the remuneration package, with further details set out after the table.

Governance

Remuneration report continued

Fixed pay

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes to policy for 2013
Base salary	Core element of remuneration used to recruit and retain executives	Reviewed annually in March Judgement is used but consideration is given to a number of internal and external factors including role, responsibilities, scope, market positioning, inflation and colleague pay increases	Salary increases for Executive Directors will normally be within the range of those for the wider workforce Where the Committee considers it necessary and appropriate, larger increases may be awarded in exceptional circumstances, or if an individual assumes substantially more responsibility	None	None
Benefits	Competitive benefits to assist recruiting and retaining executives	Benefits may include the provision of company car benefits, private medical cover, life assurance, long-term disability insurance and colleague discount	The Committee keeps the benefit policies and the levels provided under regular review	None	None
Pension	Provides an income following retirement and assists colleagues building wealth for their future	JS Self Invested Pension Plan (SIPP, a defined contribution plan) and/or a cash salary supplement	Dependent on the Executive Directors' circumstances	None	None

Variable pay - a significant portion of the total remuneration package is performance-related, aligning management's and shareholders' interests

	Purpose and link to strategy	Operation	Opportunity	Performance metrics	Changes to policy for 2013
Annual Bonus	Reward performance on an annual basis against key financial, operational and individual objectives	Performance measured over one year, bonus payable in cash after the year-end Bonus level determined by the Committee after the year-end based on performance against targets Measures and targets are reviewed annually	Maximum: Chief Executive 125 per cent of salary, other Executive Directors 90 per cent of salary	Based on underlying profit (at least 50%), sales, customer-focussed measures and individual performance Profit gateway must be achieved before any bonus payments can be made	None
Deferred Share Award	Recognise and reward for delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth Balance with Annual Bonus to ensure management remain mindful of long-term consequences of short-term actions	Performance measured over one year, award made in shares deferred for two years Award level determined by the Committee after the year-end based on performance against targets Measures and targets are reviewed annually in light of the strategic plan	Maximum: Chief Executive 125 per cent of salary, other Executive Directors 90 per cent of salary	Basket of metrics covering financial performance, returns to shareholders, relative performance against peers and strategic goals At least half of the award will be based on the delivery of financial performance and returns to shareholders Profit gateway must be achieved before any grants can be made	None
Long-Term Incentive Plan	Recognise and reward for delivery of Company performance and shareholder value over the longer-term Share-based to provide greater alignment with shareholder interests	Performance measured over three financial years 50 per cent vests following the end of the performance period and 50 per cent is deferred for a further year Claw-back (malus) provisions apply	Core award: Chief Executive 55 per cent of salary, other Directors 50 per cent of salary (maximum 62.5 per cent) Maximum multiplier: 4 times	For 2013/14 awards: <ul style="list-style-type: none"> • ROCE (50 per cent) • Cumulative underlying cash flow from operations (30 per cent) • Relative sales (20 per cent) • An EPS gateway must be achieved before any awards vest 	None
Shareholding guidelines	Alignment of Executive Directors with shareholders	Guideline to be met within five years of appointment	Guidelines are: Chief Executive 2.5 times salary, other Executive Directors 1.5 times salary	None	None

Governance

Remuneration report continued

Consideration of colleague pay and how the Remuneration Policy relates to the wider Company

When considering remuneration arrangements for Executive Directors, the Committee takes into account, as a matter of course, the pay and conditions of colleagues throughout the Company.

In particular, the Committee is kept informed of any major changes to the pay and benefits of colleagues generally and the Committee takes into account wider pay issues when determining Executive Directors' remuneration.

Many aspects of the remuneration policy for Executive Directors are consistent with the reward strategy for all colleagues across the Company. However, below executive level, pay and benefits are lower in aggregate, driven by market comparatives and the nature of the roles.

When considering salary increases for management the individual's performance and market rate for the role are considered, within the scope of the overall salary pot. For hourly paid colleagues a number of internal and external factors determine the rate of pay. Executive Director salary increases of around 2.1 per cent are in line with those of the wider workforce averaging 2.2 per cent.

In terms of variable incentives, annual bonus plans are operated across the Company and are aligned under a common set of principles with performance metrics tailored to different populations. All colleagues' bonuses include an element on sales and customer-focussed measures. For 2012/13, the total bonus pool was over £90 million.

Long-term incentives are reserved for those senior executives expected to have the greatest influence on Company performance over time. All colleagues have the opportunity to become shareholders in the Company through our all-employee share plans.

Participation in a pension plan is also offered to all colleagues on a contributory basis, with the Company contribution varying by grade. The Committee is being kept up-to-date on the proposed closure of the Defined Benefit Pension Plan for existing members, on which the Company is currently consulting with its members. Pensions auto-enrolment launched in October 2012 and 57,000 colleagues were enrolled, with an opt-out rate of around six per cent. Overall, 96,000 colleagues now participate in a Company pension plan.

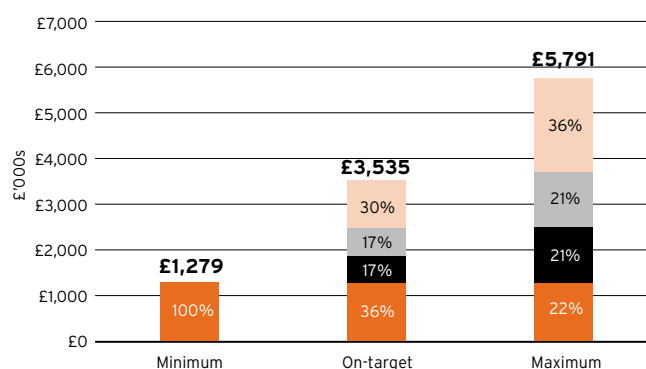
A range of other benefits are also offered, including colleague discount.

Total remuneration under different performance scenarios

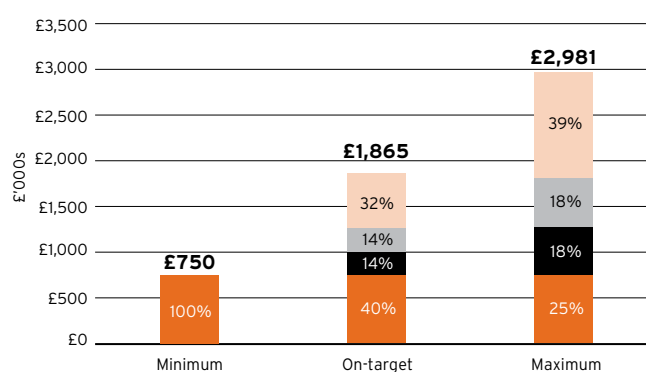
The Committee believes it is important for Executive Directors that both a significant portion of the package is performance-related and a significant proportion is delivered in shares to align their interests with shareholders. The balance between the fixed pay (basic salary, pension and benefits) and variable pay (Annual Bonus, Deferred Share Award and Long-Term Incentive Plan) changes with performance. The variable proportion of total remuneration increases significantly for increased levels of performance. At least 60 per cent of the package is delivered through variable pay at on-target performance and this proportion increases to at least three-quarters of the package at maximum levels of performance.

The charts show for the Chief Executive and the Executive Directors their 2013/14 total remuneration potential under three performance scenarios (excluding the effect of share price movements).

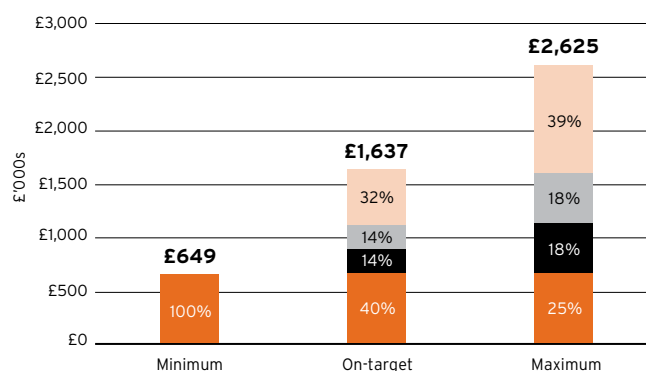
Justin King



Mike Coupe



John Rogers



● LTIP
● DSA
● Annual Bonus
● Fixed pay

- Minimum - only fixed pay is earned and there are no payouts under any incentive plan.
- On-target - in addition to fixed pay, 50 per cent of the maximum potential under the Annual Bonus and Deferred Share Award ('DSA') is earned and a multiplier of 2.0 times is applied to Future Builder core awards granted under the Long-Term Incentive Plan ('LTIP').
- Maximum - the maximum potential under the incentive plans is earned.

Governance

Remuneration report continued

Elements of remuneration

Basic salary

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

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 £11 billion. This approach ensures that the most appropriate available benchmark for the Director's specific position is obtained; however, in line with best practice, the Committee applies judgement when considering market data.

The Committee reviewed the Executive Directors' salaries for the start of the 2013/14 financial year. In the context of another good year, the Committee agreed salary increases for 2013/14 that were in line with those made to colleagues generally averaging 2.2 per cent (consisting of a review for management and non-management central colleagues of 2.0 per cent in March 2013 and for hourly paid retail colleagues of 2.5 per cent in September 2012).

	Salary effective from 18 March 2012	Salary effective from 17 March 2013	Per cent increase
Justin King	£940,000	£960,000	2.1
Mike Coupe	£575,000	£587,000	2.1
John Rogers	£510,000	£520,000	2.0

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, Justin King receives a pension supplement of 30 per cent of salary and Mike Coupe receives a pension supplement of 25 per cent of salary.

John Rogers participates in the JS Self Invested Pension Plan, a defined contribution arrangement which is open to all senior management. In return for contributing five per cent of his salary, the Company contributes 12.5 per cent of his salary up to an internal earnings cap (£137,400 for 2012/13). He receives a pension supplement of 25 per cent of the pensionable salary he was paid in excess of the earnings cap.

Benefits

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

Annual Bonus

2013/14 policy

All bonus plans across the Company are aligned under a set of common principles. The Board and management plans continue to be based on profit and sales growth, customer-focussed measures and an element for individual performance. Bonus awards are weighted to the achievement of profit (at least 50 per cent) and profit continues to act as the overall 'gateway' measure for the plan, reflecting the emphasis on growing profit. For 2013/14, the targets will be set to reward stretching year-on-year growth. The Annual Bonus is paid in cash after the year-end.

The customer-focussed measures are based on availability (which is measured across all stores on a regular basis by an independent third party, conducting random and unannounced store visits) and a customer service measure.

Individual performance objectives are set annually for each Executive Director and are reviewed by the Committee. These objectives cover

a variety of financial and operational targets that contribute to the achievement of longer-term strategic goals; some of these objectives relate, either directly or indirectly, to the Company's values.

The maximum Annual Bonus opportunity remains unchanged from last year at 125 per cent of basic salary for the Chief Executive and 90 per cent of basic salary for the other Executive Directors.

2012/13 payment

The performance measures for 2012/13 are the same as outlined above for 2013/14. The Committee assessed performance against the targets following the end of the financial year and, in summary, the outturn is as follows:

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

During the year the Company achieved strong year-on-year growth in sales and profit and performed well against the stretching targets which were set across all elements of the plan at the start of the year.

Based on the above performance outcomes, the table below sets out the Executive Directors' bonus payments for 2012/13. For information, the average bonus over the last three years has been: 2011/12 - 48 per cent of salary, 2010/11 - 48 per cent of salary and 2009/10 - 92 per cent of salary.

	Annual Bonus for 2012/13		
	Value	Per cent of salary	Per cent of maximum
Justin King	£996,000	106%	85%
Mike Coupe	£449,000	78%	87%
John Rogers	£390,000	76%	84%

The 2012/13 Annual Bonus for store colleagues was based on corporate sales, availability and customer service targets measured in their individual stores. This has resulted in a record bonus pool of over £90 million which will be shared by over 134,000 colleagues.

Deferred Share Award

2013/14 policy

Since 2009, the Deferred Share Award ('DSA') has been used to drive performance against a diverse range of business-critical financial and non-financial scorecard measures. This plan has become a vital part of the remuneration package and rewards Directors for achieving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. Share-based awards are made further ensuring alignment of Directors' interests with shareholders.

The DSA covers the top 45 managers in the Company, including Executive Directors. The Committee has reviewed the DSA's performance framework for 2013/14 and performance will continue to be measured against a basket of key strategic measures aligned under four broad categories:

1. Financial performance;
2. Returns to shareholders;
3. Relative performance against peers; and
4. Strategic goals.

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. The Committee also agreed that appropriate corporate responsibility targets would be included within the strategic goals category.

Governance

Remuneration report continued

At least 50 per cent of the award will be based on the delivery of financial performance (e.g. profit and earnings per share) and returns to shareholders (e.g. Total Shareholder Return ('TSR') and dividend yield). The balance will be based on measures which will assess the Company's performance relative to its competitors (e.g. market share) as well as key strategic and 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) is achieved. As a further means of ensuring robust performance measurement, a feature of the plan is that during the year, the Committee receives an interim appraisal to gauge the progress of performance and the plan's effectiveness based on half-year results.

Performance is assessed over one financial year, but any shares awarded are deferred for a further two years. 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.

The maximum DSA award opportunities remain unchanged at 125 per cent of basic salary for the Chief Executive and 90 per cent of basic salary for the other Executive Directors.

2012/13 award

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 performance goals had been delivered, in particular how the overall performance of the Company had contributed to its future, sustainable growth and success.

The Company performed well in 2012/13 and this flowed through to the basket of measures that determine awards under the DSA. The Committee agreed that for 2012/13 awards would be made at 83 per cent of the maximum level. For information, the previous levels of awards have been: 2012 - 78 per cent of the maximum, 2011 - 83 per cent and 2010 - 88 per cent. The table below sets out the 2012/13 awards for the Executive Directors.

	Deferred Share Award for 2012/13		
	Value	Per cent of salary	Per cent of maximum
Justin King	£975,000	104%	83%
Mike Coupe	£430,000	75%	83%
John Rogers	£381,000	75%	83%

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

We performed strongly over the last year and underlying profit before tax improved by 6.2 per cent to £756 million. Underlying operating margin improved by two basis points to 3.56 per cent and underlying basic earnings per share increased by 9.3 per cent to 30.7 pence.

Returns to shareholders

The Company saw its eighth consecutive year of like-for-like sales growth, with like-for-like sales (including VAT, excluding fuel) of 1.8 per cent. The strong sales performance helped to maintain a strong balance sheet, with return on capital employed ('ROCE') of 11.2 per cent, a year-on-year increase of 12 basis points. This has enabled the Company to maintain a good level of returns to shareholders. The proposed full year dividend is 16.7 pence, up 3.7 per cent year-on-year (2011/12: 16.1 pence). The dividend is covered 1.83 times by underlying earnings and our dividend yield and price/earnings ratio remain amongst the highest in the UK food sector. TSR was assessed on both a relative and absolute basis over one, three and five-year periods.

Relative performance

Our sales grew ahead of the market, with market share increasing to 16.8 per cent despite the continuing difficult consumer environment. The Company was the only one of the top four supermarkets to see a year-on-year market share increase. For the 50 weeks from 18 March 2012 to 02 March 2013 we outperformed the Institute of Grocery Distribution ('IGD') pool by 2.0 per cent (source: IGD Market Track). We won the top award, Supermarket of the Year, in the Retail Industry Awards 2012 for the fifth time in seven years and for a third year running won the Convenience Chain of the Year award.

Strategic goals

The Company's strategy continues to centre on our five areas of focus. These are underpinned by Sainsbury's strong heritage and brand which consistently set it apart from major competitors. Further details on the corporate objectives can be found in the Business review and details of the corporate responsibility commitments are summarised on pages 22 to 25.

- We made good progress this year on Great Food. Customers increasingly buy into our own-brand food offer, which has grown by nearly five per cent in the year and now accounts for half of our food sales. The successful re-launch of our core *by Sainsbury's* range is now complete with over 6,500 lines, many of which are new or improved. Sales grew ahead of our major competitors' comparable ranges and *by Sainsbury's* won the prestigious Grocer Gold Own Label Brand of the Year award. Our *Taste the Difference* range is also growing strongly at nearly 10 per cent and is gaining market share. We are about to start a re-launch of our *basics* brand, the second largest value brand in the market, due to be complete by early 2014. Overall, Sainsbury's own-brand ranges rank second in market share of the top four supermarkets.
- Our non-food offer builds customer loyalty - customers who buy clothing and general merchandise, as well as food, shop with us more frequently and spend more than those who only buy food. In February, we achieved the significant milestone of £1 billion in annual general merchandise sales, a reflection of the investment we have made in space and the quality of our offer.
- We continued the development of our multi-channel offer. Our convenience business, which we have built and invested in over the past 15 years, has five million customer transactions each week and sales of over £1.5 billion. Convenience stores have delivered sales growth of over 17 per cent year-on-year, driven by both new space and like-for-like sales growth. We have continued to open one or two convenience stores each week, bringing our total number of convenience stores to 523. Our groceries online business is also growing strongly at around 20 per cent year-on-year, and we have the ability to deliver to over 96 per cent of UK households. Sainsbury's Bank has enjoyed another successful year, delivering its fifth consecutive year of profit growth, with our share of the joint venture post-tax profit up 38 per cent to £22 million. We are pleased to have reached an agreement with Lloyds Banking Group to acquire their 50 per cent shareholding of Sainsbury's Bank and take sole ownership which will allow future products to be even more tailored to Sainsbury's customers.
- During the year, we continued to develop new businesses. We have formed a joint venture with Aimia, owner of the Nectar programme. The new company, I²C (Insight 2 Communication), will benefit customers through timely, relevant and accessible offers, based on their likes and dislikes, while brands benefit from insight-based marketing solutions and a greater return on investment. Also, with the purchase of a majority stake in Anobii, now operating as eBooks *by Sainsbury's*, and our partnership with Rovi Corporation, an on-demand video streaming service, we continue our drive into the online and digital entertainment market. These new and exciting business relationships underline our commitment to becoming a key player in the digital entertainment market.

Governance

Remuneration report continued

- This year we have added 14 supermarkets, 87 convenience stores and eight extensions to our property portfolio – a total of just over one million sq ft, in line with our target of around five per cent gross space growth. Some of this additional space has enabled us to bring our increasingly popular clothing and general merchandise ranges to more customers. It has also enabled us to expand our coverage of the UK to areas where our presence was previously limited – only around 22 per cent of the UK population do not live within a 15 minute drive of a Sainsbury's store.
- In the last five years, we have added £4 billion to the value of our property portfolio, the market value of which is now £11.5 billion. Activity during the year delivered profits of £66 million and over five years property profits have totalled £341 million.
- We have a responsibility to protect our environment for future generations, help sustain the communities in which we operate and help our customers to *Live Well For Less*. We are continuing to work towards our *20x20 Sustainability Plan* comprising 20 ambitious goals we aim to achieve by the year 2020. During the year we ran our second Million Meals Appeal, launched our Active Kids for All Paralympics legacy plan and donated a record-breaking £41.5 million to good causes in the year such as Comic Relief, the Royal British Legion Poppy Appeal and our nationwide Local Charity Partnership programme. We were also awarded a number of environmental accolades this year, including the top award of Sustainable Business of the Year at the Energy and Environmental Awards. This was in recognition of our industry-leading work on carbon and energy reduction, focus on recycling and water innovation.

Long-term incentives

2013/14 policy

The long-term incentive vehicle in use at Sainsbury's is known as Future Builder. This arrangement was introduced in 2012 following the amendment to the performance conditions. Performance is now assessed against ROCE, cumulative cash flow from operations and relative sales measured against the IGD Index, with an earnings per share gateway. Awards are made under the shareholder approved 2006 Long-Term Incentive Plan.

Around 200 senior managers participate in this arrangement. Under Future Builder, a core award of shares is granted, calculated as a

percentage of salary and scaled according to grade. The Chief Executive receives a core award of 55 per cent of salary and the other Executive Directors a core award of 50 per cent of salary. Vesting of core awards is dependent upon performance against specific measures (common for all participants) tested at the end of a three-year performance period. The core award can grow by up to four times at stretch levels of performance. The overall maximum award permitted by the rules of the plan is 250 per cent of salary including the performance multiplier.

Half of any vested shares are released at the end of the performance period, while the remaining half are released after a further year. Dividends accrue on the shares that vest, in the form of additional shares.

The performance measures are reviewed each year by the Committee, before a new grant is made, to ensure that they remain relevant and stretching. The performance conditions applying to the 2013 grant are the same as those used in 2012.

The Committee believes it is important that the performance conditions in the long-term incentive arrangement support the corporate ambitions of the Company during the next phase of development. We operate in a dynamic market with evolving challenges and the Committee monitors this over time. ROCE, cash flow and relative sales complement the Company's future strategy, as outlined in the Business review which will be achieved by delivering long-term sustainable performance in three key areas:

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

The Committee retains the discretion to make adjustments to the calculation of the performance measures (for instance for material acquisitions and disposals and one-off events not foreseen at the time the targets were set) to ensure they remain true and fair reflections of performance.

Element	Performance metrics
ROCE	<ul style="list-style-type: none"> • ROCE reflects the return generated for shareholders, and as such is a critical measure of the quality of our business activity and the efficiency of capital use. • For the purposes of Future Builder, ROCE is based on the underlying operating profit for the business, including the underlying share of post-tax profit from joint ventures. The capital employed figure excludes the impact of movements in the IAS 19 pension deficit.
Cumulative underlying cash flow from operations	<ul style="list-style-type: none"> • Cumulative underlying cash flow from operations measures the total flow of cash in and out of the business as well as providing an assessment of underlying profitability. • For Future Builder, the cumulative underlying cash flow is based on the reported cash flow generated from operations over the performance period after adding back net rent and cash pension costs.
Relative sales	<ul style="list-style-type: none"> • This is an important metric used across the retail sector. Outperforming our direct peers on sales will be a key source of value for our shareholders and like-for-like sales are the biggest driver for profitability and returns. • Our relative sales performance is measured using the IGD Index. The IGD Index measures growth in like-for-like sales (excluding fuel) across the market based on the performance of all of the Company's key competitors. This is an independently audited index of sales efficiency, which is viewed as a robust reference point for performance across the food retail sector.

Governance

Remuneration report continued

2013 Future Builder (2nd cycle)

The performance measures and targets for the 2013 Future Builder grant are summarised in the table below. Straight-line vesting will operate between the threshold and maximum targets. The Committee

considers that the stretch of the targets set for 2013 awards is comparable to awards granted in previous years, and that the delivery of stretch targets would result in significant shareholder value creation.

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

Claw-back

In 2012 the Remuneration Committee introduced claw-back (malus) in order to strengthen the Company's formal governance in line with our existing philosophy, and in recognition of shareholders' current concerns around executive remuneration. This clause is intended to apply to all long-term incentive awards made following the introduction in 2012.

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

Financial accounts	<ul style="list-style-type: none"> Material mis-statement of our financial results
Actions/conduct of participant	<ul style="list-style-type: none"> Serious reputational damage Serious misconduct Fraud

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

- Reduce the number of shares under an unvested award;
- Cancel an unvested award in full; or
- Impose further conditions on an unvested award.

2013 vesting

Until 2012, long-term incentive awards were known as Value Builder awards. The structure of the plan is the same as Future Builder but different performance conditions applied. The fifth cycle of Value Builder made in 2010 is due to vest in May 2013, based on performance over 2010/11 to 2012/13. The Committee determined performance over the period should deliver a vesting multiplier of 1.75 times, based on adjusted ROCE of 13.5 per cent and cash flow per share ('CFPS') of 8.2 per cent. This represents 44 per cent of the maximum award opportunity, which the Committee believes is a true and fair reflection of performance. When assessing ROCE and CFPS performance for the purposes of the plan, adjustments were made to take into account additional investments, returns and one-off events not envisaged at the time the targets were set. One half of the award becomes exercisable in May 2013, with the remaining portion exercisable in May 2014.

For information, the previous levels of vesting have been: 2012 vesting - 1.7 times, 2011 vesting - 1.9 times, 2010 vesting - 3.2 times and 2009 vesting - 3.7 times.

Performance conditions attached to outstanding long-term incentive awards

The table below sets out the performance conditions attached to all outstanding awards; the definitions for ROCE and CFPS previously used can be found in the remuneration report for the relevant year of grant. The structure of Value Builder and Future Builder awards are the same and both are granted under the 2006 Long-Term Incentive Plan.

Award	Performance period	Performance conditions and multiples					
2012 Future Builder (1st cycle)	Performance period runs to 2015 - 50% exercisable in May 2015, 50% in May 2016	Same as 2013 Future Builder - see table above					
2011 Value Builder (6th cycle)	Performance period runs to 2014 - 50% exercisable in May 2014, 50% in May 2015	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
2010 Value Builder (5th cycle)	Performance period ended - 50% exercisable in May 2013, 50% in May 2014	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
2009 Value Builder (4th cycle)	Performance period ended - 50% exercisable, 50% in May 2013	11%	-	-	0.5	1.0	1.5

All-employee share plans

In line with our 2020 target of increasing the number of colleagues with shares in the Company by 25 per cent, 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, of which the Sainsbury's Share Purchase Plan is a part. Executive Directors may participate in these plans in the same way as all other colleagues. Justin King and John Rogers currently participate in both plans. Mike Coupe participates in the SAYE. As these are all-employee plans there are no performance conditions. The Committee approves the adoption or amendment of these plans and awards to Executive Directors.

The 2007 (five-year) SAYE reached maturity on 1 March 2013. Around 3,200 colleagues could use their savings and a tax-free bonus to buy Sainsbury's shares at a £3.31 option price. The 2009 (three-year) SAYE matured at the same time covering around 7,800 colleagues who could use their savings and a tax-free bonus to buy Sainsbury's shares at a £2.73 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 £23.5 million. The Company currently has over 30,000 colleagues participating in the SAYE with around 59,000 individual savings contracts.

Governance

Remuneration report continued

Shareholding guidelines

The Committee introduced shareholding guidelines in 2006/07, updated in 2010/11, to create greater alignment of the Directors' interests with those of shareholders, which is a key objective within the remuneration

policy. The guidelines require Directors to build up a specified level of shareholding within five years of appointment. The guidelines are as follows: Chief Executive 2.5 times salary; Executive Directors 1.5 times salary and Operating Board Directors 1.0 times salary.

Name	Shareholding as at 16 March 2013 ¹	Outstanding share awards not subject to performance ²	Multiple of salary ³	Guideline met at 16 March 2013
Justin King	825,979	1,411,294	5.8 times	Yes
Mike Coupe	866,411	561,707	7.2 times	Yes
John Rogers	210,806	364,434	2.7 times	Yes

1 Shareholding as at 16 March 2013.

2 Outstanding share awards under Value Builder, DSA and Deferred Annual Bonus Plan that are no longer subject to performance conditions.

3 Calculated using (i) salaries as at 16 March 2013, (ii) share total based on total of shareholding plus net of tax value (tax assumed to be 52 per cent) of share awards not subject to performance and (iii) the closing mid-market share price on 16 March 2013 of £3.628.

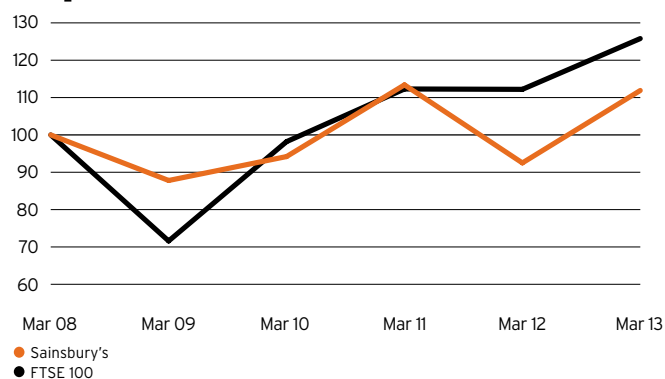
Dilution

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 16 March 2013, an estimated 7.9 per cent of the Company's issued share capital has been allocated for the purposes of its all-employee share plans over a ten-year period, including an estimated 3.7 per cent over ten years in respect of its executive share plans.

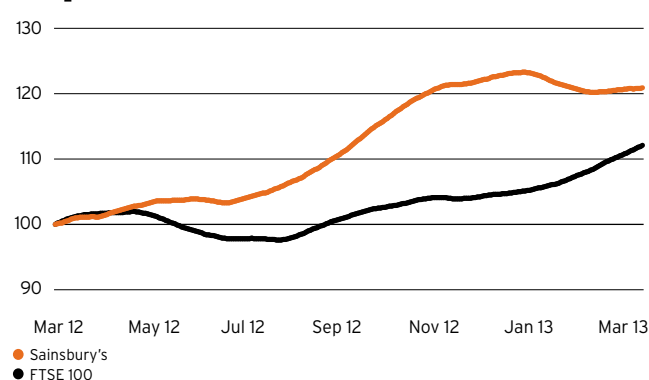
Performance graph

The graph below shows the TSR performance of an investment of £100 in J Sainsbury plc shares over the last five years compared with an equivalent investment in the FTSE 100 Index. This has been selected to provide an established and broad-based index. An additional graph is included which shows J Sainsbury plc's daily TSR since March 2012; over the last year our TSR has exceeded the FTSE 100.

TSR performance since March 2008



TSR performance since March 2012



Service contracts

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

If the service contract of Mike Coupe is terminated without cause, the maximum payment he would receive would be equal to one times basic salary for the 12-month notice period plus 50 per cent of basic salary in lieu of all other elements of remuneration, except share plans. He is required to mitigate his losses and would receive phased payments, which would be reduced or terminated if he secured alternative employment during the notice period. His contract also contains restrictive covenants, which continue for 12 months after termination. It does not contain any specific provisions relating to change of control.

In 2010, the Committee agreed that within future Executive Directors' service agreements the notice period would be 12 months and that the termination provisions would state that any severance payments would be limited to one year's salary and benefits, be made on a phased basis and be subject to mitigation. As is the current practice, if "good leaver" status is given, long-term incentive awards that vest following a Director's employment termination will continue to be pro-rated for time and performance. Bonus awards will also be paid subject to time and performance for the financial year in which office is held if the individual is considered to be a "good leaver". The service contract under which John Rogers was appointed as Chief Financial Officer follows these provisions in full; in addition, there are no specific terms relating to change of control.

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

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

External appointments

The Company's normal practice is that Executive Directors may take up one public company non-executive role outside the Company, subject to a consideration of the role and the time commitment. Directors are entitled to retain the fees earned from such appointments. Details of the Executive Directors' external fees are set out on page 66.

Governance

Remuneration report continued

Chairman

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

David Tyler receives a basic fee of £470,000 per annum. His fees were reviewed during 2012/13 but no adjustment was made. He devotes such time as is necessary to perform his duties. He does not participate in any performance-related incentive plans and the only benefits he receives are private medical cover, 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 annual election or re-election by shareholders. Their appointments may be terminated by the serving of three months' notice by either party.

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

The Non-Executive Directors' fees were reviewed during the year but no changes were made. The fee levels are as follows:

Basic fee	£60,000
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	£12,500

The effective dates of the Non-Executive Directors' letters of appointment are set out below:

	Letter of appointment effective date
Matt Brittin	27 January 2011
Mary Harris	1 August 2007
Gary Hughes	1 January 2005
John McAdam	1 September 2005
Jean Tomlin	1 January 2013

Governance

Remuneration report continued

The following section provides details of the remuneration, pension and share plan interests of the Directors for the 52 weeks ended 16 March 2013 and has been audited.

i) Directors' remuneration

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

	Note	Cash components and benefits						Total 2013 £000	Total 2012 £000
		Salary/fees £000	Bonus ⁵ £000	Pension supplement ⁶ £000	Benefits ⁸ £000	Total cash and benefits 2013 £000	Deferred share award ⁹ £000		
Justin King	1,10	940	996	282	31	2,249	975	3,224	2,637
Mike Coupe	10	575	449	144	16	1,184	430	1,614	1,358
John Rogers	7	510	390	93	17	1,010	381	1,391	1,160
David Tyler		470	-	-	1	471	-	471	460
Matt Brittin		60	-	-	-	60	-	60	57
Mary Harris		70	-	-	-	70	-	70	57
Gary Hughes		75	-	-	-	75	-	75	72
John McAdam		75	-	-	-	75	-	75	72
Jean Tomlin		15	-	-	-	15	-	15	-
Anna Ford	2	58	-	-	-	58	-	58	68
Bob Stack	3	24	-	-	-	24	-	24	72
Directors who left the Board before the start of the financial year	4	-	-	-	-	-	-	-	224
Total 2013		2,872	1,835	519	65	5,291	1,786	7,077	
Total 2012		3,005	971	546	70	4,592	1,645		6,237

1 Highest-paid Director.

2 Anna Ford resigned from the Board on 31 December 2012.

3 Bob Stack resigned from the Board on 11 July 2012.

4 Darren Shapland resigned from the Board on 13 July 2011 and received £206,000 in cash and benefits in 2011/12. In his capacity as Non-Executive Chairman of Sainsbury's Bank, Darren Shapland earned a salary of £143,407 in 2012/13 until he resigned on 28 February 2013 (2011/12: £107,308). Val Gooding received fees of £18,000 in 2011/12.

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

6 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, £446 (2012: £440) of interest has been earned on a notional fund during the year from his previous membership of the Executive Stakeholder Pension Plan. Mike Coupe is not a member of the Company's pension plans and received 25 per cent of basic salary as a cash pension supplement. John Rogers is a member of the Company's JS Self Invested Pension Plan. Contributions to the JS Self Invested Pension Plan by the Company in 2012/13 in respect of his membership were £17,175 (2011/12: £16,200). He received a cash supplement equal to 25 per cent of the amount by which his salary exceeded the Company's earnings cap (2012/13: £137,400) (2011/12: £129,600).

7 The totals for 2013 and 2012 in the case of John Rogers do not include deductions made from basic salary for Saving Money and Reducing Tax ("SMART") pensions.

8 Benefits include a combination of cash and non-cash benefits. Benefits for John Rogers and Mike Coupe include cash car allowance and private medical cover. Justin King received non-cash benefits which include company car benefits and private medical cover. David Tyler received non-cash benefits of private medical cover.

9 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 2015.

10 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 2012/13 (2011/12: \$75,000). During the year 11,372 (2011/12: 8,653) of restricted Staples stock was released to Justin and a further award over 13,715 shares was granted (2011/12: 11,372 restricted shares awarded). Justin King is also a Director of Olympic Games and Paralympic Games Limited and a member of the London Organising Committee of the Olympic and Paralympic Games. Justin received £8,000 (2011/12: £10,500) during the year for his services which, after deductions for National Insurance, was donated directly to charity. Mike Coupe was appointed a Non-Executive Director of Greene King plc on 26 July 2011 and received £43,000 (2011/12: £29,604) for his services.

Governance

Remuneration report continued

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 during the year	Number of dividend shares allocated 17 May 2012 ^{2,3}	Number of options released	Number of options held 16 March 2013	First exercise date	Last exercise date
Justin King	28.05.08	630,876	352.0	-	31,471	181,304	181,304	19.05.11	17.05.13
	24.06.09	570,984	314.0	328,316	19,743	141,077	141,077	17.05.12	16.05.14
	21.06.10	611,488	329.3	-	-	-	-	16.05.13	15.05.15
	19.05.11	570,748	343.0	-	-	-	-	15.05.14	14.05.16
	17.05.12	667,136	295.3	-	-	-	-	14.05.15	13.05.17
Mike Coupe	28.05.08	281,868	352.0	-	14,061	81,005	81,005	19.05.11	17.05.13
	24.06.09	258,844	314.0	148,836	8,950	63,954	63,954	17.05.12	16.05.14
	21.06.10	315,008	329.3	-	-	-	-	16.05.13	15.05.15
	19.05.11	318,648	343.0	-	-	-	-	15.05.14	14.05.16
	17.05.12	370,988	295.3	-	-	-	-	14.05.15	13.05.17
John Rogers	28.05.08	144,696	352.0	-	7,218	41,583	41,583	19.05.11	17.05.13
	24.06.09	137,036	314.0	78,796	4,738	33,858	33,858	17.05.12	16.05.14
	21.06.10	191,476	329.3	-	-	-	-	16.05.13	15.05.15
	19.05.11	250,972	343.0	-	-	-	-	15.05.14	14.05.16
	17.05.12	329,052	295.3	-	-	-	-	14.05.15	13.05.17

1 The maximum share award assumes full vesting.

2 The performance conditions attaching to the awards made between 2008 and 2011 are return on capital employed and growth in cash flow per share. The performance conditions relating to the award made in 2012 are a combination of return on capital employed, cumulative underlying cash flow from operations and relative sales performance. Further information is provided on pages 118 to 119. The performance of the award made in June 2009 was tested in May 2012 and a multiplier of 1.7 was achieved. The number of shares between the maximum multiplier (4.0) and the multiplier achieved have lapsed. Half of the achieved award vested in May 2012 whilst the remainder of the achieved award will vest in May 2013. The number of dividend shares which have been received on vested shares was determined by a five-day average share price from 10 to 16 May 2012.

3 The second half of the award which vested in May 2011 was released in May 2012. The number of dividend shares which have been received on vested shares was determined by a five-day average share price from 10 to 16 May 2012.

Notes:

- The Long-Term Incentive Plan 2006 is a nil-cost option plan. The exercise price is nil.
- There were no options exercised under this Plan during the year.

Deferred Share Award

The table below shows the number of deferred shares awarded to participants in May 2010, 2011 and 2012. There are no further performance measures attached to the awards.

	Date of grant	Deferred share award	Share price at date of award pence	Number of dividend shares allocated 23 March 2012	Number of options released	Number of options held 16 March 2013	First exercise date	Last exercise date
Justin King	20.05.10	298,570	316.6	29,187	327,757	327,757	23.03.12	22.03.20
	19.05.11	263,436	343.0	-	-	-	22.03.13	21.03.21
	17.05.12	289,373	295.3	-	-	-	21.03.14	20.03.22
Mike Coupe	20.05.10	108,281	316.6	10,584	118,865	118,865	23.03.12	22.03.20
	19.05.11	104,855	343.0	-	-	-	22.03.13	21.03.21
	17.05.12	127,953	295.3	-	-	-	21.03.14	20.03.22
John Rogers	20.05.10	57,325	316.6	5,602	62,927	62,927	23.03.12	22.03.20
	19.05.11	79,578	343.0	-	-	-	22.03.13	21.03.21
	17.05.12	113,233	295.3	-	-	-	21.03.14	20.03.22

Notes:

- There were no exercises or lapses under this Plan during the year.
- The Deferred Share Award is a nil-cost option plan. The exercise price is nil.
- The number of dividend shares which have been received on vested shares was determined by a five-day average share price following the announcement of interim and preliminary results 14-20 May 2010, 11-17 November 2010, 12-18 May 2011 and 10-16 November 2011.

Governance

Remuneration report continued

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. This legacy plan is no longer operated.

	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	Number of dividend shares allocated 17 May 2012	Number of options released	Number of options held 16 March 2013	First exercise date	Last exercise date
Justin King	20.06.08	158,042	316,084	325.75	-	15,104	87,013	87,013	19.05.11	18.05.13
	24.06.09	81,319	275,658	314.00	275,658	-	-	-	-	-
Mike Coupe	20.06.08	18,292	36,584	325.75	-	1,748	10,071	10,071	19.05.11	18.05.13
	24.06.09	23,280	78,920	314.00	78,920	-	-	-	-	-
John Rogers	20.06.08	7,513	15,026	325.75	-	717	4,135	4,135	19.05.11	18.05.13

1 The maximum matching share award is the maximum award at the time the award is granted, which 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:

- The performance of the awards granted in June 2008 was tested and matching shares of 0.91 times an individual's deferral was achieved. Half of the achieved award vested in May 2011 whilst the remainder of the achieved award was released in May 2012. The number of dividend shares on the second vesting was determined by a five-day average share price from 10-16 May 2012.
- The 2009 deferral was made on a net post-tax basis and it was released on 23 March 2012. The matching shares lapsed as the performance conditions were not met.
- The exercise price is nil.
- There were no options exercised under this Plan during the year.

iii) Savings-Related Share Option Plan ('SAYE')

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

	Number of options						Date			
	17 March 2012	Granted during the year	Exercised during the year	Mid-market price of exercise pence	Gains on option exercise £000	Lapsed during the year	16 March 2013	Exercise price pence	From which exercisable	Of expiry
Justin King	3,030	-	-	-	-	-	3,030	297.0	01.03.14	31.08.14
Mike Coupe	3,324	-	-	-	-	-	3,324	273.0	01.03.13	31.08.13
John Rogers	6,302	-	-	-	-	-	6,302	238.0	01.03.17	31.08.17

Note:

- The SAYE Plan is an all-employee share option plan and has no performance conditions as per HMRC Regulations.
- There were no options exercised under this Plan during the year.

In the period from 18 March 2012 to 16 March 2013, the highest mid-market price of the Company's shares was 362.8 pence and the lowest mid-market price was 283.5 pence. At 16 March 2013 the Company's share price was 362.8 pence.

iv) Directors' interests

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

	Ordinary shares ²		
	17 March 2012	16 March 2013	8 May 2013 ³
Justin King	825,519	825,979	826,039
Mike Coupe	866,411	866,411	866,411
John Rogers	192,496	210,806	210,866
David Tyler	50,000	50,000	50,000
Matt Brittin	1,000	1,000	1,000
Mary Harris	11,037	11,607	11,607
Gary Hughes	30,071	31,625	31,625
John McAdam	1,000	1,000	1,000
Jean Tomlin	0 ³	0	0

1 The total includes shares purchased under the Sainsbury's Share Purchase Plan between 16 March 2013 and 8 May 2013.

2 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.

3 As at date of appointment.

Notes:

- The Executive Directors are potential beneficiaries of the Company's employee benefit trust, which is used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 5.3 million shares (2012: 5.9 million) held by the Trustees.

Approved by the Board on 8 May 2013

Mary Harris
Chairman, Remuneration Committee

Other disclosures

Principal activities and Business review

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

Pages 1 to 70 inclusive (together with the sections of the Annual Report and Financial Statements incorporated by reference) comprise the Directors' report, that has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

The Business review sets out a comprehensive review of the development and performance of the business for the 52 weeks ended 16 March 2013 and future developments. The Business review is set out on pages 1 to 33 of this report. All the information detailed in these pages forms part of the Directors' report.

The corporate governance statement as required by the Disclosure and Transparency Rules 7.2.1 is set out on pages 38 to 53 and forms part of the Directors' report.

Dividends

The Directors recommend the payment of a final dividend of 11.9 pence per share (2012: 11.6 pence), making a total dividend for the year of 16.7 pence per share (2012: 16.1 pence), an increase of 3.7 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting ('AGM'), the dividend will be paid on 12 July 2013 to shareholders on the register at the close of business on 17 May 2013.

Changes to the Board

On 11 July 2012, Bob Stack stood down from his position as a Non-Executive Director. Mary Harris, who has been a Non-Executive Director of Sainsbury's since 2007, succeeded Bob as Chairman of the Remuneration Committee. John McAdam joined the Remuneration Committee as the third independent Non-Executive Director on the Committee.

Anna Ford stood down from her position as a Non-Executive Director on 31 December 2012.

On 1 January 2013, Jean Tomlin, the former HR Director for The London Organising Committee of the Olympic and Paralympic Games, joined the Board as a Non-Executive Director. Jean became Chairman of the Corporate Responsibility Committee and a member of both the Remuneration and Nomination Committees.

On 8 May 2013, we announced the appointment of Susan Rice as a Non-Executive Director from 1 June 2013. Susan is currently Managing Director, Lloyds Banking Group Scotland and has extensive retail banking experience, both in the UK and internationally. Susan will join the Audit and Nomination Committees.

Re-election of Directors

In accordance with the Articles of Association, Jean Tomlin, who was appointed to the Board since the last AGM, will seek election at the AGM.

Susan Rice will join the Board on 1 June 2013 and will also stand for election at the AGM. Her biographical details are set out in the Notice of Meeting accompanying this report.

The UK Corporate Governance Code provides for all directors of FTSE companies to stand for election or re-election by shareholders every year. Accordingly, all other members of the Board will retire and seek re-election at this year's AGM. Full biographical details of all of the current Directors are set out on page 35.

Annual General Meeting

The AGM will be held on Wednesday, 10 July 2013 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, and to re-appoint PricewaterhouseCoopers LLP as auditors. In addition, shareholders will be asked to renew both the general authority of the Directors to issue shares and to authorise the Directors to issue shares without applying the statutory pre-emption rights. In this regard, the Company will continue to adhere to the provisions in the Pre-emption Group's Statement of Principles.

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

Share capital and control

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

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

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

At the AGM held in July 2012, 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.

Certain of the Company's credit facilities and banking arrangements contain change of control clauses under which lenders may cancel their commitments and declare all outstanding amounts immediately due and payable. There are no other significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

Governance

Other disclosures continued

Ordinary shares

Details of the changes to the ordinary issued share capital during the year are shown on page 100. At the date of this report, 1,894,206,390 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 8 May 2013, the Company had been notified by the following investors of their interests in 3 per cent or more of the Company's shares. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5:

	% of voting rights
Judith Portrait (a trustee of various settlements, including charitable trusts)	3.92
Lord Sainsbury of Turville	4.99
M1 Capital Limited	4.00
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 68. 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 2012/13, which has been renewed for 2013/14. 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 pages 91 to 92 to the financial statements.

Employment policies

Our diversity policies and priorities are set out on page 40.

The Company's quarterly trading statements, interim and annual results are presented to all senior management and are communicated to all colleagues. Colleagues have always been encouraged to hold shares in the Company. One of our 20x20 commitments is to increase the number of colleagues with shares in our business by 25 per cent by 2020.

Donations

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

During the year, Sainsbury's colleagues, customers and suppliers raised £41.5 million (2012: £25.4 million) for charities through events supported by the Company, including Comic Relief and Active Kids. Cash and in-kind donations totalled £5.1 million (2012: £4.2 million).

The Company made no political donations in 2013 (2012: £nil).

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.

Post balance sheet events

Events after the balance sheet are disclosed in note 37 on page 123 of the financial statements.

Financial risk management

The financial risk management and policies of the Group are disclosed in note 28 on pages 104 to 110 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 33. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial review on pages 26 to 33. The Group manages its financing by diversifying funding sources, maintaining core borrowings with long-term maturities and sufficient standby liquidity. Full details of the Group's financing arrangements can be found in note 20 on pages 97 and 98 to the financial statements. In addition, notes 28 and 29 on pages 104 to 113 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 July 2014.

Management are satisfied that stress tests on the future liquidity of the Group do not indicate a going concern risk.

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 73 to 123.

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.

Independent auditors

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

By order of the Board

Tim Fallowfield
Company Secretary
8 May 2013

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 35 confirm that, to the best of their knowledge:

- the Group and Company 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 Company; and
- the Directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Tim Fallowfield
Company Secretary

8 May 2013

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 16 March 2013 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Company Balance sheets, the Group and Company Cash flow statements, the Group and Company statements of changes in equity and 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 71, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 16 March 2013 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 70, in relation to going concern;
- the parts of the Corporate Governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Richard Hughes (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 May 2013

Group income statement

for the 52 weeks to 16 March 2013

	Note	2013 £m	2012 £m
Revenue			
Revenue	4	23,303	22,294
Cost of sales		(22,026)	(21,083)
Gross profit		1,277	1,211
Administrative expenses		(457)	(419)
Other income		67	82
Operating profit	5	887	874
Finance income	6	19	35
Finance costs	6	(142)	(138)
Share of post-tax profit from joint ventures	14	24	28
Profit before taxation		788	799
Analysed as:			
Underlying profit before tax		756	712
Profit on disposal of properties	3	66	83
Investment property fair value movements	3	(10)	-
Financing fair value movements	3	(10)	(16)
IAS 19 pension financing (charge)/credit	3	(5)	17
One-off items	3	(9)	3
		788	799
Income tax expense	8	(174)	(201)
Profit for the financial year		614	598
Attributable to:			
Owners of the parent		614	598
Non-controlling interests		-	-
		614	598
Earnings per share			
Basic	9	pence	pence
Basic		32.6	32.0
Diluted		32.1	31.5
Underlying basic		30.7	28.1
Underlying diluted		30.2	27.8

The notes on pages 79 to 123 form an integral part of these financial statements.

Group statement of comprehensive income

for the 52 weeks to 16 March 2013

	Note	2013 £m	2012 £m
Profit for the financial year		614	598
Other comprehensive income/(expense):			
Currency translation differences		1	-
Net actuarial losses on defined benefit pension scheme	30	(366)	(222)
Available-for-sale financial assets fair value movements			
Group		11	1
Joint ventures		2	2
Cash flow hedges effective portion of fair value movements			
Group		17	-
Joint ventures		1	2
Current tax on items recognised directly in other comprehensive income	8	28	59
Deferred tax on items recognised directly in other comprehensive income	8	53	11
Total other comprehensive expense for the financial year (net of tax)		(253)	(147)
Total comprehensive income for the financial year		361	451
Attributable to:			
Owners of the parent		361	451
Non-controlling interests		-	-
		361	451

The notes on pages 79 to 123 form an integral part of these financial statements.

Balance sheets

At 16 March 2013 and 17 March 2012

	Note	Group		Company	
		2013 £m	2012 £m	2013 £m	2012 £m
Non-current assets					
Property, plant and equipment	11	9,804	9,329	17	17
Intangible assets	12	171	160	-	-
Investments in subsidiaries	13	-	-	7,316	7,285
Investments in joint ventures	14	532	566	91	91
Available-for-sale financial assets	15	189	178	34	31
Other receivables	17	38	38	1,264	1,312
Derivative financial instruments	29	47	37	41	33
Deferred income tax asset	21	-	-	1	1
		10,781	10,308	8,764	8,770
Current assets					
Inventories	16	987	938	-	-
Trade and other receivables	17	306	286	1,254	1,099
Derivative financial instruments	29	91	69	72	65
Cash and cash equivalents	26b	517	739	351	408
		1,901	2,032	1,677	1,572
Non-current assets held for sale	18	13	-	-	-
		1,914	2,032	1,677	1,572
Total assets		12,695	12,340	10,441	10,342
Current liabilities					
Trade and other payables	19	(2,726)	(2,740)	(4,571)	(4,494)
Borrowings	20	(165)	(150)	(24)	(72)
Derivative financial instruments	29	(65)	(88)	(65)	(84)
Taxes payable		(148)	(149)	(6)	-
Provisions	22	(11)	(9)	(1)	(1)
		(3,115)	(3,136)	(4,667)	(4,651)
Net current liabilities		(1,201)	(1,104)	(2,990)	(3,079)
Non-current liabilities					
Other payables	19	(173)	(137)	(876)	(874)
Borrowings	20	(2,617)	(2,617)	(633)	(565)
Derivative financial instruments	29	(4)	(1)	(4)	(1)
Deferred income tax liability	21	(247)	(286)	-	-
Provisions	22	(39)	(63)	(2)	(18)
Retirement benefit obligations	30	(766)	(471)	-	-
		(3,846)	(3,575)	(1,515)	(1,458)
Net assets		5,734	5,629	4,259	4,233
Equity					
Called up share capital	23	541	538	541	538
Share premium account	23	1,075	1,061	1,075	1,061
Capital redemption reserve	24	680	680	680	680
Other reserves	24	(623)	(365)	11	14
Retained earnings	25	4,060	3,715	1,952	1,940
Equity attributable to owners of the parent		5,733	5,629	4,259	4,233
Non-controlling interests		1	-	-	-
Total equity		5,734	5,629	4,259	4,233

The notes on pages 79 to 123 form an integral part of these financial statements.

The financial statements on pages 73 to 123 were approved by the Board of Directors on 8 May 2013, and are signed on its behalf by:

Justin King Chief Executive

John Rogers Chief Financial Officer

Cash flow statements

for the 52 weeks to 16 March 2013

	Note	Group		Company	
		2013 £m	2012 £m	2013 £m	2012 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	26	1,268	1,291	(25)	(68)
Interest paid		(143)	(142)	(85)	(59)
Corporation tax paid		(144)	(82)	-	-
Net cash generated from/(used in) operating activities		981	1,067	(110)	(127)
Cash flows from investing activities					
Purchase of property, plant and equipment		(1,067)	(1,227)	-	(2)
Purchase of intangible assets		(26)	(25)	-	-
Proceeds from disposal of property, plant and equipment		205	314	-	30
Acquisition of and investment in subsidiaries net of cash acquired		(21)	(1)	-	(5)
Increase in loans to joint ventures		(5)	(1)	-	-
Investment in joint ventures		(1)	-	-	-
Investment in financial assets		-	(1)	-	-
Proceeds from repayment of loan to joint venture		16	-	-	-
Proceeds from disposal of financial assets		-	40	-	-
Interest received		19	18	117	84
Dividends received		18	-	250	250
Net cash (used in)/generated from investing activities		(862)	(883)	367	357
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		17	14	16	14
Repayment of short-term borrowings		(50)	-	(50)	-
Proceeds from long-term borrowings		75	391	50	298
Repayment of long-term borrowings		(61)	(51)	(22)	(18)
Repayment of capital element of obligations under finance lease payments		(20)	(9)	-	-
Interest elements of obligations under finance lease payments		(7)	(5)	-	-
Dividends paid	10	(308)	(285)	(308)	(285)
Net cash (used in)/generated from financing activities		(354)	55	(314)	9
Net (decrease)/increase in cash and cash equivalents		(235)	239	(57)	239
Net opening cash and cash equivalents		739	500	408	169
Closing cash and cash equivalents	26b	504	739	351	408

The notes on pages 79 to 123 form an integral part of these financial statements.

Group statement of changes in equity

for the 52 weeks to 16 March 2013

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 18 March 2012		538	1,061	315	3,715	5,629	-	5,629
Profit for the year	25	-	-	-	614	614	-	614
Other comprehensive income/(expense):								
Currency translation differences	24	-	-	1	-	1	-	1
Actuarial losses on defined benefit pension scheme (net of tax)	24	-	-	(287)	-	(287)	-	(287)
Available-for-sale financial assets fair value movements (net of tax):								
Group	24	-	-	13	-	13	-	13
Joint ventures	24	-	-	2	-	2	-	2
Cash flow hedges effective portion of changes in fair value (net of tax):								
Group	24	-	-	17	-	17	-	17
Joint ventures	24	-	-	1	-	1	-	1
Total comprehensive (expense)/income for the year ended 16 March 2013		-	-	(253)	614	361	-	361
Transactions with owners:								
Dividends paid	10,25	-	-	-	(308)	(308)	-	(308)
Amortisation of convertible bond equity component	24,25	-	-	(5)	5	-	-	-
Share-based payment (net of tax)	25	-	-	-	36	36	-	36
Shares issued		-	-	-	-	-	1	1
Shares vested	25	-	-	-	1	1	-	1
Allotted in respect of share option schemes	23,25	3	14	-	(3)	14	-	14
At 16 March 2013		541	1,075	57	4,060	5,733	1	5,734
At 20 March 2011		535	1,048	467	3,374	5,424	-	5,424
Profit for the year	25	-	-	-	598	598	-	598
Other comprehensive (expense)/income:								
Actuarial losses on defined benefit pension scheme (net of tax)	24	-	-	(154)	-	(154)	-	(154)
Available-for-sale financial assets fair value movements (net of tax):								
Group	24	-	-	3	-	3	-	3
Joint ventures	24	-	-	2	-	2	-	2
Cash flow hedges effective portion of changes in fair value (net of tax):								
Group	24	-	-	-	-	-	-	-
Joint ventures	24	-	-	2	-	2	-	2
Total comprehensive (expense)/income for the year ended 17 March 2012		-	-	(147)	598	451	-	451
Transactions with owners:								
Dividends paid	10,25	-	-	-	(285)	(285)	-	(285)
Amortisation of convertible bond equity component	24,25	-	-	(5)	5	-	-	-
Share-based payment (net of tax)	25	-	-	-	26	26	-	26
Shares vested		-	-	-	-	-	-	-
Allotted in respect of share option schemes	25	3	13	-	(3)	13	-	13
At 17 March 2012		538	1,061	315	3,715	5,629	-	5,629

The notes on pages 79 to 123 form an integral part of these financial statements.

Company statement of changes in equity

for the 52 weeks to 16 March 2013

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
At 18 March 2012		538	1,061	694	1,940	4,233
Profit for the year	25	-	-	-	284	284
Other comprehensive income/(expense):						
Available-for-sale financial assets fair value movements (net of tax)	24	-	-	4	-	4
Cash flow hedges effective portion of changes in fair value (net of tax)	24	-	-	(2)	-	(2)
Total comprehensive income for the year ended 16 March 2013		-	-	2	284	286
Transactions with owners:						
Dividends paid	10,25	-	-	-	(308)	(308)
Amortisation of convertible bond equity component	24,25	-	-	(5)	5	-
Allotted in respect of share option schemes	23,25	3	14	-	32	49
Utilised in respect of share option schemes	25	-	-	-	(1)	(1)
At 16 March 2013		541	1,075	691	1,952	4,259
At 20 March 2011		535	1,048	703	1,935	4,221
Profit for the year	25	-	-	-	260	260
Other comprehensive expense:						
Available-for-sale financial assets fair value movements (net of tax)	24	-	-	(4)	-	(4)
Total comprehensive (expense)/income for the year ended 17 March 2012		-	-	(4)	260	256
Transactions with owners:						
Dividends paid	10	-	-	-	(285)	(285)
Amortisation of convertible bond equity component	24,25	-	-	(5)	5	-
Allotted in respect of share option schemes	23,25	3	13	-	27	43
Utilised in respect of share option schemes	25	-	-	-	(2)	(2)
At 17 March 2012		538	1,061	694	1,940	4,233

The notes on pages 79 to 123 form an integral part of these financial statements.

Notes to the financial statements

1 General information

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

The financial year represents the 52 weeks to 16 March 2013 (prior financial year 52 weeks to 17 March 2012). The consolidated financial statements for the 52 weeks to 16 March 2013 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 or statement of comprehensive income is presented for the Company.

(b) Basis of preparation

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

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

Amendments to published standards

Effective for the Group in these financial statements:

- Amendments to IFRS 1 'First-time adoption of IFRS', Severe hyperinflation and removal of fixed dates for first-time adopters
- Amendments to IFRS 7 'Financial instruments: Disclosures', Disclosures on transfers of financial assets

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

Effective for the Group for the financial year beginning 17 March 2013:

- Amendment to IAS 1 'Presentation of financial statements', Presentation of items of other comprehensive income
- Amendments to IAS 12 'Income Taxes', Deferred tax accounting for investment properties

- IAS 19 (revised) 'Employee benefits' *
- Amendment to IFRS 1 'First-time adoption', Government loans
- Amendment to IFRS 7 'Financial instruments: Disclosures' on assets and liabilities offsetting *
- IFRS 13 'Fair value measurement' *
- Annual Improvements 2011 *

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

In June 2011, the IASB issued IAS 19, Employee Benefits (revised 2011; IAS 19R). The most significant change that will impact the Group is that the amendment requires the expected returns on pension plan assets, currently calculated based on management's best estimate of expected returns, to be calculated at the liability discount rate. The removal of the reserve for scheme expenses from within the defined benefit obligation and service cost will also have an impact on both the Group's net assets and income statement.

The standard is effective for reporting periods beginning on or after 1 January 2013 and the Group will therefore adopt the revised standard for the year ended 15 March 2014. IAS 19R requires retrospective application in line with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The Group estimates that adoption of IAS 19R would have increased underlying profit by £2 million and resulted in an additional charge of £18 million outside of underlying profit in the year ended 16 March 2013. The revised standard would have increased net assets before deferred tax by approximately £135 million at 16 March 2013.

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

The following standards and revisions will be effective for future periods:

- IAS 27 (revised) 2011 'Separate financial statements' *
- IAS 28 (revised) 2011 'Associates and joint ventures' *
- IFRS 9 'Financial instruments' - classification of financial assets and financial liabilities ^
- IFRS 10 'Consolidated financial statements' *
- IFRS 11 'Joint arrangements' *
- IFRS 12 'Disclosure of interests in other entities' *
- Amendment to IAS 32 'Financial instruments: Presentation' on offsetting financial assets and liabilities *
- Amendment to IFRS 10, 11 and 12 on transition guidance *

* These standards are effective for accounting periods starting on or after 1 January 2014.
^ This standard is effective for accounting periods starting on or after 1 January 2015.

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

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

Subsidiaries

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

Financial statements

Notes to the financial statements continued

2 Accounting policies continued

companies are eliminated upon consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Business combinations

The Group applies the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Joint ventures

Joint ventures are jointly controlled entities in which the Group has an interest. The Group's share of the post-tax results of its joint ventures are included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture, profits and losses are eliminated to the extent of the Group's interest in the joint venture.

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

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

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

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

Revenue

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

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

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

Finance income and costs

Finance income and costs are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method. This calculation takes into account interest receivable or payable and fees and commissions received or paid that are integral to the yield as well as incremental transaction costs.

Cost of sales

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

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

Property, plant and equipment

Land and buildings

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

Fixtures and equipment

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

Depreciation

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

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

Buildings under construction are not depreciated.

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets

Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of five to seven years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of five to seven years within administrative expenses.

Financial statements

Notes to the financial statements continued

2 Accounting policies continued

Goodwill

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

Other

Pharmacy licences are carried at cost less accumulated amortisation and any recognised provision for impairment and amortised on a straight-line basis over the licence period of up to 15 years within cost of sales.

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

Impairment of non-financial assets

At each reporting date, 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, or its original carrying value less accumulated depreciation if lower.

Capitalisation of interest

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

Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of the carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are not depreciated.

Leased assets

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

Finance leases

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

Operating leases

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

Sale and leaseback

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

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

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

Lease incentives

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

Leases with predetermined fixed rental increases

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

Operating lease income

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

Inventories

Inventories comprise of goods held for resale and properties held for, or in the course of, development and are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. 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 and at bank, 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.

Financial statements

Notes to the financial statements continued

2 Accounting policies continued

Current taxation

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

Deferred taxation

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

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

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

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

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

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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 other comprehensive income.

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

Long service awards

The costs of long service awards are accrued over the period the service is provided by the employee when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

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.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Financial statements

Notes to the financial statements continued

2 Accounting policies continued

Foreign currencies

Foreign operations

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

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 FVTPL 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 FVTPL are recorded at fair value, with any fair value gains or losses recognised in the income statement in the period in which they arise.

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

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

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

Trade receivables

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

Financial liabilities

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

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

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

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.

Financial statements

Notes to the financial statements continued

2 Accounting policies continued

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

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

Fair value estimation

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

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

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

Offsetting financial instruments

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

(c) Judgements and estimates

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

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

Depreciation and amortisation

Judgement is used in assessing useful lives and residual values of property, plant and equipment and intangible assets. The assets are depreciated or amortised over their estimated useful lives to their residual values.

Goodwill impairment

The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of its cash-generating units ('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 the higher of the value in use and fair value less costs to sell. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance as disclosed in note 11.

Post-employment benefits

The Group operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the scheme. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 30. Any changes to assumptions used will impact the carrying value of the retirement benefit obligation. Sensitivity of the retirement benefit obligation to changes in certain assumptions is provided in note 30.

Provisions

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

Income taxes

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

Financial statements

Notes to the financial statements continued

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:

	2013 £m	2012 £m
Underlying profit before tax	756	712
Profit on disposal of properties ¹	66	83
Investment property fair value movements	(10)	-
Financing fair value movements ²	(10)	(16)
IAS 19 pension financing (charge)/credit	(5)	17
One-off items	(9)	3
Total adjustments	32	87
Profit before tax	788	799

1 Profit on disposal of properties for the financial year comprised of £67 million for the Group (2012: £82 million) and a £1 million loss for the property joint ventures (2012: £1 million profit).

2 Financing fair value movements for the financial year comprised a £7 million loss for the Group (2012: £11 million loss) and a £3 million loss for the joint ventures (2012: £5 million loss).

One-off items

Included within one-off items is £20 million of transaction and transition costs incurred relating to the ongoing purchase of the remaining 50 per cent of Sainsbury's Bank. Other one-off costs of £5 million have been incurred for internal restructuring. A disposal provision for indemnities of £16 million has also been released during the year as it is no longer required. This provision was initially recorded within one-off items outside underlying profit before tax.

The £3 million one-off item in the prior year relates to the release of a provision in respect of the Office of Fair Trading dairy inquiry which was settled in full in October 2011.

4 Segment reporting

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

- Retailing (Supermarkets and Convenience);
- Financial services (Sainsbury's Bank joint venture); and
- Property investments (The British Land Company PLC joint venture and Land Securities Group 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 overleaf reconciles underlying operating profit from each of the segments disclosed to profit before tax.

Financial statements

Notes to the financial statements continued

4 Segment reporting continued

	Retailing £m	Financial services £m	Property investments £m	Group £m
52 weeks to 16 March 2013				
Segment revenue	23,303	-	-	23,303
Underlying operating profit	829	-	-	829
Underlying finance income	19	-	-	19
Underlying finance costs	(130)	-	-	(130)
Underlying share of post-tax profit from joint ventures	-	22	16	38
Underlying profit before tax	718	22	16	756
Profit/(loss) on disposal of properties	67	-	(1)	66
Financing fair value movements	(7)	-	(3)	(10)
Investment property fair value movements	-	-	(10)	(10)
IAS 19 pension financing charge	(5)	-	-	(5)
One-off items	11	(20)	-	(9)
Profit before tax	784	2	2	788
Income tax expense				(174)
Profit for the financial period				614
Assets	12,163	-	-	12,163
Investment in joint ventures (note 14)	-	159	373	532
Segment assets	12,163	159	373	12,695
Segment liabilities	(6,961)	-	-	(6,961)
Other segment items				
Capital expenditure ¹	1,145	-	-	1,145
Depreciation expense (note 11)	504	-	-	504
Amortisation expense (note 12)	13	-	-	13
Share-based payments	33	-	-	33

1 Capital expenditure consists of property, plant and equipment additions of £1,120 million and intangible asset additions of £25 million.

	Retailing £m	Financial services £m	Property investments £m	Group £m
52 weeks to 17 March 2012				
Segment revenue	22,294	-	-	22,294
Underlying operating profit	789	-	-	789
Underlying finance income	18	-	-	18
Underlying finance costs	(127)	-	-	(127)
Underlying share of post-tax profit from joint ventures	-	16	16	32
Underlying profit before tax	680	16	16	712
Profit on disposal of properties	82	-	1	83
Financing fair value movements	(11)	-	(5)	(16)
IAS 19 pension financing credit	17	-	-	17
One-off items	3	-	-	3
Profit before tax	771	16	12	799
Income tax expense				(201)
Profit for the financial period				598
Assets	11,774	-	-	11,774
Investment in joint ventures (note 14)	-	134	432	566
Segment assets	11,774	134	432	12,340
Segment liabilities	(6,711)	-	-	(6,711)
Other segment items				
Capital expenditure ²	1,287	-	-	1,287
Depreciation expense (note 11)	486	-	-	486
Amortisation expense (note 12)	13	-	-	13
Share-based payments	27	-	-	27

2 Capital expenditure consists of property, plant and equipment additions of £1,265 million and intangible asset additions of £22 million.

Financial statements

Notes to the financial statements continued

5 Operating profit

	2013 £m	2012 £m
Operating profit is stated after charging/(crediting) the following items:		
Employee costs (note 7)	2,322	2,173
Depreciation expense (note 11)	504	486
Amortisation expense (note 12)	13	13
Profit on disposal of properties (note 3)	(67)	(82)
Operating lease rentals – land and buildings	457	426
– other leases	55	55
– sublease payments receivable	(34)	(29)
Foreign exchange gains	-	(6)
One-off items (note 3)	9	(3)

Group	2013 £m	2012 £m
Auditors' remuneration		
Audit and audit related services		
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	0.2	0.2
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	0.6	0.5
Audit related assurance services	0.2	0.2
Fees	1.0	0.9

In addition, tax advisory, tax compliance and other non-audit fees totalling £58,000 were payable to the auditors during the year (2012: £32,000).

6 Finance income and finance costs

	2013 £m	2012 £m
Interest on bank deposits and other financial assets	19	18
IAS 19 pension financing credit (note 30)	-	17
Finance income	19	35
Borrowing costs:		
Secured borrowings	(98)	(108)
Unsecured borrowings	(55)	(46)
Obligations under finance leases	(7)	(5)
Provisions – amortisation of discount (note 22)	(2)	(2)
Other	-	(1)
	(162)	(162)
Other finance costs:		
Interest capitalised – qualifying assets (note 11)	32	35
Financing fair value losses ¹	(7)	(11)
IAS 19 pension financing charge (note 30)	(5)	-
	20	24
Finance costs	(142)	(138)

¹ Fair value 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.

Financial statements

Notes to the financial statements continued

7 Employee costs

	2013 £m	2012 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	2,051	1,923
Social security costs	133	124
Pension costs – defined contribution schemes	44	39
Pension costs – defined benefit scheme (note 30)	61	60
Share-based payments expense (note 31)	33	27
	2,322	2,173

	Number 000's	Number 000's
The average number of employees, including Directors, during the year were:		
Full-time	49.1	48.8
Part-time	107.9	103.2
	157.0	152.0
Full-time equivalent	105.0	101.9

Details of key management compensation can be found in note 32 and within the Remuneration report on pages 54 to 68.

8 Income tax expense

	2013 £m	2012 £m
Current tax expense:		
Current year	177	105
Over provision in prior years	(20)	(28)
	157	77
Deferred tax expense:		
Origination and reversal of temporary differences	30	110
Under provision in prior years	19	20
Effect of change in tax rate	(32)	(6)
Total deferred tax (note 21)	17	124
Total income tax expense in income statement	174	201

The effective tax rate of 22.1 per cent (2012: 25.2 per cent) is lower than (2012: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £m	2012 £m
Profit before taxation	788	799
Income tax at UK corporation tax rate of 24.08% (2012: 26.07%)	190	208
Effects of underlying items:		
Disallowed depreciation on UK properties	29	30
Over provision in prior years	-	(12)
Revaluation of deferred tax balances	(21)	(17)
Other	(11)	(1)
Effects of non-underlying items:		
Profit on disposal of properties	(5)	(23)
Investment property fair value movements	2	-
Revaluation of deferred tax balances	(11)	11
(Over)/under provision in prior years	(1)	4
Other	2	1
Total income tax expense in income statement	174	201

On 21 March 2012, the Chancellor announced that the main rate of UK corporation tax would reduce to 23.0 per cent from 1 April 2013. This was substantively enacted on 3 July 2012 and hence the effect of the change on the deferred tax balances has been included in the 2013 figures above.

Financial statements

Notes to the financial statements continued

8 Income tax expense continued

In addition to this, a number of further changes to the UK corporation tax system were announced in the 5 December 2012 and the 20 March 2013 UK Budget Statements. The main rate of corporation tax is expected to reduce to 21.0 per cent from 1 April 2014, and to 20.0 per cent from 1 April 2015. Neither of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, their effect is not included in the financial statements.

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

As part of the funding plan agreed with the Pension Scheme's Trustees, in June 2010 Sainsbury's established the Sainsbury's Property Scottish Partnership ('the Partnership') with the Scheme and properties with a value of £757 million were transferred to the Partnership. Included in the Finance Act 2012 were provisions to restrict tax relief on the total amount of payments an employer makes to the pension scheme directly or through the Partnership. These changes have been reflected in the figures above.

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

	Share-based payments £m	Retirement benefit obligations £m	Fair value movements £m	Total £m
52 weeks to 16 March 2013				
Current tax recognised in equity or other comprehensive income	-	(27)	(1)	(28)
Deferred tax recognised in equity or other comprehensive income	(3)	(64)	2	(65)
Revaluation of deferred tax balances	-	12	(3)	9
Income tax credited	(3)	(79)	(2)	(84)
52 weeks to 17 March 2012				
Current tax recognised in equity or other comprehensive income	-	(58)	(1)	(59)
Deferred tax recognised in equity or other comprehensive income	1	-	2	3
Revaluation of deferred tax balances	-	(10)	(3)	(13)
Income tax charged/(credited)	1	(68)	(2)	(69)

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

Financial statements

Notes to the financial statements continued

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.

	2013 million	2012 million
Weighted average number of shares in issue	1,881.5	1,870.3
Weighted average number of dilutive share options	20.5	13.6
Weighted average number of dilutive convertible bonds	46.0	45.6
Total number of shares for calculating diluted earnings per share	1,948.0	1,929.5

	£m	£m
Profit for the financial year	614	598
Add interest on convertible bonds, net of tax	11	10
Diluted earnings for calculating diluted earnings per share	625	608

	£m	£m
Profit for the financial year attributable to owners of the parent	614	598
(Less)/add (net of tax):		
Profit on disposal of properties	(55)	(80)
Investment property fair value movements	10	-
Financing fair value movements	8	13
IAS 19 pension financing charge/(credit)	3	(13)
One-off items	8	(3)
Revaluation of deferred tax balances	(11)	11
Underlying profit after tax	577	526
Add interest on convertible bonds, net of tax	11	10
Diluted underlying profit after tax	588	536

	pence per share	pence per share
Basic earnings	32.6	32.0
Diluted earnings	32.1	31.5
Underlying basic earnings	30.7	28.1
Underlying diluted earnings	30.2	27.8

Financial statements

Notes to the financial statements continued

10 Dividend

	2013 pence per share	2012 pence per share	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	11.6	10.8	218	201
Interim dividend of current financial year	4.8	4.5	90	84
	16.4	15.3	308	285

After the balance sheet date, a final dividend of 11.9 pence per share (2012: 11.6 pence per share) was proposed by the Directors in respect of the 52 weeks to 16 March 2013, resulting in a total final proposed dividend of £225 million (2012: £218 million). The proposed final dividend has not been included as a liability at 16 March 2013.

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 18 March 2012	8,918	5,340	14,258	19
Additions	635	464	1,099	-
Acquisition of subsidiaries	21	-	21	-
Disposals	(140)	(252)	(392)	-
Transfer to assets held for resale	(12)	(1)	(13)	-
At 16 March 2013	9,422	5,551	14,973	19
Accumulated depreciation and impairment				
At 18 March 2012	1,468	3,461	4,929	2
Depreciation expense for the year	149	355	504	-
Disposals	(26)	(238)	(264)	-
At 16 March 2013	1,591	3,578	5,169	2
Net book value at 16 March 2013	7,831	1,973	9,804	17
Capital work-in-progress included above	397	165	562	-
Cost				
At 20 March 2011	8,460	5,105	13,565	45
Additions	742	523	1,265	2
Disposals	(284)	(288)	(572)	(28)
At 17 March 2012	8,918	5,340	14,258	19
Accumulated depreciation and impairment				
At 20 March 2011	1,398	3,383	4,781	3
Depreciation expense for the year	137	349	486	-
Disposals	(67)	(271)	(338)	(1)
At 17 March 2012	1,468	3,461	4,929	2
Net book value at 17 March 2012	7,450	1,879	9,329	17
Capital work-in-progress included above	364	137	501	-

During the year, the Group acquired 100% of a property holding company from the BL Sainsbury Superstores Limited joint venture for £21 million. The business holds only property, plant and equipment and the purchase price represented the fair value of the assets acquired.

Impairment of property, plant and equipment

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

The recoverable amounts for the CGUs are based on value in use which is calculated on the cash flows expected to be generated by the units using the latest budget and forecast data, the results of which are reviewed by the Board. The key assumptions in the value in use calculation are the discount rate, growth rates and expected changes in margin. Changes in income and expenditure are based on past experience and expectations of future changes in the market. The forecasts are extrapolated beyond five years based on estimated long-term growth rates for the food retail sector. The discount rate is based on the Group's pre-tax weighted average cost of capital of ten per cent (2012: ten per cent).

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

Financial statements

Notes to the financial statements continued

11 Property, plant and equipment continued

Interest capitalised

Interest capitalised included in additions amounted to £32 million (2012: £35 million) for the Group and £nil (2012: £nil) for the Company. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £330 million (2012: £302 million) for the Group and £nil (2012: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.3 per cent (2012: 5.7 per cent).

Security

Property, plant and equipment of 128 (2012: 131) supermarket properties, with a net book value of £2,213 million (2012: £2,288 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 £67 million (2012: £68 million) has been pledged as security to underpin the residual value guarantee given by the Group with regards to 16 supermarket properties sold in March 2000 and ten supermarket properties sold in July 2000.

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

Analysis of assets held under finance leases

Group	2013 Land and buildings £m	2013 Fixtures and equipment £m	2013 Total £m	2012 Land and buildings £m	2012 Fixtures and equipment £m	2012 Total £m
Cost	62	15	77	50	15	65
Accumulated depreciation and impairment	(26)	(9)	(35)	(24)	(7)	(31)
Net book value	36	6	42	26	8	34

12 Intangible assets

Group	Goodwill £m	Computer software £m	Other £m	Total £m
Cost				
At 18 March 2012	100	172	48	320
Additions	-	16	8	24
Disposals	-	-	(10)	(10)
Acquisition of subsidiaries	1	-	-	1
Disposal of subsidiaries	(1)	-	-	(1)
At 16 March 2013	100	188	46	334
Accumulated amortisation and impairment				
At 18 March 2012	-	123	37	160
Amortisation expense for the year	-	8	5	13
Disposals	-	-	(10)	(10)
At 16 March 2013	-	131	32	163
Net book value at 16 March 2013	100	57	14	171
Cost				
At 20 March 2011	100	152	46	298
Additions	-	19	2	21
Acquisition of subsidiaries	-	1	-	1
At 17 March 2012	100	172	48	320
Accumulated amortisation and impairment				
At 20 March 2011	-	117	30	147
Amortisation expense for the year	-	6	7	13
At 17 March 2012	-	123	37	160
Net book value at 17 March 2012	100	49	11	160

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Notes to the financial statements continued

12 Intangible assets continued

Other intangibles are primarily comprised of pharmacy licences.

The goodwill balance above relates primarily to the Group's acquisitions of Bells Stores Ltd, Jacksons Stores Ltd (£55 million), JB Beaumont Ltd, SL Shaw Ltd, Culcheth Provision Stores Ltd, Town Centre Retail (Bicester) Ltd, SW Dewsbury Ltd, Anobii 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 with 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 (2012: 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 (2012: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill.

13 Investments in subsidiaries

	2013 £m	2012 £m
Shares in subsidiaries - Company		
Beginning of year	7,285	7,309
Additions	33	32
Disposal of subsidiaries	-	(56)
Provision for diminution in value of investment	(2)	(1)
Release of provision for diminution in value of investment	-	1
End of year	7,316	7,285

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 Limited	100%	Isle of Man
JS Information Systems Limited	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 16 March 2013. The Company has taken advantage of the exemption in s410 of the Companies Act 2006 to disclose a list comprising solely the principal subsidiaries. A full list of subsidiaries will be sent to Companies House with the next annual return.

During the prior year, a corporate simplification exercise resulted in the liquidation of a number of subsidiary companies of the Group, with a carrying value of £56 million.

During the year, a provision of £2 million was made against investments in subsidiaries where the carrying value exceeded the recoverable amount (2012: £1 million).

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

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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 18 March 2012	433	133	566	91
Additions	4	-	4	-
Disposals	(5)	-	(5)	-
Other adjustments ¹	(42)	-	(42)	-
Share of retained profit:				
Underlying profit after tax	-	38	38	-
Investment property fair value movements	-	(10)	(10)	-
Financing fair value movements	-	(3)	(3)	-
Share of loss on disposal of properties	-	(1)	(1)	-
Dividends received	-	(18)	(18)	-
	390	139	529	91
Movements in other comprehensive income (note 24)	-	3	3	-
At 16 March 2013	390	142	532	91
At 20 March 2011	433	69	502	91
Share of retained profit:				
Underlying profit after tax	-	32	32	-
Financing fair value movements	-	(5)	(5)	-
Share of profit on disposal of properties	-	1	1	-
	-	28	28	-
Unrealised loss on disposal of properties	-	20	20	-
Realised profit on disposal of properties	-	12	12	-
Movements in other comprehensive income (note 24)	-	4	4	-
At 17 March 2012	433	133	566	91

¹ The Other adjustment includes the offset of a creditor balance of £43 million due to The Harvest Limited Partnership against the investment held in the joint venture by the Group. This was agreed with Land Securities Group PLC.

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 (financial services)	31 December	50%	England

Where relevant, management accounts for the joint ventures have been used to include the results up to 16 March 2013. The Group's share of the assets, liabilities, income and expenses of its principal joint ventures are detailed below:

	2013 £m	2012 £m
Non-current assets	1,418	1,526
Current assets	1,763	1,471
Current liabilities	(1,809)	(1,549)
Non-current liabilities	(845)	(887)
Net assets	527	561
Income	208	201
Expenses	(174)	(173)
Investment property fair value movements	(10)	-
Profit after tax	24	28

Investments in joint ventures at 16 March 2013 include £5 million of goodwill (2012: £5 million).

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Notes to the financial statements continued

15 Available-for-sale financial assets

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Non-current				
Unlisted equity investments	1	1	-	-
Interest bearing financial assets	34	31	34	31
Other financial asset	154	146	-	-
	189	178	34	31

The other financial asset represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of three per cent (2012: three per cent) and a weighted average cost of capital of ten per cent (2012: 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

	2013 £m	2012 £m
Goods held for resale	973	916
Development properties	14	22
	987	938

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 16 March 2013 was £17,602 million (2012: £17,000 million).

17 Trade and other receivables

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Non-current				
Amounts owed by Group entities	-	-	1,229	1,277
Other receivables	38	38	35	35
	38	38	1,264	1,312
Current				
Trade receivables	128	110	-	-
Amounts owed by Group entities	-	-	1,232	1,076
Other receivables	130	115	20	20
	258	225	1,252	1,096
Prepayments and accrued income	48	61	2	3
	306	286	1,254	1,099

Non-current other receivables of £38 million (2012: £38 million) include £5 million of floating rate subordinated undated loan capital (2012: £5 million) and £30 million of floating rate subordinated dated loan capital due from Sainsbury's Bank (2012: £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 (2012: £20 million) (note 32). The carrying amounts of trade and other receivables are denominated in sterling.

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17 Trade and other receivables continued

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.

Major counterparties are identified as follows:

	2013 Number of counterparties	2013 Balance £m	2012 Number of counterparties	2012 Balance £m
Trade receivables	2	28	2	28
Other receivables	2	27	2	28
Related parties	2	76	2	69

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

At 16 March 2013, two significant other receivables were identified including amounts due from the National Health Service of £16 million and CBRE of £11 million (2012: £16 million and £12 million).

Related party receivables are from the Group's joint ventures, Sainsbury's Bank and The Harvest Limited Partnership. Loans are approved by the Investment Committee and Sainsbury's Bank loans 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 (2012: £nil) relate to properties held in the Retailing segment. Sale of these assets is expected to occur in the financial year beginning 17 March 2013.

19 Trade and other payables

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Current				
Trade payables	1,908	1,903	-	-
Amounts owed to Group entities	-	-	4,514	4,442
Other payables	534	580	57	52
Accruals and deferred income	284	257	-	-
	2,726	2,740	4,571	4,494
Non-current				
Amounts owed to Group entities	-	-	876	874
Other payables	3	-	-	-
Accruals and deferred income	170	137	-	-
	173	137	876	874

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.

Foreign currency risk

The Group has net euro denominated trade payables of £12 million (2012: £12 million) and US dollar denominated trade payables of £19 million (2012: £11 million).

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20 Borrowings

Group	2013 Current £m	2013 Non-current £m	2013 Total £m	2012 Current £m	2012 Non-current £m	2012 Total £m
Secured loans:						
Loan due 2018	82	957	1,039	41	1,028	1,069
Loan due 2031	21	847	868	14	860	874
Unsecured loans:						
Bank overdrafts	13	-	13	-	-	-
Bank loan due 2012	-	-	-	50	-	50
Bank loan due 2014	-	25	25	-	25	25
Bank loans due 2015	23	268	291	23	230	253
Bank loan due 2016	-	43	43	1	42	43
Bank loans due 2017	-	111	111	-	108	108
Bank loan due 2018	4	19	23	-	-	-
Convertible bond due 2014	1	183	184	2	177	179
Other loans due 2015	-	25	25	-	23	23
Finance lease obligations	21	139	160	19	124	143
Total borrowings	165	2,617	2,782	150	2,617	2,767

Company	2013 Current £m	2013 Non-current £m	2013 Total £m	2012 Current £m	2012 Non-current £m	2012 Total £m
Bank loan due 2012	-	-	-	50	-	50
Bank loan due 2014	-	25	25	-	25	25
Bank loans due 2015	19	227	246	19	190	209
Bank loan due 2016	-	43	43	1	42	43
Bank loans due 2017	-	111	111	-	108	108
Bank loan due 2018	4	19	23	-	-	-
Convertible bond due 2014	1	183	184	2	177	179
Other loans due 2015	-	25	25	-	23	23
Total borrowings	24	633	657	72	565	637

Secured loans

Secured loans are secured on 128 (2012: 131) supermarket properties (note 11) and comprise loans from two finance companies:

- a fixed rate amortising loan with an outstanding principal value of £1,002 million (2012: £1,036 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 5.39 per cent and carrying amount of £1,039 million (2012: £1,069 million) with a final repayment date of April 2018; and
- an inflation linked amortising loan with an outstanding principal value of £841 million (2012: £843 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 £868 million (2012: £874 million) with a final repayment date of April 2031.

The Group has entered into interest rate swaps to convert £211 million (2012: £211 million) of the £1,002 million (2012: £1,036 million) loan due 2018 from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 29). In previous years, £572 million of swaps accounted for as fair value hedges were de-designated from their fair value hedging relationship. The fair value adjustment of the debt previously hedged by these swaps will be amortised over the remaining life of the loans, resulting in an amortisation charge to the income statement in the current financial year of £1 million (2012: £1 million).

The Group entered into inflation linked swaps to convert £300 million (2012: £250 million) of the £841 million (2012: £843 million) loan due 2031 from RPI linked interest to fixed rate interest for the period to April 2017. These transactions have been accounted for as cash flow hedges (note 29).

Bank overdrafts

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

Bank loan due 2014

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

Bank loans due 2015

A £54 million amortising loan due May 2015 at floating rates of interest; a £20 million loan due March 2015 at floating rates of interest; a £40 million loan due May 2015 at floating rates of interest subject to a cap; a €50 million loan due March 2015 at floating rates of interest swapped into a £45 million floating rate loan; a US\$69 million loan due March 2015 at floating rates of interest swapped into a £44 million floating rate loan and a €40 million loan due March 2015 at floating rates of interest swapped into a £34 million floating rate loan.

In June 2012, a £50 million maturing loan at floating interest rate was renewed to June 2015. The £50 million floating rate loan has been swapped into a fixed rate loan and the loan and swap have been designated as a cash flow hedge.

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Notes to the financial statements continued

20 Borrowings continued

Bank loan due 2016

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

Bank loans due 2017

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

Bank loan due 2018

In June 2012, the Group entered into a new £23 million six year amortising bank loan due 2018 at floating rate of interest.

Convertible bond due 2014

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

In previous years the £190 million fixed rate convertible bonds had been swapped into floating rates of interest for the period to July 2012. These transactions had 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.

	2013 £m	2012 £m
Liability component as at the beginning of the financial year	179	176
Interest expense	14	14
Interest paid	(8)	(8)
Other ¹	(1)	(3)
Liability component as at the end of the financial year	184	179

¹ Other relates to fair value movements and fees.

Other loans due 2015

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

Borrowing facilities

The Group maintains a £690 million syndicated revolving credit facility maturing in October 2015 for standby liquidity purposes. At 16 March 2013, no advance had been made under the borrowing facility (2012: £nil) and all conditions precedent had been met as at that date.

The facility incurs commitment fees at market rates and the interest rate on draw downs would be at floating rates.

Obligations under finance leases

	Minimum lease payments 2013 £m	Minimum lease payments 2012 £m	Present value of minimum lease payments 2013 £m	Present value of minimum lease payments 2012 £m
Amounts payable under finance leases:				
Within 1 year	27	20	21	19
Within 2 to 5 years inclusive	94	82	75	71
After 5 years	201	177	64	53
	322	279	160	143
Less: future finance charges	(162)	(136)		
Present value of lease obligations	160	143		
Disclosed as:				
Current	21	19		
Non-current	139	124		
	160	143		

Finance leases have effective interest rates ranging from 2.4 per cent to 9.0 per cent (2012: 3.8 per cent to 9.0 per cent). The average remaining lease term is 69 years (2012: 72 years).

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Notes to the financial statements continued

21 Deferred taxation

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

Group	Accelerated capital allowances £m	Capital losses £m	Fair value movements £m	Other £m	Other property £m	Retirement benefit obligations £m	Share-based payment £m	Total £m
At 18 March 2012	(193)	57	(37)	(40)	(101)	16	12	(286)
(Charge)/credit to income statement	(39)	(4)	-	(7)	(7)	3	5	(49)
(Charge)/credit to equity or other comprehensive income	-	-	(2)	-	-	64	3	65
Rate change adjustment to income statement	18	(4)	-	4	8	7	(1)	32
Rate change adjustment to equity	-	-	3	-	-	(12)	-	(9)
At 16 March 2013	(214)	49	(36)	(43)	(100)	78	19	(247)

At 20 March 2011	(185)	53	(38)	(29)	(89)	99	17	(172)
(Charge)/credit to income statement	(23)	9	-	(14)	(20)	(79)	(3)	(130)
Charge to equity or other comprehensive income	-	-	(2)	-	-	-	(1)	(3)
Rate change adjustment to income statement	15	(5)	-	3	8	(14)	(1)	6
Rate change adjustment to equity	-	-	3	-	-	10	-	13
At 17 March 2012	(193)	57	(37)	(40)	(101)	16	12	(286)

Group	2013 £m	2012 £m
Total deferred income tax liabilities	(393)	(371)
Total deferred income tax assets	146	85
Net deferred income tax liabilities	(247)	(286)

Company	Capital losses £m	Fair value losses £m	Other property £m	Total £m
At 18 March 2012	32	1	(32)	1
Rate change adjustment to income statement	(3)	-	3	-
At 16 March 2013	29	1	(29)	1
At 20 March 2011	34	1	(34)	1
Rate change adjustment to income statement	(2)	-	2	-
At 17 March 2012	32	1	(32)	1

Company	2013 £m	2012 £m
Total deferred income tax liabilities	(29)	(32)
Total deferred income tax assets	30	33
Net deferred income tax assets	1	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 the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority.

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22 Provisions

	Group onerous leases £m	Group disposal provisions £m	Group long service awards £m	Other provisions £m	Group total £m	Company onerous leases £m	Company disposal provision £m	Company total £m
At 18 March 2012	48	17	7	-	72	2	17	19
Additional provisions	4	-	-	4	8	-	-	-
Unused amounts reversed	(8)	(16)	-	-	(24)	-	(16)	(16)
Utilisation of provision	(8)	-	-	-	(8)	-	-	-
Amortisation of discount	2	-	-	-	2	-	-	-
At 16 March 2013	38	1	7	4	50	2	1	3
At 20 March 2011	49	17	7	-	73	3	17	20
Additional provisions	11	-	-	-	11	-	-	-
Unused amounts reversed	(7)	-	-	-	(7)	-	-	-
Utilisation of provision	(7)	-	-	-	(7)	(1)	-	(1)
Amortisation of discount	2	-	-	-	2	-	-	-
At 17 March 2012	48	17	7	-	72	2	17	19

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Disclosed as:				
Current	11	9	1	1
Non-current	39	63	2	18
	50	72	3	19

The onerous lease provision covers residual lease commitments of up to an average of 26 years (2012: 26 years), after allowance for existing or anticipated sublet rental income.

The disposal provision has been released during the year as any potential liability arising is no longer considered probable (note 36).

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	2013 million	2012 million	2013 £m	2012 £m
Called up share capital				
Allotted and fully paid - ordinary shares	1,893	1,883	541	538
Share premium account				
Share premium			1,075	1,061

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

	Ordinary shares million	Ordinary shares £m	Share premium account £m
At 18 March 2012	1,883	538	1,061
Allotted in respect of share option schemes	10	3	14
At 16 March 2013	1,893	541	1,075
At 20 March 2011	1,871	535	1,048
Allotted in respect of share option schemes	12	3	13
At 17 March 2012	1,883	538	1,061

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Notes to the financial statements continued

24 Capital redemption and other reserves

Group	Capital redemption reserve £m	Currency translation reserve £m	Actuarial (losses) £m	Available-for-sale assets £m	Cash flow hedge reserve £m	Convertible bond reserve £m	Total other reserves £m
At 18 March 2012	680	(1)	(476)	107	(7)	12	(365)
Currency translation differences	-	1	-	-	-	-	1
Actuarial losses on defined benefit pension scheme (net of tax)	-	-	(287)	-	-	-	(287)
Available-for-sale financial assets fair value movements (net of tax):							
Group	-	-	-	13	-	-	13
Joint ventures (note 14)	-	-	-	2	-	-	2
Cash flow hedges effective portion of fair value movements (net of tax):							
Group	-	-	-	-	17	-	17
Joint ventures (note 14)	-	-	-	-	1	-	1
Amortisation of convertible bond equity component	-	-	-	-	-	(5)	(5)
At 16 March 2013	680	-	(763)	122	11	7	(623)
At 20 March 2011	680	(1)	(322)	102	(9)	17	(213)
Actuarial losses on defined benefit pension scheme (net of tax)	-	-	(154)	-	-	-	(154)
Available-for-sale financial assets fair value movements (net of tax):							
Group	-	-	-	3	-	-	3
Joint ventures (note 14)	-	-	-	2	-	-	2
Cash flow hedges effective portion of fair value movements (net of tax):							
Joint ventures (note 14)	-	-	-	-	2	-	2
Amortisation of convertible bond equity component	-	-	-	-	-	(5)	(5)
At 17 March 2012	680	(1)	(476)	107	(7)	12	(365)

Company	Capital redemption reserve £m	Available-for-sale assets £m	Convertible bond reserve £m	Cash flow hedge reserve £m	Total other reserves £m
At 18 March 2012	680	2	12	-	14
Available-for-sale financial assets fair value movements (net of tax)	-	4	-	-	4
Cash flow hedges effective portion of changes in fair value	-	-	-	(2)	(2)
Amortisation of convertible bond equity	-	-	(5)	-	(5)
At 16 March 2013	680	6	7	(2)	11
At 20 March 2011	680	6	17	-	23
Available-for-sale financial assets fair value movements (net of tax)	-	(4)	-	-	(4)
Amortisation of convertible bond equity	-	-	(5)	-	(5)
At 17 March 2012	680	2	12	-	14

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

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

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

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

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25 Retained earnings

	Group Own shares £m	Group Profit and loss account £m	Group Total retained earnings £m	Company Retained earnings £m
At 18 March 2012	(22)	3,737	3,715	1,940
Profit for the year	-	614	614	284
Dividends paid	-	(308)	(308)	(308)
Share-based payment (net of tax)	-	36	36	-
Shares vested	1	-	1	-
Allotted in respect of share option schemes	-	(3)	(3)	32
Utilised in respect of share option schemes	-	-	-	(1)
Amortisation of convertible bond equity	-	5	5	5
At 16 March 2013	(21)	4,081	4,060	1,952
At 20 March 2011	(22)	3,396	3,374	1,935
Profit for the year	-	598	598	260
Dividends paid	-	(285)	(285)	(285)
Share-based payment (net of tax)	-	26	26	-
Allotted in respect of share option schemes	-	(3)	(3)	27
Utilised in respect of share option schemes	-	-	-	(2)
Amortisation of convertible bond equity	-	5	5	5
At 17 March 2012	(22)	3,737	3,715	1,940

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

The Group owned 5,273,310 (2012: 5,893,732) of its ordinary shares of 28⁴/₇ pence nominal value each. At 16 March 2013, the total nominal value of the own shares was £2 million (2012: £2 million).

All shares (2012: 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 16 March 2013 was £19 million (2012: £18 million).

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Notes to the financial statements continued

26 Notes to the cash flow statements

a) Reconciliation of operating profit to cash generated from operations

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Profit before tax	788	799	290	246
Net finance costs	123	103	(27)	(12)
Share of post-tax profits of joints ventures (note 14)	(24)	(28)	-	-
Dividend income from subsidiaries	-	-	(250)	(276)
Operating profit	887	874	13	(42)
Adjustments for:				
Depreciation expense	504	486	-	-
Amortisation expense	13	13	-	-
Profit on disposal of properties	(67)	(82)	-	(3)
Foreign exchange differences	-	(6)	-	-
Share-based payments expense	33	27	-	-
Retirement benefit obligations ¹	(76)	(74)	-	-
Liquidation of subsidiaries	-	-	-	45
Provision for diminution in value of investment	-	-	2	-
Operating cash flows before changes in working capital	1,294	1,238	15	-
Changes in working capital:				
Increase in inventories	(57)	(126)	-	-
Increase in trade and other receivables	(34)	-	(46)	(99)
Increase in trade and other payables	87	182	22	31
Decrease in provisions	(22)	(3)	(16)	-
Cash generated from/(used in) operations	1,268	1,291	(25)	(68)

¹ The adjustment for retirement benefit obligations reflects the difference between the service charge of £61 million (2012: £60 million) for the defined benefit scheme and the cash contributions of £137 million made by the Group to the defined benefit scheme (2012: £134 million).

b) Cash and cash equivalents

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

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Cash in hand and at bank	115	228	1	-
Money market funds and deposits	402	511	350	408
Bank overdrafts (note 20)	(13)	-	-	-
Net cash and cash equivalents	504	739	351	408

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Notes to the financial statements continued

27 Analysis of net debt

	2013 £m	2012 £m
Non-current assets		
Interest bearing available-for-sale financial assets	34	31
Derivative financial instruments	47	37
	81	68
Current assets		
Cash and cash equivalents	517	739
Derivative financial instruments	91	69
	608	808
Current liabilities		
Bank overdrafts	(13)	-
Borrowings	(131)	(131)
Finance leases	(21)	(19)
Derivative financial instruments	(65)	(88)
	(230)	(238)
Non-current liabilities		
Borrowings	(2,478)	(2,493)
Finance leases	(139)	(124)
Derivative financial instruments	(4)	(1)
	(2,621)	(2,618)
Total net debt	(2,162)	(1,980)

Reconciliation of net cash flow to movement in net debt

	2013 £m	2012 £m
Net debt at beginning of the year	(1,980)	(1,814)
Net (decrease)/increase in cash and cash equivalents	(235)	239
Decrease in interest bearing financial asset	-	(40)
Net decrease/(increase) in borrowings ¹	27	(262)
Net increase in derivatives ¹	26	-
Net increase of obligations under finance leases	(17)	(84)
Fair value movements	17	(17)
Other non-cash movements	-	(2)
Net debt at the end of the year	(2,162)	(1,980)

¹ Excluding fair value movements.

28 Financial risk management

The principal financial risks faced by the Group are liquidity, counterparty credit, foreign currency, interest rate, commodity and capital risks.

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

The Group uses forward contracts and options to hedge foreign exchange and commodity exposures, and interest rate swap contracts to hedge interest rate exposures. The use of financial derivatives is governed by the Group's treasury policy which prohibits the use of derivative financial instruments for speculative purposes.

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

Liquidity risk

Liquidity risk is the risk that the Group could be unable to meet its financial obligations as they fall due at a reasonable price.

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

The Group's liquidity policy targets a minimum funding headroom of £300 million in excess of forecast net debt over a rolling 12-month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding adequate standby liquidity.

Financial statements

Notes to the financial statements continued

28 Financial risk management continued

The Group's core funding comprise two long-term loans of £1,002 million due 2018 and £841 million due 2031 both secured on property assets. In addition the Group has unsecured bank loans totalling £487 million with maturities ranging from 2014 to 2018, unsecured non-bank loans totalling £23 million maturing 2015, and a capital market convertible bond totalling £190 million maturing July 2014. The Group has also financed £96 million through multiple hire purchase facilities in respect of movable in-store assets for various periods to 2019.

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

The Group maintains a £690 million syndicated revolving credit facility due October 2015 for liquidity standby purposes. Interest on drawings under this facility is charged at a margin over LIBOR. There were £nil drawings under the facility as at 16 March 2013 (2012: £nil drawings).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date as at the balance sheet date. The amounts disclosed in the tables are the contractual undiscounted cash flows or an estimate of cash flows 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 16 March 2013				
Secured loans				
Secured loan due 2018	124	127	401	575
Secured loan due 2031 ¹	61	63	202	1,101
Unsecured loans				
Notional overdraft	13	-	-	-
Bank loan due 2014 ²	-	25	-	-
Bank loans due 2015 ^{2,3}	29	128	157	-
Bank loan due 2016 ^{2,3}	1	1	45	-
Bank loans due 2017 ^{2,3}	3	3	117	-
Bank loan due 2018 ²	4	4	12	4
Convertible bond due 2014	8	194	-	-
Other loans due 2015 ³	1	26	-	-
Obligations under finance leases	27	25	69	201
Trade and other payables	2,702	-	-	-
At 17 March 2012				
Secured loans				
Secured loan due 2018	85	121	384	724
Secured loan due 2031 ¹	59	61	195	1,164
Unsecured loans				
Bank loan due 2012 ²	51	-	-	-
Bank loan due 2014 ²	1	1	25	-
Bank loans due 2015 ^{2,3}	28	28	226	-
Bank loan due 2016 ^{2,3}	1	1	43	-
Bank loans due 2017 ^{2,3}	3	3	117	-
Convertible bond due 2014	8	8	194	-
Other loans due 2015 ³	1	1	24	-
Obligations under finance leases	20	20	62	177
Trade and other payables	2,719	-	-	-

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Notes to the financial statements continued

28 Financial risk management continued

Company	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 16 March 2013				
Bank loan due 2014 ²	-	25	-	-
Bank loan due 2015 ^{2,3}	23	123	112	-
Bank loan due 2016 ^{2,3}	1	1	45	-
Bank loans due 2017 ^{2,3}	3	3	117	-
Bank loan due 2018 ²	4	4	12	4
Convertible bond due 2014	8	194	-	-
Other loans due 2015 ³	1	26	-	-
Amounts due to Group entities ²	4,634	112	316	584
Other payables	57	-	-	-
At 17 March 2012				
Bank loan due 2012 ²	51	-	-	-
Bank loan due 2014 ²	1	1	25	-
Bank loans due 2015 ^{2,3}	23	23	179	-
Bank loan due 2016 ^{2,3}	1	1	43	-
Bank loans due 2017 ^{2,3}	3	3	117	-
Convertible bond due 2014	8	8	194	-
Other loans due 2015 ³	1	1	24	-
Amounts due to Group entities ²	3,907	45	293	718
Other payables	52	-	-	-

Assumptions:

- Cash flows relating to debt linked to inflation rates have been calculated using a RPI of 3.9 per cent for the year ended 16 March 2013 and 3.3 per cent for future years (2012: RPI of 5.0 per cent for the year ended 17 March 2012, 3.9 per cent for the years ended 2013 and 2014 and 3.3 per cent for future years).
- Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates at 16 March 2013 and 17 March 2012.
- Cash flows in foreign currencies have been translated using spot rates at 16 March 2013 and 17 March 2012.

The table below analyses the Group's net settled derivative financial instruments into relevant maturity groupings based on the period remaining to the contractual maturity date as at the balance sheet 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 16 March 2013				
Commodity contracts:				
Inflow	1	-	-	-
Interest rate swaps in a hedging relationship:				
Inflow ^{1,2}	10	11	27	1
Other interest rate swaps:				
Inflow	1	1	3	-
At 17 March 2012				
Commodity contracts:				
Inflow	2	1	-	-
Interest rate swaps in a hedging relationship:				
Inflow ^{1,2}	9	7	19	8
Other interest rate swaps:				
Inflow/(outflow)	4	4	13	(20)

Assumptions:

- The swap rate which matches the remaining term of the interest rate swap at 16 March 2013 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2012: 17 March 2012).
- Cash flows relating to inflation rate swaps have been calculated using an RPI of 3.9 per cent for the year ended 16 March 2013 and 3.3 per cent for future years (2012: RPI of 5.0 per cent for the year ended 17 March 2012, 3.9 per cent for the years ended 2013 and 2014 and 3.3 per cent for future years).

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Notes to the financial statements continued

28 Financial risk management continued

The table below analyses the Group's gross settled derivative financial instruments into relevant maturity groupings based on the period remaining to the contractual maturity date as at the balance sheet 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 16 March 2013				
Forward foreign exchange contracts - cash flow hedges:				
Outflow	(374)	(56)	(3)	-
Inflow	388	57	3	-
Commodity contracts:				
Outflow	(6)	(6)	(18)	(29)
Inflow	6	6	20	32
Cross currency swaps:				
Outflow	(9)	(110)	(161)	-
Inflow	7	112	160	-
At 17 March 2012				
Forward foreign exchange contracts - cash flow hedges:				
Outflow	(356)	(28)	(1)	-
Inflow	354	28	1	-
Commodity contracts:				
Outflow	(3)	(3)	(10)	(11)
Inflow	3	3	11	13
Cross currency swaps:				
Outflow	(10)	(10)	(273)	-
Inflow	9	9	265	-

The Group holds foreign exchange forward contracts, in respect of 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.

Counterparty credit risk

The Group is exposed to counterparty default or non-performance risk on its holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities and trade and other receivables.

The Group's credit policy limits new investments to counter parties with minimum credit ratings of A1 from Standard & Poor's or P1 from Moody's Investors Service or, in the case of sterling liquidity funds, AAAm from Standard & Poor's or Aaa/MR1+ from Moody's Investors Service.

The Group deposits surplus funds directly with approved banks on the wholesale inter-bank money market or with approved money market funds as a pooled investment.

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

Counterparty	Short-term rating	2013 £m	2012 £m
Financial institutions - Money Market Funds	AAAm/Aaa	322	509
Financial institutions - Money Market Deposits	A1+/P1	20	-
Financial institutions - Money Market Deposits	A1/P1	60	2

Management does not expect any losses from non-performance of deposit counterparties.

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

Counterparty	Short-term rating	2013 £m	2012 £m
Interest rate swaps ¹	A1/P1	76	64
Interest rate swaps ¹	A2/P1	-	34
Interest rate swaps ¹	A2/P2	36	-
FX forward contracts	A1+/P1	3	-
FX forward contracts	A1/P1	15	1
FX forward contracts	A1/P2	1	-
Commodity contracts	A1+/P1	-	2
Commodity contracts	A1/P1	1	-

¹ Collateral held £47 million (2012: £43 million).

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Notes to the financial statements continued

28 Financial risk management continued

Market risk

a) Currency risk

The Group is exposed to currency risk on supplier contracts denominated in currencies other than pounds sterling and on recognised foreign currency assets and liabilities.

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

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

The Group considers that a ten per cent movement in exchange rates against sterling is a reasonable measure of volatility. The impact of a ten per cent movement in the exchange rate of US dollar and euro versus sterling at the balance sheet date, with all other variables held constant, is summarised in the table below:

	2013		2012	
	Change in exchange rate impact on post-tax profit +/-10% £m	Change in exchange rate impact on cash flow hedge reserve +/-10% £m	Change in exchange rate impact on post-tax profit +/-10% £m	Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	1/(1)	(28)/34	1/(1)	(26)/32
EUR/GBP	-/-	(13)/15	1/(1)	(8)/10

b) Interest rate risk

The Group is exposed to interest rate risk on its borrowing and deposit portfolios. The Group's interest rate policy seeks to control the Group's interest cost and interest expense volatility by maintaining an appropriate and diversified mix of fixed rate, floating rate and inflation-linked liabilities.

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.

(i) Fair value sensitivity for fixed rate instruments

The Group holds £1,303 million of fixed rate debt (2012: £1,345 million), of which £234 million (2012: £424 million) has been swapped into floating rate debt using interest rate swaps. The remaining £1,069 million (2012: £867 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 to 16 March 2013, the fair value movement in the interest rate swaps resulted in a charge to the income statement of £3 million (2012: £8 million credit). The fair value movement in the underlying fixed rate debt resulted in a credit to the income statement of £3 million (2012: £10 million charge).

(ii) Cash flow sensitivity for variable rate instruments

The Group holds £549 million of floating rate borrowings (2012: £526 million) of which £113 million (2012: £63 million) has been swapped into fixed rate debt. The Group also holds £295 million of floating rate swaps (2012: £485 million) and holds £436 million of interest bearing assets (2012: £542 million). The Group considers that a 100 basis point increase is a reasonable measure of volatility. The sensitivity of these balances to a change of 100 basis points (or such lesser amount as would result in a zero rate of interest) in the floating rate at the balance sheet date is shown below:

	2013		2012	
	Change in floating rate impact on post-tax profit +/-100 bps £m	Change in floating rate impact on cash flow hedge reserve +/-100 bps £m	Change in floating rate impact on post-tax profit +/-100 bps £m	Change in floating rate impact on cash flow hedge reserve +/-100 bps £m
Floating rate borrowings	(5)/4	4/(2)	(14)/16	3/(2)
Interest bearing assets	3/(2)	-/-	4/(2)	-/-

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Notes to the financial statements continued

28 Financial risk management continued

b) Interest rate risk continued

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

The Group holds £854 million of inflation-linked debt (2012: £843 million) of which £300 million (2012: £250 million) has been swapped into fixed rate debt using inflation rate swaps due April 2017. The Group considers that a 100 basis point increase or decrease in the RPI rate is a reasonable measure of volatility. The sensitivity of these balances to a change of 100 basis points in the RPI rate at the balance sheet date is shown below:

	2013		2012	
	Change in RPI rate impact on post-tax profit +/-100 bps £m	Change in RPI rate impact on cash flow hedge reserve +/-100 bps £m	Change in RPI rate impact on post-tax profit +/-100 bps £m	Change in RPI rate impact on cash flow hedge reserve +/-100 bps £m
Inflation-linked debt	(5)/5	12/(12)	-/6	12/(12)

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

Included within available-for-sale financial assets is £154 million (2012: £146 million) relating to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of three per cent per annum (2012: three per cent) and a discount rate of ten per cent (2012: ten per cent), (see note 15). The sensitivity of this balance to changes of 0.5 per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

	2013		2012	
	Change in growth rate +/- 0.5% £m	Change in discount rate +/- 1.0% £m	Change in growth rate +/- 0.5% £m	Change in growth rate +/- 0.5% £m
Available-for-sale assets	9/(10)	(14)/15	10/(10)	(14)/16

Commodity risk

The Group is exposed to commodity price risk within its commercial buying operations and also with 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. The Group considers a ten per cent movement in commodity rates a reasonable measure of volatility. A ten per cent (2012: ten per cent) change in the fair value of the commodity price at the balance sheet date would have increased or decreased the cash flow equity reserve by £4 million (2012: £4 million).

The Group hedges own consumption electricity and gas exposures with forward purchases under flexible purchasing arrangements with its suppliers.

The Group has also entered into several long term fixed price power purchase agreements with independent producers. Included within derivative financial assets is £4 million (2012: £3 million) relating to these agreements. The Group values its power purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted back at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 10 per cent in the implied forward energy prices holding other assumptions constant is shown below:

	2013		2012	
	Change in volume +/- 20.0% £m	Change in electricity forward price +/- 10.0% £m	Change in volume +/- 20.0% £m	Change in electricity forward price +/- 10.0% £m
Derivative financial instruments	1/(1)	5/(5)	1/(1)	3/(3)

Capital risk management

The Group defines the capital that it manages as total equity plus net debt.

The Board's objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide optimal returns for shareholders and safeguard the Group's ability to remain a going concern. There has been no change to capital risk management policies during the year.

The Board monitors a range of financial metrics including return on capital employed, balance sheet gearing and fixed charge cover.

The Group can manage its capital structure by diversifying its debt portfolio, adjusting the size and timing of dividends paid to shareholders, recycling capital through sale and leaseback transactions, issuing new shares or repurchasing shares in the open market and flexing capital expenditure.

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Notes to the financial statements continued

28 Financial risk management continued

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

The Board has a policy to maintain the underlying earnings cover for the ordinary dividend at a minimum of 1.5 times and to increase dividend cover to two times over the medium term.

Part of the Group's capital risk management is to ensure compliance with the general covenants and financial covenants included in the Group's borrowing facilities. There have been no breaches of these covenants in the financial year ended 16 March 2013.

29 Financial instruments

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Derivative assets				
Non-current				
Interest rate swaps - fair value hedge	36	33	36	33
Interest rate swaps - cash flow hedge	2	-	2	-
Interest rate swaps - fair value through profit or loss	3	-	3	-
Commodity and foreign exchange forward contract - cash flow hedge	2	1	-	-
Commodity forward contract - fair value through profit or loss	4	3	-	-
	47	37	41	33
Current				
Interest rate swaps - fair value through profit or loss	72	65	72	65
Commodity and foreign exchange forward contract - cash flow hedge	19	4	-	-
	91	69	72	65
Derivative liabilities				
Current				
Interest rate swaps - fair value through profit or loss	(65)	(84)	(65)	(84)
Foreign exchange forward contract - cash flow hedge	-	(4)	-	-
	(65)	(88)	(65)	(84)
Non-current				
Interest rate swaps - fair value hedge	-	(1)	-	(1)
Interest rate swaps - cash flow hedge	(1)	-	(1)	-
Interest rate swaps - fair value through profit or loss	(3)	-	(3)	-
	(4)	(1)	(4)	(1)

Interest rate swaps - fair value hedge

The Group holds a portfolio of £234 million of interest rate swaps (2012: £424 million) to hedge a portion of the £1,002 million fixed rate secured loan due in 2018 and other loans due 2015. Under the terms of the swaps, the Group receives fixed interest and pays floating rate interest at a fixed spread above three-month LIBOR. The notional principal amount of one of the interest rate swaps amortises from £211 million to £111 million from April 2016 to April 2018.

Interest rate swaps - cash flow hedge

The Group holds a portfolio of £300 million of inflation-linked swaps (2012: £250 million) due 2017 to hedge a portion of the £854 million inflation-linked secured loan due 2031. Under the terms of the swaps, the Group receives floating RPI interest (subject to a cap at five per cent and floor at nil per cent) and pays fixed rate interest. The Group also holds a portfolio of £113 million of floating to fixed interest rate swaps (2012: £63 million) to hedge a £50 million bank loan due 2015 and a US\$100 million bank loan due 2017.

At 16 March 2013, an unrealised gain of £1 million (2012: £nil) is included in other comprehensive income in respect of the interest rate swaps in cash flow hedges. This gain will be transferred to the income statement over the next four years.

Interest rate swaps - fair value through profit and loss

At 16 March 2013, 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 (2012: £331 million). Under the terms of these swaps the Group pays fixed rates of interest and receives three-month LIBOR for periods to 19 April 2018. During the year, a £150 million swap under which the counterparty had a recurring option to cancel the swap through to January 2031, was restructured at market value into an amortising non-cancellable swap due 19 April 2018.

The Group holds a portfolio of non-designated interest rate swaps which convert £391 million of fixed rate borrowings into floating rates (2012: £391 million). Under the terms of the swaps the Group receives fixed rates of interest and pays floating rates of interest at various spreads above three-month LIBOR until 19 April 2018.

Foreign exchange forward contracts - cash flow hedges

At 16 March 2013, the Group held a portfolio of foreign exchange forward contracts with a fair value gain of £19 million (2012: £3 million) to hedge its future foreign currency denominated trade purchases. The Group had forward purchased €167 million (2012: €103 million) and sold sterling at rates ranging from 1.15 to 1.27 (2012: 1.14 to 1.21) with maturities from March 2013 to December 2015 (2012: March 2012 to April 2013) and forward purchased US\$469 million (2012: US\$457 million) and sold sterling at rates ranging from 1.48 to 1.62 (2012: 1.52 to 1.67) with maturities from March 2013 to April 2015 (2012: March 2012 to April 2015).

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Notes to the financial statements continued

29 Financial instruments continued

At 16 March 2013, an unrealised gain of £17 million (2012: loss of £3 million) is included in other comprehensive income in respect of the forward contracts. This gain will be transferred to the income statement over the next 33 months. During the year a credit to the income statement of £3 million was transferred from the cash flow hedge equity reserve and included in cost of sales (2012: debit of £3 million).

Commodity contracts - cash flow hedges

At 16 March 2013, the Group held a portfolio of commodity forward contracts with a fair value gain of £1 million (2012: gain of £3 million) to hedge its future own use fuel consumption over the next 12 months.

At 16 March 2013, an unrealised gain of £1 million (2012: gain of £3 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.

Commodity forward contract - fair value through profit or loss

Commodity forward contracts at fair value through profit and loss relates to the Group's long-term fixed price power purchase agreements with independent producers (see note 28).

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 other than at fair value. The fair value of financial assets and liabilities are based on prices that are available from the market on which the instruments are traded where available. The fair values of all other financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, overdrafts and payables are assumed to approximate to their book values, and are excluded from the analysis below:

	Group Carrying amount £m	Group Fair value £m	Company Carrying amount £m	Company Fair value £m
2013				
Financial assets				
Amounts due from Group entities	-	-	1,229	1,975
Other receivables	58	46	55	43
Financial liabilities				
Amounts due to Group entities	-	-	(876)	(1,043)
Loans due 2018 ¹	(1,039)	(1,186)	-	-
Loans due 2031	(868)	(1,109)	-	-
Bank overdrafts	(13)	-	-	-
Bank loans due 2014	(25)	(25)	(25)	(25)
Bank loans due 2015	(291)	(303)	(246)	(249)
Bank loan due 2016	(43)	(43)	(43)	(43)
Bank loans due 2017	(111)	(111)	(111)	(111)
Bank loan due 2018	(23)	(23)	(23)	(23)
Convertible bond due 2014 ²	(184)	(209)	(184)	(209)
Other loans due 2015 ³	(25)	(25)	(25)	(25)
Obligations under finance leases	(160)	(160)	-	-
2012				
Financial assets				
Amounts due from Group entities	-	-	1,277	1,494
Other receivables	58	58	55	55
Financial liabilities				
Amounts due to Group entities	-	-	(874)	(973)
Loans due 2018 ¹	(1,069)	(1,201)	-	-
Loans due 2031	(874)	(1,068)	-	-
Bank overdrafts	-	-	-	-
Bank loan due 2012	(50)	(50)	(50)	(50)
Bank loans due 2014	(25)	(25)	(25)	(25)
Bank loans due 2015	(253)	(261)	(209)	(210)
Bank loan due 2016	(43)	(43)	(43)	(43)
Bank loans due 2017	(108)	(108)	(108)	(108)
Convertible bond due 2014 ²	(179)	(214)	(179)	(214)
Other loans due 2015 ³	(23)	(23)	(23)	(23)
Obligations under finance leases	(143)	(143)	-	-

1 Includes £211 million accounted for as a fair value hedge (2012: £211 million).

2 Includes £nil accounted for as a fair value hedge (2012: £190 million).

3 Includes £23 million accounted for as a fair value hedge (2012: £23 million).

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Notes to the financial statements continued

29 Financial instruments continued

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are recognised 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 derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are 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 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
2013				
Available-for-sale financial assets				
Interest bearing financial assets	-	34	-	34
Other financial assets	-	-	154	154
Financial assets at FVTPL				
Derivative financial assets	-	134	4	138
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(69)	-	(69)

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2012				
Available-for-sale financial assets				
Interest bearing financial assets	-	31	-	31
Other financial assets	-	-	146	146
Financial assets at FVTPL				
Derivative financial assets	-	103	3	106
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(89)	-	(89)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2013				
Available-for-sale financial assets				
Interest bearing financial assets	-	34	-	34
Financial assets at FVTPL				
Derivative financial assets	-	113	-	113
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(69)	-	(69)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2012				
Available-for-sale financial assets				
Interest bearing financial assets	-	31	-	31
Financial assets at FVTPL				
Derivative financial assets	-	98	-	98
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(85)	-	(85)

There were no transfers between Level 1 and Level 2 during the year.

Financial statements

Notes to the financial statements continued

29 Financial instruments continued

Reconciliation of Level 3 fair value measurements of financial assets:

	2013 £m	2012 £m
Opening balance	149	140
Transfer to Level 3	-	3
In finance cost in the Group income statement	1	-
In other comprehensive income	8	6
Closing balance	158	149

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 16 March 2013 and 17 March 2012.

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
2013						
Cash and cash equivalents	517	-	-	-	-	517
Trade and other receivables	296	-	-	-	-	296
Available-for-sale financial assets	-	189	-	-	-	189
Trade and other payables	-	-	-	-	(2,702)	(2,702)
Current borrowings	-	-	-	-	(165)	(165)
Non-current borrowings	-	-	-	-	(2,617)	(2,617)
Derivative financial instruments	-	-	11	58	-	69
	813	189	11	58	(5,484)	(4,413)
2012						
Cash and cash equivalents	739	-	-	-	-	739
Trade and other receivables	263	-	-	-	-	263
Available-for-sale financial assets	-	178	-	-	-	178
Trade and other payables	-	-	-	-	(2,719)	(2,719)
Current borrowings	-	-	-	-	(150)	(150)
Non-current borrowings	-	-	-	-	(2,617)	(2,617)
Derivative financial instruments	-	-	(16)	33	-	17
	1,002	178	(16)	33	(5,486)	(4,289)

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
2013						
Cash and cash equivalents	351	-	-	-	-	351
Trade and other receivables	2,516	-	-	-	-	2,516
Available-for-sale financial assets	-	34	-	-	-	34
Trade and other payables	-	-	-	-	(5,447)	(5,447)
Current borrowings	-	-	-	-	(24)	(24)
Non-current borrowings	-	-	-	-	(633)	(633)
Derivative financial instruments	-	-	7	37	-	44
	2,867	34	7	37	(6,104)	(3,159)
2012						
Cash and cash equivalents	408	-	-	-	-	408
Trade and other receivables	2,408	-	-	-	-	2,408
Available-for-sale financial assets	-	31	-	-	-	31
Trade and other payables	-	-	-	-	(5,368)	(5,368)
Current borrowings	-	-	-	-	(72)	(72)
Non-current borrowings	-	-	-	-	(565)	(565)
Derivative financial instruments	-	-	(19)	32	-	13
	2,816	31	(19)	32	(6,005)	(3,145)

Financial statements

Notes to the financial statements continued

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 2012 on the projected unit basis. The results of this valuation are expected to be finalised in June 2013. The retirement benefit obligations at 16 March 2013 have been based, where appropriate, on the most recent actuarial valuation and updated by KPMG as actuarial advisors to the Group to take account of the requirements of IAS 19.

The unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

Sainsbury's Property Scottish Limited Partnership

Further to the funding plan agreed with the Scheme's Trustees, on 17 June 2010 Sainsbury's established the Sainsbury's Property Scottish Partnership (the 'Partnership') with the Scheme. Under this arrangement, properties to a fair value of £256 million were transferred to the Partnership. On 25 March 2011, further properties to a fair value of £501 million were transferred to the Partnership. Both transfers were effected via a 30 year sale and leaseback arrangement.

The Scheme's interest in the Partnership currently entitles it to an annual distribution of approximately £35 million for 20 years. These contributions will be in addition to the Group's normal cash contributions paid to the Scheme annually. The properties transferred to the Partnership will revert to Sainsbury's ownership in 2030 in return for a cash payment equal to the amount of any remaining funding deficit on the Scheme at that time, up to a maximum of £600 million.

The Partnership is controlled by Sainsbury's and its results are consolidated by the Group. The Group's balance sheet, IAS 19 deficit and income statement are unchanged by the establishment of the Partnership. The investment held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets. The value of the properties transferred to the Partnership remains included within the Group's property, plant and equipment on the balance sheet. In addition, the Group retains full operational flexibility to extend, develop and substitute the properties within the Partnership.

The amounts recognised in the balance sheet are as follows:

	2013 £m	2012 £m
Present value of funded obligations	(6,594)	(5,654)
Fair value of plan assets	5,841	5,192
	(753)	(462)
Present value of unfunded obligations	(13)	(9)
Retirement benefit obligations	(766)	(471)
Deferred income tax asset	78	16
Net retirement benefit obligations	(688)	(455)

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:

	2013 £m	2012 £m
Current service cost - funded scheme	(59)	(59)
Past service cost	(2)	(1)
Included in employee costs (note 7)	(61)	(60)
Interest cost on pension scheme liabilities ¹	(280)	(268)
Expected return on plan assets	275	285
Total included in finance (costs)/income (note 6)	(5)	17
Total income statement expense	(66)	(43)

¹ Includes interest of £1 million for the unfunded pension scheme (2012: Enil).

Of the expense recognised in operating profit, £55 million (2012: £50 million) is included in cost of sales and £6 million (2012: £10 million) is included in administrative expenses.

The actual return on pension scheme assets net of expenses was a gain of £652 million (2012: a gain of £582 million).

Financial statements

Notes to the financial statements continued

30 Retirement benefit obligations continued

b) Other comprehensive income

The amounts recognised in the statement of other comprehensive income are as follows:

	2013 £m	2012 £m
Net actuarial losses recognised during the year ¹	(366)	(222)
Cumulative actuarial losses recognised	(1,041)	(675)

¹ Net actuarial losses includes a £3 million loss for the unfunded pension scheme (2012: £nil).

c) Valuations

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

	2013 £m	2012 £m
Beginning of year	(5,654)	(4,945)
Current service cost	(59)	(59)
Past service cost	(2)	(1)
Interest cost	(279)	(268)
Contributions by plan participants	(6)	(6)
Actuarial losses	(740)	(519)
Benefits paid	146	144
End of year	(6,594)	(5,654)

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

	2013 £m	2012 £m
Beginning of year	5,192	4,614
Expected return on plan assets	275	285
Actuarial gains	377	297
Contributions by employer	137	134
Contributions by plan participants	6	6
Benefits paid	(146)	(144)
End of year	5,841	5,192

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

	2013 %	2012 %
Equities	37	36
Bonds	41	48
Property	4	3
Other	18	13
	100	100

d) Assumptions

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

	2013 %	2012 %
Discount rate	4.6	5.0
Inflation rate	3.5	3.3
Future salary increases	2.6	2.4 - 3.3
Future pension increases	2.2 - 3.3	2.0 - 3.1

The discount rate is based on the annualised yield on an AA-rated sterling corporate bond index adjusted for the difference in term between the index and the Scheme's liabilities.

Financial statements

Notes to the financial statements continued

30 Retirement benefit obligations continued

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking view of the financial markets (as suggested by the yield available) and the views of investment organisations.

	2013 Fair value £m	2013 Expected return ¹ %	2012 Fair value £m	2012 Expected return %
Equities	2,154	7.0	1,881	7.3
Government Bonds	181	3.0	259	3.3
Corporate Bonds	2,246	4.0	2,204	4.3
Property	211	6.0	174	6.3
Other	1,049	3.0 - 6.0	674	3.3 - 6.3
	5,841	5.0	5,192	5.3

¹ Refer to note 2 for changes required under IAS 19 Revised.

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:

	2013 years	2012 years
Male pensioner	22.6	21.2
Female pensioner	25.2	23.7

The base mortality assumptions are based on the SAPS tables, with adjustments to reflect the Scheme's population, with future improvements based on the CMI 2011 projection with a long-term rate of improvement of 1.25 per cent per annum.

e) Sensitivities

An increase of 0.5 per cent in the discount rate would decrease the retirement benefit obligations by £672 million. A decrease of 0.5 per cent in the discount rate would increase the retirement benefit obligations by £749 million.

An increase of 0.5 per cent in the inflation rate would increase the retirement benefit obligations by £455 million. A decrease of 0.5 per cent in the inflation rate would decrease the retirement benefit obligations by £425 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £153 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:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of retirement benefit obligations	(6,607)	(5,663)	(4,954)	(4,658)	(3,619)
Fair value of plan assets	5,841	5,192	4,614	4,237	3,310
Retirement benefit obligations	(766)	(471)	(340)	(421)	(309)
Experience (loss)/gain on plan liabilities	(70)	(106)	(79)	116	171
Experience gain/(loss) on plan assets	377	297	121	715	(1,149)

The Group's expected contributions to the defined benefit scheme for the next financial year beginning 17 March 2013 are £134 million (2012: £133 million).

31 Share-based payments

The Group recognised £33 million (2012: £27 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £nil (2012: £nil) were cash-settled.

National insurance contributions are payable in respect of certain share-based payments transactions and are treated as cash-settled transactions. At 16 March 2013, the carrying amount of national insurance contributions payable was £9 million (2012: £6 million) of which £2 million (2012: £nil) was in respect of vested grants.

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Notes to the financial statements continued

31 Share-based payments continued

The Group operates a number of share-based payment schemes as set out below:

a) Savings-Related Share Option Scheme ('SAYE')

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

At 16 March 2013, UK employees held 21,773 five-year savings contracts (2012: 22,976) in respect of options over 22.3 million shares (2012: 22.8 million) and 37,154 three-year savings contracts (2012: 33,993) in respect of options over 24.8 million shares (2012: 22.9 million).

A reconciliation of option movements is shown below:

	2013 Number of options million	2013 Weighted average exercise price pence	2012 Number of options million	2012 Weighted average exercise price pence
Outstanding at beginning of year	45.7	263	40.5	273
Granted	13.9	267	17.5	238
Forfeited	(6.9)	278	(6.2)	282
Exercised	(5.6)	270	(6.1)	235
Outstanding at end of year	47.1	261	45.7	263
Exercisable at end of year	2.9	303	4.2	281

The weighted average share price during the period for options exercised over the year was 334 pence (2012: 303 pence). Details of options at 16 March 2013 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2013 million	Options outstanding 2012 million
15 December 2006 (5 year period)	31 August 2012	328	-	2.3
20 December 2007 (5 year period)	31 August 2013	331	1.5	2.4
17 December 2008 (3 year period)	31 August 2012	224	-	1.9
17 December 2008 (5 year period)	31 August 2014	224	4.6	4.8
10 December 2009 (3 year period)	31 August 2013	273	1.4	4.8
10 December 2009 (5 year period)	31 August 2015	273	3.3	3.6
10 December 2010 (3 year period)	31 August 2014	297	4.2	4.7
10 December 2010 (5 year period)	31 August 2016	297	3.6	4.0
10 December 2011 (3 year period)	31 August 2015	238	9.8	11.5
10 December 2011 (5 year period)	31 August 2017	238	5.1	5.7
12 December 2012 (3 year period)	31 August 2016	267	9.4	-
12 December 2012 (5 year period)	31 August 2018	267	4.2	-
			47.1	45.7

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:

	2013	2012
Share price at grant date (pence)	333	298
Exercise price (pence)	267	238
Expected volatility		
- 3 year period (%)	19.2	22.4
- 5 year period (%)	29.5	32.2
Option life		
- 3 year period (years)	3.2	3.2
- 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	5.1	3.6
Risk-free interest rate		
- 3 year period (%)	1.1	1.3
- 5 year period (%)	2.0	2.5
Fair value per option		
- 3 year period (pence)	50	60
- 5 year period (pence)	73	85

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

The resulting fair value is expensed over the service period of three or five years, as appropriate, on the assumption that 25 per cent of options will be cancelled over the service period as employees leave the SAYE scheme.

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Notes to the financial statements continued

31 Share-based payments continued

b) Long-Term Incentive Plan 2006

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

The awards granted between 2006 and 2011 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 award granted in 2012 is assessed against ROCE, cumulative underlying cash flow from operations and relative sales measured against the IGD Index, with an Earnings Per Share gateway. 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 one year after the vesting date. 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	Targets to achieve maximum multiplier	
	Cash flow per share %	Return on capital employed %
13 July 2006	18	14
20 June 2007	18	14
28 May 2008	15	15
24 June 2009	15	15
21 June 2010	15	15
19 May 2011	12	15

Date of conditional award	Targets to achieve maximum multiplier		
	Cumulative underlying cash flow	Return on capital employed %	Relative sales %
17 May 2012	£6,500m	12	Index + 1

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

	2013 million	2012 million
Outstanding at beginning of year	9.6	10.7
Conditionally allocated	2.1	1.8
Forfeited	(0.7)	(0.8)
Released to participants	(1.9)	(2.1)
Outstanding at end of year	9.1	9.6

Details of shares conditionally allocated at 16 March 2013 are set out below:

Date of conditional award	2013 million	2012 million
20 June 2007	-	0.1
28 May 2008	0.5	1.5
24 June 2009	2.0	3.0
21 June 2010	3.0	3.3
19 May 2011	1.6	1.7
17 May 2012	2.0	-
	9.1	9.6

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:

	2013	2012
Share price at grant date (pence)	310	355
Expected volatility (%)	23.1	18.4
Option life (years)	4.2	4.2
Risk-free interest rate (%)	1.4	3.3
Fair value per option (pence)	310	355

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Notes to the financial statements continued

31 Share-based payments continued

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 2012, the three-year performance targets were met achieving a multiplier of 1.7 (2011: 1.9). During the year, a total number of 5.9 million shares were granted to employees as a result of achieving the performance target and 4.2 million options were exercised. The weighted average share price during the year for options exercised was 310 pence (2012: 326 pence).

c) Deferred Annual Bonus Plan

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

The Plan measured the Company's TSR performance over a three-year period against a bespoke UK and European retail comparator group comprising: Ahold, Carrefour, Casino, Delhaize, DSG International, Home Retail Group, Kingfisher, Marks & Spencer, Metro, Morrisons, Next and Tesco. Alliance Boots was removed from the comparator group following its de-listing.

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

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

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

	2013 million	2012 million
Outstanding at beginning of year	0.5	0.9
Lapsed	(0.4)	(0.4)
Outstanding at end of year	0.1	0.5

Details of shares conditionally allocated at 16 March 2013 are set out below:

	2013 million	2012 million
20 June 2008	0.1	0.1
24 June 2009	-	0.4
	0.1	0.5

d) 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 45 managers in the Company, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company.

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

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

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

	2013 million	2012 million
Outstanding at beginning of year	2.4	1.3
Granted	1.5	1.2
Lapsed	(0.3)	(0.1)
Outstanding at end of year	3.6	2.4

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Notes to the financial statements continued

31 Share-based payments continued

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

	Shares conditionally allocated 2013 million	Shares conditionally allocated 2012 million
20 May 2010	1.0	1.2
19 May 2011	1.2	1.2
17 May 2012	1.4	-
	3.6	2.4

e) Bonus Share Award

The Bonus arrangements for our senior managers and supermarket store managers include corporate and personal performance targets. A profit gateway is in place which means that a certain level of underlying profit before tax must be achieved before any bonus related to the corporate element of the bonus is released.

60 per cent of the bonus is paid in cash and 40 per cent converted into shares, which are automatically released after three financial years. The share element of the bonus arrangement is called the Bonus Share Award. Bonus Shares are subject to forfeiture if the participant resigns or is dismissed for cause prior to their release date. Dividends accrue on these shares and are released at the end of the three-year retention period. Our top 45 managers do not receive Bonus Share Awards as they receive Deferred Share Awards.

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

	2013 million	2012 million
Outstanding at beginning of year	-	-
Granted	3.7	-
Lapsed	(0.2)	-
Outstanding at end of year	3.5	-

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

	Shares conditionally allocated 2013 million	Shares conditionally allocated 2012 million
17 May 2012	3.5	-

Financial statements

Notes to the financial statements continued

32 Related party transactions

Group

a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc Board of Directors and the Operating Board. The key management personnel compensation is as follows:

	2013 £m	2012 £m
Short-term employee benefits	9	9
Post-employment employee benefits	1	1
Share-based payments	11	9
	21	19

Seven key management personnel had credit card balances with Sainsbury's Bank (2012: six). These arose in the normal course of business and were immaterial to the Group and the individuals. Seven key management personnel held saving deposit accounts with Sainsbury's Bank (2012: 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 16 March 2013, the Group entered into various transactions with joint ventures as set out below.

	2013 £m	2012 £m
Management services provided	17	7
Offset of creditor balance with investment (note 14)	(43)	-
Interest income received in respect of interest bearing loans	1	1
Dividend income received	18	-
Repayment of loan to joint ventures	16	-
Investment in joint ventures	(1)	-
Sale of assets	-	12
Loan to joint venture	(5)	-
Acquisition of companies	(21)	-
Rental expenses paid	(71)	(75)

Year-end balances arising from transactions with joint ventures

	2013 £m	2012 £m
Receivables		
Other receivables	14	13
Loans due from joint ventures		
Floating rate subordinated undated loan capital ¹	25	25
Floating rate subordinated dated loan capital ²	30	30
Other	15	16
Payables		
Loans due to joint ventures	(5)	(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 drawdown. In the event of a winding up of Sainsbury's Bank, 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, 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) 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.

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Notes to the financial statements continued

32 Related party transactions continued

Transactions with subsidiaries

	2013 £m	2012 £m
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	402	341
Loans and advances repaid by subsidiaries	(330)	(281)
Interest income received in respect of interest bearing loans and advances	161	146
Dividend income received	250	276
Loans and advances received from subsidiaries		
Loans and advances received	(318)	(339)
Loans and advances repaid	3	61
Interest expense paid in respect of interest bearing loans and advances	(104)	(108)

Year-end balances arising from transactions with subsidiaries

	2013 £m	2012 £m
Receivables		
Loans and advances due from subsidiaries	2,461	2,352
Payables		
Loans and advances due to subsidiaries	(5,390)	(5,316)

b) Joint ventures

Transactions with joint ventures

For the 52 weeks to 16 March 2013, the Company entered into transactions with joint ventures as set out below:

	2013 £m	2012 £m
Services and loans provided to joint ventures		
Interest income received in respect of interest bearing loans	1	1

Year-end balances arising from transactions with joint ventures

	2013 £m	2012 £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 drawdown. In the event of a winding up of Sainsbury's Bank, 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, 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.

Financial statements

Notes to the financial statements continued

33 Operating lease commitments

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

	2013 £m	2012 £m
Aggregate future minimum lease payments:		
Within 1 year	507	471
Within 2 to 5 years inclusive	1,889	1,741
After 5 years	6,164	6,042
	8,560	8,254

The Group sublets certain leased properties:

	2013 £m	2012 £m
Aggregate future minimum lease receipts:		
Within 1 year	29	31
Within 2 to 5 years inclusive	95	98
After 5 years	120	151
	244	280

34 Capital commitments

The Group has entered into contracts totalling £296 million (2012: £345 million) for future capital expenditure in relation to property, plant and equipment and intangible assets not provided for in the financial statements.

The Company does not have any capital commitments (2012: £nil).

35 Financial commitments

Sainsbury's Bank, a 50 per cent joint venture of the Group, has off balance sheet financial instruments committing it to extend credit to customers of £48 million (2012: £40 million).

36 Contingent liabilities

The Group has a contingent liability for indemnities arising from the disposal of subsidiaries. No provision has been recognised on the basis that any potential liability arising is not considered probable. It is not possible to quantify the impact of this liability with any certainty.

37 Post balance sheet events

On 7 May 2013, the Group signed a share purchase agreement with Lloyds Banking Group to purchase the remaining 50 per cent of Sainsbury's Bank and take sole ownership. The Group intends to fund the future consideration from internal resources. The transaction, subject to regulatory approval, is expected to complete in January 2014.

On 10 April 2013, the Group entered into a consultation period regarding the proposed cessation of the future accrual of benefits within its defined benefit pension scheme. Under this proposal, impacted colleagues will be offered membership of the Group's existing defined contribution plans.

If the proposal proceeds, it is expected to result in a decrease in the defined benefit pension scheme service cost and an increase in contributions to the defined contribution plans, as well as a reduction in the defined benefit pension liability. Subject to the proposal being accepted, the financial impact will depend on both the implementation date and the extent to which impacted colleagues continue membership of the defined contribution plans and therefore until the consultation completes, cannot be estimated with any degree of certainty.

Five year financial record

	2013	2012	2011	2010	2009
Financial results (£m)					
Sales (including Value Added Tax, including fuel)	25,632	24,511	22,943	21,421	20,383
Underlying operating profit	829	789	738	671	616
Underlying net finance costs ^{1,2}	(111)	(109)	(97)	(79)	(113)
Underlying share of post-tax profit from joint ventures	38	32	24	18	16
Underlying profit before tax^{1,2,3}	756	712	665	610	519
Increase on previous year (%)	6.2	7.1	9.0	17.5	19.6
Underlying operating profit margin (%)	3.56	3.54	3.50	3.36	3.26
Earnings per share					
Underlying basic (pence) ^{1,3}	30.7	28.1	26.5	23.9	21.2
Increase on previous year (%)	9.3	6.0	10.9	12.7	21.8
Proposed dividend per share (pence) ⁴	16.7	16.1	15.1	14.2	13.2
Retail statistics for UK food retailing					
Number of outlets at financial year end					
over 55,000 sq ft sales area	94	81	64	45	34
40,001 - 55,000 sq ft sales area	123	123	124	125	130
25,001 - 40,000 sq ft sales area	147	152	155	156	153
15,000 - 25,000 sq ft sales area	118	115	113	115	108
under 15,000 sq ft sales area	624	541	478	431	367
	1,106	1,012	934	872	792
Sales area (000 sq ft)	21,265	20,347	19,108	17,750	16,703
Net increase on previous year (%) ⁵	4.5	6.5	7.7	6.3	3.2
New stores ⁵	101	92	68	89	29
Sales intensity (including Value Added Tax)^{5,6}	19.27	19.47	20.04	20.42	20.01
Per square foot (£ per week)					

1 2008/09 is restated for the change in the definition of underlying profit before tax ("UPBT"). As communicated at the time of the 2008/09 year end announcement, the financing element of IAS 19 'Employee Benefits' pensions accounting has been excluded from UPBT.

2 Net finance costs pre-financing fair value movements, IAS 19 pension financing (charge)/credit and one-off items that are material and infrequent in nature.

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

4 Total proposed dividend in relation to the financial year.

5 Includes all convenience stores and convenience acquisitions.

6 2008/09 and 2009/10 adjusted for comparative purposes to remove the dilutive effect of the temporary VAT reduction to 15 per cent between 1 December 2008 and 1 December 2009.

Additional shareholder information

End of year information at 16 March 2013

Number of shareholders:	118,144 (2012: 118,950)
Number of shares in issue:	1,892,990,218 (2012: 1,883,086,486)

By size of holding

	Shareholders		Shares	
	2013	% 2012	2013	% 2012
500 and under	62.21	62.85	0.44	0.46
501 to 1,000	12.64	12.88	0.60	0.61
1,001 to 10,000	23.13	22.38	3.97	3.83
10,001 to 100,000	1.53	1.43	2.36	2.21
100,001 to 1,000,000	0.35	0.32	7.62	6.84
Over 1,000,000	0.14	0.14	85.01	86.05
	100.00	100.00	100.00	100.00

By category of shareholder

	Shareholders		Shares	
	2013	% 2012	2013	% 2012
Individual and other shareholders	92.07	92.80	8.50	8.93
Insurance companies	0.07	0.07	0.03	0.04
Banks and Nominees	7.51	6.74	85.99	85.24
Investment Trusts	0.03	0.04	0.08	0.05
Pension Funds	0.01	0.01	0.00	0.00
Other Corporate Bodies	0.31	0.34	5.40	5.74
	100.00	100.00	100.00	100.00

Annual Report and Financial Statements

The Annual Report and Financial Statements are published on our website at www.j-sainsbury.co.uk/ar2013 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, 10 July 2013 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.

Dividends

Financial year	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13
Interim	2.15p	2.15p	2.40p	3.00p	3.60p	4.00p	4.30p	4.50p	4.80p
Final	5.65p	5.85p	7.35p	9.00p	9.60p	10.20p	10.80p	11.60p	11.90p
Total net	7.80p	8.00p	9.75p	12.00p	13.20p	14.20p	15.10p	16.10p	16.70p

The 2012/13 interim dividend was paid on 4 January 2013.

Additional shareholder information continued

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 29,400 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	21 June 2013
DRIP shares purchased for participants	12 July 2013
DRIP share certificates issued	22 July 2013

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.

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 28⁴/₇ 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: Adam Wilson Katsibas, 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 2013/14

Dividend payments

Ordinary dividend:

Ex-dividend date	15 May 2013
Record date	17 May 2013
Final dividend payable	12 July 2013
Ex-dividend date	20 November 2013
Record date	22 November 2013
Interim dividend payable	3 January 2014

Other dates

Annual General Meeting - London	10 July 2013
Interim results announced	13 November 2013
Interim report available at j-sainsbury.co.uk	13 November 2013
Preliminary Results announced	7 May 2014
Annual General Meeting - London	9 July 2014

Registered office and advisers

Registered office

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

Solicitors

Linklaters LLP
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.

The service allows you to:

- view the Annual Report and Financial Statements on the day it is published;
- receive electronic notification of the availability of future shareholder information (you must register your email for this service);
- check the balance and current value of your shareholding and view your dividend history; and
- submit your vote online prior to a general meeting.

For more information, to view the terms and conditions and to register for the service, log on to www.j-sainsbury.co.uk/investors, 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

Annual General Meeting ('AGM') - This year the AGM will be held on Wednesday 10 July 2013 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am.

basics - Sainsbury's entry level sub-brand range of products.

bps - Basis points.

Brand Match - Unique initiative using market-leading technology guaranteeing price match on the basket of comparable grocery branded goods with Asda and Tesco. Over 14,000 branded grocery lines are included and the initiative works by offering customers who spend over £20 and buy at least one branded product coupons at the till, there and then for use at their next shop. We even include promotions provided the same number of products are bought. Maximum value of coupons £10.

by Sainsbury's - Core own label brand.

CFPS - Cash flow per share.

Click & Collect - Service which allows customers to place general merchandise orders online for collection from nearly 1,000 stores.

Company - J Sainsbury plc.

CPI - Consumer Price Index.

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

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

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

Earnings per share ('EPS') - Earnings attributable to ordinary shareholders of the parent 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.

EBITDAR - Earnings before interest, tax, depreciation, amortisation and rent.

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.

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 and loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

GDAs - Guideline Daily Amounts.

Gearing - Net debt divided by net assets.

Group - The Company and its subsidiaries.

IFRIC - International Financial Reporting Interpretations Committee.

IFRSs - International Financial Reporting Standard(s).

Income statement - Formerly known as the profit and loss account under UK GAAP.

Joint venture ('JV') - A business jointly owned by two or more parties.

Kantar Worldpanel - An independent third party providing data on the UK Grocery Market.

Like-for-like sales - The measure of year-on-year same store growth.

Live Well For Less - Sainsbury's customer commitment to continue to help people live the life they want to live, with quality products at fair prices.

LTIP - Long Term Incentive Plan.

MSC - Marine Stewardship Council.

Multiple Traffic Lights - Nutritional labels which provide effective 'at-a-glance' information customers need to make healthier choices when shopping.

Nectar - The most popular loyalty scheme in the UK, of which Sainsbury's is a partner.

Non-controlling interest - The equity in a subsidiary not attributable, directly or indirectly, to the Company.

OFT - Office of Fair Trading.

Real discount rate - Discount rate less inflation rate.

ROCE - Return on capital employed.

RPI - Retail Price Index.

Total shareholder return ('TSR') - The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

Taste the Difference - Sainsbury's premium sub-brand range of products.

Tu - Sainsbury's own label clothing range.

Underlying basic earnings per share - Profit after tax from continuing operations attributable to equity holders of the parent 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 weighted average number of ordinary shares in issue during the year, excluding those held by ESOP trusts, which are treated as cancelled.

Underlying cash flow from operations - Underlying cash generated from operations for net rent and cash payments to the pension scheme.

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

Underlying profit before tax - 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.

Achievements



Supermarket of the Year

We won the top award in the Retail Industry Awards 2012 for the fifth time in seven years, with our Brand Match promise, hailed as a 'game-changer' in the UK grocery market.



Best convenience retailer

For the third year running Sainsbury's won Convenience Chain of the Year, for our consistent execution over a large number of stores.



Embedding sustainability

Sainsbury's was rated as a global sector leader for the sixth year running in the Dow Jones Sustainability Index. This index is one of the leading ways that sustainability is measured in the international business community.



FTSE4Good

Leading retailer for sustainability

We continue to be recognised for our sustainability approach in the independent, highly regarded FTSE4Good Index, which evaluates businesses from around the world against key social, environmental and governance practices.



Investing in our people

We were the first-ever food retailer to receive a Gold accreditation for our commitment to improve our business by investing in our colleagues.



Employer of the Year

We were recognised for the way we place our colleagues at the heart of our strategy, exemplified by our sponsorship of the Paralympics.



RSPCA Retailer of the Year

Recognised for our efforts in bringing affordable higher welfare food to a mass market.



Animal welfare

As part of Compassion in World Farming's 2012 Good Farm Animal Welfare Awards, we were recognised as winners of the Leadership and Innovation in Retail category for our innovative Pig Concept Farm, which is trialling new farming techniques to improve the welfare of pigs in our supply chain.



Official partner of the London 2012 Paralympic Games

Following our successful sponsorship of the London 2012 Paralympic Games, we are continuing our support for para-athletics and athletics - through Active Kids as well as sponsoring the Sainsbury's Summer Series alongside British Athletics.



Further insight
Want to know more?
Visit j-sainsbury.co.uk

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WHAT'S COOKING?
Sainsbury's TV

4 WEEKDAYS
AT 12.35PM

SWEET TREAT

Hot cross bun treacle tart

Sainsbury's **More for Less**



04 04 19 0855 790036

Sainsbury's Brand Match

We check our prices and deals on brands against Asda and Tesco daily

“Great news! Your branded shop was **£ 2.03 cheaper** here today”

Why pay a penny more for your branded shop? Live well for less than you thought at Sainsbury's

For coupon terms and conditions see www.sainsburys.co.uk/brandmatch



HELP FEED THOSE IN NEED with FareShare

MILLION MEAL A DAY
Help support our charity partner

THANK YOU!

Once you've unpacked your shopping and put the kettle on, would you like to know where your donation goes next?

Scan the QR code below or visit www.fareshare.org.uk/thankyou to see your item continue its journey

OUR VALUES MAKE US DIFFERENT

Sainsbury's