

J Sainsbury plc

Annual Report
and Financial
Statements
2014



LIVE WELL FOR LESS



Sainsbury's
live well for less

Our business strategy:

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

Read more about our strategy on pages 8 to 23

We have achieved around £120 million of operational cost savings over the year, totalling over £570 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.

See pages 8 to 23

Note: this page forms part of our Strategic Report

Our business model:

How we're organised to grow value for our shareholders

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

Suppliers

We work with food and non-food suppliers from across the world



● Food suppliers
● Non-food suppliers

2,100+

food suppliers

1,300+

non-food suppliers

Sourcing

5

sourcing offices



- 1 Britain
- 2 India
- 3 Bangladesh
- 4 China
- 5 Hong Kong

Logistics

22

depots cover 9.2 million sq ft

1.1 million+

store deliveries per year



98

million

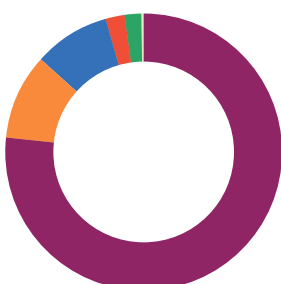
miles covered per year

Our colleagues

161,000

number of colleagues

Colleagues by area



- Supermarkets
- Convenience
- Online
- Logistics
- Central
- Bank

44,000

colleagues under the age of 25

26,000

colleagues with 15 years' service

15,000

colleagues with 20 years' service

7,000

colleagues with 25 years' service

J Sainsbury plc is a retailer with over 1,200 stores. We source products through our supply base across the world distributed for sale in our UK based supermarkets, convenience stores and online. Our food business is complemented by our general merchandise and clothing offer. We offer banking and financial services products through our wholly owned subsidiary Sainsbury's Bank and have a number of joint ventures including property development.

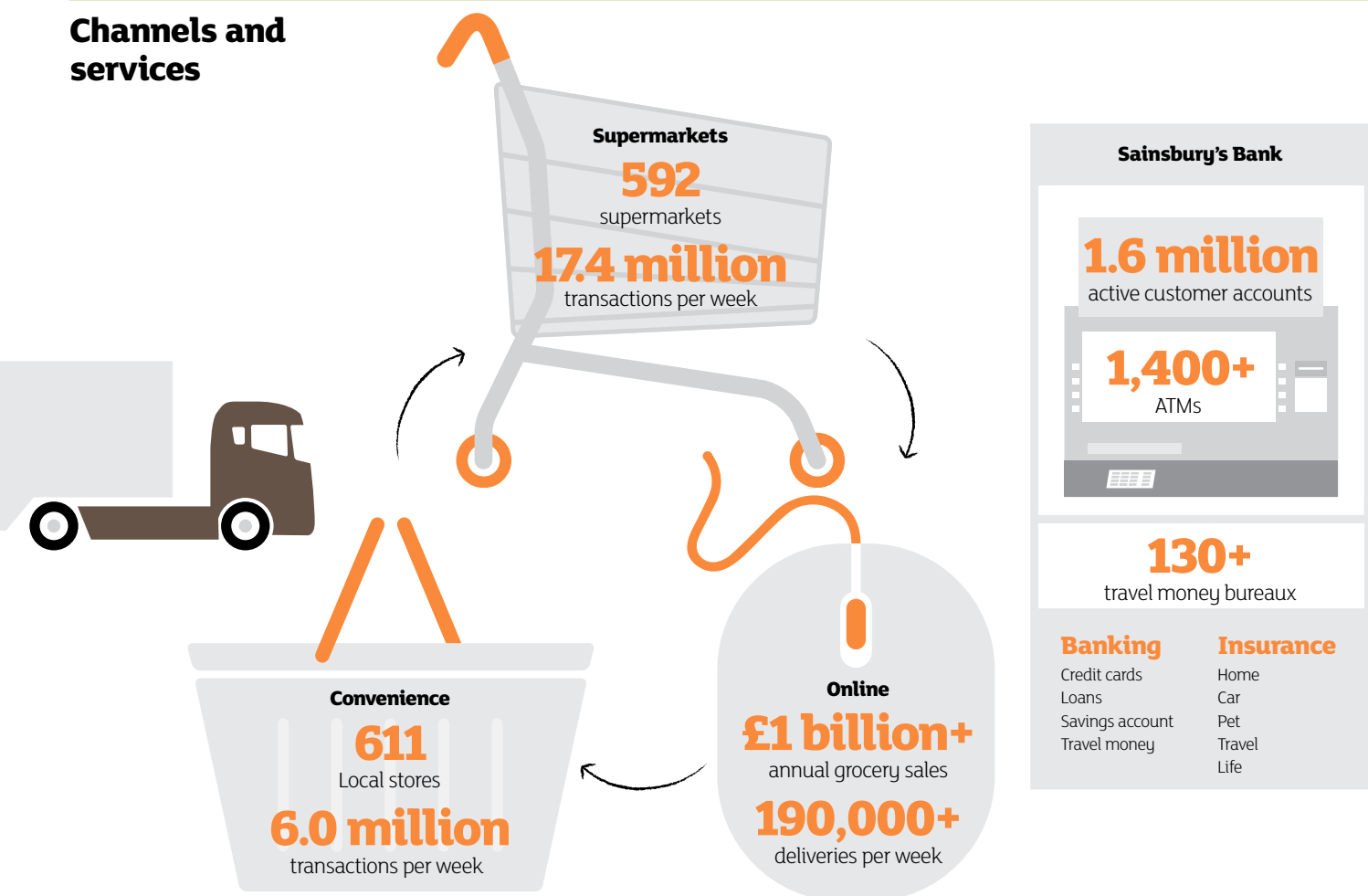
Our promise:



Our corporate values:

- 1.** Best for food and health
- 2.** Sourcing with integrity
- 3.** Respect for our environment
- 4.** Making a positive difference to our community
- 5.** A great place to work

Channels and services



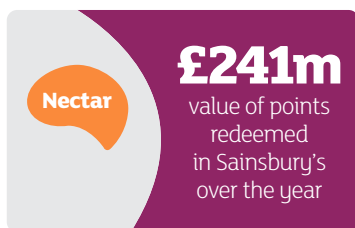
Live Well for Less

Own-brand penetration (%)



- Sainsbury's
- Total Grocery Market

Source: Kantar Worldpanel 52 weeks data to 2 March 2014



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Find out more at
j-sainsbury.co.uk



Financial highlights

Underlying Group sales

+2.8%

(including VAT, including fuel)

Like-for-like sales

+0.2%

(including VAT, excluding fuel)

Underlying profit before tax

£798m

Up 5.3%

Return on capital employed

11.3%

Up 19 bps

Underlying basic earnings

32.8p

Up 6.5%

Full year dividend per share

17.3p

Up 3.6%

Summary income statement

52 weeks to 15 March 2014

	2013/14 £m	2012/13 £m	Change %
Underlying Group sales (including VAT)	26,353	25,632	2.8
Retail sales (including VAT)	26,328	25,632	2.7
Underlying Group sales (excluding VAT)	23,946	23,303	2.8
Retail sales (excluding VAT)	23,921	23,303	2.7
Underlying profit before tax	798	758	5.3
Profit before tax	898	772	16.3
Profit for the financial period	716	602	18.9
Underlying basic earnings per share	32.8p	30.8p	6.5
Basic earnings per share	37.7p	32.0p	17.8
Full year dividend per share	17.3p	16.7p	3.6



David Tyler, Chairman

Dear Shareholder

Your Board is pleased to report on another year of improving profits, our ninth successive year of underlying profit growth. By offering our customers an attractive combination of quality, value and service, underpinned by our strong values, we have continued to outperform our 'Big Four'¹ peers in a challenging market. As a result, our market share remains at its highest level for a decade.

Underlying profit before tax was up 5.3 per cent to £798 million. Underlying basic earnings per share rose 6.5 per cent to 32.8 pence. Return on capital employed ('ROCE') increased by 19 basis points year-on-year to 11.3 per cent².

This year, your Board recommends a final dividend of 12.3 pence per share, bringing the full year dividend to 17.3 pence, an increase of 3.6 per cent over the previous year, and covered 1.90 times by underlying earnings.

The food retail sector remains under pressure, with the growth of the discounters and increasingly competitive pricing posing significant challenges. We continue to meet these challenges by investing in price, quality and service, and this, underpinned by our values, will ensure that Sainsbury's continues to provide a strong, differentiated offer to customers.

A winning team

Our continuing success is due to the 161,000 colleagues who work in our stores, depots and store support centres. Their hard work and commitment is a key factor in the success of our business and it is thanks to them that we were named Supermarket of the Year for the sixth time in eight years³, Convenience Retailer of the Year for the fourth year running³ and Online Retailer of the Year for the second consecutive year⁴. We want Sainsbury's to be a place where people love to work and shop and we invest in developing our colleagues and in ensuring they share in the success of our Company. I am delighted that a bonus of over £80 million will be shared by colleagues this year.



£798m

underlying profit before tax, up 5.3%



£80m+

bonus awarded to colleagues



17.3p

proposed full year dividend, up 3.6%



We announced in January that Justin King will step down in July after ten years as Chief Executive. His 'Making Sainsbury's Great Again' plan transformed our business and has seen Sainsbury's consistently outperform the growth of the market. Under his leadership, customer transactions have increased by ten million a week to around 24 million, annual sales have grown by £10.3 billion to £26.4 billion and underlying profit before tax has trebled to £798 million. He has been a truly exceptional leader and, on behalf of your Board and all our colleagues, I thank him for his outstanding achievements.

I am delighted that Mike Coupe will lead Sainsbury's on the next phase of its journey. Mike is a man of significant experience and a proven track record of success, well respected by colleagues and within the wider industry. No one knows Sainsbury's – or retail – better than he does and he is the natural choice to take our Company forward.

A key part of our success is the strength of our leadership team, and our focus on developing talent from within, ensuring we have a great blend of innovative thinking and experience. We have made some important changes to our Operating Board in the last few months. Roger Burnley moved from being Managing Director of General Merchandise, Clothing and Logistics to become Retail and Operations Director, while Helen Buck transferred from her role as Retail Director to become Business Development Director. We are also very pleased to have promoted three new people to the Operating Board: Peter Griffiths the CEO of Sainsbury's Bank; Paul Mills-Hicks our former Director for

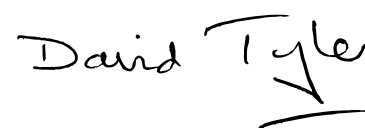
Grocery who has been appointed Food Commercial Director; and Jon Rudoie our former Director of Online who has become Digital and Technology Director. These changes follow the previously announced departures of Rob Fraser our former IT Director, Luke Jensen our Business Development Director and Neil Sachdev our Property Director who all stepped down earlier in the year. The Board thanks Rob, Luke and Neil for the significant contributions they made to Sainsbury's and we wish them the very best for the future.

Sainsbury's Bank

In January, we acquired the remaining 50 per cent shareholding in Sainsbury's Bank plc from Lloyds Banking Group. The opportunity to offer accessible, tailored products that reward customers who both bank and shop with Sainsbury's will help boost customer numbers and loyalty across all our channels and services.

Outlook

Despite some signs of economic recovery, the food retail sector is likely to remain challenging for the foreseeable future. Customers continue to manage their household budgets cautiously and the discounters continue to grow market share. However, we have consistently performed well against this backdrop, and continue to see opportunities for growth across multiple channels. Our differentiated customer offer means we are well positioned to achieve our vision to be the most trusted retailer, where people love to work and shop.



David Tyler
Chairman

1 Big Four peers refers to Tesco, Morrisons and Asda
2 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). 2013/14 closing capital employed has been reduced by 50 per cent of Sainsbury's Bank closing net assets (£243 million) to reflect the fact that the Bank was only consolidated in the accounts for four weeks of the 2013/14 financial year
3 Retail Industry Awards
4 Grocer Gold Awards



Justin King, Chief Executive

Dear Shareholder,
In the context of a rapidly changing marketplace we have delivered good profit growth, outperforming our 'Big Four'¹ peers and growing sales in line with the market. Our market share remains at its highest for a decade. We are focused on delivering high quality, affordable products across all our channels, helping our customers *Live Well for Less*. Our long-term strategy positions us well to continue to deliver for customers, colleagues and shareholders.

Consumer confidence has been slowly improving over the last 12 months, but budgets remain under pressure. The trend for 'savvy shopping' is now well entrenched, with customers shopping little and often, mixing visits to supermarkets, convenience and discount stores with online purchases.

This is changing the grocery retail landscape, with market growth overall being delivered in the discount, convenience and online channels. The share of market held by core grocery supermarkets has declined markedly in the last 12 months.

Despite the broader economic challenges and growing competition, we were the only 'Big Four' supermarket to maintain market share this year – at 16.8 per cent². Our own-brand food and general merchandise ranges, with their focus on quality, value and provenance, are growing market share. Our supermarkets and our key growth channels of convenience and online allow customers to shop with us whenever and however they want. As a business we are focused on investing to ensure that Sainsbury's continues to bring customers an attractive differentiated offer, underpinned by our quality, service and values.

Our customers care about where their shopping comes from and how it is produced. They trust us to make the right decisions on their behalf across all our ranges, from *basics* through to *Taste the Difference*. We believe this gives us a clear, long-term, strategic advantage and we are proud, for example, that we are the largest retailer of Fairtrade products in the world, that all our eggs are from non-caged hens and that we have been the largest retailer of Marine Stewardship Council sustainable seafood for the past four years.

Our vision is to be the most trusted retailer where people love to work and shop, and this year we recorded around 24 million customer transactions per week, an increase of one million since last year. We have 161,000 colleagues working in our stores, depots and store support centres and it is down to their hard work and commitment that our service standards remain consistently high, a fact recognised in key industry awards.

About 12 million people regularly use their Nectar card when they shop with us. Together with coupon-at-till technology, this gives us significant competitive advantage and allows us to provide our customers truly targeted offers which reflect what they buy and incentivises multi-channel shopping. In addition, *Brand Match*, now in its third year, continues to reinforce the competitiveness of our price position.

Market share

Source: Kantar Worldpanel total till roll for the 52 weeks to 2 March 2014



Great food

We have invested in our own-brand ranges which are growing at over twice the rate of branded lines and account for over half our food sales. From *basics* through to *Taste the Difference*, our values and the integrity of our products are the same across all our ranges. We have long supported British farming and this year we achieved 100 per cent British sourcing for all our fresh pork, breaded and roast chicken, frozen chicken and chicken portions. Our popular fresh and hot food counters are now in more than 500 stores and to date, more than 29,000 colleagues have received City & Guilds-accredited training through our seven Food Colleges.

Compelling general merchandise and clothing

We offer a winning formula of high street style and quality at supermarket prices. Non-food sales are growing at over twice the rate of food and we are increasing market share in key categories. Our non-food ranges are on sale in over 400 stores and 34 per cent of our customers can now access, within a 15 minute drive, the full non-food offer, compared to 11 per cent six years ago. However, with only one in five of our supermarkets offering the full range, we still have opportunities for growth in this area. Currently in 53 stores, our new 'department store' layout has proved to be popular with our customers and this concept will be in over 150 stores by the end of next year.

Complementary channels and services

Developing channels and services complementary to our existing supermarket business is key to our long-term strategy for growth. Ensuring people can shop whenever and however they want is a strong driver of loyalty – average spend more than doubles³ when customers shop in our supermarkets, convenience stores and online. We now have more convenience stores than supermarkets in our store estate, and convenience sales have grown at around 19 per cent. This year, we opened our first Convenience Training College in Brixton, London, which will provide training courses to colleagues and support our growth in the convenience market. Groceries Online reached the significant milestone of £1 billion in annual sales this year, representing growth of over 12 per cent.

In January, we acquired the remaining 50 per cent of Sainsbury's Bank from Lloyds Banking Group. The Bank is now a wholly-owned subsidiary and we expect it to become an increasingly important part of the value that customers receive from Sainsbury's, further driving customer loyalty.

Developing new business

Identifying new areas of growth beyond our core is also part of our long-term strategy, although growth in this area has been slower than we would have liked. We are continuing to develop our digital entertainment offer enabling customers to enjoy their favourite ebooks, films and music when, where and how they want. Our pharmacy business continues to develop through in-store and hospital outpatient pharmacies.

Growing space and property value

We are delivering space growth in line with our plans and have increased our estate by 1 million sq ft, opening 13 supermarkets, six extensions and 91 convenience stores during the year. We are leveraging our property assets working with joint venture partners to deliver residential, commercial and leisure opportunities alongside new trading space. Following a review of our property pipeline earlier this year, we identified some sites where we no longer wish to build a supermarket, resulting in a £92 million impairment. Nonetheless we continue to see opportunities for future growth. Our property portfolio is valued at £12.0 billion whilst sale and leaseback activity during the year generated profits of £52 million.

Our values make us different

Our values are part of our 145-year heritage, differentiating us from other retailers and providing a real competitive advantage. We have continued to make progress against our *20x20 Sustainability Plan* across each of our five values. I am particularly proud that Sainsbury's is recognised as a great place to work – through the development, support and the motivation of our colleagues we were again awarded Investors in People Gold Accreditation, the only supermarket to receive this accolade.

Handing over to Mike Coupe

After ten wonderful years at Sainsbury's, I will leave the business at our AGM in July and will hand over to Mike Coupe, our Group Commercial Director. Mike played an instrumental role in our 'Making Sainsbury's Great Again' plan and is ideally equipped to lead Sainsbury's as the Company continues to develop and grow in tune with the changing consumer and industry environment.

It has been a privilege to lead the Company over the last ten years. I am very proud of the team and of what we have achieved together. It is the 161,000 colleagues that make Sainsbury's so special and I would like to thank them for their amazing efforts over the last decade.

Justin King
Chief Executive

¹ Big Four peers refers to Tesco, Morrisons and Asda

² Kantar – 52 weeks to 2 March 2014

³ Versus spend when customers only shop in our supermarkets

Our marketplace



The changes in consumer behaviour we began to see a few years ago are now entrenched, with increasingly savvy shoppers shopping more frequently, topping up their supermarket and online shop in convenience stores and discounters throughout the week to manage their budget and food waste.

Although consumer confidence is gradually recovering, household budgets remain under pressure. Whilst disposable income is returning to growth, it remains below its pre-financial crisis level and a key concern for many shoppers. This, together with rising utility bills and housing costs, means that savvy shopping behaviour learned over the past five years has become the norm and is unlikely to change in the short term (charts 1 and 2).

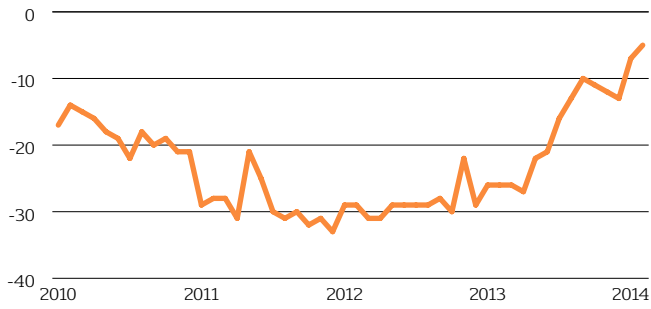
The UK grocery market remains intensely competitive and the lack of volume growth means that retailers must work harder than ever to attract and retain customers. The growth of the discounters has put pressure on the 'Big Four' and contributed to a high level of price investment across the sector, particularly on everyday food items, and conditions are likely to remain challenging for the foreseeable future. However, consumers continue to value quality, freshness and provenance when choosing where to shop (chart 4).

Sainsbury's has a clearly differentiated offer, based on quality own-brand products, sourced with integrity, priced fairly and labelled transparently, and supported by a great in-store experience. Our high standards and investments in quality were evident during the horsemeat contamination issue in 2013 – with no horsemeat found in any Sainsbury's product. Our strong multi-channel presence has been a key reason why we were the only one of the 'Big Four' supermarkets to maintain market share over the last year – allowing customers to mix visits to supermarkets or convenience stores with shopping online (chart 3).

Despite high levels of promotional activity across the sector, *Brand Match* continues to reinforce the competitiveness of our price position. Nectar gives us a key competitive advantage and, in conjunction with coupon-at-till technology, enables us to offer our customers truly targeted offers on products that they want to buy and to incentivise multi-channel shopping.

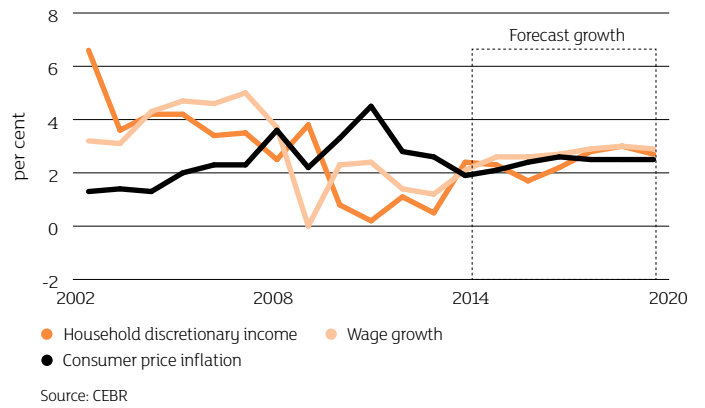
The non-food markets in which we operate have seen stronger volume and value growth in the last year and we expect these markets to be more buoyant as the economy returns to growth. In contrast to food retailing, the recession and the growth of online shopping have led to a reduction in the number of physical outlets in many non-food areas. This increases the attractiveness of supermarkets that offer a wide selection of non-food ranges which are convenient to purchase alongside the supermarket shop (chart 5).

1. Customer confidence is improving



Source: GfK Consumer Confidence Index

2. Household discretionary income is improving

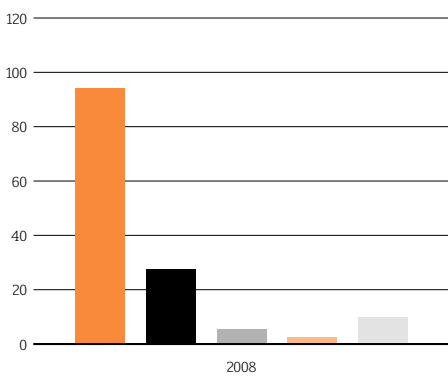


Source: CEBR

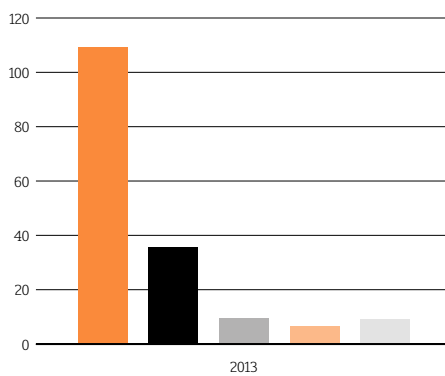
3. The UK grocery market landscape continues to change

Total sales by channel (£bn)

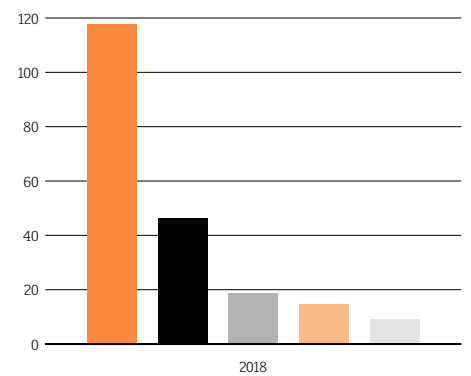
2008 – £139bn



2013 – £170bn



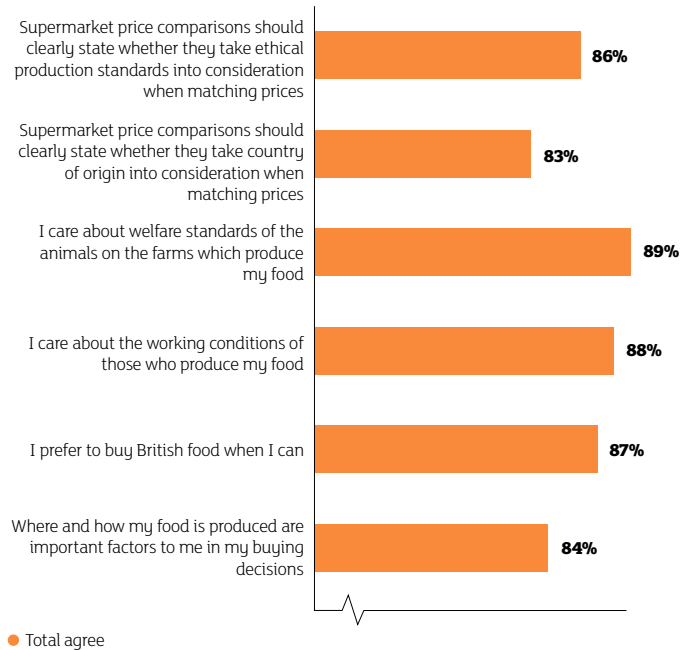
2018 Forecast – £206bn



● Supermarkets ● Convenience ● Discounters
● Online ● Other

Source: IGD UK Channel Forecasts

4. Shopper views on ethics and provenance

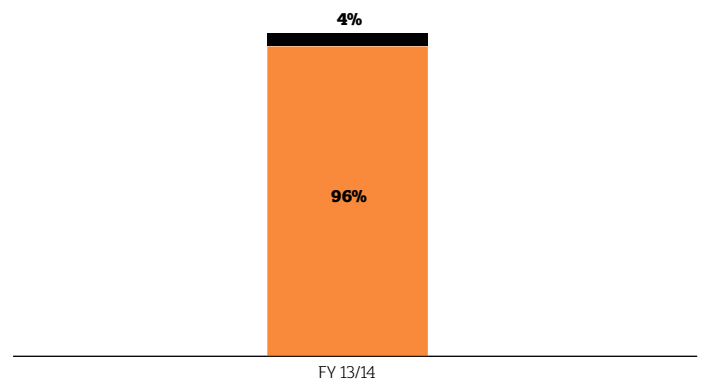


● Total agree

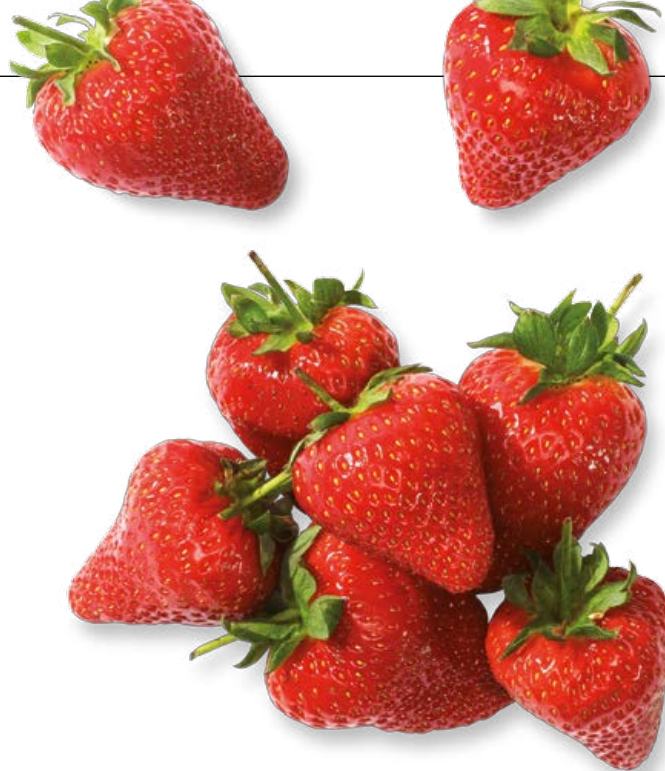
Source: HPI Research (August 2013), sample size 993 customers of all major supermarkets

5. Contribution of Non-Food to sales growth in Grocery Multiples:

In the last financial year, Non-Food has started to contribute positively to the Grocery Multiples value growth.



● Food ● Non-Food
Source: Nielsen Scantrack, Total Store Read (data to 22 March 2014)



Great food

Providing great quality food at fair prices has been our passion for 145 years. We continually strive to help customers *Live Well for Less*, helping them manage the cost of their weekly shop without sacrificing quality.

17m+

punnets of British strawberries were sold last summer

www.j-sainsbury.co.uk/strawberries

Own-brand

growing at twice the rate of branded goods and accounts for over 50 per cent of food sales





Recipes

We've been helping customers with recipe ideas for nearly 100 years

From *basics* to *Taste the Difference*, our focus on the quality and integrity of our own-brand food gives us a clear competitive advantage. We continue to invest in our own-brand offer and, whilst growth in own-brand is deflationary to the top line, it is growing at over twice the rate of branded goods and accounts for over 50 per cent of food sales.

Our re-launched *by Sainsbury's* range now has over 7,000 lines and is driving own-brand penetration, with 97 per cent of customers buying *by Sainsbury's* products. Our premium *Taste the Difference* range achieved double-digit growth and reached over £1.1 billion in annual sales. In September, a state-of-the-art factory opened in Fakenham to create *Taste the Difference* desserts using British ingredients and employing 200 people. This year, readers of Good Housekeeping Magazine voted *Taste the Difference* the most popular supermarket own-brand food range. Our *basics* brand remains the second largest value range in the market, bought by nearly 70 per cent of our customers. Although *basics* sales declined over the year, we re-launched the brand with new packaging and marketing to drive penetration.

Our popular fresh and hot food counters are in more than 500 stores and we have 316 award winning in-store cafés. To date, more than 29,000 colleagues have received City & Guilds-accredited training through our seven Food Colleges, and their knowledge and skills are helping to drive sales in this area. Our *'Make Your Roast Go Further'* campaign was a success with our customers, who appreciated the easy, budget-beating recipes from authentic food-lovers showing how to get the most out of leftovers.

We remained the most trusted food retailer of the 'Big Four' supermarkets, before, during and after last year's horsemeat contamination – with no horsemeat found in any of our products. We have conducted isotope testing on foods for 20 years, and DNA testing for 10 years, to guarantee quality and provenance. This year we have increased our investment in food testing, expanding our laboratory and the number of unannounced supplier audits we undertake. In addition, we have strong working relationships with our 2,500 farmers and growers and have invested more than £40 million in our farmer development groups since 2006. In September 2013, we were the first of the 'Big Four' supermarkets to implement the Department of Health's new universal front of pack nutritional labelling.

Our customers want to buy British when it is available, and we are committed to doubling the amount of British food we sell by 2020. This year we achieved 100 per cent British sourcing for all our fresh pork, breaded and roast chicken, frozen chickens and chicken portions – our fresh chicken has been British for over 10 years. In addition, our fresh and frozen beef is British or Irish and the beef in our fresh ready meals, pies, sandwiches, quiches and soups is British, as are our fresh pork sausages, ham and fresh lamb when in season. Extending the season is important to our growers and is another way we can buy more home-grown produce. Last summer, we sold over 17 million punnets of British strawberries and in August we became the only 'Big Four' supermarket to sell UK-grown fresh figs. We have been the leading retailer of British apples and pears for the past five years, selling over 200 million pieces, accounting for one in every four sold in the UK.

Improved operating systems and the simplification of in-store and depot processes have increased productivity and reduced food waste without compromising the customer experience. Our new 'Real Time' supply chain system enables us to deliver to stores using the most up-to-date stock information – improving availability for customers and minimising waste. In addition, we are introducing an improved method of transporting and displaying our eggs which reduces breakages significantly, leading to less food waste.

500+

Fresh and hot food counters are now in more than 500 stores



Compelling general merchandise and clothing

Offering customers high-street quality at supermarket prices is key to our success. Sales are increasing at over twice the rate of food, with a strong performance in cookware, kitchen electricals and clothing.

£1bn+

annual sales in
general merchandise
and record market share





6th

largest retailer of
childrenswear
by volume

Our general merchandise and clothing proposition has a strong focus on quality and design and this year we created a contemporary department store look and feel, with clothing and homeware co-ordinated and displayed to enhance customers' shopping experience. Currently in 53 stores, the response has been positive and this concept will be in over 150 stores by the end of next year.

The re-launch of our *Tu* clothing brand in the autumn of 2013 represented the single biggest investment in our clothing business since 2004. The range is now merchandised in more than 400 stores, and is the seventh biggest clothing line in the UK by volume, and 11th by value. More than 7.5 million customers buy the range and it generates annual sales of approximately £750 million. In January, we signed a new two-year deal with Gok Wan, extending a successful collaboration with the designer whose fashionable, flattering designs are hugely popular with our customers.

We are a destination shop for parents looking to buy good quality, reasonably priced clothing for their children. *Tu* is the sixth

largest UK retailer of childrenswear by volume and we retained fourth position by volume in the schoolwear market. Our Back-to-School event in the summer was the most successful ever.

Annual sales in general merchandise is over £1 billion and continues to grow, making us the sixth largest retailer of homeware by value and taking us to record levels of market share. Building on the success of our *by Sainsbury's* food offer, we are extending the brand into all general merchandise categories. Our hero categories, such as cookware and kitchen electrical ranges, complement our food offer and have delivered double-digit growth this year. The premium *Collection* range has performed particularly well and our *Cook's Collection* cast iron range is now bigger than the UK's market-leading brand by volume.

We have outperformed the market by volume in all our entertainment categories – games, books, DVDs and CDs – enjoying particular success with PS4 and Xbox One consoles, own-brand cookery and children's books.

We continue to engage with our customers and enhance our reputation as a credible clothing and home retailer through point-of-sale material, blogs, videos, social media and our new website sainsburyshome.co.uk. Our strong in-house buying team designs and sources attractive, good quality products and our offices in the Far East, India and Bangladesh build strong relationships with suppliers to ensure rigorous checks are carried out and that our ethical and quality standards are maintained.

Our non-food ranges are on sale in over 400 stores and 34 per cent of our customers can now access, within a 15 minute drive, the full non-food offer, compared to just 11 per cent six years ago. However, with only one in five of our supermarkets merchandising the full non-food offer, we still have further opportunity for growth.

Tu

The re-launch of *Tu* in the autumn of 2013 represented the single biggest investment in our clothing business since 2004



Complementary channels and services

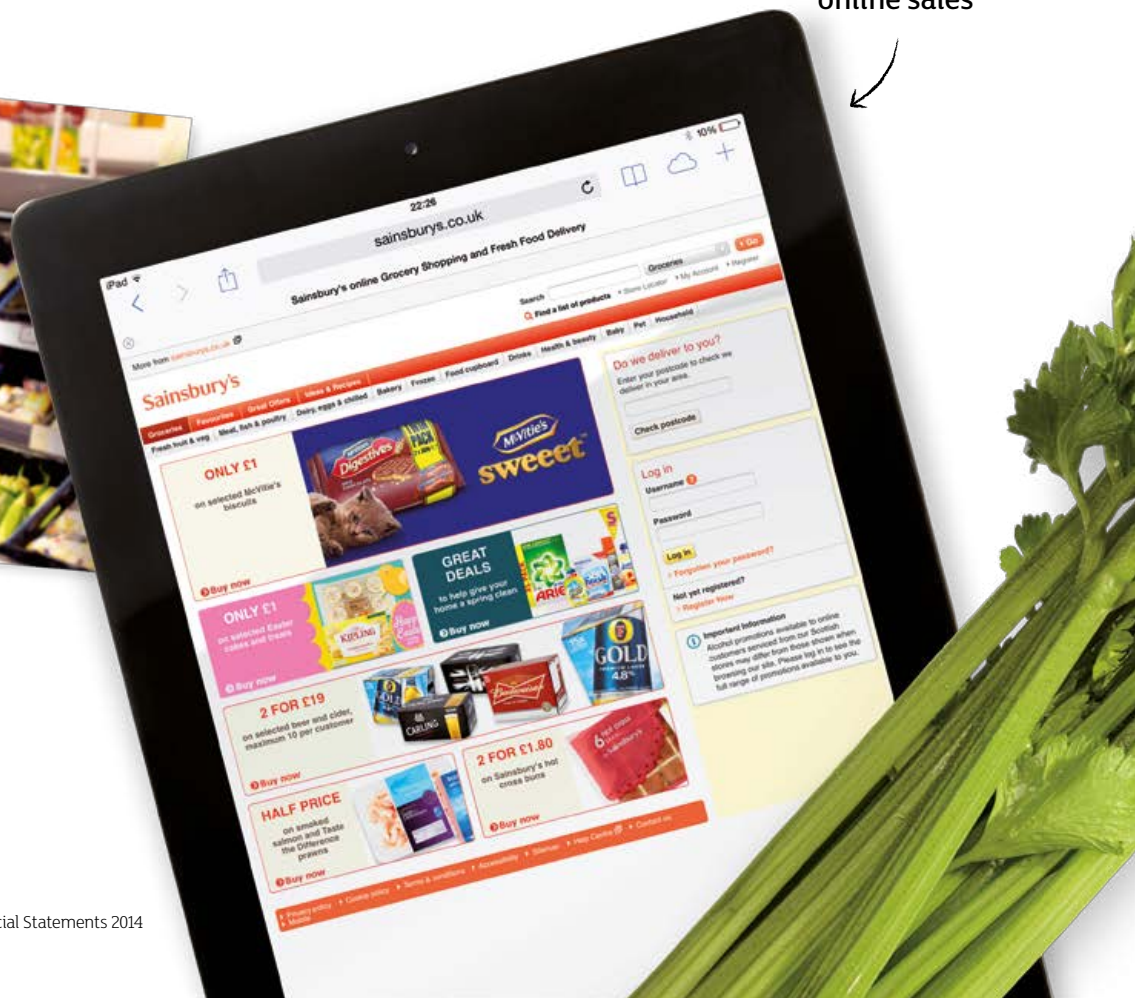
Developing channels and services that complement our existing supermarket business is a key part of our long-term strategy for growth. By investing in our online and convenience businesses, and through the acquisition of Sainsbury's Bank, we are focused on driving sales through increasing customer loyalty.



£1bn+
annual grocery
online sales



190,000+
deliveries to customers
each week





The trend continues for customers to shop across a range of channels – supermarkets, convenience stores and online, from home and on the go. Helping people shop where, when and how they want, across all channels, is a key driver of loyalty, and where customers shop all three channels their total spend is more than double the average of a supermarket-only shopper.

As well as doing their main supermarket shop, our customers increasingly top up locally, helping them to stick to a budget and cut waste and fuel consumption. We opened 91 convenience stores last year and, with over 600 stores, we now have more convenience stores than supermarkets in our store estate. Our convenience stores now account for a third of Britain's convenience market growth. We recently opened our first Convenience Training College in Brixton, London, which will provide training to colleagues and support our growth in this market. Thanks to the hard work of over 16,000 convenience colleagues we were named Convenience Retailer of the Year for the fourth year running at the Retail Industry Awards in September 2013.

Great locations and an emphasis on fresh food have helped our convenience stores deliver sales growth of around 19 per cent year-on-year, with around six million customer transactions each week and an annual turnover of over £1.8 billion. Christmas Eve was our biggest ever day in convenience – with sales of almost £7 million recorded. Securing appropriate sites has

Locals

Fewer than 1 in 10 of the population live within a 15 minute walk of a Sainsbury's Local

become increasingly competitive, but with fewer than one in ten of the population living within a 15 minute walk of a Sainsbury's Local, there is plenty of opportunity for us to grow, creating jobs for local people and helping revitalise high streets through the increased footfall and trade our stores often bring.

This year our groceries online business reached the significant milestone of £1 billion in annual sales. Our focus on quality, customer service and product availability has resulted in customer satisfaction scores that are at an all-time high. We were named Online Retailer of the Year for the second consecutive year at the Grocer Gold Awards – a testament to the commitment of the 14,000 colleagues who make our online operation a success. Over the past year we have enhanced our groceries online website to give customers faster and more intuitive product search, and an improved recipe and ideas section. In addition, our new mobile website gives us a strategic platform on which to build new functionality in future years. Our groceries online business has grown by over 12 per cent during the year, delivering to over 190,000 customers each week. There was a reduction in the growth of marketing spend whilst we re-platformed the website which impacted on sales growth in the short term. Over 30,000 online customers

have already purchased our annual online delivery pass, which we launched in November. We also announced plans to open a dedicated online fulfilment centre within the next few years in Bromley-by-Bow to help meet the growing demand for our online grocery service in London and the South East. When fully operational this new facility will allow us to serve an additional 20,000 online customers each week.

Our general merchandise website offers thousands of own-brand and branded products across home, garden, appliances, technology, toys, sports and leisure. We are continuing to rebalance the online product mix, focusing on categories such as cookware and kitchen electricals, away from high-ticket, less profitable electrical items. Over half our customers collect their orders in-store via our Click & Collect service, available in more than 1,000 of our stores.



Scan and go

We are pioneering the development of in-store technology through mobile scan and go



Sainsbury's Bank

We acquired the remaining 50 per cent shareholding of Sainsbury's Bank from Lloyds Banking Group on 31 January 2014. Our strategy is to increase the number of Bank customers and enhance loyalty.

Sainsbury's Bank is committed to offering Sainsbury's customers banking and financial services tailored to their specific needs. We consistently offer competitive financial products built on value, quality and reward. Now that the Bank is a wholly owned subsidiary of Sainsbury's, our finance products will be even more closely integrated with the Sainsbury's shopping experience.

With the aim of sustaining prudent growth, the Bank will continue to manage a 42-month transition to become a stand-alone bank. In this time, we will build a new banking platform, migrating from Lloyds Banking Group systems and contact centres, and evolve our risk and control framework. We will also build greater people capability including the transfer of banking contact centre colleagues. The new platform has been designed with our customers in mind and will offer additional functionality that will make doing business with us even easier. As we build the new systems, profit growth will be constrained by double running costs. We will incur a total of £260 million in transition costs and capital expenditure moving to the new platform.



31%

year-on-year increase in the number of Nectar points awarded to our banking customers



Best Buy Loans

Named most consistent Best Buy Loan provider



In a challenging marketplace, we have continued to see growth in banking against a backdrop of falling net interest margins. Sainsbury's Bank offers a range of insurance products, savings accounts, credit cards, loans and travel money. We currently have 1.6 million active customer accounts and on average 1.8 million visitors to sainsburysbank.co.uk each month. 27 per cent of these visits are from mobile devices, an increase of 54 per cent year-on-year. We see significant opportunities for growth as only one in 20 Sainsbury's customers has a Sainsbury's Bank product.

Our financial products and services are designed specifically for our customers. These include a Nectar Credit Card which gives extra points on Sainsbury's purchases. Customers are also rewarded for their ongoing loyalty with a range of Bank products offering double Nectar points for two years. We have seen a 31 per cent year-on-year increase in Nectar points awarded to our banking customers.



Pet insurance

We offer customers one of the highest levels of vet fee cover in the market

Our loans regularly feature in best buy tables, with Moneynet naming us Most Consistent Best Buy Loan Provider 2014. The insurance market has become increasingly price-driven, reducing retention and profitability; despite this, Sainsbury's Home Insurance recorded its best ever sales in July and August 2013. In addition, our 138 in-store Travel Money bureaux recorded their best ever performance last summer with sales increasing 23 per cent compared to 2012. We also opened 107 ATMs in the last year and now have over 1,400 across our store estate.

We continue to report industry-low levels of customer complaints. Over the last year, complaints per 1,000 customers have reduced by 30 per cent, a reflection of our commitment to delivering the quality of service customers expect from Sainsbury's.

Our strategy for long-term growth is focused on unlocking value by offering shoppers compelling reasons to bank and shop with Sainsbury's. Customers who take out a Bank product spend more with us in-store (up to 15 per cent more per month once they have been with us 24 months), demonstrating increased brand loyalty.

1,400+

We now have over 1,400 ATMs across our store estate

Developing new business

Developing new business and investing beyond our core is part of our long-term strategy for the future. All new ventures carry a certain amount of risk and require investment and time to grow, and some of the businesses in this area are not yet progressing as quickly as we would have liked.

275

in-store pharmacies
and four outpatient
pharmacies





I²C

has marked its first full year of operation

We are committed to providing in-store healthcare services to our customers. Last year, pharmacists in our 275 in-store pharmacies carried out over 290,000 consultations, giving 86,000 flu vaccinations and conducting over 85,000 cholesterol checks. Our stores host 35 NHS GP or nurse-led surgeries and 24 private dental surgeries – our convenient locations and good parking facilities lend themselves perfectly to these services. We have four hospital outpatient pharmacies offering excellent levels of service to the NHS and to patients.

Our mobile phone network – *Mobile by Sainsbury's* – is still in its first year of business and, although we have not progressed as quickly as expected, we continue to test and learn from the dynamic market in which the business operates. *Mobile by Sainsbury's* is a joint venture with Vodafone, offering value-for-money mobile phone tariffs and handsets, and incentivising customers by offering double Nectar points on their grocery and fuel spend in Sainsbury's. As part of our strategy, we have introduced dedicated phone shops in some of our larger stores, offering customers specialist service and advice. In addition, we sell SIM cards in our stores, with 300 stores also offering a range of handsets.

I²C, our joint venture with Aimia, the operators of Nectar, has marked its first full year of operation. I²C manages multi-media campaigns to Sainsbury's customers through a unique range of cross-channel tools including coupon-at-till, online, in-store sampling and Sainsbury's Magazine. It also markets customer insights to our supply base.

To address the competition in the entertainment market, we are trialling a range of services for our customers to keep pace with the fast-growing trend for downloading and streaming entertainment. We have moved to a completely on-demand model for our entertainment website, whilst continuing to sell physical products in our supermarkets. Although still very small, in its first year of trading, *eBooks by Sainsbury's* has trialled a number of initiatives, including being the first to offer free ebooks for those buying the physical version.

Sainsbury's Energy offers great value gas and electricity, with the reward of Nectar points. We also offer cost-saving products such as solar panels and energy efficient boilers. We have gained over 60 per cent more customers than last year as people look for the best deals in this highly regulated market.



Growing space and creating property value

In the past five years our property portfolio has grown by £4.5 billion, and its market value is now £12.0 billion. Activity during the year delivered property profits of £52 million and, over five years, we have raised £1.2 billion through disposals, realising property profits of over £335 million.

This year we opened 13 new supermarkets, 91 convenience stores and extended six supermarkets, a total of one million sq ft of additional space, in line with our targets. We continue to invest strategically in our store estate through a programme of extensions and refurbishments.

Our convenience stores accounted for a third of Britain's convenience market growth, with sales of over £1.8 billion and year-on-year growth of around 19 per cent. We reached a milestone in January with the opening of our Balsall Common Local, when the number of convenience stores in our estate overtook the number of supermarkets. Convenience stores deliver higher returns and make a valuable contribution to the local community, bringing increased trade and footfall and providing jobs for local people. We continue to open around two new Sainsbury's Locals per week.

Our supermarket opening programme included a 50,000 sq ft store in Penzance which opened in November, giving a welcome economic and employment boost to the area. We recruited 300 local people, many of whom had previously faced tough barriers to employment.



Maximising our assets

We are maximising our property assets through mixed use developments, building housing, retail and leisure facilities alongside new trading space such as in our Fulham Wharf development in London



New space

We opened 1 million sq ft of new space this year



We have continued to maximise the value of our property assets, working with joint venture partners to deliver new leisure, residential and commercial opportunities whilst adding trading space to our estate. We are delivering a £500 million project with Barratt London at Nine Elms, building 737 new homes, a new 80,000 sq ft Sainsbury's store and 27,000 sq ft of local shops, restaurants and office space, complementing the new Nine Elms tube station development on the Northern Line extension.

We are also investing in our logistics infrastructure and opened a new £30 million convenience depot in Thameside and, when fully operational, the facility will employ over 600 colleagues, to support the growth of our convenience store network in London and the South East. Our first dedicated online fulfilment centre will also open in the next few years and work has begun on a new one million sq ft distribution facility in Daventry which will create over 900 jobs and support our growing general merchandise business. Due to open in 2015, it has both road and rail operations including a new intermodal terminal connected to the existing railway infrastructure. Separately, we have relocated some other roles from London to our store support centres in Coventry and Manchester.

Following a review of our property pipeline we identified a number of sites that we no longer wish to develop, resulting in a £92 million impairment within one-off items. Our property valuation as at 15 March 2014 is £12.0 billion mainly as a result of an improvement in yields to 4.7 per cent. We continued to take advantage of these good property yields, achieving over £300 million in property disposal proceeds, generating a profit on disposal of £52 million.

To reduce our operational carbon emissions by 30 per cent, we have started to build highly sustainable, low carbon stores such as our new 'Triple Zero' stores in Leicester and Weymouth. In both these stores we use

power generated from waste in our supply chain, and have achieved 'water neutral' status through offsetting partnerships in the local community, ensuring that the total amount of water used within the catchment area will not increase as a result of our stores.

Right store, right size

The spread of store sizes across our estate reflects the way our customers like to shop



Our values make us different

Our promise to help customers *Live Well for Less* is about more than just price. Our values are integral to our relationships with suppliers, colleagues and other stakeholders. We aim to ensure they differentiate us from our competitors and give us a real commercial advantage.

£136m

of Active Kids equipment and experiences given to schools, clubs, nurseries and youth clubs since 2005



Over the year we have continued to make good progress across our five values and against our *20x20 Sustainability Plan*, with highlights including:

Best for food and health

- First major supermarket to introduce the Department of Health's nutritional labelling
- Over 32 per cent growth in the volume of lighter alcohol wines sold since 2010 and calorie labelling introduced on own-brand *Winemakers' Selection* wine
- Over 290,000 consultations by in-store pharmacists this year

Sourcing with integrity

- Achieved 100 per cent British sourcing for our fresh pork
- Gold Award and joint first in Marine Conservation Society survey; leading retailer of Marine Stewardship Council-certified fish and RSPCA Freedom Food products in the UK
- Awarded £1 million in British farming grants and established a unique agricultural apprenticeship scheme

Calorie labelling

In 2014 we introduced calorie labelling on *Winemakers' Selection* wine



Respect for our environment

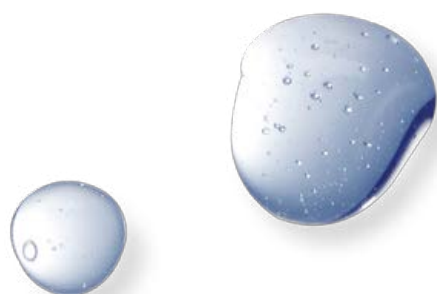
- Achieved 53 per cent relative reduction in operational water use compared with 2005/06, saving one billion litres per year; first retailer to achieve the Carbon Trust Water Standard
- All operational waste put to positive use, avoiding landfill; general waste is recycled or recovered, surplus food goes to charity, or is used as animal feed or to generate power via anaerobic digestion
- Green Retailer of the Year at the Grocer Gold Awards; ranked in the top ten of Carbon Clear's FTSE 100 companies with the best carbon management

Making a positive difference to our community

- With the support of our customers, colleagues and suppliers we have raised over £40 million for good causes this year, including over £6.5 million for Sport Relief, over £4.5 million for The Royal British Legion and over £2 million for local charities and community groups
- £136 million worth of Active Kids equipment and experiences have been donated since 2005; over 51,000 schools, clubs, nurseries and youth groups are now registered through the scheme
- Sponsored Sainsbury's Summer Series, including Sainsbury's Anniversary Games and Sainsbury's School Games; sponsorship of the British Paralympic Association helped support athletes competing at the Sochi Winter Games
- We are proud to pay our fair share of tax. Whilst we are obliged to pay tax in accordance with the law, we also ensure that our taxation policy is aligned with our corporate values. We maintain good corporate practice and strict controls in order to protect our shareholders' funds


A great place to work

- Awarded second consecutive Gold Investors in People accreditation – the only supermarket to receive this accolade
- Nearly 5,000 new job opportunities created through store openings and expansions this year
- Created 150 fast-track Trainee Manager places; continue to train apprentices through a mix of vocational training and nationally recognised qualifications
- To date, over 29,000 colleagues who work on our fresh food counters, bakeries and cafés have received job-specific City & Guilds-accredited training in our seven Food Colleges
- Colleagues shared a bonus pot of over £80 million, bringing the total to over £370 million over the last five years
- Over 21,000 colleagues started saving in our Sharesave scheme this year – the largest uptake yet



53%

We have reduced our water consumption by 53 per cent through measures such as utilising rainwater, providing cost savings to the business

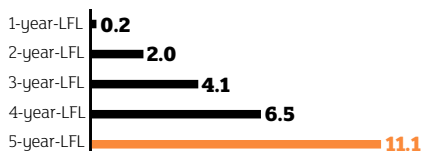
 www.j-sainsbury.co.uk/rainwater



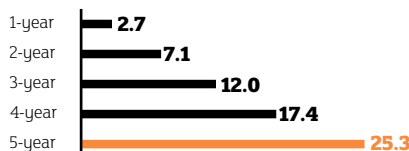
Key performance indicators

Financial KPIs¹

Like-for-like sales² 2013/14 (%)



Retail sales growth² 2013/14 (%)



Retail underlying EBITDAR³ margin (%)



Trading intensity per sq ft^{4,5} (£ per week)



Retail underlying operating margin⁶ (%)



Underlying profit before tax⁷ (£m)



Progress on delivering against our 20x20 Sustainability Plan

Our values	Commitments	Progress
Best for food and health	Healthier baskets	<ul style="list-style-type: none"> First major supermarket to implement new Multiple Traffic Light nutritional labelling Six new lines added to our <i>My Goodness!</i> range and reformulated <i>by Sainsbury's</i> bacon and ham, removing nearly 11 tonnes of salt annually from customers' diets
	Alcohol	<ul style="list-style-type: none"> Introduced calorie labelling on our <i>Winemakers' Selection</i> range Reduced ABV in <i>basics</i> red, white and rosé wine from 11 per cent to 10.5 per cent Over 32 per cent growth in the volume of lighter alcohol wines sold since 2010
Sourcing with integrity	Raw materials	<ul style="list-style-type: none"> Planning for sourcing of top 35 raw materials Over 80 own-brand products now made with physically certified palm oil
	No deforestation	<ul style="list-style-type: none"> 300 trees planted in the Sainsbury's Wood, dedicated to Team GB
	Sustainable fish	<ul style="list-style-type: none"> Gold award and rated joint first in the Marine Conservation Society supermarket survey First major UK retailer to launch Aquaculture Stewardship Council certification Leader in Greenpeace Tuna League 2014 for use of sustainable tuna
	Fairly traded	<ul style="list-style-type: none"> Largest retailer of Fairtrade products in the world Committed £250,000 to help 7,800 Malawian cotton farmers produce sustainable cotton
	British	<ul style="list-style-type: none"> £1 million in research and development grants to support British farming UK's leading retailer of British apples and pears for fifth year with 64 varieties Achieved 100 per cent British sourcing across fresh pork
	Animal welfare	<ul style="list-style-type: none"> UK's largest retailer of RSPCA Freedom Food, accounting for over 60 per cent of all Freedom Food sales Responsible Business of the Year at RSPCA Animal Hero Awards 2013 Best Retailer Marketing Award from Compassion in World Farming 2013
	Supplier standards	<ul style="list-style-type: none"> Announced plans for an independent sustainable sourcing standard for key raw materials Over 450 suppliers engaged through our African, Asian and Spanish conferences Over 170 supplier technical managers trained as part of our Ethical Trade Technical Manager Academy

1 2012/13 KPIs have been restated to reflect the adoption of IAS 19 Revised.

2 Sales including VAT, excluding fuel, excluding Sainsbury's Bank

3 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.

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

5 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.

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

7 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, retailing financing fair value movements, IAS 19 Revised pension financing charge, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature.

Operating cash flow (£m)



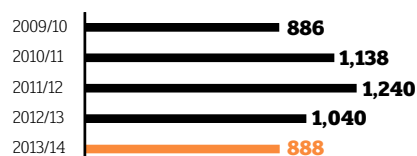
Pre-tax return on capital employed^{8,9} (%)



Underlying basic earnings per share¹⁰ (pence)



Core retail capital expenditure (£m)



Gearing¹¹ (%)



Dividend per share¹² (pence)



Our values Commitments Progress

Respect for our environment

Positive waste	<ul style="list-style-type: none"> Achieved target of putting all store waste to positive use 138th comprehensive recycling facility installed, with over 80 more planned Largest provider of donations to Oxfam outside their own shops, donating almost 3,000 tonnes of clothing and over 550 tonnes of books, CDs and DVDs
Packaging	<ul style="list-style-type: none"> 26.2 per cent absolute weight reduction in own-brand packaging vs. 2005/06 (3.6 per cent reduction year-on-year) Smaller carrier bag introduced in convenience, saving 67,000 kg carbon in 2013/14
Operational carbon	<ul style="list-style-type: none"> 2.4 per cent absolute reduction in carbon emissions year-on-year despite space growth of over 20 per cent since 2009 11.1 per cent absolute reduction in supermarket electricity consumption vs. 2007/08, despite space growth of over 31 per cent 125,000th PV solar panel installed, helping to reduce CO₂ emissions by estimated 13,750 tonnes per year 184 stores with natural refrigerant, on track to achieve over 200 stores by end of March 2015
Supplier carbon	<ul style="list-style-type: none"> 128,000 tonne reduction in collective carbon footprint of Farmer & Grower Development Groups
Water	<ul style="list-style-type: none"> 53 per cent reduction in relative water consumption against 2005/06 baseline 12 per cent reduction in water consumption at farm level through move to Better Cotton Initiative cotton

Making a positive difference to our community

Active youth	<ul style="list-style-type: none"> £136 million of Active Kids equipment and experiences donated since 2005 Supporting British Paralympic Association until Rio 2016
Community investment	<ul style="list-style-type: none"> Over £40 million invested in good causes by us, our colleagues, customers and suppliers this year Almost seven million meals donated to local charities through our food donation partnerships and work with FareShare

A great place to work

Commitment and engagement	<ul style="list-style-type: none"> 4 per cent increase in colleague engagement vs. 2012/13 2 per cent increase in those who would recommend Sainsbury's as a great place to work
Jobs and skills	<ul style="list-style-type: none"> Over 29,000 colleagues received City & Guilds-accredited training in our seven Food Colleges to date Over 2,500 seasonal jobs created for Christmas and New Year made permanent 15,000 colleagues with over 20 years' service
Diversity and inclusion	<ul style="list-style-type: none"> Over 21,600 employed via <i>You Can</i> scheme since 2008, helping those who may have faced barriers to work 2,000th new colleague welcomed through Remploy partnership, helping those with disabilities
Sharing success	<ul style="list-style-type: none"> Colleagues shared in bonus pot of over £80 million, bringing total over last five years to over £370 million Over 21,000 colleagues started saving in our Sharesave scheme

8 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).

9 2013/14 closing capital employed has been reduced by 50 per cent of Sainsbury's Bank consolidated closing net assets (£243 million) to reflect the fact that the Bank was only consolidated in the accounts for four weeks of the 2013/14 financial year.

10 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.

11 Gearing: net debt divided by net assets.

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

Our principal risks and uncertainties

The risk management process is closely aligned to our strategy. 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 risk discussion includes assessment of both gross and net risk, where gross risk reflects the risk exposure and risk landscape before considering the mitigations in place, and net risk reflects the residual risk after mitigations. The gross risk movement from prior year for each principal risk and uncertainty has been assessed and is presented as follows:

- No change
- ↑
Increased gross risk exposure
- ↓
Reduced gross risk exposure

Mitigations in place supporting the management of the risk to a net risk position are also described for each principal risk and uncertainty.

Key risk movements

The key risks are discussed and monitored throughout the year to identify changes to the risk landscape. Over the last year, this ongoing monitoring of risk has identified the opportunity to recognise the challenge around property, optimisation of space and the impact of the increasingly competitive landscape as a key corporate risk. This has resulted in an additional risk disclosure around 'Space and Property'. Also reflected in the current year disclosure is the risk associated with a change in leadership and the potential impact on colleague engagement. Finally, the Financial and Treasury risk now includes reference to the financial risk exposure to the Group post acquiring full ownership of Sainsbury's Bank.

The most significant principal risks identified by the Board and the corresponding mitigating controls are set out below in alphabetical order.

→ 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 the response and 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 and clothing;
- Complementary channels and services;
- Developing new business; and
- Growing space and creating property value.

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

↑ Colleague engagement, retention and capability

Risk

 The Group employs 161,000 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. Delivery of the strategic objectives, including development of new businesses and progress on multi-channel, increases the risk of ability to attract and retain talent, specific skill sets and capability. In addition, the change of leadership in 2014 will require careful management to ensure colleague engagement is maintained during the period of transition.


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. Ongoing reviews are performed to understand the nature of capability and specific skill sets required to deliver objectives. This is supported by embracing new ways of attracting talent and our corporate value 'A great place to work' reinforces our commitment to giving people the opportunity to be the best they can be.

A plan is in place to manage the leadership transition and the methods described above will continue to be employed to understand and maintain colleague engagement during this period.

↑ Data security

Risk

 It is essential that the security of customer, colleague and Company confidential data is maintained. A major breach of information security could have a major negative financial and reputational impact on the business. The risk landscape is increasingly challenging with deliberate acts of cybercrime on the rise targeting all markets and heightening the risk exposure.

Mitigation

A Data Governance Committee is established and is supported by focused working groups looking at the management of colleague data, customer data, information security, commercial data and awareness and training. 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 third parties who hold sensitive customer or colleague data continues to take place, and progress is monitored by the Information Security team. 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 projects 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 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 47 to 49.

↑ Financial and treasury risk

Risk

 The main financial risks are the availability of short and long-term funding to meet business needs and fluctuations in interest, commodity and foreign currency rates. The business has now acquired full ownership of Sainsbury's Bank which presents a risk that the Group's financial performance and position may be negatively impacted if the Bank transition and performance is not delivered as planned.

Mitigation

The Group Treasury function is responsible for managing the Group's liquid resources, funding requirements, interest rate and currency exposures and the associated risks as set out in note 28 on page 114 to 119. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.


Sainsbury's Bank operates an enterprise wide risk management framework. The principal financial risks relating to the Bank and associated mitigations are set out in note 28 to the financial statements on page 119 to 120.

Strategic Report

Our Principal Risks and Uncertainties continued

→ 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.

→ Pension risk

Risk


 The Group operates a number of pension arrangements. These are subject to risks in relation to 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 September 2013, the Sainsbury's Defined Benefit Pension Scheme was closed to future contributions which will help us to manage the escalating costs of pensions and protect the pensions that colleagues have already built up in the Scheme.

↑ Regulatory environment

Risk

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

Acquiring full ownership of Sainsbury's Bank introduces risk around the Bank failing to meet the requirements of legislation and regulatory requirements as defined by the Prudential Regulation Authority, Financial Conduct Authority and any other relevant regulatory bodies.

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 at both Sainsbury's and Sainsbury's Bank to monitor regulatory developments and to ensure that all existing and forthcoming regulations are complied with.

At Sainsbury's Bank, conduct risk considerations are fully embedded into all relevant Bank activities and the colleague performance management framework.

At Sainsbury's, 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.

↑ Space and property

Risk


 The Group continues to invest in the core business. Acquiring the targeted volume of the right sites and operating new and existing space in line with targeted levels of profitability presents a risk in an increasingly competitive market. Failure to manage this risk may impact delivery of financial targets or strategic objectives.

Mitigation

A property pipeline is established and formal approval processes are in place to support investment decisions. The performance of the estate is monitored and reviewed on an ongoing basis and a refurbishment and refresh programme for supermarkets and convenience is in place to maintain and optimise the estate.

↑ 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 and continued challenging competitive environment;
- the reduction of the industry profit pool;
- commodity costs driving up the cost of goods; and
- changing competitive landscape.

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

Mitigation

We adopt a differentiated strategy with a continued 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.

→ Transition risk – Sainsbury's Bank

Risk

 Acquiring full ownership of Sainsbury's Bank introduces 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. The Bank has also identified transitional risk as a new and emerging risk to the Bank.



John Rogers, Chief Financial Officer

Dear Shareholder,
Despite the continuing tough economic environment, Sainsbury's grew underlying Group sales (including VAT) by 2.8 per cent to £26,353 million¹ (2012/13: £25,632 million) and underlying profit before tax ('UPBT') by 5.3 per cent to £798 million (2012/13²: £758 million). We maintained market share at 16.8 per cent despite the strong growth of the discounters in the retail sector, outperforming our 'Big Four' peers.

The continued progress of our multi-channel strategy, allowing customers to choose where, when and how they shop, enabled us to differentiate our offer from that of our competitors. Our convenience business grew at around 19 per cent, well ahead of the market, and annual sales are now over £1.8 billion. Our online grocery business grew at over 12 per cent and annual sales are now over £1.0 billion. Own-brand continues to go from strength to strength with strong growth in the *by Sainsbury's* and *Taste the Difference* ranges. *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.

We completed the purchase of the remaining 50 per cent of Sainsbury's Bank on 31 January 2014. Our research shows that Sainsbury's shoppers who also have a Bank product are more loyal and spend more in-store, and full ownership provides us with significant opportunities to unlock further value by driving additional sales through both our financial services and retail businesses.

Sainsbury's Bank has been equity accounted for the 46 weeks to 31 January 2014 and 100 per cent consolidated for the four weeks to 28 February 2014. Sainsbury's Bank contributed £24 million to UPBT in 2013/14, compared to £22 million in 2012/13.

Sainsbury's achieved around £120 million of operational cost savings which offset the impact of inflationary pressures on costs during the year. Retail underlying operating profit increased by 5.1 per cent to £873 million (2012/13: £831 million), with retail operating margin improving by eight basis points (seven basis points at constant fuel prices).

Following a review of our property pipeline, we identified some sites where we no longer wish to build a supermarket, resulting in a £92 million impairment included within one-off items.

Accounting for VAT on the redemption of Nectar points has been the subject of a legal case over a number of years between HMRC and Aimia, the company which administers the Nectar scheme. A Supreme Court ruling in June 2013 ruled in favour of Aimia, thereby enabling Sainsbury's to recognise a credit of £76 million relating to historic VAT overpayments.

In July 2013, we confirmed we would proceed with the proposal to close the Sainsbury's defined benefit pension scheme to future accrual. The closure generated a one-off net credit of £148 million within one-off items, including £10 million of defined contribution transition payments. The defined benefit pension scheme was subject to a triennial valuation as at 17 March 2012 that resulted in an actuarial deficit of £592 million. This was a decrease of £635 million from the March 2009 deficit, mainly as a result of the scheme's £600 million interest in a property partnership. As a result, the Company will continue with the recovery plan that was agreed after the March 2009 valuation, that included a £49 million annual cash contribution towards the deficit.

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 retail capital expenditure this year lower at £888 million (2012/13: £1,040 million). New space delivered a 2.5 per cent contribution to sales growth, in line with our expectations.

Return on capital employed ('ROCE') is impacted by the consolidation of Sainsbury's Bank, which increased closing capital employed by £243 million for only the final four weeks of the year. Adjusting for this, ROCE increased by 19 basis points to 11.3 per cent, enhanced by the movement in the net pension deficit, which reduces capital employed. Excluding the pension fund deficit and adjusting for Sainsbury's Bank, ROCE was 10.4 per cent, in line with the prior year. ROCE growth was held back by slower sector growth and reduced industry profitability, although this was offset by an improved Sainsbury's underlying operating margin and the property pipeline review which resulted in an impairment of £92 million, reducing closing capital employed.

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 £301 million of proceeds through property transactions (2012/13: £202 million). This delivered a profit from the disposal of properties of £52 million (2012/13: £66 million). The estimated market value of

the Group's overall property portfolio increased by £0.5 billion to £12.0 billion (16 March 2013: £11.5 billion).

The balance sheet remained strong and the business has funding in place of over £3.5 billion, including a new revolving credit facility of over £1.1 billion, of which only £0.2 billion was drawn at the year-end. Net debt ended the year at £2.4 billion, slightly lower than expected, driven by lower capital expenditure.

Underlying basic earnings per share increased to 32.8 pence (2012/13: 30.8 pence), a 6.5 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 17.8 per cent to 37.7 pence (2012/13: 32.0 pence), higher than the underlying measure as a result of a profit of £100 million on items excluded from underlying results.

The Board has recommended a final dividend of 12.3 pence (2012/13: 11.9 pence), making a full year dividend of 17.3 pence, up 3.6 per cent year-on-year (2012/13: 16.7 pence) and covered 1.90 times by underlying earnings.

Despite the challenging economic climate, next year will be an exciting one for Sainsbury's as we progress with the programme to integrate Sainsbury's Bank into the business and continue the pace of our convenience store opening programme. Alongside this, our priority is to maintain tight cost control including an increased focus on delivering cross-functional efficiency savings, improving operational cash flow and working capital management and driving returns from our investments.



John Rogers
Chief Financial Officer

Summary income statement

52 weeks to 15 March 2014

	2014 £m	2013 ² £m	Change %
Underlying Group sales (including VAT)¹	26,353	25,632	2.8
Retail sales (including VAT)	26,328	25,632	2.7
Underlying Group sales (excluding VAT)¹	23,946	23,303	2.8
Retail sales (excluding VAT)	23,921	23,303	2.7
Underlying operating profit			
Retailing	873	831	5.1
Financial services – Sainsbury's Bank	6	–	n/a
Total underlying operating profit	879	831	5.8
Underlying net finance costs ³	(111)	(111)	–
Underlying share of post-tax profit from JVs ⁴	30	38	(21.1)
Underlying profit before tax	798	758	5.3
Items excluded from underlying results	100	14	614.3
Profit before tax	898	772	16.3
Income tax expense	(182)	(170)	(7.1)
Profit for the financial period	716	602	18.9
Underlying basic earnings per share	32.8p	30.8p	6.5
Basic earnings per share	37.7p	32.0p	17.8
Dividend per share	17.3p	16.7p	3.6

1. Underlying Group sales excludes a £3 million acquisition adjustment fair value unwind.

2. The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

3. Net finance costs before financing fair value movements and the IAS 19 Revised pension financing charge.

4. The underlying share of post-tax profit from JVs is stated before investment property fair value movements, financing fair value movements, profit on disposal of properties and Sainsbury's Bank one-off costs.

Strategic Report

Financial Review continued

Retailing

Retail sales (including VAT) and space

Retail sales (including fuel) increased by 2.7 per cent to £26,328 million (2012/13: £25,632 million).

This includes a 2.7 per cent contribution from new space (excluding extensions and replacements) and flat like-for-like ('LFL') sales.

Retail sales growth (including VAT, including fuel) 52 weeks to 15 March 2014	2014 %	2013 %
Like-for-like sales	–	2.1
Net new space (excluding extensions and replacements)	2.7	2.5
Total sales growth	2.7	4.6

Retail sales (excluding fuel) grew by 2.7 per cent, with LFL growth of 0.2 per cent, which was higher than the sales including fuel number due to a LFL fuel sales decline, with retail price deflation in fuel more than offsetting growth in LFL fuel volumes. The LFL growth reflected the continued challenging market conditions and was below Sainsbury's full year guidance of 1.0 to 1.5 per cent. Sainsbury's growth was in line with the market, with market share flat year-on-year at 16.8 per cent for the 52 weeks to 2 March 2014 (as measured by Kantar) and growth ahead of our 'Big Four' peers.

year driven by the horsemeat cross-contamination issue which impacted competitors.

The contribution from net new space (excluding extensions and replacements) of 2.5 per cent was in line with Sainsbury's expectations.

LFL sales growth (excluding fuel) reduced from 1.4 per cent in the first half to a decline of 1.1 per cent in the second half. Sainsbury's delivered LFL growth of 0.2 per cent in the third quarter, driven by a very tough sales environment throughout October and November. LFL growth declined by 3.1 per cent in the fourth quarter, as Sainsbury's annualised strong performance in the previous

Our multi-channel strategy enables customers to shop where, when and how they want. The convenience business grew sales by around 19 per cent to over £1.8 billion, well ahead of the market, and groceries online delivered over £1.0 billion of sales, a year-on-year increase of over 12 per cent, lower than the previous year's growth, reflecting a reduction in the growth of marketing spend whilst the new website was launched. Sainsbury's non-food offer continued to grow ahead of the market and at over twice the rate of the food business, supported by continued range development and the roll out of our new 'department store' concept to 53 stores.

Retail sales growth (including VAT, excluding fuel) 52 weeks to 15 March 2014	2014 %	2013 %
Like-for-like sales ¹	0.2	1.8
Net new space (excluding extensions and replacements)	2.5	2.5
Total sales growth	2.7	4.3

1. This includes a 0.2 per cent contribution from stores extended in 2013/14, net of disruptions.

Average trading intensity ('TI') excluding fuel declined to £18.93 per sq ft per week (2012/13: £19.27 per sq ft per week), caused by the higher proportion of space for general merchandise and clothing (which trades less intensively than food) and a drop in TI in the underlying estate due to the challenging economic environment. Convenience TIs continued to grow driven by improving TIs in the mature estate, supported by the strong performance of new stores.

Space growth included 13 new supermarkets, of which three were replacement stores (2012/13: 14 new supermarkets, of which two were replacements). These generated an additional 582,000 sq ft of gross selling space (a net 470,000 sq ft), with one store closure. Sainsbury's reduced the number of supermarket refurbishments to 15 stores and also reduced the number of extensions to six, adding 218,000 sq ft of selling space (2012/13: eight extensions and 20 refurbishments added 185,000 sq ft). As part of the refurbishment programme we regularly review stores to ensure that we maintain the high standards our customers expect.

New space, excluding extensions and replacements, contributed 2.5 per cent of the 2.7 per cent sales growth (excluding fuel). Sainsbury's added a gross 1,013,000 sq ft of selling space in the year (including replacements and extensions), an increase of 4.8 per cent (2012/13: 1,007,000 sq ft and 4.9 per cent). Including the impact of closures, this translated into net space growth of 895,000 sq ft, an increase of 4.2 per cent since the start of the year (2012/13: 918,000 sq ft and 4.5 per cent). Hurdle rates for new supermarkets have been raised to ensure that we continue to deliver good returns on our future developments and a rationalisation of the property pipeline in the year resulted in a £92 million impairment.

Convenience continues to be a key area of growth, with 91 stores added during the year (2012/13: 87 stores). Three stores were closed (2012/13: four stores) and 39 refurbished (2012/13: 15 stores), with net convenience space growth of 207,000 sq ft, an increase of 17.1 per cent since the start of the year (2012/13: 182,000 sq ft and 17.7 per cent), meeting our target of opening around two new stores per week.

Net of replacements, closures and disposals, closing space of 22,160,000 sq ft was 4.2 per cent higher than last year (2012/13: 21,265,000 sq ft).

Store numbers and retailing space

52 weeks to 15 March 2014

	Supermarkets		Convenience		Total	
	Number	Area 000 sq ft	Number	Area 000 sq ft	Number	Area 000 sq ft
At 16 March 2013	583	20,056	523	1,209	1,106	21,265
New stores	13	582	91	215	104	797
Disposals/closures	(4)	(112)	(3)	(6)	(7)	(118)
Extensions/refurbishments/downsizes	–	218	–	(2)	–	216
At 15 March 2014	592	20,744	611	1,416	1,203	22,160

Memorandum:

Extensions	6	143	–	–	6	143
Refurbishments/downsizes	15	75	39	(2)	54	73
Total projects	21	218	39	(2)	60	216

In 2014/15, Sainsbury's expects LFL sales and the contribution from extensions (net of disruptions) to be similar to 2013/14. Contribution from new space (excluding extensions and replacements) is expected to be around 2.0 per cent.

In 2014/15, Sainsbury's expects to deliver around 750,000 sq ft of gross new space, with around two new convenience store openings per week.

Retail underlying operating profit

Retail underlying operating profit increased by 5.1 per cent to £873 million (2012/13: £831 million), reflecting cost savings of around £120 million in the year, offsetting the impact of cost inflation.

Retail underlying operating margin improved by eight basis points year-on-year to 3.65 per cent (2012/13: 3.57 per cent), which was a seven basis point improvement at constant fuel prices. Retail underlying EBITDAR margin increased by 21 basis points to 8.05 per cent, an 18 basis point improvement at constant fuel prices.

In 2014/15, Sainsbury's expects cost inflation towards the lower end of the two to three per cent range and efficiency savings of around £120 million to £130 million.

Sainsbury's would not expect profit consensus¹ to change as a result of the preliminary announcement². Market consensus reflects a wide range of possible outcomes, reflecting the market uncertainty.

Retail underlying operating profit

52 weeks to 15 March 2014

	2014	2013 ²	Change	Change at constant fuel prices
Retail underlying operating profit (£m) ³	873	831	5.1%	
Retail underlying operating margin (%) ⁴	3.65	3.57	8 bps	7 bps
Retail underlying EBITDAR (£m) ⁵	1,926	1,826	5.5%	
Retail underlying EBITDAR margin (%) ⁶	8.05	7.84	21 bps	18 bps

- 2014/15 UPBT consensus estimate of £762 million as published on www.j-sainsbury.co.uk/investor-centre/analyst-consensus at 17:00 on 6 May 2014.
- Preliminary announcement on 7 May 2014.
- Underlying earnings before interest, tax, Sainsbury's Bank underlying operating profit and Sainsbury's underlying share of post-tax profits from JVs.
- Retail underlying operating profit divided by retail sales excluding VAT.
- Retail underlying operating profit before rent, depreciation and amortisation.
- Retail underlying EBITDAR divided by retail sales excluding VAT.
- The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Financial services – Sainsbury's Bank

Sainsbury's completed its purchase of the remaining 50 per cent of Sainsbury's Bank on 31 January 2014. Sainsbury's Bank has been equity accounted for the 46 weeks to 31 January 2014 and 100 per cent consolidated for the four weeks to 28 February 2014. The Bank contributed £24 million to 2013/14 UPBT (2012/13: £22 million).

Sainsbury's Bank results

	2014 ¹	2013 ²	Change %
Total income (£m) ³	229	239	(4.2)
Underlying operating profit (£m)	53	59	(10.2)
Recognised as a joint venture (£m)	18	22	(18.2)
Consolidated as a subsidiary (£m)	6	–	n/a
Impact on Group underlying profit before tax (£m)	24	22	9.1
Net interest margin (%) ⁴	3.1	2.7	35 bps
Bad debt as a percentage of lending (%) ⁵	1.1	1.3	21 bps
Tier one capital ratio (%) ⁶	13.6	12.6	98 bps

- 50 weeks to 28 February 2014.
- 52 weeks to 16 March 2013.
- Net interest and net commission income.
- Interest receivable divided by average interest-bearing assets.
- Bad debt expense divided by gross lending as at year-end.
- Year-end tier one capital divided by year-end risk-weighted assets.

Sainsbury's Bank total income fell by 4.2 per cent to £229 million (2012/13: £239 million), mainly due to a reduction in the earned interest rate on the loans book driven by strong competition and a decline in commission income driven by price deflation in insurances, particularly car insurance.

Sainsbury's Bank delivered an underlying operating profit of £53 million, a 10.2 per cent decrease year-on-year. This reduction was driven by reduced total income and a provision relating to potential customer redress payable in respect of Card Protection Plan insurance and similar products. This provision is in line with the outcome of a market review by the Financial Conduct Authority, which found that these had been widely mis-sold by several financial institutions. This was partly offset by favourable bad debt levels, which as a percentage of lending improved to 1.1 per cent (2012/13: 1.3 per cent).

Net interest margin increased by 35 basis points year-on-year to 3.1 per cent (2012/13: 2.7 per cent) mainly driven by changes to the funding structure. The tier one capital ratio increased by 98 basis points year-on-year to 13.6 per cent (28 February 2013: 12.6 per cent), reflecting the improvements in the underlying capital position.

In 2014/15, Sainsbury's Bank is expected to make a similar level of underlying operating profit to 2013/14.

Strategic Report

Financial Review continued

Property and other joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £14 million (2012/13: £14 million). Its underlying share of post-tax profit from the JV with Land Securities was £2 million (2012/13: £2 million).

At the year-end, there was no surplus or loss on revaluation recognised within the share of post-tax profit from the JVs in the income statement (2012/13: £10 million loss). An increase in the average yield to 5.2 per cent (2012/13: 5.1 per cent) was offset by rental increases.

Two JVs were set up post half-year 2012/13, *Mobile by Sainsbury's* and *I²C*, which recognised a net loss of £4 million, driven by initial start-up costs.

In 2014/15, Sainsbury's expects the property JVs to make a similar level of profit to 2013/14. The start-up JVs are expected to make a similar level of loss to 2013/14.

Underlying net finance costs

Underlying net finance costs were in line with the prior year at £111 million (2012/13: £111 million), with a reduction in capitalised interest offset by savings on gross interest mainly due to a decrease in the inflation rate on the Group's inflation-linked debt¹.

Underlying net finance costs 52 weeks to 15 March 2014	2014 £m	2013 £m
Underlying finance income²	20	19
Interest costs	(157)	(162)
Capitalised interest	26	32
Underlying finance costs²	(131)	(130)
Underlying net finance costs²	(111)	(111)

- 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.
- Finance income/costs before financing fair value movements and IAS 19 Revised pension financing charge.

Sainsbury's expects underlying net finance costs in 2014/15 to remain broadly flat year-on-year, with capitalised interest of around £20 million.

Items excluded from underlying results

Items excluded from underlying results totalled £100 million (2012/13: £14 million), mainly due to one-off items, profit on disposal of properties and acquisition adjustments, partly offset by the IAS 19 Revised pension financing charge.

Items excluded from underlying results 52 weeks to 15 March 2014	2014 £m	2013 £m
Profit on disposal of properties	52	66
Investment property fair value movements	–	(10)
Financing fair value movements	(8)	(10)
IAS 19 Revised pension financing charge	(23)	(16)
Defined benefit pension scheme expenses	(7)	(7)
Acquisition adjustments	18	–
One-off items	68	(9)
Total items excluded from underlying results	100	14

One-off items

A credit to one-off items of £68 million (2012/13: £9 million charge) includes: the impact of a past service credit net of compensation payments of £148 million as a result of the closure of Sainsbury's defined benefit pension scheme to future accrual (including £10 million of defined contribution transition payments); an impairment of £92 million to write down the value of certain sites where the Group no longer intends to build a supermarket to their recoverable amount; £76 million relating to historic VAT overpayments made in relation to Nectar redemptions of points in-store; £45 million in relation to the purchase of the remaining 50 per cent of Sainsbury's Bank and transitioning the Bank to a new, more flexible banking platform; and other one-off costs of £19 million mainly in relation to internal restructuring and a provision for a commercial item, for which we intend to defend our position.

One-off items 52 weeks to 15 March 2014	2014 £m	2013 £m
Pension past service credit	148	–
Land impairment	(92)	–
Nectar VAT	76	–
Sainsbury's Bank costs	(45)	(20)
Other	(19)	11
Total one-off items	68	(9)

In 2014/15, Sainsbury's expects items recognised outside UPBT to include transition payments in relation to the closure of the defined benefit pension scheme of £17 million. Sainsbury's Bank costs for transitioning to a new, more flexible banking platform are expected to be around £45 million (capital costs relating to the transition are expected to be around £60 million).

Taxation

The income tax charge was £182 million (2012/13¹: £170 million), with an underlying tax rate of 21.9 per cent (2012/13¹: 23.6 per cent) and an effective tax rate of 20.3 per cent (2012/13¹: 22.0 per cent). The underlying and effective tax rates were lower than last year, primarily as a result of the one per cent lower statutory corporation tax rate and the impact of further reductions in the statutory rate on the revaluation of deferred tax balances.

Underlying tax rate 52 weeks to 15 March 2014	Profit £m	Tax £m	Rate %
Profit before tax, and tax thereon	898	(182)	20.3
Adjustments (and tax thereon) for:			
Profit on disposal of properties	(52)	(1)	
Financing fair value movements	8	(1)	
IAS 19 Revised pension financing charge	23	(5)	
Pension scheme expenses	7	(2)	
Acquisition adjustments	(18)	1	
One-off items	(68)	35	
Deferred tax rate change	–	(20)	
Underlying profit before tax, and tax thereon	798	(175)	21.9

- The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

In 2014/15, Sainsbury's expects the underlying tax rate to be between 23.5 and 24.5 per cent. In 2013/14, the revaluation of deferred tax balances reduced the underlying tax rate, but there will be no such adjustment in 2014/15, causing the rate to increase despite the one per cent fall in next year's statutory corporation tax rate.

In the UK, there are a large number of taxes, of which many are relevant for Sainsbury's. In 2013/14, Sainsbury's paid £1.8 billion (2012/13: £1.5 billion) to the UK government, of which £825 million (2012/13: £773 million) was borne by Sainsbury's and the remaining £949 million (2012/13: £761 million) was collected on behalf of our colleagues, customers and suppliers. Sainsbury's participate in the Total Tax Contribution PwC Survey for The 100 Group of Finance Directors. In the year to March 2013, our total taxes borne ranked seventh amongst the survey participants.

The key taxes paid by Sainsbury's were business rates of £432 million (2012/13: £396 million), employers' national insurance of £141 million (2012/13: £128 million) and UK corporation tax of £140 million (2012/13: £143 million). Other taxes including customs duty, excise duty, VAT and energy taxes totalled £112 million (2012/13: £106 million).

Earnings per share

Underlying basic earnings per share increased by 6.5 per cent to 32.8 pence (2012/13: 30.8 pence), reflecting the improvement in UPBT and the lower underlying tax rate year-on-year, partially offset by the effect of additional shares issued during the year.

The weighted average number of shares in issue was 1,896.8 million (2012/13: 1,881.5 million), an increase of 15.3 million shares or 0.8 per cent. Basic earnings per share increased to 37.7 pence (2012/13: 32.0 pence). Basic earnings per share were higher than the underlying basic earnings per share due to the items excluded from underlying results.

Underlying earnings per share 52 weeks to 15 March 2014	2014 pence per share	2013¹ pence per share
Basic earnings per share	37.7	32.0
Adjustments (net of tax) for:		
Profit on disposal of properties	(2.8)	(2.8)
Investment property fair value movements	–	0.5
Financing fair value movements	0.4	0.4
IAS 19 Revised pension financing charge	0.9	0.6
Pension scheme expenses	0.3	0.3
Acquisition adjustments	(0.9)	–
One-off items	(1.7)	0.4
Deferred tax rate change	(1.1)	(0.6)
Underlying basic earnings per share	32.8	30.8

1. The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Dividends

The Board has recommended a final dividend of 12.3 pence per share (2012/13: 11.9 pence), which will be paid on 11 July 2014 to shareholders on the Register of Members at the close of business on 16 May 2014, subject to approval by shareholders at the AGM. This will increase the full year dividend by 3.6 per cent to 17.3 pence per share (2012/13: 16.7 pence). The dividend is covered 1.90 times by underlying earnings (2012/13¹: 1.84 times).

The proposed final dividend was recommended by the Board on 6 May 2014 and, as such, has not been included as a liability as at 15 March 2014.

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, although cover may fall in 2014/15 given the updated tax rate guidance.

1. The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Financing

The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate standby liquidity. As at 15 March 2014, the Group had drawn borrowing facilities of £2.7 billion and undrawn but committed borrowing facilities of £950 million at its disposal.

The principal elements of the Group's core borrowings comprise of two long-term loans of £929 million due 2018 and £829 million due 2031, both secured over property assets. In addition, the Group has unsecured borrowings totalling £204 million with maturities ranging from 2014 to 2017, unsecured private placement loans totalling £184 million with maturities ranging from 2015 to 2017, a £190 million public issue convertible bond due July 2014 and £188 million of hire purchase facilities and other finance leases.

In February 2014, the Group entered into a new syndicated committed revolving credit facility for £1,150 million, replacing the £690 million facility which was due to mature in October 2015. The new facility is split into two tranches, a £500 million facility maturing in March 2017 and a £650 million facility maturing in March 2019. As at 15 March 2014, £200 million had been drawn under the £500 million facility (2012/13: £nil). The £1,150 million facility, bank loans and private placement loans contain only one financial covenant, being the ratio of EBITDAR to consolidated net interest plus net rental expenditure, the 'Fixed Charge Cover' ratio. As at the year-end, Sainsbury's comfortably passed this covenant test.

Net debt and cash flows

Sainsbury's net debt includes the cost of acquiring Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances. As at 15 March 2014, net debt was £2,384 million (2012/13: £2,162 million), an increase of £222 million year-on-year. This was driven primarily by the additional funding used to acquire Sainsbury's Bank and an increase in working capital, offset by cash generated from sale and leasebacks and lower investments in new space.

Operating cash flows before changes in working capital increased by 5.6 per cent to £1,366 million (2012/13: £1,294 million), but cash generated from operations decreased by 3.2 per cent to £1,227 million (2012/13: £1,268 million, 1.8 per cent decrease) due to an adverse movement in working capital.

Working capital increased by £139 million year-on-year (2012/13: £26 million increase) mainly driven by a decrease in trade payables of £62 million driven by the phasing of Easter, a decrease in other payables of £67 million and £10 million of other working capital movements.

The net cash used in investing activities of £590 million was £272 million lower year-on-year (2012/13: £862 million) driven by lower capital expenditure and higher proceeds from property transactions.

The £1,016 million acquisition of Sainsbury's Bank net of cash acquired, consists of £1,259 million cash acquired offset by the £243 million cash payment. Sainsbury's Bank cash balances of £1,225 million, and derivatives, which relate to the working capital of Sainsbury's Bank are excluded from the Group's net debt definition.

Receipt of new debt of £450 million during the year relates to a £200 million bank loan maturing in July 2014, a £50 million hire purchase facility maturing in June 2018 and a £200 million drawing under the new £1,150 million syndicated committed revolving credit facility part maturing in 2017 and 2019. The new debt offsets £439 million of borrowings repaid during the year.

Strategic Report

Financial Review continued

Summary cash flow statement

52 weeks to 15 March 2014	2014 £m	2013 £m
Operating cash flow before changes in working capital	1,366	1,294
Increase in retail working capital	(128)	(26)
Increase in Sainsbury's Bank working capital	(11)	–
Cash generated from operations	1,227	1,268
Interest paid	(148)	(143)
Corporation tax paid	(140)	(144)
Net cash from operating activities	939	981
Net cash used in investing activities	(590)	(862)
Acquisition of Sainsbury's Bank net of cash acquired	1,016	–
Proceeds from issue of shares	19	17
Receipt of new debt	450	75
Repayment of borrowings	(439)	(138)
Dividends paid	(320)	(308)
Increase/(decrease) in cash and cash equivalents	1,075	(235)
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	(1,225)	–
(Increase)/decrease in debt	(27)	36
Fair value and other non-cash movements	(45)	17
Movement in net debt	(222)	(182)

Sainsbury's expects 2014/15 year-end net debt to be similar to 2013/14.

Retail capital expenditure

Core retail capital expenditure decreased by £152 million year-on-year to £888 million (2012/13: £1,040 million), due to a reduction in the value of land purchases and expenditure on future new stores, driven by the phasing of spend on larger-scope projects. Sainsbury's stepped up its convenience store opening programme in the year with 91 new convenience stores (2012/13: 87 convenience stores) and completed 54 refurbishments (2012/13: 35 refurbishments), including 15 supermarkets (2012/13: 20 supermarkets) and 39 convenience stores (2012/13: 15 convenience stores).

Core retail capital expenditure as a percentage of sales (including fuel, including VAT) was 3.4 per cent (2012/13: 4.1 per cent).

Sainsbury's also took advantage of continued good property yields in the year to achieve £301 million in sale and leaseback proceeds (2012/13: £202 million), which contributed to a total profit on disposal of properties of £52 million (2012/13: £66 million). Net retail capital expenditure was £628 million (2012/13: £875 million).

Retail capital expenditure

52 weeks to 15 March 2014	2014	2013
New store development (£m)	418	593
Extensions and refurbishments (£m)	274	271
Other – including supply chain and IT (£m)	196	176
Core retail capital expenditure (£m)	888	1,040
Acquisition of freehold and trading properties (£m)	41	37
Proceeds from property transactions (£m)	(301)	(202)
Net retail capital expenditure (£m)	628	875
Capex/sales ratio (%)¹	3.4	4.1

1. Core retail capital expenditure divided by retail sales (including fuel, including VAT).

In 2014/15, Sainsbury's expects core retail capital expenditure (excluding Sainsbury's Bank) to be similar to 2013/14. Core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) is expected to be in line with 2013/14 at 3.4 per cent, reducing to below 3.0 per cent from 2015/16 onwards.

Return on capital employed

Return on capital employed ('ROCE') is impacted by the consolidation of Sainsbury's Bank, which increased closing capital employed by £243 million. Adjusting for this, ROCE over the 52 weeks to 15 March 2014 was 11.3 per cent (2012/13: 11.1 per cent), an increase of 19 basis points year-on-year, enhanced by the increase in the net pension deficit, which reduces capital employed.

ROCE excluding the net pension deficit and adjusting for Sainsbury's Bank over the 52 weeks to 15 March 2014 was 10.4 per cent (2012/13: 10.4 per cent). ROCE growth was held back by slower sector growth and reduced industry profitability, although this was offset by an improved Sainsbury's operating margin and the property pipeline review which resulted in an impairment of £92 million, reducing closing capital employed.

Return on capital employed

52 weeks to 15 March 2014	2014	2013 ²
Underlying operating profit (£m)	879	831
Underlying share of post-tax profit from JVs (£m)	30	38
Underlying profit before interest and tax (£m)	909	869
Average capital employed ¹ (£m)	8,073	7,851
Return on capital employed (%)	11.3	11.1
Return on capital employed (excluding pension fund deficit) (%)	10.4	10.4
52 week ROCE movement to 15 March 2014	19 bps	
52 week ROCE movement to 15 March 2014 (excluding pension fund deficit)	–	

1. Average of opening and closing net assets before net debt. 2013/14 closing capital employed has been reduced by 50 per cent of Sainsbury's Bank consolidated closing net assets (£243 million) to reflect the fact that the Bank was only consolidated in the accounts for four weeks of the 2013/14 financial year.

2. The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Summary balance sheet

Shareholders' funds as at 15 March 2014 were £6,005 million (2012/13: £5,838 million), an increase of £167 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 £58 million (£76 million when Sainsbury's Bank is consolidated by line). This was driven by continued space growth offset by the sale and leaseback of stores with no further development potential and a £92 million write-down of certain sites where the Group no longer intends to build a supermarket.

Net debt was £222 million higher than at 16 March 2013 driven by a £243 million increase attributable to the acquisition of Sainsbury's Bank and an increase in working capital. These increases were partly offset by the continued profitable growth of the underlying business and a reduction in capital expenditure year-on-year.

Net assets of £485 million as a result of the full consolidation of Sainsbury's Bank have been included and separately identified.

Retail adjusted net debt to EBITDAR is 3.9 times (2012/13: 3.8 times) and interest cover improved to 8.2 times (2012/13: 7.8 times). Fixed charge cover remained consistent at 3.1 times (2012/13: 3.1 times). Gearing increased year-on-year to 39.7 per cent (2012/13: 37.0 per cent) mainly as a result of the increase in net debt. Excluding the pension deficit, gearing reduced to 35.7 per cent (2012/13: 33.7 per cent).

Summary balance sheet at 15 March 2014	2014 £m	2013 ¹ £m	Movement £m
Land and buildings (freehold and long leasehold)	7,127	7,156	(29)
Land and buildings (short leasehold)	751	675	76
Fixtures and fittings	1,984	1,973	11
Property, plant and equipment	9,862	9,804	58
Other non-current assets	790	909	(119)
Inventories	1,005	987	18
Trade and other receivables	290	306	(16)
Sainsbury's Bank assets ¹	4,113	–	4,113
Cash and cash equivalents	367	517	(150)
Debt	(2,751)	(2,679)	(72)
Net debt	(2,384)	(2,162)	(222)
Trade and other payables and provisions	(3,364)	(3,422)	58
Retirement benefit obligations, net of deferred tax	(679)	(584)	(95)
Sainsbury's Bank liabilities ¹	(3,628)	–	(3,628)
Net assets	6,005	5,838	167

Key financial ratios

Retail adjusted net debt to

EBITDAR²	3.9 times	3.8 times ⁸
Interest cover³	8.2 times	7.8 times
Fixed charge cover⁴	3.1 times	3.1 times
Gearing⁵	39.7%	37.0%
Gearing (excluding pension deficit)⁶	35.7%	33.7%

1. As at 28 February 2014.

2. Net debt of £2,384 million plus capitalised lease obligations of £5,095 million (5.5 per cent discount rate), divided by retail underlying EBITDAR of £1,926 million, calculated on a rolling 52 week basis.

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

4. Retail underlying EBITDAR divided by net rent and underlying net finance costs.

5. Net debt divided by net assets.

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

7. The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

8. Restated to reflect more detailed analysis of lease length beyond five years.

As at 15 March 2014, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £12.0 billion (2012/13: £11.5 billion). The £0.5 billion increase year-on-year was driven by a 27 basis point improvement in the yield to 4.7 per cent (2012/13: 4.9 per cent) contributing £0.6 billion and property value added of £0.2 billion, partly offset by sale and leasebacks of £0.3 billion.

The summary balance sheet presented above discloses Sainsbury's Bank assets and liabilities separately to aid interpretation. A summary balance sheet is also presented with Sainsbury's Bank consolidated by line.

Summary balance sheet at 15 March 2014	2014 £m	2013 ¹ £m	Movement £m
Land and buildings (freehold and long leasehold)	7,127	7,156	(29)
Land and buildings (short leasehold)	751	675	76
Fixtures and fittings	2,002	1,973	29
Property, plant and equipment	9,880	9,804	76
Other non-current assets	2,234	909	1,325
Inventories	1,005	987	18
Trade and other receivables	1,716	306	1,410
Sainsbury's Bank cash and cash equivalents	1,225	–	1,225
Cash and cash equivalents	367	517	(150)
Debt	(2,751)	(2,679)	(72)
Net debt	(2,384)	(2,162)	(222)
Trade and other payables and provisions	(6,992)	(3,422)	(3,570)
Retirement benefit obligations, net of deferred tax	(679)	(584)	(95)
Net assets	6,005	5,838	167

1. The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Defined benefit pensions

As a result of the amendments made under IAS 19 Revised, the Group has restated prior year financial information in accordance with the revised standard. Application of the revised standard has resulted in an increase to UPBT of £1 million (2012/13: £2 million) and an additional charge of £23 million outside of UPBT during the 52 weeks to 15 March 2014 (2012/13: £18 million charge). Net assets increased by £104 million as at 17 March 2013 as a result of the removal of the expense reserve from the pension liability.

Retirement benefit obligations at 15 March 2014	2014 £m	2013 ¹ £m
Present value of funded obligations	(6,855)	(6,460)
Fair value of plan assets	6,131	5,841
Pension deficit	(724)	(619)
Present value of unfunded obligations	(13)	(13)
Retirement benefit obligations	(737)	(632)
Deferred income tax asset	58	48
Net retirement benefit obligations	(679)	(584)

1. The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Following a comprehensive consultation, we announced the closure of Sainsbury's defined benefit ('DB') pension scheme to future accrual from 28 September 2013. This plan amendment generates a past service credit of £172 million, offset by £14 million of enhanced early retirement costs. Additional transitional contributions of £10 million were also made to active members' defined contribution ('DC') plans across the second half of the year.

As at 15 March 2014, the post-tax pension deficit was £679 million, £95 million higher year-on-year (16 March 2013: £584 million). The one-off past service credit as a result of the closure of the scheme to future accrual reduced the deficit by £158 million; however this was more than offset by a 0.3 per cent fall in the real discount rate and changes in other assumptions that increased the liability by £416 million. This was partly offset by a slight outperformance of assets, which returned 5.7 per cent over the year.

The DB pension scheme was subject to a triennial valuation at March 2012 by Towers Watson, the scheme's independent actuaries. On the basis of the assumptions agreed, the actuarial deficit at 17 March 2012 was £592 million, a decrease of £635 million from the March 2009 deficit of £1,227 million, mainly as a result of the scheme's circa £600 million interest in a property partnership. As a result, the Company will continue with the recovery plan that was agreed with the Group after the valuation as at March 2009. This incorporates a £49 million annual cash contribution towards the deficit.

The IAS 19 Revised pension service cost included within UPBT for the 52 weeks to 15 March 2014 was £34 million (2012/13: £59 million). Sainsbury's will not incur an IAS 19 Revised service cost post closure of the DB scheme to future accrual. Contributions to the DB scheme have been replaced by contributions to the DC schemes.

Approval of the Strategic Report

Pages 1 to 35 of the Annual Report form the Strategic Report. Disclosures concerning diversity, greenhouse gas emissions and human rights appear on pages 46, 49 and 75 respectively. These disclosures together with our business model on the inside front cover are all considered to be part of the Strategic Report.

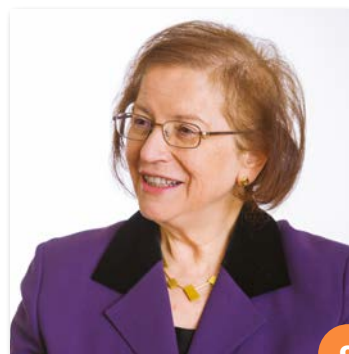
By order of the Board

Tim Fallowfield

Company Secretary and Corporate Services Director

6 May 2014

J Sainsbury plc: Board of Directors



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 2012.

2. Justin King

Chief Executive

♥

Appointed Chief Executive 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. 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 both the Board of the London Organising Committee of the Olympic Games and Paralympic Games (2009-13) and 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.

3. Mike Coupe

Group Commercial Director and Chief Executive designate

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 of I²C at its inception and he is also a Non-Executive Director at Greene King plc.

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. John is co-chair of the Chief Financial Officer Leadership Network, established by the Accounting for Sustainability (A4S) Project founded by HRH The Prince of Wales. 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.

5. Matt Brittin

Non-Executive Director

●*

Appointed to the Board on 27 January 2011, Matt is Google's 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.

6. 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, Unibail-Rodamco S.E. and Scotch & Soda NV. 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.

7. 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, a Non-Executive Director of SMART Technologies Inc, a Director of the Scottish Exhibition Centre Limited and a Director of Matomy Media Group 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 (1996-2000), and Deputy Finance Director of Forte plc (1994-96). Prior to this Gary held a number of senior management positions with Guinness plc in the UK and in North America.

8. 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).

9. Susan Rice

Non-Executive Director

●*

Appointed to the Board on 1 June 2013. Susan has been a Non-Executive Director of SSE plc since July 2003 and became their Senior Independent Director in 2007. Susan is also Managing Director of Lloyds Banking Group Scotland, a Non-Executive Director of the Court of the Bank of England, where she chairs the Audit and Risk Committee, Big Society Capital Ltd and of the National Council of Universities and Business. She chairs the Boards of the Edinburgh International Book Festival, the Edinburgh Festivals Forum and the Governors of the National Galleries of Scotland. Susan was formerly a Non-Executive Director of Scotland's Futures Forum.

10. Jean Tomlin

Non-Executive Director

◆♥*

Appointed to the Board on 1 January 2013, Jean is an Independent Board member of Michael Kors Holdings Limited, Join in Trust and Step up to Serve. 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 and Founder member of Egg plc and Sales & Operations Director of Prudential Direct.

Key to Committee members

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

Life President

Lord Sainsbury of Preston Candover KG

Justin King will step down from the Board and Mike Coupe is to be appointed Chief Executive following the AGM in July 2014 (see page 40).

Operating Board



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11

1. Justin King

Chief Executive
See page 37

2. Mike Coupe

Group Commercial Director and Chief Executive designate
See page 37

3. John Rogers

Chief Financial Officer
See page 37

4. Helen Buck

Business Development Director

Helen was appointed to the Operating Board on 19 July 2010 as Convenience Director. She was appointed Retail Director in March 2012 and became Business Development Director in May 2014 with responsibility for developing the business beyond the core, as well as *Mobile by Sainsbury's*, *Sainsbury's Energy* and Sainsbury's Online. Helen joined Sainsbury's in 2005 and, after spending four years running Brand Communications, moved to the Trading Division 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 Sainsbury's 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

Retail and Operations Director

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 and was appointed Retail and Operations Director in May 2014, with responsibility for leading the combined team of Supermarkets, Convenience and Logistics. 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 Surface Transport Panel.

6. Tim Fallowfield

Company Secretary and Corporate Services Director

Tim joined Sainsbury's in 2001 as Company Secretary and joined the Operating Board in 2004. In addition to his role as Company Secretary, Tim is responsible for the Corporate Services Division comprising Legal Services, Public Affairs, Safety, Shareholder Services, Insurance and Central Security. He chairs the Group Safety Committee and the Data Governance Committee. Tim joined Sainsbury's from Exel plc, the global logistics company, where he was Company Secretary and Head of Legal Services (1994-2001). He began his career at the international law firm Clifford Chance for six years and is a qualified solicitor.

7. Peter Griffiths

CEO of Sainsbury's Bank

Peter was appointed CEO of Sainsbury's Bank in November 2012 and joined the Operating Board in May 2014. Prior to joining Sainsbury's he was Group Chief Executive of Principality, the largest building society in Wales, growing it from the 13th largest building society in the UK to the 7th, during his decade in charge. He previously worked for NatWest (1977-2000), and was Chief Operating Officer at Morgan Chambers Plc. He is former Chairman of the CBI Wales and the Building Societies Association, and is a Fellow of UWIC and The Chartered Institute of Management.

8. Paul Mills-Hicks

Food Commercial Director

Paul joined the Operating Board in May 2014 as Food Commercial Director having spent over 10 years at Sainsbury's. He began working for Justin King in his first two years as Chief Executive during the formation of the 'Making Sainsbury's Great Again' strategy. Following this he held a variety of roles in commercial, strategy and finance, most recently as Business Unit Director for Grocery. Prior to Sainsbury's, Paul was European Controller at Marks and Spencer Group plc and a Director at UBS Warburg. Paul is a qualified electronic engineer and a Chartered Accountant.

9. Angie Risley

Group HR Director

Angie was appointed Group HR Director and a member of the Operating Board in January 2013 with responsibility for human resources. She is also a Non-Executive Director of Serco Group plc and chairs their Remuneration Committee. Angie was most recently Group HR Director at Lloyds Banking Group and prior to this an Executive Director of Whitbread plc with responsibility for HR and Corporate Social Responsibility. She was a member of the Low Pay Commission.

10. Jon Rudoe

Digital and Technology Director

Jon joined the Operating Board in March 2014 with responsibility for Digital and the IT function. He joined Sainsbury's in July 2011 as Director of Online and in March 2013 he also took on responsibility for Digital. Jon joined Sainsbury's from Ocado where he led marketing, user experience, trading, own-brand and supply chain. Previously, Jon was a management consultant at Bain & Company and worked in venture capital.

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: brand communications, own-brand marketing, in-store, loyalty and customer insight. She also has responsibility for Customer Service and Experience, as well as 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 employee at Unilever PLC.

Corporate Governance statement

Dear Shareholder,
Your Board remains committed to effective governance and to Sainsbury's unique values and culture, which have played a key role in our success.



David Tyler
Chairman

In this statement, I have picked out some aspects of governance which are particularly notable for shareholders. These are described in more detail in the following pages.

Succession

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. Managing the succession of a chief executive is a key priority for any board. In January, we announced that Justin King will stand down in July after ten very successful years as Chief Executive and that Mike Coupe will succeed him. Mike joined Sainsbury's in 2004 and was appointed to the Board in August 2007. Since July 2010, he has been Group Commercial Director. He has a deep understanding of Sainsbury's and over 20 years of experience in retail businesses. Our Chief Executive succession planning process took place over a number of years. It included a comprehensive external search facilitated by Egon Zehnder International and enabled the Board to conclude that Mike was the best possible candidate to take the Company forward. One of the Board's key priorities in the year ahead is to ensure and support a smooth transition from Justin to Mike.

Since I joined the Board as Chairman in November 2009, we have appointed three new Non-Executive Directors, Matt Brittin, Jean Tomlin and Susan Rice, who have brought new skills and experience to the Board, as well as adding to our broad diversity. With Mike's succession as Chief Executive taking place after our AGM in July 2014, the Board has concluded that it is important to maintain Board stability as the Company goes through this important period of transition.

As a result, although Gary Hughes reaches the ninth anniversary of his appointment at the 2014 AGM, the Board believes that it is in shareholders' best interests for him to remain on the Board for another year, until the 2015 AGM. This will also enable Gary to play a key role in the audit tender planned for later this year. The Board believes that Gary continues to make an outstanding contribution to the Company, particularly as Audit Committee Chairman, where his deep understanding of the business and robust leadership continue to be a source of great strength. The Board has concluded that Gary continues to be independent in every respect notwithstanding the time that he has spent on the Board. In the next 12 months we expect to appoint a Non-Executive Director who will succeed Gary as Audit Committee Chairman in July 2015.

Board evaluation

During the year, a thorough review of your Board's performance was completed by Manchester Square Partners, who provide board evaluation and advisory services and have no other relationship with Sainsbury's. Our last external review was completed in January 2011. This was also conducted by Manchester Square Partners, but by different partners. Since 2011, we have conducted comprehensive internal reviews which have ensured that we have continued to build on our strengths, and that we are working effectively. This year's review, which is described in detail below, concluded that "the Board functions extremely well and in line with first class corporate governance with shared values, open dialogue, strong levels of trust, respect and collaboration, but also appropriate challenge". We have identified a forward looking action plan to build on our strong foundations.

Diversity

One of our strengths continues to be our diversity, which is the result of a high proportion of women having been appointed on merit throughout the organisation. We have three women on our Board (30 per cent) and three on our Operating Board (27 per cent), exceeding the aspirational target of the Davies Report that 25 per cent of the Board positions at FTSE 100 companies should be filled by women by 2015. A review of our broad diversity targets is set out on page 46.

Remuneration

There continues to be a great deal of focus on Directors' remuneration and the way it is disclosed. Under Mary Harris' leadership, the Remuneration Committee has ensured that there is a direct link between pay and performance in the areas most valued by our shareholders. Our Directors' Remuneration Report, including Mary's annual statement to shareholders, is set out on pages 55 to 73 and reflects the latest remuneration reporting regulations. At this year's AGM, shareholders will have the opportunity to participate in a binding vote on our forward looking Directors' Remuneration Policy, as well as an advisory vote on the remainder of the Directors' Remuneration Report.

Sainsbury's has again this year complied with all provisions of the UK Corporate Governance Code. We believe that our strong governance, culture and values will continue to hold us in good stead for the future.

David Tyler
Chairman

Compliance

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

The role of the Board

The Board is chaired by David Tyler and, at the year-end, there were three Executive Directors and six Non-Executive Directors. John McAdam is the Senior Independent Director. The Directors' biographical details are set out on page 37.

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 Board's 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 | • HR policy and update |
| • Corporate (five-year) plan | • Committee reports | • Pensions |
| • CEO Report and trading update | • Investor relations | • Project updates |
| • Financial items | • Strategic items | • Treasury and tax policy |
| • Preliminary and Interim results | • Safety reports (Health & Safety and Food) | • Governance |
| • Annual Report | • Customer insights | • 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 held a two-day Strategy Conference in the autumn, which all the Operating Board Directors attended. This enabled 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 five-year corporate plan and agree the strategic goals for the short-term and longer term perspectives, and the five areas of focus described on pages 8 to 19.

The Chief Executive and Group HR Director then presented a review of succession planning, talent and development to the Nomination Committee which enabled them to review the capability, succession planning and resourcing necessary to achieve the strategic priorities. The Board receives a detailed half-year strategy 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 2014 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 Board meetings setting out the strategic opportunity, the risks and the funding options, together with the related regulatory requirements. In January 2014, we announced the completion of the acquisition. The Board will receive regular updates on the transition process and the Bank's strategy. We expect the Bank to become an increasingly important part of the value that customers receive from Sainsbury's and another driver of customer loyalty.

Performance management

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.

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 (see page 53 for further details). The Board also receives an annual update on all matters relating to safety, supported by quarterly updates, together with updates on other 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.

Investor relations

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 Investor Relations ('IR') programme and feedback from major shareholders, particularly following each major announcement of the Company's results. See page 43 for further details.

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.

Directors' Report

Corporate Governance statement continued

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 and at each AGM thereafter, after which their appointment may be extended for further terms, subject to mutual agreement. All members of the Board, other than Justin King, 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. Gary Hughes reaches the ninth anniversary of his appointment at the AGM in July. The Board has concluded that it is in shareholders' best interests for him to remain on the Board for another year until the 2015 AGM in order to maintain Board stability as the Company goes through the important period of transition from Justin King to Mike Coupe. This will also enable Gary to play a key role in the audit tender planned for later this year. The Board believes that Gary, who has been our Audit Committee Chairman, since his appointment, continues to make an outstanding contribution to the Company, particularly as Audit Committee Chairman where his deep understanding of the business and robust leadership continue to be a source of great strength. The Board has concluded that Gary continues to be independent in every respect notwithstanding the time that he has spent on the Board. In the next 12 months we expect to appoint a Non-Executive Director who will succeed Gary as Audit Committee Chairman in July 2015.

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 the company's interests. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's articles of association permit. 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.

In the 2012 and 2013 reports, 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 processes and documentation are thorough and comprehensive.

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 and the Company's values and culture. This programme is ongoing for Non-Executive Directors who often meet members of the management team on an individual basis to continue to build their knowledge of the Company, or visit stores, depots and suppliers. Subsequent training is available on an ongoing basis to meet any particular needs.

Since her appointment to the Board in June 2013 Susan Rice's induction programme has included each of the aspects described above, as well as a number of meetings with Sainsbury's Bank. Her induction will continue into 2014/15. Jean Tomlin has completed her formal induction programme during the year and continues to meet with members of the management team and to participate in other events to build her knowledge of the business.

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 introduction of the Strategic Report, changes to the UK Corporate Governance Code, including the requirement to sign off the annual report as fair, balanced and understandable, and the proposed changes to audit tender and mandatory audit firm rotation rules by the Competition Commission and the EU respectively. The consultants to the Remuneration Committee advise the Committee on relevant governance and trends in remuneration. The Committee received updates on the new disclosure and voting 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 meeting at our store support centre at Ansty Park, Coventry and received presentations from members of the clothing and general merchandise teams and the property division on the key aspects of their areas of the business. In addition, they met a number of the broader management team during their visit. 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

This year's Board Evaluation exercise was conducted by Manchester Square Partners ('MSP'), who provide board evaluation and advisory services and who had no other relationship with Sainsbury's. The annual evaluation exercise was last conducted on an external basis in 2011 when MSP also led the review, although the partners who conducted that exercise are no longer with MSP.

The 2012 and 2013 reviews were carried out by the Company Secretary. These internal reviews followed an established process with full and open participation from all Directors, and considered the progress on the key points identified by MSP in 2011 and any emerging themes. They therefore provided consistency and continuity between the two external reviews in 2011 and 2014.

In preparation for the 2014 exercise, the Chairman and Company Secretary conducted a tender process in June 2013 in order to consider alternative board evaluation consultancies and the range of services they provide. MSP emerged as the most suitable supplier to conduct the review. They were provided with reports and questionnaires from the previous three years' exercises in order to give more context and provide continuity. It was agreed that the scope of the review should be broad, including strategy, Board and management succession, Board culture, balance and diversity, meetings and processes, investor relations, risk management and Board Committees. Their questionnaire introduced some new specific areas for Directors' consideration. The questionnaire was circulated to all Directors, the Company Secretary, the Group HR Director and the Group Development Director, each of whom has significant engagement with the Board or the Committees. This was followed up in separate discussions with each of the Directors and the other executives to take their detailed feedback on any emerging themes.

The MSP partners presented the principal conclusions to the Board at a meeting convened for that purpose and the Board discussed key points and agreed certain actions.

Some of the key themes that were presented to the Board were as follows:

- The Board functions well and in line with first class corporate governance.
- The Board operates as a team with shared values, open dialogue, strong levels of trust, respect and collaboration, but also appropriate challenge.
- The Non-Executive Directors are dedicated and committed and were highly valued by the Executives.
- The strategic debate has moved significantly up the agenda.
- Focus on the core business and operational performance remains high, with shared Non-Executive/Executive appreciation of the importance of maintaining that focus.
- Board processes and documentation are thorough and comprehensive.

The Board debated the findings and identified some areas that would remain on the agenda over the following year, including decision making processes, Board succession and Chief Executive transition, engagement with broader management and rising talent, and continued focus on our Digital strategy and Sainsbury's Bank. The Board agreed the actions for further consideration and these have been or are being implemented. For instance, opportunities for the Board to meet a broader cadre of senior management have been identified.

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 their development priorities. The Board anticipates that the 2015 Board Evaluation will be conducted on an internal basis by the Company Secretary.

Attendance

The following 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&S Committee	Nomination Committee	Remuneration Committee
Matt Brittin	8(8)	4(4)	–	3(3)	–
Mike Coupe	8(8)	–	–	–	–
Mary Harris	8(8)	–	2(2)	3(3)	7(7)
Gary Hughes	8(8)	4(4)	–	3(3)	–
Justin King	8(8)	–	2(2)	–	–
John McAdam	8(8)	1(1)	–	3(3)	6(7)
Susan Rice	6(6)	3(3)	–	3(3)	–
John Rogers	8(8)	–	–	–	–
Jean Tomlin	8(8)	–	2(2)	3(3)	7(7)
David Tyler	8(8)	–	–	3(3)	–

The maximum number of meetings held during the year that each Director could attend is shown in brackets. John McAdam stepped down from the Audit Committee following the appointment to the Board of Susan Rice.

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 Mike Scott, 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 receives feedback at each Board meeting on the views of major investors and the IR programme. In addition, Makinson Cowell provide investor relations consultancy services to the Company and provide 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 9 July 2014. 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 140 to 142 and on the Company's website (www.j-sainsbury.co.uk/investor-centre).

Directors' Report

Corporate Governance statement continued

Board Committees

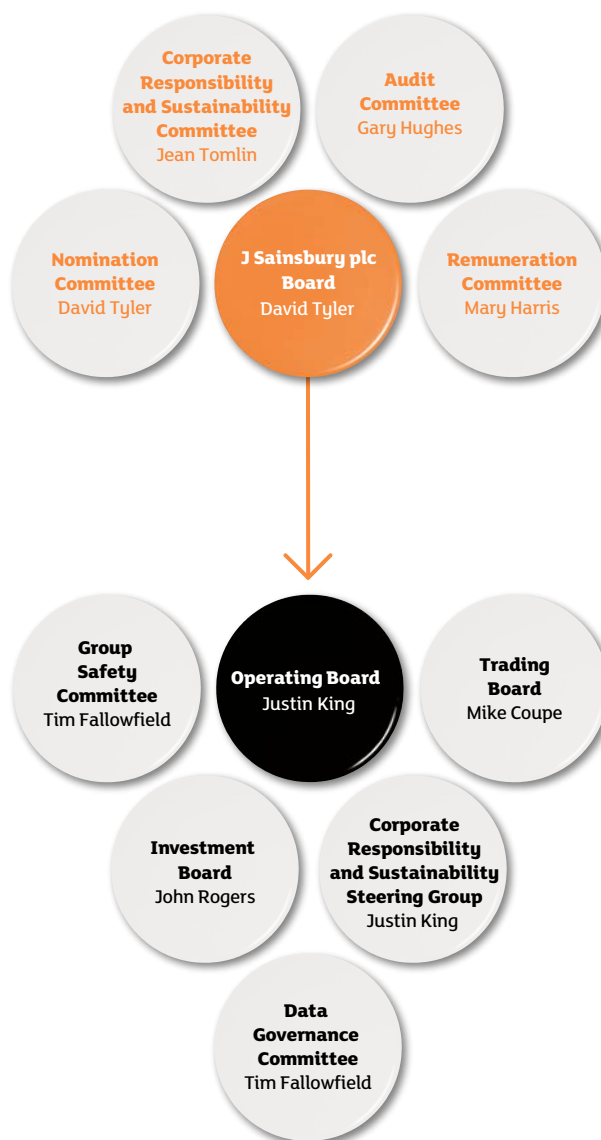
The Board has delegated certain responsibilities to the Operating Board and to the Audit, Nomination, Remuneration and Corporate Responsibility and Sustainability Committees. The terms of reference for each Committee are available on the website (www.j-sainsbury.co.uk/investor-centre/corporate-governance).

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 39. 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, the Corporate Responsibility and Sustainability Steering Group and the Data Governance Committee, each of which has approved terms of reference setting out its areas of responsibility.

Given that a major breach of information security could have a significant impact on the business (see page 25), the Operating Board strengthened the data governance structure in September 2013 and brought together both information security and data protection governance with clear lines of accountability. The Data Governance Committee is chaired by Tim Fallowfield to drive a business-led focus on data security, with five working groups covering information security, customer data, colleague data, financial and commercial data, and communications, awareness and training. Tim Fallowfield provides an update to the Operating Board following each meeting and reports to the Audit Committee at least twice a year.



Nomination Committee

Dear Shareholder

Succession and diversity at Board and senior management levels are key aspects of our Nomination Committee agenda.

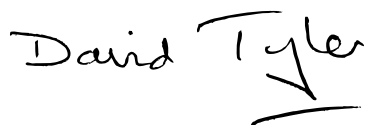
In my statement on page 40 I have already referred to succession and diversity at Board and senior management levels, both of which are key aspects of our Nomination Committee agenda.

The Committee's priorities over recent years have been:

- to refresh and rotate the Non-Executive Directors on the Board, ensuring appropriate skills and diverse experience;
- to plan the succession process for the Chief Executive and ensure a smooth transition;
- to support succession at Operating Board and senior management levels so that change can be implemented as smoothly as possible; and
- to oversee the Company's approach to resourcing the needs of the business, developing our colleagues and recruiting new talent.

This has stood us in good stead over the last year, which has seen the appointment of Susan Rice as a Non-Executive Director, the planned succession from Justin King to Mike Coupe as Chief Executive, and the internal appointment of Jon Rudoe, Paul Mills-Hicks and Peter Griffiths at Operating Board level, as well as the departures that I have referred to on page 3. We are well placed to support Mike's transition as he takes on his new role in July.

Turning to diversity, I have already commented on our strong representation of women on the Board and Operating Board. Diversity on a broader basis is an important feature of the Committee's agenda and a detailed summary of the Company's priorities is set out below.



David Tyler
Chairman

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 above, 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.

We believe we have 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. Each of our Non-Executive Directors have been recruited following a robust selection process which has been facilitated by Egon Zehnder International, who provide search and recruitment services for the Company. The process which led to the appointments of Jean Tomlin and Susan Rice was described in detail in the 2013 Annual Report and Financial Statements

Our Non-Executive Directors' tenure on our Board as at the year-end is as follows:

Board tenure Non-Executive	Number	Percentage
0-1 years	2	29
2-3 years	2	29
4-5 years	1	14
6-7 years	1	14
8-9 years	1	14

The above table includes the Chairman. Tenure taken from first AGM 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 2013/14 held three formal meetings and a number of other updates, particularly relating to the process which led to the appointment of Mike Coupe as Chief Executive. The terms of reference of the Committee are available on the website at www.j-sainsbury.co.uk/investor-centre/corporate-governance.

Directors' Report

Nomination Committee continued

Diversity

Our diversity and inclusion vision is to be 'the most inclusive retailer'. We will achieve this aspiration by recruiting, retaining and developing diverse and talented people and creating an inclusive environment where everyone can be the best they can be and where diverse views are listened to. This will enable us to anticipate and accommodate the needs of our diverse customers, reflecting the communities we serve.

Four Operating Board Sponsors lead our diversity strategy: Roger Burnley (gender), Helen Buck (race and age), Tim Fallowfield (disability and carers) and Sarah Warby (sexual orientation). Our Board Sponsors, together with our Group HR Director, Angie Risley, form our Diversity Steering Group. The Group leads our strategy, meeting monthly to govern progress. They are also responsible for updating the Board and Operating Board. Over the last year we have conducted extensive listening with our colleagues in our business which has informed our strategy. We have over 150 Diversity Champions who support the agenda in every part of our organisation.

This year, we were listed in The Times Top 50 Employers for Women. We are taking active steps to support talented women to develop their careers in management where, like in many organisations, women are under-represented. Our Inspiring Women programme gives colleagues confidence that we support their career aspirations and that gender is no barrier to fulfilling their potential. The Davies report recommends businesses attain 25 per cent women on boards by 2015. Women already make up 30 per cent of our Board and 27 per cent of our Operating Board. This compares with an average of 20.8 per cent women on FTSE 100 boards. A number of our senior women hold non-executive director positions in other organisations and two are currently participating in the FTSE 100 Cross-Company Mentoring Programme. Over 300 of our colleagues have signed up to the Inspiring the Future campaign, sharing their careers experience with schools and colleges.

	Male	Female
Board	70%	30%
Operating Board	73%	27%
Senior executive positions*	68%	32%
Company	45%	55%

* If the definition of senior management were to include individuals appointed as directors of Group subsidiary companies (including dormant companies, excluding joint venture and pension companies) the percentage of senior management who are female would reduce to 29 per cent.

We are Champion members of Race for Opportunity. 14 per cent of the population of England and Wales and 11 per cent of the UK workforce is from a BAME (Black Asian Ethnic Minority) background. This compares with 14 per cent of all Sainsbury's colleagues. We are working to increase the representation of BAME colleagues at middle manager grades by encouraging talented colleagues to progress within the business; for example BAME colleagues are participating in Race for Opportunity's cross-organisational mentoring circles.

We aspire to take a leadership approach to disability, commensurate with our Paralympic commitment to create a legacy of greater inclusion for people with disabilities. We sit on the Paralympic Legacy Advisory Group and take an active role in the Government's Disability Confident campaign. We are Partner members of the Business Disability Forum. Our 'You Can' programme has attracted over 21,600 people traditionally considered 'harder to reach' into jobs with Sainsbury's. In January 2014, we held the parliamentary launch of our Active Kids for All programme, supporting teachers to include disabled children in physical education and school sport.

We are one of few FTSE 100 companies with a carers policy and have worked with Carers UK for 15 years. 2013 saw our most successful Carers Week yet as over 1,000 Sainsbury's stores across the country hosted events for local support and community groups. We sponsored the Carers Rights Day *Caring for Someone* booklet again this year, and the booklet was made available to our colleagues as well as to other organisations. We are proud to chair the Retail Group of the Prime Minister's Dementia Challenge.

Corporate Responsibility and Sustainability Committee

Dear Shareholder,

Our values are fundamental to the way Sainsbury's does business, and underpin the achievement of the Company's vision to be the most trusted retailer, where people love to work and shop.

As Chairman of the Board's Corporate Responsibility and Sustainability Committee, I oversee the governance across each of our five 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', as well as the *20x20 Sustainability Plan*, which sets out the 20 commitments for 2020 across the five values.

As part of this, we talk regularly to customers, suppliers, colleagues, stakeholders and experts, including non-government organisations and the Government and its agencies. Our annual public review of *20x20* took place in November, attended by over 180 stakeholders with live debates also hosted by the Guardian website. Separately, over the year, Justin and I co-hosted a number of discussions focused on the five values, including an examination of the way we better connect our stores to the communities they serve.

This year the Committee also looked in depth at 'Sourcing with integrity' and the team's programme to ensure Sainsbury's provides customers with quality products at fair prices, in a way that is better for the farmers, growers, packers, processors, manufacturers and animals, whilst also minimising the impact on the environment. Plans for an independent Sainsbury's sustainable sourcing standard for all key raw materials, both in the UK and globally, were also announced in November.



Jean Tomlin
Chairman, Corporate Responsibility and Sustainability Committee

I am pleased to say that the Company's work across corporate responsibility has once again been recognised externally. In particular, we were listed in the 2013 Dow Jones Sustainability Index ('DJSI') review for the seventh consecutive year and highly ranked in the FTSE4Good Index, which we have been part of since its inception in 2001. Excellent progress in 'Respect for our environment' was recognised by the Company's highest ever ranking in the Carbon Disclosure Project and in a number of awards, including the Energy Awards for successfully reducing water use by 53 per cent across our stores, and the 2013 Green Economy awards for our progress in our ongoing carbon reduction programme.

Further updates about the team's approach are published at www.j-sainsbury.co.uk/responsibility with quarterly updates also given as part of the Company's broader trading statements.

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

Jean Tomlin
Chairman, Corporate Responsibility and Sustainability Committee

Directors' Report

Corporate Responsibility and Sustainability continued

Corporate Responsibility and Sustainability Committee

During the year the Committee was chaired by Jean Tomlin, with Justin King and Mary Harris as its members. David Tyler attended each meeting. It met twice during the year. Its terms of reference include approval of the Corporate Responsibility Report and consideration of the broad Corporate Responsibility and Sustainability Policy, taking into account the Company's desired corporate responsibility positioning and objectives, related costs and benefits, the overall strategic plan, and relevant external and other factors. These formal Committee meetings were supported by Corporate Responsibility and Sustainability ('CR&S') strategic meetings that were hosted by Jean Tomlin and Justin King. Each meeting is based around one of the five values and key external stakeholders are invited to attend. During the year five such meetings were held, relating to each of the values, framed within our *20x20 Sustainability Plan* which was launched in October 2011.

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

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

Our 20x20 Sustainability Plan

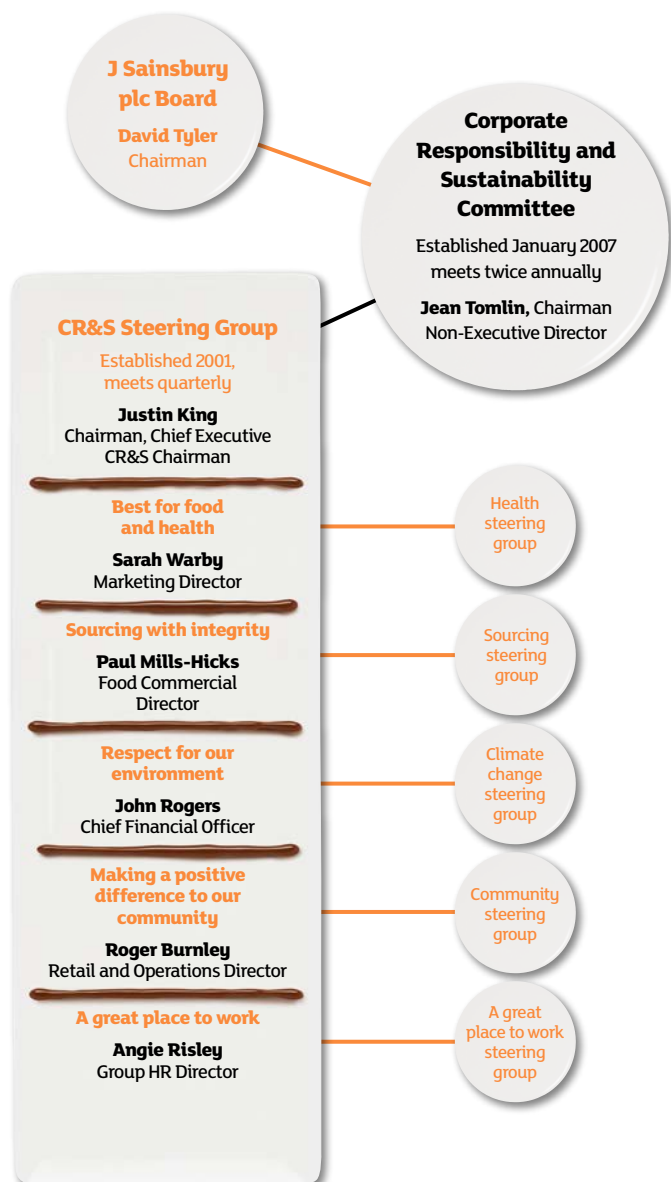
In many ways, the commitments encapsulated in our *20x20 Sustainability Plan* are not new to Sainsbury's. We have sought throughout our 145-year history to lead in matters of business responsibility and sustainability. Examples of our contribution over the past decade include transforming the markets for fairly traded products and sustainable seafood, improving animal welfare, supporting British farming, championing community investment and sponsorship of the British Athletics and the Paralympics.

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 internal auditing and materiality process. Since its launch, we have continued to listen to our customers, suppliers and opinion formers to ensure we have the most effective agenda, and leverage the knowledge of experts to remain at the forefront of sustainability.

We are focused on its delivery, whilst also ensuring we continue to engage and look beyond 2020.

Our *20x20 Sustainability Plan* update was published in November.



Greenhouse gas emissions

We have measured our greenhouse gas ('GHG') footprint since 2005 and set ourselves a challenging target to reduce our emissions by 30 per cent by 2020, compared with our baseline (and 65 per cent relative to Company growth).

For further information on initiatives to reduce our GHG footprint, please refer to our *20x20 Sustainability Plan* available on our external web pages.

Emission source	GHG emissions ('tCO ₂ e')
	2013/14
Combustion of fuel & operation of facilities (Scope 1)	618,427
Electricity, heat, steam and cooling purchased for own use ('Scope 2')	735,961
Total	1,354,388
Intensity measurement (tCO ₂ /'000 sq ft)	61.12

In 2013/14, our emissions reduced by over seven per cent. This is a result of carbon reduction activities across our operations and in particular our programme to replace HFC refrigerants in our fridges and freezers with natural alternatives.

Intensity ratio

In order to express our annual emissions in relation to the growth of our business, we report an emissions intensity measurement, calculated using sales area ('000 sq ft). Using this measure, our emissions intensity reduced by 11 per cent in 2013/14.

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2014. The reporting period is the financial year 2013/14, the same as that covered by the Annual Report and Financial Statements. The boundaries of the GHG inventory are defined using the operational control approach. In general, the emissions reported are the same as those which would be reported based on a financial central boundary. Due to the short time between financial year-end and report publication, it was necessary to estimate some gas and electricity consumption data. Gas and electricity emissions calculations could be subject to minor change.

Audit Committee

Dear Shareholder,
We are satisfied that the business has maintained robust risk management and internal controls, supported by strong overall governance processes, and that management have instilled a strong risk management culture across the business.

Susan Rice joined the Committee during the year and her wide experience as a Non-Executive Director and her career in retail banking have extended the balance of skills and experience of the Committee at a time when the Company is expanding its interests in financial services with the full acquisition of Sainsbury's Bank. We are supported by a strong internal audit function and an executive management team who have instilled a strong and positive culture of controls throughout the business over many years. We believe that our discussions with the management team are open, thorough, constructive and appropriately challenging. Our external auditors also give us a high level of confidence in relation to the work they do with respect to the Company's financial controls and related risk environment. The most recent annual Board and Committee evaluation conducted by Manchester Square Partners confirmed that governance of risk, and the processes that support this, remain strong and that the Audit Committee continues to work effectively.

As a Committee, we are keen to ensure that the identification and management of all significant risks is embedded across all areas of the business, with continuous and effective oversight coming from the Operating Board. We regularly review the risk profiles across each part of the business, the actions being taken and the processes they have in place to manage or mitigate these risks. In addition, we frequently receive updates on specific areas of identified risk with the relevant members of the management team. We are satisfied that the business has maintained robust risk management and internal controls, supported by strong overall governance processes, and that management have instilled a strong risk management culture across the business.

The following pages describe the Committee's principal activities during the year and its oversight responsibility towards risk management and internal controls. One of our key priorities during the year has been to ensure that the governance of Sainsbury's Bank continues to be strong following completion of our full acquisition of the Bank. The Bank has a robust internal operating structure, with a Non-Executive Chairman and four Independent Non-Executive Directors on its Board, as well as its own Audit and Risk Committees. We receive updates on the key agenda items discussed at the Bank's Audit Committee and on all important operating and regulatory matters including its liquidity, cash flows, capital adequacy and risk management processes. Representatives from the Bank Audit Committee and the Bank Internal Audit team now attend meetings of the Committee at least twice a year. We are also very satisfied that there is good alignment between the Sainsbury's Internal Audit function and their colleagues within Sainsbury's Bank's Internal Audit team.



Gary Hughes
Chairman, Audit Committee

During the year, the Committee has significantly increased its involvement with respect to data governance across the organisation, especially given the increasing number of high profile breaches of information security that have affected other companies, including some of those in direct competition with Sainsbury's. A major breach of information security could have a material and significant impact on the business and its reputation and therefore the Committee will continue to receive regular presentations on data governance throughout the Group going forward. The Company's Principal Risks and Uncertainties are set out on pages 24 to 27. We have reviewed these in detail and are comfortable that the business has addressed them appropriately within its ongoing operating model and priorities.

In the coming year, the Board has agreed that the Committee should conduct a tender for the external auditor appointment which will take effect from the 2015/16 financial year. In the meantime the Board is happy to recommend to shareholders that PricewaterhouseCoopers LLP be reappointed as auditors for the 2014/15 financial year.

A handwritten signature in black ink that reads "Gary W. Hughes". The signature is written in a cursive, flowing style.

Gary Hughes
Chairman, Audit Committee

Committee membership

The Audit Committee is chaired by Gary Hughes, with Susan Rice 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. David Tyler, 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 terms of reference for each Committee are available on the website at www.j-sainsbury.co.uk/investor-centre/corporate-governance.

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 and tax update PwC performance review Litigation report Data governance update Internal controls framework and fraud update Risk management update Sainsbury's Bank report Sainsbury's Bank audit committee overview Sainsbury's Bank risk management report PwC audit plan, audit strategy and fees Terms of reference update Annual review and benchmarking of the Finance Division Non-audit services and fees
November	Half-year accounting and tax 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 services and fees
March	Accounting and tax update Litigation report Data governance update Internal controls framework and fraud update Risk management update Internal audit charter Principal risks and uncertainties PwC internal financial controls report PwC report on auditor independence Non-audit services and fees Sainsbury's Bank report Sainsbury's Bank audit committee overview Sainsbury's Bank risk management report
April	Year-end accounting and tax update, including going concern review Litigation report Annual Report and Financial Statements Non-audit services and 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 75.

During the year the Committee increased its focus on Sainsbury's Bank risk management and control processes. To enable the Committee to obtain assurance, it receives updates on the key agenda items discussed at the Bank's Audit Committee and on all important operating and regulatory matters including its liquidity, cash flows, capital adequacy and risk management processes. Representatives from the Bank Audit Committee and the Bank Internal Audit team now attend meetings of the Committee at least twice a year. During the year, the Committee has significantly increased its involvement with respect to data governance across the organisation and has received regular presentations and updates.

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, data security, 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.

Fair, balanced and understandable assessment

One of the new compliance requirements of the Code is for the Board to confirm that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable (see page 76). To enable the Board to make this declaration, a formal process is embedded in the year-end review to ensure the Committee, and the Board as a whole, has access to all relevant information and in particular, management's papers on significant issues faced by the business. The Committee receives a paper from management detailing the approach taken in the preparation of the Annual Report and Financial Statements. The Committee, and all other Board members, also receive drafts of the Annual Report and Financial Statements in sufficient time to facilitate their review and enable them to challenge the disclosures where necessary. In addition, the Group's external auditors review the consistency between the narrative reporting of the Annual Report and the Financial Statements.

Financial statements and significant issues

An accounting and tax 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 have also been prepared when considered necessary.

Directors' Report

Audit Committee continued

Significant financial and reporting issues considered in the year, in no particular order, were as follows:

Significant financial and reporting issue	How the issue has been addressed
Impairment of 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 the recoverable value of certain assets may be less than their carrying value. The Committee reviewed management's assessment of recoverable value and relevant judgements made. As a result, a £92 million impairment has been recognised during the year to write down the value of certain sites held for development as disclosed in note 3.
Complex property transactions	The Committee has reviewed a number of complex property transactions executed during the year to ensure that all accounting and tax issues are identified and appropriately presented in the accounts. This includes whether amounts recognised reflect the overall substance of these transactions and in particular that sale and leaseback transactions are treated correctly. Please refer to note 3 for property profits recognised in the year.
Pensions accounting	<p>The Committee reviewed a summary of the key assumptions used in arriving at a valuation for the defined benefit pension scheme. There have been two significant changes in the accounting for the defined benefit pension scheme in the year; the Group has implemented the required changes for the revision to IAS 19: Employee Benefits ('IAS 19 Revised') and the defined benefit scheme has been closed to future accrual.</p> <p>The Committee has ensured that the required additional accounting and tax disclosure as a result of both pension changes has been adequately presented in the financial statements. See note 2 for disclosure of the impact of applying the revised standard, note 3 for disclosure of relevant amounts presented outside of underlying profit and note 30 for new disclosures implemented as a result of IAS 19 Revised.</p>
The acquisition of the remaining 50 per cent of Sainsbury's Bank	This has required consideration of complex accounting due to the change from joint venture equity accounting to a fully consolidated subsidiary. Integration of the Bank within the Group's ongoing reporting processes has also been discussed extensively. The Committee has reviewed management's papers on the accounting and consolidation of Sainsbury's Bank along with the required disclosures. The use of judgement has been required when assessing the fair value of the acquired assets and liabilities of Sainsbury's Bank and the Committee is satisfied that management has used reasonable assumptions in their assessment of fair value. Refer to note 37 for the required business combination disclosures.
Items excluded from underlying results	The Committee is satisfied that the Group's definition of items excluded from underlying results remains clear and further disclosure is included where appropriate. The definition has been updated this year to present both defined benefit pension scheme expenses within the amounts excluded as a result of the closure of the scheme to future accrual and acquisition adjustments which do not reflect the Group's underlying performance. Other items such as the recovery of historic VAT overpayments in relation to Nectar have also been included within this disclosure on the basis that it is a one-off material item not relating to the Group's ongoing activities. Please refer to note 3 for further detail.

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.

The Director of Internal Audit, Susannah Hall, 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's performance and independence and the effectiveness of the overall audit process.

Changes made to the Code in 2012 recommended that the external audit is put out to tender at least every ten years. PwC have been the Company's auditors since 1995 and it is more than ten years since the external audit was tendered. PwC are required to rotate the audit partner responsible for the Group audit every five years.

Following new proposed regulation regarding audit tendering and audit firm rotation, the FRC plans to consult on the tendering provision within the Code in 2016. In late 2013, the UK Competition Commission ('CC') proposed a regime of mandatory audit tendering of FTSE 350 audit appointments at least every ten years. This was followed by the European Union ('EU') who issued draft legislation proposing mandatory audit firm rotation every 20 years (subject to a tender after ten years). In March 2014, the European Parliament voted to approve the proposed EU audit legislation, with the time frame for application likely to be June 2016. Given that the EU legislation has been voted in, it is expected that the CC will follow and align their rules with the EU.

Richard Hughes, the current audit partner, was appointed in July 2010 and is therefore due to rotate following the conclusion of the audit for 2015. On this basis and in light of regulatory changes referred to above, the Committee has determined that an external tender should commence after the AGM for the 2015/16 audit.

Independence

In order to ensure their independence, the Committee has overseen 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 2013/14 was audit related assurance services such as the interim review and the provision of accounting advice, which totalled £0.2 million. In addition, PwC earned fees for other non-audit work of £0.1 million. The audit fee for the year in respect of the Group, Company and its subsidiaries totalled £0.9 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.

Sainsbury's Bank

Sainsbury's Bank is a subsidiary of the Company which has an independent board which has the responsibility for setting the Bank's strategy, risk appetite and annual business plan as well as the day-to-day management of the business. The Board of the Bank has an independent Chairman and six Non-Executive Directors, four of whom are considered to be independent, whilst the other two are appointed by the Company.

The Bank will continue to provide an update on performance to each Audit Committee and the Chair of the Bank's Audit Committee and representatives from the Bank's Internal Audit team will present to the Audit Committee at least twice a year. There is alignment between the Sainsbury's Internal Audit function and their colleagues within the equivalent Sainsbury's Bank team.

Grocery Supply Code of Practice

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

GSCOP requires that each grocery retailer (to which it applies) delivers an annual compliance report to the Groceries Code Adjudicator which has been approved by the Chairman of the Audit Committee. Furthermore, a summary of the compliance report must be included in our Annual Report and Financial Statements.

Summary Annual Compliance Report

Sainsbury's has invested significant time and resource in providing comprehensive training to all relevant colleagues as required under GSCOP which is reinforced by online knowledge testing. Sainsbury's has also dedicated internal resource to provide all relevant colleagues with day-to-day advice and guidance. The Trading Division, in consultation with the Legal Services Team and the Code Compliance Officer, continues to assess the adequacy of policies and procedures in place to support GSCOP awareness and compliance.

A small number of alleged breaches of GSCOP have been received in the reporting period, which were dealt with 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 pages 51 and 52. 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 which includes reviewing risk appetite.

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.

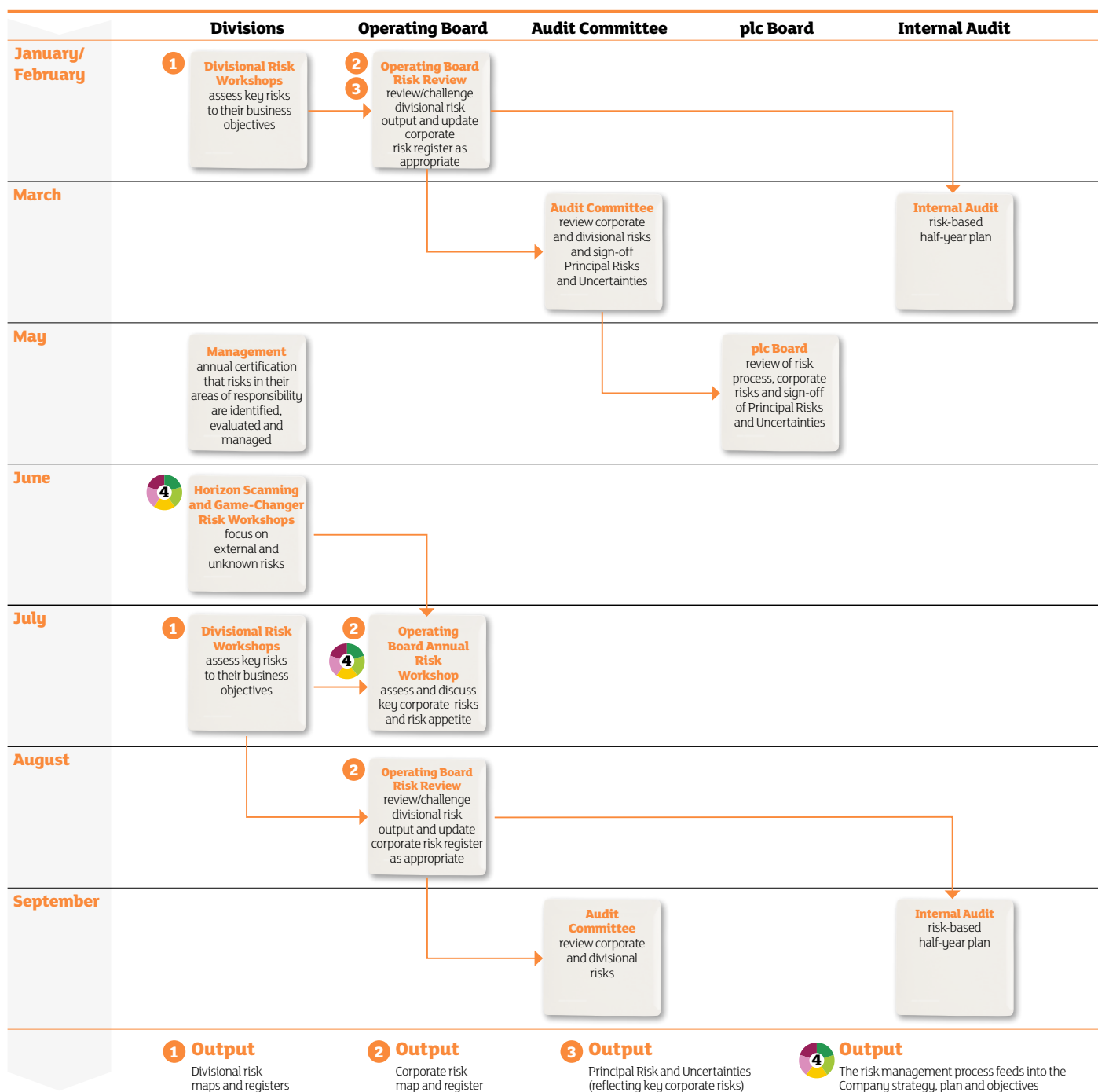
The risk management process is embedded at the Operating Board level and through the review of the risk registers of each of the operating divisions of the business:

- 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, 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 any further 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 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. Key themes and outputs from these are reviewed by the Operating Board and the potential impact on key risks is discussed;
- 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 24 to 27).

Directors' Report

Audit Committee continued

The risk management process is illustrated below:



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 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.

Annual Statement from the Remuneration Committee Chairman

Dear Shareholder,

In the current competitive environment it is vitally important that our remuneration policy is aligned to our business objectives and is motivational for our executives to ensure that we grow the business and deliver returns to shareholders over the longer term.

During the year we delivered good performance, despite tough trading conditions. As summarised on page 56, we have increased retail sales by 2.7 per cent (including VAT, excluding fuel), improved underlying profit before tax by 5.3 per cent and maintained our market share at 16.8 per cent. This performance has been reflected in the level of payments under our incentive plans.

- Annual bonus – our profit growth over the year has resulted in a bonus pool of over £80 million, which was shared by colleagues across the business. For the Executive Directors the payments were between 60 and 65 per cent of the maximum (compared to between 84 and 87 per cent last year).
- Deferred Share Award – following the delivery of strong financial, strategic and relative performance during the year, awards were made at 80 per cent of the maximum (compared to 83 per cent last year).
- Value Builder – in May 2014, the sixth cycle of Value Builder, in which over 230 managers participate, will mature at a performance multiplier of 1.6 times (40 per cent of the maximum), reflecting our performance over the previous three years.

The last year was particularly busy for the Committee. In January, we announced that Justin King will be stepping down as Chief Executive in July. The Committee carefully considered Justin's leaving terms, together with the remuneration arrangements for Mike Coupe, who succeeds him. The details were included in the announcement at the time and are repeated in the Annual Report on Remuneration. The agreed departure terms for Justin ensure that any remaining payments to him are aligned with the performance of the Company following his departure.

I am very pleased that Mike will be leading the Company through its next chapter. Following his appointment as Chief Executive, his salary will be £900,000 per annum, reflecting his experience and knowledge of Sainsbury's. While the total variable pay opportunity (as a percentage of base salary) remains the same as Justin's, we have rebalanced this towards the longer-term element of the package, to align his interests with the long-term interests of shareholders.

The Committee receives regular updates on the pay and conditions of colleagues throughout the Company and our normal approach to pay awards is for increases to Executive Directors to be in line with colleagues, unless there are exceptional circumstances. Following the most recent annual review we have increased John Rogers' salary to £600,000, reflecting his expanding role on the Board and also in light of the full purchase of the Bank. He is now responsible for a larger consolidated Group and he has a particularly important role with the Bank, being the only Group Director to sit on the Bank Board. John is a high performing and well-respected CFO in the marketplace and this adjustment recognises his growth in the role and most importantly his increased responsibilities.

During the year, we also undertook a review of our long-term incentive plan – Future Builder. We reviewed the plan and the performance targets to ensure they support our business plan and align the interests of executives and shareholders. Following conversations with our shareholders, we have increased the threshold and maximum Cash Flow hurdles by £250 million (the range is now £5,750 million to £6,750 million). The ROCE and relative sales targets remain unchanged. Prior to any vesting for this award, the Committee must also be satisfied that the Company's underlying performance over the period justifies the level of vesting. Further details are set out in the Annual Report on Remuneration.



Mary Harris
Chairman, Remuneration Committee

The changes we have made during the year support the over-arching principles of our remuneration policy which are to balance reward with performance, drive the achievement of our business objectives and encourage sustainable shareholder value creation.

In addition, to ensure we are being appropriately advised, we reviewed the remuneration advisers to the Committee. Following an extensive tender process, we reappointed Deloitte LLP, who the Committee believes provides robust, objective, independent advice.

The Directors' Remuneration Report, consisting of this Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration, is compliant with the new reporting requirements. Unfortunately by necessity this has made the report longer but we hope that you find the additional information and analysis useful. To assist shareholders, we have provided overleaf a summary of our performance, the payments for 2013/14 and the structure of remuneration arrangements for 2014/15.

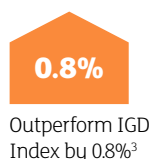
I hope you can see from this report that we remain committed to being focused on pay for performance and rewarding the leadership team in a way which aligns with the experience of long-term shareholders, while staying true to our Company values.

A handwritten signature in black ink, appearing to read 'Mary Harris', with a stylized flourish at the end.

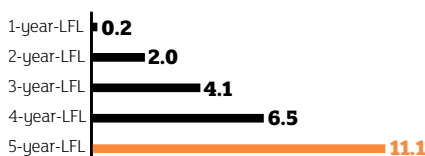
Mary Harris
Chairman, Remuneration Committee

Summary of remuneration at Sainsbury's – focused on pay for performance

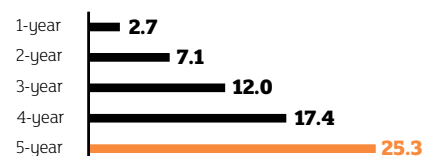
How did we perform in 2013/14?



Like-for-like sales 2013/14¹ (%)



Retail sales growth 2013/14¹ (%)



Underlying profit before tax^{2,4} (£m)



Retail underlying operating margin^{4,5} (%)



- Sales including VAT, excluding fuel, excluding Sainsbury's Bank.
- 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, retailing financing fair value movements, IAS 19 Revised pension financing charge, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature.
- IGD Market Track – 51 weeks to 8 March 2014.
- 2012/13 KPIs have been restated to reflect the adoption of IAS 19 Revised.
- Retail underlying operating margin: underlying profit before tax before underlying net finance costs and underlying share of post-tax results from joint ventures, divided by retail sales excluding VAT, including fuel.

How much were Executive Directors paid in 2013/14?

			Justin King £000		Mike Coupe £000		John Rogers £000	
			2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
Fixed pay								
Salary			960	940	587	575	520	510
Benefits			31	32	18	17	18	18
Pension			288	282	147	144	112	110
Performance-related pay								
Annual bonus	Good profit growth and delivery against customer and individual objectives	60% – 65% of max	781	996	318	449	282	390
Deferred Share Award	Exceeded targets providing strong platform for long-term performance – focus on core Sainsbury's values	80% of max	960	975	423	430	374	381
LTIP/Value Builder	Good progress on cash generation and returns generated in challenging environment	40% of max	925	1,141	516	588	407	357
Total pay			3,945	4,366	2,009	2,203	1,713	1,766

How will pay be structured in 2014/15?

Fixed pay	Annual bonus	Deferred Share Award	Future Builder
2014/15 salary Mike Coupe: £900,000 John Rogers: £600,000	Cash bonus Profit, sales, customer and personal performance	Shares deferred for two years Basket of financial and strategic measures	Long-term share incentive ROCE, Cash Flow and relative sales measured over three years; 50% of shares retained for a further one-year holding period
plus competitive benefits and pension	CEO: up to 110% of salary CFO: up to 90% of salary	CEO: up to 110% of salary CFO: up to 90% of salary	Core award: CEO: up to 62.5% of salary CFO: up to 50% of salary Maximum of 4x core award

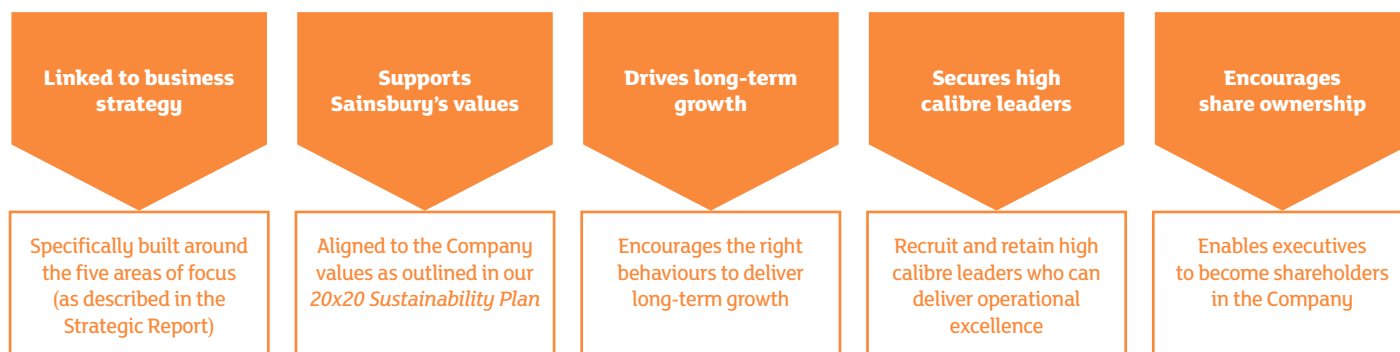
Note: Figures for Mike Coupe relate to package on appointment as Chief Executive.

Remuneration principles

Our colleagues are central to the Company's ongoing success and the Company's overall reward strategy supports this. Our objective is to have a fair, equitable and competitive total reward package that supports our vision of being the most trusted retailer where people love to work and shop, encourages colleagues to perform in ways that deliver great service for customers, 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. The remuneration policy for senior executives is based on the following principles:



The Committee takes a rounded approach to pay and considers a variety of factors when determining, and subsequently implementing, the remuneration policy for senior executives. It believes it is important to exercise suitable judgement at all stages during the process to ensure that executive pay levels appropriately reflect performance and are aligned with the interests of shareholders.

The Remuneration Committee regularly reviews the overall structure of remuneration for senior executives to ensure that it continues to evolve and is aligned to the corporate plan and business goals as well as supporting 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 Directors' Remuneration Policy and Annual Report of Remuneration provide further details of our approach to pay. In line with the new regulations, at the 2014 AGM, the Directors' Remuneration Policy will be subject to a binding vote and the remainder of the Directors' Remuneration Report will be subject to an advisory vote.

Directors' Remuneration Policy

The following sections set out our Directors' Remuneration Policy (the 'Policy'). This Policy will be put forward for shareholder approval at the 2014 AGM. Subject to shareholder approval, the Policy will take effect from the 2014 AGM.

Policy Table for Executive Directors

The table below summarises each element of the remuneration policy for Executive Directors, with further details set out after the table.

Base salary

Purpose and link to strategy	Core element of remuneration used to attract and retain executives who can deliver our strategic objectives.
Operation	Typically reviewed annually in March. Consideration is given to a number of internal and external factors including business and individual performance, role, responsibilities, scope, market positioning, inflation and colleague pay increases.
Opportunity	Salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for the wider workforce. There is no maximum salary opportunity. Where the Committee considers it necessary and appropriate, larger increases may be awarded in individual circumstances such as: <ul style="list-style-type: none"> • A change in scope or responsibility; • If a new Executive Director is appointed at a lower rate and the salary is realigned over time as the individual gains experience in the role; or • Alignment to market level. <i>Salary levels effective 16 March 2014:</i> <ul style="list-style-type: none"> • Justin King £960,000 • Mike Coupe £587,000 increasing to £900,000 on 9 July 2014 on appointment as Chief Executive • John Rogers £600,000
Performance details	None

Benefits

Purpose and link to strategy	Competitive benefits to assist in attracting and retaining executives.
Operation	A range of benefits may be provided including, but not limited to, the provision of company car benefits (or cash equivalent), private medical cover, life assurance, long-term disability insurance, all-employee share plan participation and colleague discount. The Committee keeps the benefits offered, the policies and the levels provided under regular review.
Opportunity	The value of benefits provided will be reasonable in the context of relevant market practice for comparable roles and taking into account any individual circumstances (e.g. relocation). There is no maximum monetary value. Participation in any HMRC-approved all-employee share plan is limited to the maximum award levels permitted by the relevant legislation.
Performance details	None

Pension

Purpose and link to strategy	Provides an income following retirement and assists colleagues building wealth for their future.
Operation	JS Self Invested Pension Plan (SIPP, a defined contribution plan) and/or a cash salary supplement.
Opportunity	Maximum value of up to 30 per cent of salary per annum for existing Executive Directors. For new hires the nature and value of any pension provided will be, in the Committee's view, reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Company.
Performance details	None

Annual bonus

Purpose and link to strategy	Rewards performance on an annual basis against key financial, operational and individual objectives.
Operation	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.
Opportunity	Maximum opportunity of up to 125 per cent of salary per annum. The level of payment for threshold performance varies depending on the performance measure, with payouts from zero per cent. Full vesting requires outperformance of stretch objectives. <i>Maximum for 2013/14:</i> <ul style="list-style-type: none"> • Justin King – 125 per cent of salary • Mike Coupe – 90 per cent of salary • John Rogers – 90 per cent of salary <i>Maximum for 2014/15:</i> <ul style="list-style-type: none"> • Mike Coupe* – 110 per cent of salary • John Rogers – 90 per cent of salary
Performance details	Based on a combination of financial (e.g. profit), operational (e.g. customer, availability) and individual metrics. A profit gateway must be achieved before any bonus payments can be made. The detail of the measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic goals. At least half of any award will be subject to financial measures.

Deferred Share Award ('DSA')

Purpose and link to strategy	Recognises and rewards 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. Awards delivered in shares to provide further alignment with shareholders.
Operation	Performance measured over one year, after which award made as conditional shares (or equivalent) deferred for two financial years. After the year-end, performance is assessed in the round based on the Committee's judgement of performance achieved. Measures and targets are reviewed annually in light of the strategic plan. Dividends (or equivalents) may accrue on shares during the deferral period.
Opportunity	Maximum opportunity of up to 125 per cent of salary per annum. No DSA grants are made unless threshold performance levels are reached, with full vesting requiring outperformance of stretch objectives. <i>Maximum for 2013/14:</i> <ul style="list-style-type: none">• Justin King – 125 per cent of salary• Mike Coupe – 90 per cent of salary• John Rogers – 90 per cent of salary <i>Maximum for 2014/15:</i> <ul style="list-style-type: none">• Mike Coupe* – 110 per cent of salary• John Rogers – 90 per cent of salary
Performance details	Basket of metrics covering four categories: financial performance, returns to shareholders, relative performance against peers and strategic goals. A profit gateway must be achieved before any awards can be made. The detail of the measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic goals. At least half of any award will be based on the delivery of financial performance and returns to shareholders.

Long-Term Incentive Plan ('LTIP') – Future Builder

Purpose and link to strategy	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Share-based to provide greater alignment with shareholder interests.
Operation	Awards of conditional share awards (or equivalent) with vesting dependent on performance measured over a period of at least three financial years. To the extent that targets are met, 50 per cent vests following the end of the performance period and 50 per cent is deferred for a further year. The Committee reviews the metrics, targets and weightings prior to each grant to ensure that they remain appropriate. Recovery provisions apply. Dividends (or equivalents) may accrue on vested shares.
Opportunity	Maximum award of up to 250 per cent of salary per annum under the rules of the plan in respect of any financial year. Awards structured as core award (up to 62.5 per cent per annum) with a performance multiplier of up to 4 times. For performance at threshold levels of performance, up to 25 per cent of maximum under each element may vest. Based on the current structure this is equivalent to a multiplier of 1 times the core award. <i>Award levels for 2013/14:</i> <ul style="list-style-type: none">• Justin King – core award of 55 per cent of salary• Mike Coupe – core award of 50 per cent of salary• John Rogers – core award of 50 per cent of salary <i>Award levels for 2014/15:</i> <ul style="list-style-type: none">• Mike Coupe* – core award of 62.5 per cent of salary• John Rogers – core award of 50 per cent of salary
Performance details	Based on Return on Capital Employed ('ROCE'), cumulative underlying cash flow from retail operations ('Cash Flow') and relative sales performance. A performance gateway must be achieved before any awards vest. <i>Weightings for 2014/15 awards:</i> <ul style="list-style-type: none">• ROCE – 50 per cent• Cash Flow – 30 per cent• Relative sales – 20 per cent Prior to granting awards, the Committee will review the performance conditions and may opt to vary the metrics and weightings to ensure targets and measures remain aligned with the corporate strategy. The Committee would seek to consult as appropriate with its major shareholders regarding any material changes.

Shareholding Guidelines

Purpose and link to strategy	Alignment of Executive Directors with shareholders.
Operation	Guideline expected to be met within five years of appointment. Guidelines are: Chief Executive 2.5 times salary, other Executive Directors 1.5 times salary.

*The 2014/15 incentive opportunities for Mike Coupe will take effect from his appointment as Chief Executive on 9 July 2014 and awards will be pro-rated to reflect time in role. Further details are included on page 64.

Directors' Report

Directors' Remuneration Report continued

Setting performance measures and targets

The Committee believes it is important that the performance conditions applying to incentive arrangements support the short and long-term corporate ambitions of the Company. We operate in a dynamic market with evolving challenges and the Committee reviews the performance measures and targets each year to ensure that they remain relevant and stretching. Further details of the performance measures are set out in the Annual Report on Remuneration.

The performance measures in the annual bonus and Deferred Share Award are selected as they are the key drivers of business performance. The targets for the annual bonus and DSA are set with reference to the corporate strategy and internal budgets as well as the external context (e.g. market forecasts). This approach seeks to ensure that the threshold and stretch targets are appropriately challenging.

The Future Builder performance measures focus on longer term growth and returns to shareholders, and a similar target-setting approach is used. Future Builder awards are currently linked to the following measures:

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
Cumulative underlying cash flow from retail operations	Measures the total flow of cash in and out of the business as well as providing an assessment of underlying profitability
Relative sales	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
Performance gateway	Ensures that any payout reflects the underlying performance of the Company

The Committee may vary or rebalance the weighting of the performance metrics for future annual bonus, DSA and Future Builder awards, in order to ensure that they remain aligned with the Company's strategic objectives. The Committee may also adjust the calculation of performance measures and vesting outcomes (for instance for material acquisitions or disposals and events not foreseen at the time the targets were set) to ensure they remain a fair reflection of performance over the relevant period.

Preventing rewards for failure

The Remuneration Committee may operate a recovery provision on Future Builder awards. This feature strengthens the Company's formal governance in line with our existing philosophy, and reduces the risk of payments for failure.

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

Financial accounts	Material mis-statement of our financial results
Actions/conduct of colleague	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.

Treatment of outstanding awards

The Committee may approve payments to satisfy commitments agreed prior to the approval and implementation of this Policy. This includes previous incentive awards that are currently outstanding and unvested (e.g. prior year Deferred Share Award, Value Builder and Future Builder arrangements granted under the Long-Term Incentive Plan). The structure of these legacy awards is consistent with the Policy Table but the performance conditions applying may be different. Further details of outstanding awards are set out in the Annual Report on Remuneration.

The Committee may also approve payments outside of this Policy, in order to satisfy any legacy arrangements made to a colleague prior to (and not in contemplation of) promotion to the Board of Directors.

Consideration of colleague pay and conditions

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 receives regular updates 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. When setting Executive Director salary increases the Committee considers the overall salary increase budget for management and the increase in rate of pay for hourly-paid colleagues.

The Committee does not formally consult with colleagues on the setting of the Policy but as a result of the Company's all-employee share plans, colleagues are able to become shareholders in the Company and can comment on the Policy in the same way as other shareholders.

Differences in remuneration policy for all colleagues

Many aspects of the remuneration policy for Executive Directors are consistent with the reward strategy for other colleagues across the Company. Below executive level, pay and benefits are scaled to reflect the nature of the role and based on the levels of pay in comparable roles in the market.

All colleagues, including colleagues at Sainsbury's Bank, are entitled to base salary, benefits including pension and annual bonus, subject to eligibility and relevant performance criteria. Annual bonus plans are operated across the Company and are aligned under a common set of principles with performance metrics tailored to different populations.

Senior executives expected to have the greatest influence on Company performance over time are eligible for participation in long-term incentive plans. All colleagues have the opportunity to become shareholders in the Company through our all-employee share plans and, as outlined in our *20x20 Sustainability Plan*, our aim by 2020 is to increase the number of colleagues with shares in our business by 25 per cent.

Participation in a pension plan is offered to all colleagues on a contributory basis, with the Company contribution varying by grade. Following auto-enrolment, we now have over 100,000 colleagues in one of our pension plans.

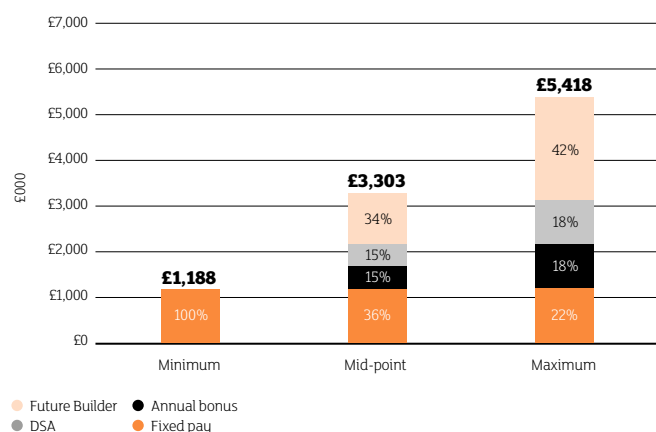
Potential total remuneration opportunity under our pay policy

The Committee believes it is important that a significant portion of the package for Executive Directors is performance-related and delivered in shares to align their interests with shareholders. The balance between fixed pay (base salary, pension and benefits) and variable pay (annual bonus, Deferred Share Award and Future Builder) 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

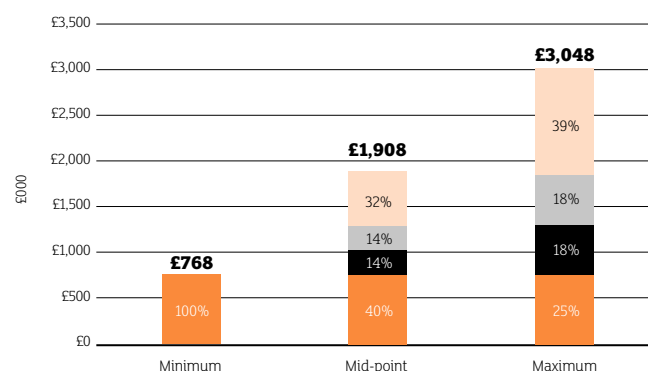
increases to at least three-quarters of the package at maximum levels of performance.

The charts below show the total remuneration potential of the Executive Directors, in accordance with the remuneration policy, under three performance scenarios. The details for Mike Coupe relate to the annual policy for him as Chief Executive, although for 2014/15 his actual rewards will reflect the time in his current and new role. In line with the regulations, the charts exclude the effect of share price movements.

Mike Coupe



John Rogers



	Opportunity	Minimum	Mid-point	Maximum
Fixed pay		Salary – Mike Coupe £900,000; John Rogers £600,000 Benefits – value in line with 2013/14 actual Pension – CEO 30% of salary; CFO 25% of salary		
Annual bonus	CEO – 110% of salary CFO – 90% of salary	Nil	50% of maximum	100% of maximum
Deferred Share Award	CEO – 110% of salary CFO – 90% of salary	Nil	50% of maximum	100% of maximum
Future Builder	CEO – core award of 62.5% of salary CFO – core award 50% of salary	Nil	Multiplier of 2x	Multiplier of 4x

Our approach to recruitment

The Committee believes it is vital to be able to attract and recruit leaders of the calibre required to deliver our strategic objectives, while remaining mindful of the cost to the Company. When determining remuneration arrangements for new appointments, the Committee intends to pay no more than it believes is necessary to secure the required talent. The Committee will seek to align the remuneration package with the approved remuneration policy.

Fixed pay	Salary and benefits (including retirement benefits) would be determined in accordance with the Policy Table above. An alternative package may also be necessary where an individual fulfils an executive role on an interim basis. In certain cases, the initial salary for a new appointment may be set at a lower level, with the intention of increasing the salary over time as the executive gains experience in the role. Benefits may need to be tailored based on the individual circumstances (e.g. relocation, housing or travel allowances may be required).
Variable pay	The maximum variable remuneration which may be offered to an executive will be no more than 500 per cent of salary (excluding any buy-out arrangements). This limit is consistent with the overall maximum set out in the Policy Table. Within these limits and where appropriate the Committee may tailor the award (e.g. timeframe, form, performance criteria) based on the commercial circumstances. Shareholders will be informed of the terms for any such arrangements.
Buy-outs	The Committee may need to buy-out remuneration terms forfeited on leaving a previous employer. In such circumstances, the Committee will seek to ensure any buy-out is of comparable commercial value and capped as appropriate. The quantum, form and structure of any buy-out arrangement will be determined by the Committee taking into account the terms of the previous arrangement being forfeited (e.g. form and structure of award, timeframe, performance criteria, likelihood of vesting, etc.). The buy-out may be structured as an award of cash or shares. However, the Committee will normally have a preference for replacement awards to be made in the form of shares and to be within the Company's existing incentive plans. Where an executive is appointed from either within the Company or following corporate activity/reorganisation (e.g. acquisition of another company), the normal policy would be to honour any legacy arrangements in line with the original terms and conditions.

On the appointment of a new Chairman or Non-Executive Director, the terms and fees will normally be consistent with the fee policy outlined later in the Directors' Remuneration Policy.

Directors' Report

Directors' Remuneration Report continued

Service contracts and policy for departing Executive Directors

The Company's policy is for Executive Directors' service contracts to be terminable on 12 months' notice by either party.

Contracts contain non-compete and non-solicit clauses with key suppliers and colleagues. The Company's normal practice is that Executive Directors may take up one non-executive role outside the Company, with approval from the Board, subject to the role being in a business that does not compete with the Company and with consideration of the time commitment. Directors are entitled to retain the fees earned from such appointments.

In the event of early termination without notice, any severance payment would be limited to one-year's salary and benefits (including pension), payable on a phased basis and subject to mitigation. Benefits payable may include certain one-off benefits in connection with termination such as legal costs and the costs of meeting any settlement agreement. There are no specific terms relating to a change of control.

The service contract under which Mike Coupe will be appointed Chief Executive and John Rogers was appointed as Chief Financial Officer follow these provisions in full, as will contracts for new appointments. The Executive Directors' service contracts are available for shareholders to view at the Company's registered office.

The Committee retains discretion to determine the exact termination terms of any Executive Director, having regard to all the relevant facts and circumstances available to them at the time. The table below sets out the general position and range of approaches in respect of incentive arrangements. In accordance with the terms of the relevant incentive plan rules, based on the circumstances of any departure the Committee has discretion to determine how an Executive Director should be categorised for each element and determine vesting levels accordingly based on the range shown below.

	'Bad leaver' (e.g. termination for cause, etc.)	'Good leaver' (e.g. cessation due to ill-health, injury, etc.)
Annual bonus	No entitlement following date notice served.	Bonus may be payable subject to performance. Awards normally pro-rated based on the period worked during the financial year, with payments usually occurring following the year-end.
Deferred Share Award	No entitlement to current year's award following date notice served. Unvested awards will lapse on notice.	Normally must be employed and not under notice to receive current year's award. Outstanding unvested awards normally do not lapse. Awards may be pro-rated for the proportion of the deferral period elapsed on cessation, unless the Committee determines otherwise. Awards may vest following cessation or at another date. On death, unvested awards will be released and vest in full.
Long-Term Incentive Plan (i.e. Future Builder and legacy Value Builder awards)	Unvested awards will lapse on notice.	Unvested awards vest at the normal time subject to performance. Awards will normally be pro-rated by reference to the proportion of the performance period that has elapsed since cessation, unless the Committee determines otherwise. On death, awards vest early on cessation with performance measured at this time. Awards are pro-rated by reference to the proportion of the performance period that has elapsed since cessation. If the Director leaves in the first six months after the start of the performance period, the award lapses in full.
All-employee share plans	In line with HMRC rules.	

Legacy terms for Justin King and Mike Coupe

Justin King will step down from the Board at the AGM on 9 July 2014. Further details regarding his departure terms are set out on page 70.

Mike Coupe's legacy service contract continues until 9 July 2014. If Mike Coupe's current contract 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 (treatment as outlined above). The Company can make phased payments in which case Mike Coupe would be required to mitigate his loss and payments would cease on him finding alternative employment. Mike Coupe's contract does not contain any specific provisions relating to change of control.

Detailed share plan provisions

Deferred Share Award, Value Builder and Future Builder awards are subject to the terms of the relevant plan rules under which the award has been granted. The Committee may adjust or amend awards only in accordance with the provisions of the plan rules. This includes making adjustments to awards to reflect one-off corporate events, such as a change in the Company's capital structure. In accordance with the plan rules, awards may be settled in cash rather than shares, where the Committee considers this appropriate.

On a change of control, Deferred Share Awards would be released or vest in full. Under the LTIP rules approved by shareholders, Value/Future Builder awards may vest taking account of relevant factors including progress against the relevant performance conditions. Awards will be pro-rated as set out below or, alternatively, Value/Future Builder awards may be rolled-over into awards in the new entity.

Timing of event	Pro-rating
12 months or less from the annual date of grant	Reduced to 33.3%
More than 12 months but 24 months or less from the annual date of grant	Reduced to 66.6%
Over 24 months from the annual date of grant	No reduction

In the event of a demerger or other significant distribution, Deferred Share Awards or Value/Future Builder awards may be allowed to vest wholly or in part if it is considered that a demerger or significant distribution event would affect the value of the award.

Winding up, administration or a voluntary arrangement event would result in Deferred Share Awards being released or vesting in full and Value/Future Builder awards would vest subject to achievement of the relevant performance conditions on the same time pro-rated basis as above.

In similar corporate events, awards under HMRC approved all-employee plans would vest in accordance with the standard approved terms.

The Committee may make minor amendments to the remuneration policy to aid its operation or implementation without seeking shareholder approvals (e.g. for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) provided that any such change is not to the material advantage of colleagues.

Remuneration policy for the Chairman and Non-Executive Directors

The remuneration of the Chairman is determined by the Remuneration Committee and the remuneration of the Non-Executive Directors by the Chairman and Executive Directors. The Chairman and Non-Executive Directors receive fees and are eligible for certain benefits. They are not entitled to any performance-related pay or pension.

The Chairman and Non-Executive Directors do not have service contracts. The Company's policy is to appoint the Chairman and Non-Executive Directors for an initial three-year period, which may be extended for further terms by mutual consent. The initial appointments and any subsequent reappointments are subject to annual election or re-election by shareholders.

Non-Executive Directors' appointments may be terminated at any time by serving three months' written notice by either party; six months' in the case of the Chairman. The Non-Executive Directors' letters of appointment are available for shareholders to view at the Company's registered office.

Non-Executive Director remuneration policy

Approach to setting remuneration	<p>The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. Fees may be paid in cash or shares.</p> <p>Typically reviewed annually in September.</p> <p>Judgement is used but consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and colleague pay increases.</p> <p>Where appropriate benefits may be provided such as private medical cover, annual medical assessment and colleague discount.</p> <p>Travel and other reasonable expenses (including any associated taxes) incurred in the course of performing their duties are reimbursed to Non-Executive Directors.</p>
Opportunity	<p>Fee opportunity reflects responsibility and time commitment.</p> <p>Additional fees are paid for further responsibilities such as chairmanship of committees.</p> <p>The value of benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided in comparable roles.</p> <p><i>Fees as at 16 March 2014:</i></p> <ul style="list-style-type: none"> • <i>Chairman £490,000 per annum</i> • <i>Base fee £62,500 per annum</i> • <i>Senior Independent Director, Chairman of Remuneration and Audit Committees additional fees of £17,500 per annum</i> • <i>Chairman of Corporate Responsibility and Sustainability Committee additional fees of £12,500 per annum</i>

Consideration of shareholder views

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.

As part of the Committee's commitment to positive and transparent shareholder relations, during the year the Committee consulted with its major shareholders in relation to the Future Builder targets for the 2014 awards. Further details of the 2014 awards are set out in the Annual Report on Remuneration.

Annual Report on Remuneration

Single total figure of remuneration for Executive Directors (audited information)

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 15 March 2014, together with comparative figures for the 52 weeks to 16 March 2013.

	Notes	Justin King ⁷ £000		Mike Coupe ⁷ £000		John Rogers £000	
		2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
Base salary	1	960	940	587	575	520	510
Benefits	2	31	32	18	17	18	18
Pension	3	288	282	147	144	112	110
<i>Total fixed pay</i>		1,279	1,254	752	736	650	638
Annual bonus	4	781	996	318	449	282	390
Deferred Share Award	5	960	975	423	430	374	381
Long-Term Incentive Plan	6	925	1,141	516	588	407	357
Total		3,945	4,366	2,009	2,203	1,713	1,766

1 Paid in relation to the year.

2 Benefits include a combination of cash and non-cash benefits, valued at the taxable value. Justin King received non-cash benefits which include company car benefits and private medical cover. Benefits for John Rogers and Mike Coupe include cash car allowance and private medical cover. The largest contributor to the benefits value is the company car provision: £27,856 for Justin King and £15,250 for Mike Coupe and John Rogers. Also included is a value for Sharesave options based on a 20 per cent discount on the savings in the year.

3 Paid in relation to the year; relates to cash supplements and for John Rogers also includes the Company contribution to a defined contribution plan. The figures in the case of John Rogers do not include deductions made from base salary for Saving Money and Reducing Tax ('SMART') pensions.

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

5 The 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.

6 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 over the performance period. The 2012/13 awards are based on the share price on initial vesting of £3.7450. The 2013/14 awards are based on the average share price over the fourth quarter for 2013/14 of £3.4948.

7 The Executive 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 2013/14 (2012/13: \$75,000). During the year 13,715 (2012/13: 11,372) of restricted Staples stock was released to Justin King and a further award over 15,412 shares was granted (2012/13: 13,715 restricted shares awarded). Justin King was also a Director of The London Organising Committee of the Olympic Games and Paralympic Games Limited and a member of the London Organising Committee of the Olympic and Paralympic Games until 30 May 2013. Justin King received £2,000 (2012/13: £8,000) during the year for his services which, after deductions for National Insurance, was donated directly to charity. Mike Coupe was appointed a Non-Executive Director of Greene King plc on 26 July 2011 and received £43,762 (2012/13: £43,000) for his services.

The following section provides details for each element of the package during 2013/14 as well as details of the Committee's intended approach in respect of 2014/15.

Appointment of Mike Coupe as Chief Executive

Mike Coupe will be appointed as Chief Executive following the AGM on 9 July 2014. As detailed at the time of the announcement, his package will consist of:

- Salary of £900,000 per annum;
- Maximum annual bonus opportunity of 110 per cent of salary;
- Maximum Deferred Share Award of 110 per cent of salary;
- Future Builder core award of 62.5 per cent of salary (maximum potential 250 per cent of salary);
- Payment in lieu of pension of 30 per cent of salary; and
- Benefits in line with the Company's policy.

The Committee considered Mike's package in light of the role, the individual and market positioning. The salary set reflects Mike's significant retail experience, knowledge of Sainsbury's and his proven track record, including seven years as an Executive Director. The Committee also determined that, while the overall level of variable incentive opportunity for the Chief Executive role should remain unchanged, it should be rebalanced towards the long-term award (Future Builder). For 2014/15, Mike's incentive awards will be pro-rated reflecting the time in each role.

As detailed in the Directors' Remuneration Policy, Mike Coupe's contractual terms have also been aligned with current best practice.

Base salary

	Salary effective from 17 March 2013	Salary effective from 16 March 2014
Justin King	£960,000	£960,000
Mike Coupe	£587,000	£587,000*
John Rogers	£520,000	£600,000

*On 9 July 2014, salary will be set at £900,000.

In line with the policy, the Committee takes account of a number of factors when considering salaries, with particular focus on the general level of salary increases awarded throughout the Company. The salary review for management and non-management central colleagues in March 2014 was 2.0 per cent and for hourly-paid retail colleagues in September 2013 was 2.6 per cent. External pay data is provided to the Committee for reference, relating to the UK retail market and similar-sized companies in terms of sales revenue and market capitalisation, but the Committee applies judgement when considering market data.

No adjustment was made to Justin King's salary at the start of the 2014/15 financial year. Mike Coupe's salary will also remain the same until 9 July when he is appointed Chief Executive. At the start of the financial year, the Committee reviewed John Roger's salary in light of his performance and expanded role, and increased his salary to £600,000. Following the full purchase of Sainsbury's Bank, John is now responsible for a larger consolidated Group and he has a particularly important role with the Bank, being the only Group Director to sit on the Bank Board. John is a high performing and well-respected CFO in the marketplace and this adjustment recognises his growth in the role and most importantly his increased responsibilities.

A similar approach was taken to setting pay for 2013/14, details of which were set out in last year's report.

Pension

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 (increasing to 30 per cent on appointment as Chief Executive).

In 2013/14, John Rogers participated in the JS Self Invested Pension Plan ('SIPP'), a defined contribution arrangement which is open to all senior management. In return for contributing 5 per cent of his salary, the Company contributed 12.5 per cent of his salary up to an internal earnings cap (£141,000 for 2013/14). He received a cash pension supplement of 25 per cent of the pensionable salary he was paid in excess of the earnings cap. For 2014/15, he will no longer participate in the SIPP and will receive 25 per cent of salary as a cash pension supplement.

Benefits

For 2013/14 and 2014/15, benefits for Executive Directors include the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount.

Performance-related pay

The Committee believes it is important that for Executive Directors a significant portion of the package is performance-related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and the long-term sustainable success of the Company. The Committee considers performance against a range of metrics to ensure that the assessment is rounded, taking into account both qualitative and quantitative factors.

The table below outlines each of the performance measures used in our performance-related pay arrangements and how they support our business strategy as outlined in the Strategic Review, being the five areas of focus, operational excellence, our values and our customers.

	Five areas of focus	Operational excellence	Our values	Our customers
Annual bonus				
Profit	✓	✓		
Sales	✓	✓		✓
Customer	✓	✓		✓
Individual performance	✓	✓	✓	✓
DSA				
Financial performance	✓	✓		
Returns to shareholders	✓			
Relative performance	✓			
Strategic goals	✓	✓	✓	✓
Future Builder				
ROCE	✓	✓		
Cash Flow	✓			
Relative sales	✓			✓

The Board is of the opinion that the performance targets for the annual bonus and Deferred Share Award are commercially sensitive as we operate in a highly competitive, consumer-facing sector. The disclosure of targets would provide competitors, even after the end of the performance period, with insights into the Company's strategic aims, budgeting and growth projections. Therefore, a full breakdown of the targets for the 2013/14 and 2014/15 awards has not been provided. However, in the following sections, the Committee has looked to provide expanded disclosure where possible so that shareholders can understand the basis for payments.

Annual bonus

2014/15 policy

All bonus plans across the Company are aligned under a set of common principles. The Board and management plans are based on profit, sales growth, customer-focused measures and an element for individual performance. Bonus awards are weighted to the achievement of profit, at least 50 per cent under the current structure, and profit also acts as the overall 'gateway' measure for the plan, reflecting the emphasis on profit. The annual bonus is paid in cash after the year-end.

The profit and sales targets are set against the Company's expected performance and are subject to a rigorous process of challenge before the proposals are considered by the Board. For 2014/15, the targets have been set such that stretching performance in excess of internal and external forecasts is required for maximum payout. The customer-focused measures are based on product availability 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 for the new Chief Executive will be 110 per cent of base salary which will take effect from the date of his appointment to the role. The maximum opportunity for the Chief Financial Officer remains unchanged at 90 per cent of base salary. Justin King will not participate in this plan in 2014/15.

2013/14 annual bonus payment (audited information)

The performance measures for 2013/14 were the same as outlined above for 2014/15. The Committee assessed performance against the targets following the end of the financial year. The Committee considers that the detail of targets applying to the annual bonus for 2013/14 continue to be commercially sensitive. However, an explanation of the outcome, including the positioning against the performance scale for each element is shown below:

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

During the year, the Company achieved good year-on-year profit growth resulting in an underlying profit before tax of £798 million. However, this performance was not sufficient to trigger vesting at the upper-end of the scale due to the highly demanding targets which were set at the start of the year. The profit element represents around 50 per cent of the total award and therefore this has a noticeable impact on the overall level of vesting. In addition, despite growing retail sales (including VAT, excluding fuel) by 2.7 per cent and maintaining market share, we were unable to meet our threshold sales target. The customer element is made up of a product availability measure (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 (based on how well the store support centres support customers and stores), both of which were achieved in full, reflecting our strong performance in this area.

The Committee also carefully reviewed the performance of the Executive Directors against the objectives that were set at the start of the year. These objectives include the Executive Directors' contribution to the Company's strategy as members of the Board and specific goals related to their core areas of responsibility.

Directors' Report

Directors' Remuneration Report continued

Based on the above performance outcomes, the table below sets out the Executive Directors' bonus payments for 2013/14, which are payable in cash in May 2014. These are the figures included in the annual bonus row in the single total figure table.

Annual bonus for 2013/14				
	Value £000	Per cent of salary	Per cent of maximum	Maximum per cent of salary
Justin King	781	81%	65%	125%
Mike Coupe	318	54%	60%	90%
John Rogers	282	54%	60%	90%

The 2013/14 annual bonus for store colleagues was based on corporate sales, product availability and customer service targets measured in their individual stores. This has resulted in a bonus pool of over £80 million which will be shared by colleagues.

Deferred Share Award

2014/15 policy

The Deferred Share Award ('DSA') is used to drive performance against a diverse range of business-critical financial and strategic scorecard measures and rewards Executive Directors for achieving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. These awards are made in shares to ensure further alignment of Executive Directors' interests with shareholders.

The DSA covers broadly the top 45 managers in the Company, including Executive Directors. Performance is assessed in the round based on the Committee's judgement of performance achieved against a number of measures within four broad categories. The categories and examples of the measures that will be reviewed for 2014/15 are set out below.

Financial performance	<i>Profit, earnings per share</i>
Returns to shareholders	<i>Total shareholder return, dividend yield</i>
Relative performance against peers	<i>Market share</i>
Strategic goals	<i>Five areas of focus, corporate responsibility</i>

As outlined in the Policy Table, at least 50 per cent of the award will be based on the delivery of financial performance and returns to shareholders. In addition, no shares will be awarded unless the profit gateway target (as applied to the annual bonus) is achieved.

Performance is assessed over one financial year, but any shares awarded are deferred for a further two financial years. The shares are subject to forfeiture if the participant resigns or is dismissed for cause prior to their release date. Dividends accrue during the deferral period on the shares that vest in the form of additional shares.

The maximum DSA award opportunity for the new Chief Executive will be 110 per cent of base salary, which will take effect from the date of his appointment to the role. The maximum opportunity for the Chief Financial Officer remains unchanged at 90 per cent of base salary. Justin King will not participate in this plan in 2014/15.

2013/14 Deferred Share Award (audited information)

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 challenging market circumstances in 2013/14 and this flowed through to the measures that determine awards under the DSA. The Committee agreed that for 2013/14 awards would be made at 80 per cent of the maximum level (see table below). These are the figures set out in the DSA row of the single total figure table. The share award is made in May 2014 and the shares vest in March 2016 subject to continued employment.

Deferred Share Award for 2013/14				
	Value £000	Per cent of salary	Per cent of maximum	Maximum per cent of salary
Justin King	960	100%	80%	125%
Mike Coupe	423	72%	80%	90%
John Rogers	374	72%	80%	90%

Although some of the specific measures and targets are commercially sensitive, the table opposite presents a selection of performance highlights which the Committee took into account within each of the four categories.

Long-term incentives

2014/15 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. Awards are made under the shareholder approved 2006 Long-Term Incentive Plan and the overall maximum award permitted by the rules of the plan is 250 per cent of salary including the performance multiplier.

Around 230 senior managers participate in this arrangement. A core award of shares is granted, calculated as a percentage of salary and scaled according to level of seniority. Vesting of the core award 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. 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 between grant and vesting on the shares that vest, in the form of additional shares.

As outlined in the Policy Table, Future Builder measures performance against ROCE, Cash Flow and relative sales.

The targets and weightings for the 2014 awards are set out below:

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
Return on capital employed ('ROCE')	50%	10.75%	12.00%
Cumulative underlying cash flow from retail operations ('Cash Flow')	30%	£5,750m	£6,750m
Relative sales v IGD Index	20%	Match Index	Index +1.0% p.a.

In addition, a performance gateway must be achieved before any element under the ROCE, Cash Flow or relative sales elements can vest. The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting. Vesting will be reduced if the vesting outcome is not considered to be justified. At vesting, when making this judgement the Committee has scope to consider such factors as it deems relevant. The Committee believes that having a gateway is an important feature of the plan and mitigates the risk of unwarranted vesting outcomes.

2013/14 Deferred Share Award performance

Financial performance

Overall we have performed well...

5.3%

Underlying PBT £798 million

8bps

Retail underlying operating margin 3.65%

6.5%

Underlying basic EPS 32.8 pence

Returns to shareholders

We have maintained a good level of returns to shareholders...

19bps

ROCE 11.3%

3.6%

Proposed full year dividend 173 pence, with dividend cover 1.90x underlying earnings

- TSR was above assessed over a one, three and five year period.
- Dividend yield and price/earnings ratio remain strong.

Relative performance against peers

We have outperformed the market (as measured by IGD)...

0.8%

Outperformed the IGD Index by 0.8 per cent (source: IGD Market Track – 51 weeks to 8 March 2014)

- Maintained market share at 16.8% (as measured by Kantar).
- Retail Industry Awards 2013 – Supermarket of the Year (sixth time in eight years) and Convenience Retailer of the Year (fourth year running).

Strategic goals

Great food

- Our own-brand goods are growing at over twice the rate of branded goods and account for over 50 per cent of food sales.
- Our re-launched *by Sainsbury's* range now has over 7,000 lines and is driving own-brand penetration, with 97 per cent of customers buying *by Sainsbury's* products.
- We remain the most trusted food retailer of the 'Big Four'.

Compelling general merchandise and clothing

- Non-food sales are increasing at over twice the rate of food.
- The re-launch of our *Tu* clothing brand in autumn 2013 represented the single biggest investment in our clothing business since 2004. The range is now merchandised in more than 400 stores.
- Annual turnover in general merchandise is over £1 billion and continues to grow.

Complementary channels and services

- We opened 91 convenience stores last year and delivered sales growth of around 19 per cent year-on-year with annual turnover of over £1.8 billion.
- We were named Online Retailer of the Year for the second consecutive year at the Grocer Gold Awards and reached £1 billion in online annual sales.
- We acquired the remaining 50 per cent shareholding of Sainsbury's Bank from Lloyds Banking Group.

Developing new business

- *Mobile by Sainsbury's* is still in its first year of business and we continue to test the dynamic market in which it operates.
- I²C marked its first full year of operation. I²C manages multi-media campaigns to Sainsbury's customers through a unique range of cross-channel tools.
- In its first year of trading, *eBooks by Sainsbury's* was the first to offer free ebooks for those buying the physical version.

Growing space and creating property value

- The market value of our property portfolio is now £12.0 billion.
- This year we opened 13 new supermarkets, 91 convenience stores and extended six supermarkets, a total of one million sq ft of additional space.
- To reduce our operational carbon emissions by 30 per cent, we have started to build highly sustainable, low carbon stores.

Corporate responsibility

- First major supermarket to introduce the Department of Health's nutritional labelling.
- All operational waste put to positive use, avoiding landfill.
- We have raised over £40 million for good causes this year and since 2005 have donated £136 million worth of Active Kids equipment and experiences.

Directors' Report

Directors' Remuneration Report continued

During the year, the Committee reviewed the performance targets to ensure they remained aligned with the business plan. For 2014/15, the Committee, after consulting with shareholders, has increased the threshold and maximum Cash Flow targets by £250 million from £5,500 million – £6,500 million to £5,750 million – £6,750 million. The ROCE and relative sales targets remain unchanged.

As Chief Executive, in 2014 Mike Coupe will receive a total core award of 62.5 per cent of salary (maximum 250 per cent of salary). This will comprise a core award of 50 per cent of salary in May 2014 in relation to his role as Group Commercial Director and, as previously announced, after he is appointed Chief Executive, he will receive an additional award, bringing the overall award to 62.5 per cent of his average salary for 2014/15. John Rogers will receive a core award of 50 per cent of salary in May 2014.

Future Builder performance measures

ROCE

ROCE is based on the underlying operating profit for the whole business, with Sainsbury's Bank fully consolidated, 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 retail operations

The cumulative underlying cash flow is based on the reported cash flow generated from core retail operations over the performance period after adding back net rent and cash pension costs. Only core retail operations are included in recognition of the differences in cash generation between the retail business and Sainsbury's Bank.

Relative sales

Relative sales performance is measured using the IGD Index (IGD Market Track). The 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.

2014 vesting (audited information)

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 Long-Term Incentive Plan figures in the single total figure table relates to the sixth cycle of Value Builder which was

made in 2011 and vests in May 2014, based on performance over 2011/12 to 2013/14. The performance conditions applying to the award vesting in May 2014 are set out in the 'Performance conditions attached to outstanding long-term incentives awards' table.

When assessing ROCE and cash flow per share ('CFPS') performance for the purposes of the plan, adjustments were made to take into account additional investment, returns and one-off events not envisaged at the time the targets were set. The Committee determined an adjusted ROCE of 13.0 per cent and CFPS of 8.2 per cent, resulting in a vesting multiplier of 1.6 times, which the Committee believes is a true and fair reflection of performance. This represents 40 per cent of the maximum award opportunity.

One half of the award becomes exercisable in May 2014, with the remaining portion exercisable in May 2015.

Performance conditions attached to outstanding long-term incentive awards

2012 Future Builder (first cycle) and 2013 Future Builder (second cycle)

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
Return on Capital Employed	50%	10.75%	12.00%
Cumulative underlying cash flow from operations	30%	£5,500m	£6,500m
Relative sales v IGD Index	20%	Match Index	Index +1.0% p.a.

In addition, a performance gateway must be achieved – EPS must grow by at least 4 per cent per annum for any award to vest.

2011 Value Builder (sixth cycle)

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

Share awards made during the financial year (audited information)

The following share awards were made to Executive Directors during the year. The Future Builder award levels are determined by the normal grant policy for the role and, in the case of the DSA, performance over the previous year.

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Number of shares	Performance period end date
Justin King	Future Builder ¹	220% of salary	£2,112,000	25% of each element	550,456	12/03/2016
	DSA ²	104% of salary	£975,000	N/A	254,183	N/A
Mike Coupe	Future Builder ¹	200% of salary	£1,174,000	25% of each element	305,984	12/03/2016
	DSA ²	75% of salary	£430,000	N/A	111,948	N/A
John Rogers	Future Builder ¹	200% of salary	£1,040,000	25% of each element	271,056	12/03/2016
	DSA ²	75% of salary	£381,000	N/A	99,293	N/A

1 The performance conditions applying to 2013 Future Builder are set out in the 'Performance conditions attached to outstanding long-term incentive awards' table. The basis of award shows the maximum value being four times the core award. The award was made on 16 May 2013 and the number of shares has been calculated using the five-day average share price prior to grant (9 to 15 May 2013) of £3.8368. 50 per cent of the award vests on 12 May 2016 and 50 per cent 12 months later. The award is structured as a nil-cost option with a two-year exercise period.

2 The DSA was made on 16 May 2013 based on performance over the 2012/13 financial year. The award was made at 83 per cent of the maximum level (maximum of 125 per cent of salary for Justin King and 90 per cent of salary for Mike Coupe and John Rogers). The number of shares has been calculated using the five-day average share price prior to grant (9 to 15 May 2013) of £3.8368. No further performance conditions apply. Awards become exercisable on 20 March 2015. The award is structured as a nil-cost option with an eight-year exercise period.

All-employee share plans

In line with our 20x20 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 ('SSPP') 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 2008 (five-year) SAYE reached maturity on 1 March 2014. Around 3,200 colleagues could use their savings and a tax-free bonus to buy Sainsbury's shares at a £2.24 option price. The 2010 (three-year) SAYE matured at the same time covering around 7,200 colleagues who could use their savings and a tax-free bonus to buy Sainsbury's shares at a £2.97 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 £28 million. The Company currently has over 33,000 colleagues participating in the SAYE with around 64,000 individual savings contracts.

Shareholding guidelines (audited information)

As detailed in the Policy Table, the Executive Directors are required to build up a specified level of shareholding in the Company. This is to create greater alignment of the Directors' interests with those of shareholders, in line with the objectives of the remuneration policy. The guidelines require the Chief Executive to have a holding of 2.5 times salary and Executive Directors 1.5 times salary. Directors are required to build this shareholding within five years of appointment to the relevant role. In addition to shares held, share awards under the DSA and Value/Future Builder awards where the performance period has ended count towards the guideline (on a net of tax basis).

Executive Directors' shareholdings and share interests (audited information)

The table below sets out details of all the Executive Directors' shareholdings and their share awards. Further details of the movements of the Executive Directors' shareholdings during the year are set out on page 73.

The table below sets out the Executive Directors' current shareholdings (including beneficial interests) and a summary of outstanding share awards at the end of the 2013/14 financial year.

	Ordinary shares ¹			Scheme interests ³			
	16 March 2013	15 March 2014	6 May 2014 ²	Deferred Share Awards ⁴	Value Builder awards with performance period completed ⁵	Value/Future Builder awards with performance period outstanding ⁶	SAYE
Justin King	825,979	1,282,115	1,282,190	543,556	133,763	1,788,340	2,710
Mike Coupe	866,411	801,949	801,949	239,901	68,908	995,620	4,518
John Rogers	210,806	376,644	376,717	212,526	41,885	851,080	6,302

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

2 The total includes shares purchased under the Sainsbury's Share Purchase Plan between 15 March 2014 and 6 May 2014.

3 Deferred Share Awards and Value/Future Builder awards are structured as nil-cost options.

4 Relates to Deferred Share Awards, including those awards granted in 2012/13 as set out in the 'Share awards made during the financial year' section.

5 Relates to Value Builder awards that have met the performance test but have not yet vested.

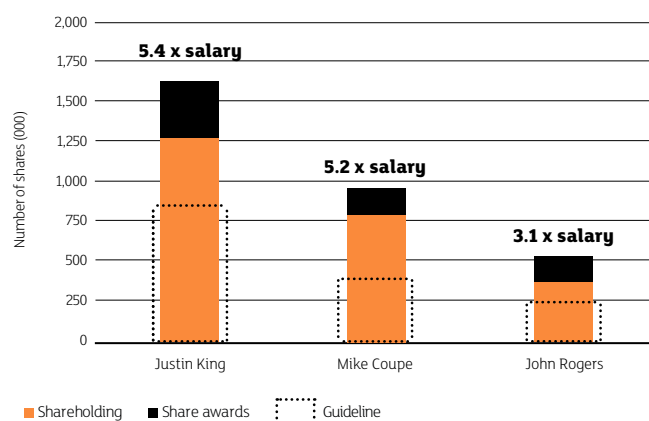
6 Relates to Value and Future Builder awards (maximum) where the performance period has not ended, including those awards granted in 2012/13 as set out in the 'Share awards made during the financial year' section and those vesting in May 2014.

Note: The Executive Directors are potential beneficiaries of the Company's employee benefit trust, which is used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 2.1 million shares (2013: 5.3 million) held by the Trustees.

Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines so that dilution from employee share awards does not exceed 10 per cent of the Company's issued share capital for all-employee share plans and 5 per cent in respect of executive share plans in any ten-year rolling

Shareholding guidelines



Notes

Shareholding calculated using (i) salaries as at 15 March 2014, (ii) share total based on total of shareholding plus net of tax value (tax assumed to be 47 per cent) of share awards not subject to performance as at 15 March 2014 and (iii) the closing mid-market share price on 14 March 2014 of £3.1360.

All Executive Directors have shareholdings that meet and significantly exceed the current shareholding guideline. On appointment as Chief Executive, Mike Coupe's shareholding guideline will increase to 2.5 times salary. However, his current holding exceeds the new guideline.

period. The Company monitors dilution levels on a regular basis and the Committee reviews these at least once a year. Up to 15 March 2014, an estimated 8.0 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 4.0 per cent over ten years in respect of its executive share plans. This is on the basis that all outstanding awards vest in full.

Directors' Report

Directors' Remuneration Report continued

Departure terms of Justin King

Justin King will step down at the AGM on 9 July 2014. Justin King's contract provides for a cash severance payment potentially worth up to 175 per cent of his base salary at departure. However, he has offered to waive this cash entitlement. As detailed on announcement of his departure, the Remuneration Committee have determined the following treatment:

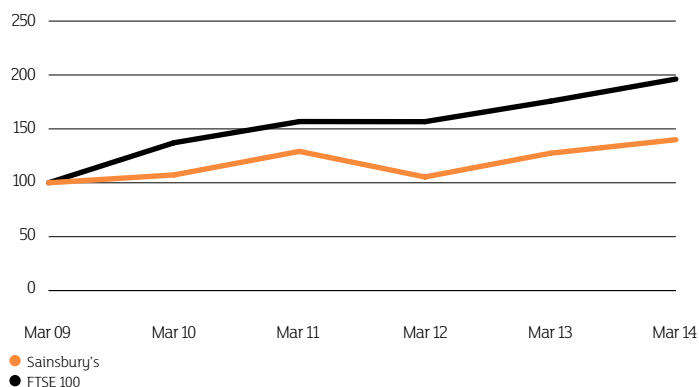
- There will be no payment in lieu of notice;
- He will remain eligible for an annual bonus and Deferred Share Award for 2013/14;
- He will receive no annual bonus, Deferred Share Award or Future Builder for 2014/15;
- There will be no acceleration of vesting for any share awards;
- The 2012/13 and 2013/14 Deferred Share Awards will subsist in full and will be released at the end of the deferral period; and
- The 2011 Value Builder and 2012 and 2013 Future Builder awards will subsist in full and will vest at the normal date, subject to the normal performance conditions i.e. at a vesting level consistent with other colleagues.

The above arrangements ensure that any remaining payments to Justin King are aligned with the performance of the Company following his departure and are a sign of his confidence in the new management and the business's continuing prospects.

Performance graph and remuneration table

The graph 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. The FTSE 100 Index has been selected to provide an established and broad-based index. The following table details the Chief Executive's total remuneration over this period.

TSR performance since March 2009



	Chief Executive's total remuneration in last five financial years				
	2009/10	2010/11	2011/12	2012/13	2013/14
Single figure remuneration £000	4,441	4,380	3,471	4,366	3,945
Bonus/DSA award as a percentage of maximum	92%	65%	61%	84%	73%
LTIP vesting percentage of maximum	80%	48%	43%	44%	40%

Percentage change in Chief Executive's remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2012/13 and 2013/14 compares with the percentage change in the average of each of those components of pay for all our colleagues.

	Salary % change	Benefits % change	Bonus % change
Chief Executive ¹	2.1%	(3.1)%	(21.6)%
All colleagues ²	2.1%	2.2%	(17.4)%

1 For the Chief Executive, the bonus figure only relates to the cash annual bonus.
2 Figures relate to average based on number of full-time equivalent colleagues.

Relative importance of spend on pay

The table below illustrates the year-on-year change in total colleague pay (being the aggregate staff costs as set out in Note 7 to the financial statements) and distributions to shareholders (being declared dividends). The number of colleagues has increased from 157,000 to 161,000 during the year.

Colleague pay			Distribution to shareholders		
2012/13 £m	2013/14 £m	% change	2012/13 £m	2013/14 £m	% change
2,320	2,435	5.0%	308	320	3.9%

Single total figure of remuneration for Non-Executive Directors (audited information)

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 15 March 2014 for each Non-Executive Director, together with comparative figures for the 52 weeks to 16 March 2013.

	2013/14			2012/13		
	Fees ¹ £000	Benefits £000	Total £000	Fees ¹ £000	Benefits £000	Total £000
David Tyler ²	480	1	481	470	1	471
Matt Brittin	61	–	61	60	–	60
Mary Harris	77	–	77	70	–	70
Gary Hughes	77	–	77	75	–	75
John McAdam	77	–	77	75	–	75
Susan Rice	49	–	49	–	–	–
Jean Tomlin	74	–	74	15	–	15
Anna Ford	–	–	–	58	–	58
Bob Stack	–	–	–	24	–	24

1 Paid in relation to the year.

2 David Tyler received a non-cash benefit of private medical cover.

The Chairman receives an annual cash fee and benefits of private medical cover and a colleague discount card.

Non-Executive Directors receive a base annual cash fee; additional fees are paid to the Senior Independent Director and to the Chairmen of the Audit, Remuneration and Corporate Responsibility and Sustainability Committees. Non-Executive Directors receive no benefits other than a colleague discount card.

Details of the Board and Committee schedule of meetings and the number of meetings attended by the Directors are set out on page 43.

During the year, the Chairman and Non-Executive Directors' fees were reviewed. From 29 September 2013, the fee levels were amended (the first increase in two years) to reflect the responsibilities and time commitment of the roles, as set out in the table below.

	Fees effective from 30 September 2012	Fees effective from 29 September 2013
Chairman fee	£470,000	£490,000
Base fee	£60,000	£62,500
Senior Independent Director fee (additional)	£15,000	£17,500
Chairman of Remuneration Committee fee (additional)	£15,000	£17,500
Chairman of Audit Committee fee (additional)	£15,000	£17,500
Chairman of Corporate Responsibility and Sustainability Committee fee (additional)	£12,500	£12,500

The beneficial interest of the Non-Executive Directors and their families in the shares of the Company are shown below.

	Ordinary shares ¹		
	16 March 2013	15 March 2014	6 May 2014
David Tyler	50,000	50,000	50,000
Matt Brittin	1,000	1,000	1,000
Mary Harris	11,607	12,123	12,123
Gary Hughes	31,625	33,032	33,032
John McAdam	1,000	1,000	1,000
Susan Rice ²	1,000	1,000	1,000
Jean Tomlin	–	1,315	1,315

1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.

2 16 March 2013 figure relates to date of appointment.

Dates of Directors' service contracts and letters of appointment

Justin King	29 March 2004
Mike Coupe	1 August 2007 (post appointment as Chief Executive 9 July 2014)
John Rogers	19 July 2010
David Tyler	1 October 2009 (Chairman from 1 November 2009)
Matt Brittin	27 January 2011
Mary Harris	1 August 2007
Gary Hughes	1 January 2005
John McAdam	1 September 2005
Susan Rice	1 June 2013
Jean Tomlin	1 January 2013

Governance – The Remuneration Committee

Committee membership

The Remuneration Committee comprises Mary Harris, John McAdam and Jean Tomlin. All members of the Committee are independent Non-Executive Directors.

Role and responsibilities of the Committee

The Committee complies with relevant regulations and considers the UK Corporate Governance Code and 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;
- Approving the service agreements of each Executive Director, including termination arrangements; and
- Considering the achievement of the performance conditions under annual and long-term incentive/bonus arrangements.

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

Directors' Report

Directors' Remuneration Report continued

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. David Tyler, Justin King, Angie Risley (Group HR Director), Lorna Godman (Head of Reward) and Ed Barker (Director of Group Finance), are invited to attend Committee meetings. Mike Coupe and John Rogers have also attended selected 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.

Principal activities and matters addressed during 2013/14

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. The table below shows the standard items considered at each meeting, leading up to the meeting in April where the key decisions regarding performance, outcomes and grants for the coming year are determined. The key issues the Committee discussed during the year were the exit arrangements for Justin King, the remuneration arrangements for Mike Coupe, the Future Builder arrangement, the targets applying to 2014 awards and the new reporting regulations. The Committee also undertook a competitive tender exercise of its adviser.

Standard agenda items	
September	<ul style="list-style-type: none"> • Performance update on outstanding incentive awards • Review of dilution under Company share plans • Corporate governance and market update • Review of the Chairman's fee
January	<ul style="list-style-type: none"> • Competitive review of Executive 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 • Review of advisers and their independence
March	<ul style="list-style-type: none"> • Review of long-term incentive plan for the next financial year • Executive Directors' salary review decisions • Performance update on outstanding incentive awards
April	<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 • Directors' Remuneration Report

Advisers to the Remuneration Committee

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 advice to the Committee on a range of topics including remuneration trends, corporate governance, incentive plan design and consulting with shareholders. In relation to this advice, Deloitte received fees of c. £165,000 (fees are based on hours spent). 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, for which they received fees of c. £35,000. Towers Watson also provided other services to the Company relating to pensions.

Both 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. During the year, the Committee has reviewed the advice provided by Deloitte and Towers Watson and has confirmed that it has been objective and independent. The Committee has also determined that the Deloitte partner who provides remuneration advice to the Committee does not have any connections with the Company that may impact their independence. The Committee has reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Following the appointment of a new Remuneration Committee Chairman in 2012 and in line with good governance, during the year the Committee undertook a competitive tender of its advisers. During the extensive tender process, the Committee met with a number of firms which concluded with the reappointment of Deloitte.

Statement of voting at general meeting

The table below sets out the votes on the Directors' Remuneration Report at the last two AGMs. The Committee is keen to hear the views of all shareholders and continually reviews the remuneration policy and implementation.

	Votes for	Votes against	Votes abstained
2012/13 Remuneration Report	96.91% 1,293 million	3.09% 41 million	8.3 million
2011/12 Remuneration Report	96.52% 1,184 million	3.48% 43 million	14.2 million

The Directors' Remuneration Policy will be put to a binding vote at the AGM on 9 July 2014, together with an advisory vote on the remainder of the Directors' Remuneration Report. The Directors confirm that this report has been prepared in accordance with the Companies Act 2006 and reflects the provisions of the Large and Medium-sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013.

Approved by the Board on 6 May 2014.

Details of the Executive Directors' share awards and movements during the year (audited information)

The table below shows the conditional awards granted and exercised under each of the Company's share plans.

		Date of grant	Share price at date of award (pence)	Option price	Number of options held as at 16 March 2013	Number of options granted/dividend shares allocated during the year	Number of options released in the year	Number of options lapsed during the year	Date of exercise	Mid-market share price on date of exercise (pence)	Number of options exercised	Notional gain on exercise (£000)	Number of options held 15 March 2014	
Justin King	Long-Term Incentive Plan 2006 ¹	28.05.08	352.0	Nil	181,304	–	–	–	09.05.13	378.8	181,304	687	–	
		24.06.09	314.0	Nil	141,077	–	–	–	09.05.13	378.8	141,077	534	–	
		24.06.09	314.0	Nil	121,334	21,820 ⁶	143,154	–	16.05.13	374.5	143,154	536	–	
		21.06.10	329.3	Nil	611,488 ⁵	18,554 ⁷	152,317	343,962 ⁷	16.05.13	374.5	152,317	570	133,763	
		19.05.11	343.0	Nil	570,748 ⁵	–	–	–	–	–	–	–	570,748 ⁵	
		17.05.12	295.3	Nil	667,136 ⁵	–	–	–	–	–	–	–	667,136 ⁵	
		16.05.13	374.5	Nil	–	550,456 ⁵	–	–	–	–	–	–	550,456 ⁵	
		Deferred Share Award ²	20.05.10	316.6	Nil	327,757	–	–	–	09.05.13	378.8	327,757	1,242	–
			19.05.11	343.0	Nil	263,436	28,434 ⁸	–	–	09.05.13	378.8	291,870	1,106	–
			17.05.12	295.3	Nil	289,373	–	–	–	–	–	–	–	289,373
Deferred Annual Bonus Plan ³	16.05.13	374.5	Nil	–	254,183	–	–	–	–	–	–	254,183		
	20.06.08	325.8	Nil	87,013	–	–	–	09.05.13	378.8	87,013	330	–		
	SAYE ⁴	10.12.10	374.6	297.0	3,030	–	–	–	03.03.14	337.2	3,030	1	–	
		11.12.13	388.0	332.0	–	2,710	–	–	–	–	–	2,710		
Total					3,263,696	876,157	295,471	343,962			1,327,522	5,006⁹	2,468,369	
Mike Coupe	Long-Term Incentive Plan 2006 ¹	28.05.08	352.0	Nil	81,005	–	–	–	09.05.13	378.8	81,005	307	–	
		24.06.09	314.0	Nil	63,954	–	–	–	09.05.13	378.8	63,954	242	–	
		24.06.09	314.0	Nil	55,004	9,891 ⁶	64,895	–	16.05.13	374.5	64,895	243	–	
		21.06.10	329.3	Nil	315,008 ⁵	9,558 ⁷	78,466	177,192 ⁷	16.05.13	374.5	78,466	294	68,908	
		19.05.11	343.0	Nil	318,648 ⁵	–	–	–	–	–	–	–	318,648 ⁵	
		17.05.12	295.3	Nil	370,988 ⁵	–	–	–	–	–	–	–	370,988 ⁵	
		16.05.13	374.5	Nil	–	305,984 ⁵	–	–	–	–	–	–	305,984 ⁵	
		Deferred Share Award ²	20.05.10	316.6	Nil	118,865	–	–	–	09.05.13	378.8	118,865	450	–
			19.05.11	343.0	Nil	104,855	11,316 ⁸	–	–	09.05.13	378.8	116,171	440	–
			17.05.12	295.3	Nil	127,953	–	–	–	–	–	–	–	127,953
Deferred Annual Bonus Plan ³	16.05.13	374.5	Nil	–	111,948	–	–	–	–	–	–	111,948		
	20.06.08	325.8	Nil	10,071	–	–	–	09.05.13	378.8	10,071	38	–		
	SAYE ⁴	10.12.09	318.6	273.0	3,324	–	–	–	09.05.13	378.8	3,324	4	–	
		11.12.13	388.0	332.0	–	4,518	–	–	–	–	–	4,518		
Total					1,569,675	453,215	143,361	177,192			536,751	2,018⁹	1,308,947	
John Rogers	Long-Term Incentive Plan 2006 ¹	28.05.08	352.0	Nil	41,583	–	–	–	09.05.13	378.8	41,583	158	–	
		24.06.09	314.0	Nil	33,858	–	–	–	09.05.13	378.8	33,858	128	–	
		24.06.09	314.0	Nil	29,120	5,236 ⁶	34,356	–	16.05.13	374.5	34,356	129	–	
		21.06.10	329.3	Nil	191,476 ⁵	5,809 ⁷	47,694	107,706 ⁷	16.05.13	374.5	47,694	178	41,885	
		19.05.11	343.0	Nil	250,972 ⁵	–	–	–	–	–	–	–	250,972 ⁵	
		17.05.12	295.3	Nil	329,052 ⁵	–	–	–	–	–	–	–	329,052 ⁵	
		16.05.13	374.5	Nil	–	271,056 ⁵	–	–	–	–	–	–	271,056 ⁵	
		Deferred Share Award ²	20.05.10	316.6	Nil	62,927	–	–	–	09.05.13	378.8	62,927	238	–
			19.05.11	343.0	Nil	79,578	8,587 ⁸	–	–	09.05.13	378.8	88,165	334	–
			17.05.12	295.3	Nil	113,233	–	–	–	–	–	–	–	113,233
Deferred Annual Bonus Plan ³	16.05.13	374.5	Nil	–	99,293	–	–	–	–	–	–	99,293		
	20.06.08	325.8	Nil	4,135	–	–	–	09.05.13	378.8	4,135	16	–		
	SAYE ⁴	09.12.11	297.2	238.0	6,302	–	–	–	–	–	–	6,302		
Total					1,142,236	389,981	82,050	107,706			312,718	1,181⁹	1,111,793	

1 See page 68 for details of the Long-Term Incentive Plan (i.e. Value and Future Builder), including performance conditions.

2 See page 66 for details of the Deferred Share Award, including performance conditions.

3 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 to 16 May 2012. The Plan is no longer operated.

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

5 Maximum award which could be achieved.

6 The second half of the award which vested in May 2012 was released 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 9 to 15 May 2013.

7 The performance of the award made in May 2010 was tested in May 2013 and a multiplier of 1.75 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 2013 whilst the remainder of the achieved award will vest in May 2014. The number of dividend shares determined by a five-day average share price from 9 to 15 May 2013.

8 The number of dividend shares for the 2011 award was determined by a five-day average share price following the announcement of interim and preliminary results: 12 to 18 May 2011, 10 to 16 November 2011, 10 to 16 May 2012 and 15 to 21 November 2012.

9 This is the notional gain on the date of exercise had all shares been sold.

Other disclosures

Dividends

The Directors recommend the payment of a final dividend of 12.3 pence per share (2013: 11.9 pence), making a total dividend for the year of 17.3 pence per share (2013: 16.7 pence), an increase of 3.6 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting (AGM), the dividend will be paid on 11 July 2014 to shareholders on the register at the close of business on 16 May 2014.

Changes to the Board

As reported in our Annual Report last year, Susan Rice joined the Board on 1 June 2013 and her appointment was approved by shareholders at the AGM on 10 July 2013.

In January, we announced that Justin King will stand down in July after ten very successful years as Chief Executive and that Mike Coupe will succeed him. Mike joined Sainsbury's in 2004 and was appointed to the Board in August 2007. Since July 2010 he has been Group Commercial Director.

Re-election of Directors

The UK Corporate Governance Code provides for all directors of FTSE companies to stand for election or re-election by shareholders every year. Accordingly, all members of the Board, with the exception of Justin King, 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 37.

Annual General Meeting

The AGM will be held on Wednesday 9 July 2014 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, approve the Directors' Remuneration Report and the Directors' Remuneration Policy, to re-elect 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 the 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 2013, 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.

Ordinary shares

Details of the changes to the ordinary issued share capital during the year are shown on page 109. At the date of this report, 1,908,436,219 ordinary shares of 28¹/₂ pence have been issued, are fully paid up and are listed on the London Stock Exchange.

Major interests in shares

As at 6 May 2014, 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
Lord Sainsbury of Turville	4.99
Qatar Holdings LLC	25.99

Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown on pages 69 and 71. 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 2013/14, which has been renewed for 2014/15. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

Employment policies

The Company is committed to equal opportunities for recruitment and selection, through training and development, performance reviews and promotion through our 'A great place to work' strategy. The Company has well developed policies for the fair and equal treatment of all colleagues and the employment of disadvantaged persons. During the year, a number of training courses have been held to ensure that our policies are understood throughout the organisation. We will endeavour to adapt the work environment and retrain colleagues who have become disabled during their employment. See page 46 for further information on our diversity strategy.

As well as creating jobs we are committed to providing a workplace where people feel they are given the right opportunities to succeed in a safe, healthy and respectful environment. We know this is important and this is the reason why A great place to work is one of our five values, with a number of employment related commitments within our *20x20 Sustainability Plan*. For further information see our website (<http://www.j-sainsbury.co.uk/responsibility/factsheets>).

The Company is committed to colleague involvement throughout the business. Colleagues are kept informed of the performance and strategy of the Company and 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.

Human rights

The Company does not have a specific human rights policy but fairness and integrity are an important part of the way we run the business as shown by the values and policies described above and throughout this report. In addition, our customers want to be confident that the people who make and sell our products are not being exploited, or exposed to unsafe working conditions. Our Code of Conduct for Ethical Trade covers the employment practices we expect from our suppliers, both in the UK and abroad. As founder members of the Ethical Trading Initiative (ETI), our Code of Conduct is consistent with the ETI Base Code and national and international laws. For further information on this Code of Conduct see our website (<http://www.j-sainsbury.co.uk/suppliers/ethical-trading>).

Donations

The Company made no political donations in 2014 (2013: £nil).

See page 23 for details of the Company's charitable donations.

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 Sainsbury's business.

Taxation

The Company complies with relevant tax laws, regulations and obligations regarding the filing of tax returns, payment and collection of tax. Sainsbury's does not undertake any tax planning schemes that seek to use so-called 'tax havens' for aggressive tax planning and for the purpose of tax avoidance. Sainsbury's aims to develop an open, honest relationship with the tax authorities and involve them at an early stage should any complex tax issues arise. The taxation policy is reviewed annually by the Board. Tax is a key item on the Audit Committee agenda and is discussed quarterly where large or complex tax items will feature, together with compliance and key risk management updates.

All of Sainsbury's stores are based in the UK, and all our sales are generated here. As such substantially all (more than 99 per cent) of our taxes are paid here. The Group also includes companies based in the following jurisdictions: Hong Kong and China – our offices in Hong Kong and China source many of our non-food products. Local taxes of £1 million were paid in the year (2012/13 £1 million), Isle of Man – our insurance company is based here for regulatory reasons, as are many other insurance companies. Ireland, Jersey, Guernsey, USA – these companies are all dormant and accordingly do not pay any tax. There are also other Group companies that were incorporated in Ireland, USA, Jersey and the Cayman Islands that are UK tax resident, meaning that all relevant taxes are payable to the UK Government.

Post balance sheet events

There are no post balance sheet events.

Financial risk management

The financial risk management and policies of the Group are disclosed in note 28 on pages 114 to 120 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 Strategic Report on pages 1 to 35, 46, 49, 75 and inside front cover. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 28 to 35. The Group manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of standby liquidity. Full details of the Group's financing arrangements can be found in note 20 on pages 106 and 107 to the financial statements. In addition, notes 28 and 29 on pages 114 to 126 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.

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 80 to 138.

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 and Corporate Services Director

6 May 2014

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and 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; and
- 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 Directors' 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.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable.

The Board believes that the disclosures set out on pages 1 to 35, 46, 49, 75 and the inside front cover of this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

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 37, confirm that, to the best of their knowledge:

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

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director

6 May 2014

Independent auditors' report to the members of J Sainsbury plc

Report on the financial statements

Our opinion

In our opinion:

- the financial statements, defined below, give a true and fair view of the state of the Group's and of the Company's affairs as at 15 March 2014 and of the Group's profit and of the Group's and Company's cash flows for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements and Company financial statements (the 'financial statements'), which are prepared by J Sainsbury plc, comprise:

- the Group and Company balance sheets at 15 March 2014;
- the Group income statement and statement of comprehensive income for the 52 weeks then ended;
- the Group and Company statements of changes in equity and cash flow statements for the 52 weeks then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the Company, as applied in accordance with the provisions of the Companies Act 2006.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report and Financial statements 2014 (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). 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 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 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £40 million. This represents approximately 5 per cent of the Group's profit before tax adjusted for one-off items, as defined in note 3 on page 93. We believe basing materiality on this adjusted profit measure is appropriate as it is a measure of recurring performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3 million as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group's businesses are organised into three operating segments, being retailing, financial services and property investments, as defined in note 4 to the financial statements. The financial statements are a consolidation of six reporting units, which cover the Group's retailing and financial services businesses (Sainsbury's Supermarkets Limited and Sainsbury's Bank plc, the 'Bank'), centralised functions (including J Sainsbury plc), property companies and joint ventures.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC UK and by other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Of the Group's six reporting units, we identified two (J Sainsbury plc and Sainsbury's Supermarkets Ltd) which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. In addition, we performed an audit of the complete financial information of the Bank as at 28 February 2014 and for the one month period then ended, being the period from the date of acquisition. Specified audit procedures on material balances and transactions were performed at the remaining three reporting units. This, together with additional procedures performed at the Group level, such as on tax, the acquisition accounting for the Bank and the consolidation process, gave us the evidence we needed for our opinion on the financial statements as a whole.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

Financial statements

Independent auditors' report to the members of J Sainsbury plc continued

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of audit focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 52.

Area of focus

Supplier incentives, rebates and discounts

We focused on this area as supplier incentives, rebates and discounts represent a material reduction in cost of sales expenses. The calculation of these amounts is in part dependent on an estimation of whether amounts due under supplier agreements have been earned at the balance sheet date based on either inventory purchased or goods sold. Furthermore the process for calculating and recording supplier incentives, rebates and discounts involves significant manual processes which are more susceptible to error.

How the scope of our audit addressed the area of focus

We understood and tested the interface between the three systems in place over supplier incentives, rebates and discounts to satisfy ourselves as to the accuracy and integrity of the data.

We tested the accuracy of a sample of key inputs to individual supplier agreements. We then re-performed management's calculations, using the tested inputs, to determine the accuracy of the amounts recognised.

We performed procedures to identify any significant transactions recorded as manual adjustments and obtained evidence to support the recognition and timing of those amounts based on the individual supplier agreements.

We performed year-end cut-off procedures to determine whether amounts were recorded in the correct period.

Our audit procedures to test the accounting for the transaction, included verifying the purchase price, contract clauses and terms connected with completion adjustments to the signed sale and purchase agreement.

We evaluated the fair values allocated to the assets and liabilities acquired by Sainsbury's Group as part of the transaction with reference to appropriate supporting calculations and third party expert reports. This included assessing whether the fair values allocated aligned to market expectations based on our experience of other banking transactions.

We tested all material consolidation entries recorded in connection with the acquisition to determine whether the accounting was appropriate.

Acquisition accounting for Sainsbury's Bank

Following the acquisition of the remaining 50 per cent of Sainsbury's Bank on 31 January 2014, the Bank is now consolidated into the Group financial statements, with the assets and liabilities purchased being accounted for at fair values at the date of the acquisition.

We focused on this area given the significant judgements involved in assessing the fair values of assets and liabilities acquired, as this directly impacts the amount of goodwill recognised on acquisition. The fair values are based on valuation techniques built, in part, on assumptions about the Bank's future performance, which are inherently judgemental.

Furthermore, there was complexity involved in acquisition accounting for the Bank given it was previously held as a joint venture (refer to note 37 of the financial statements).

Revenue recognition

ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.

As the vast majority of revenue is settled in cash or by credit card we focused on manual adjustments to revenue as they are more susceptible to manipulation.

We tested the reconciliations between the revenue system, management accounts and the financial statements.

We used data analytics to agree revenue from transactions recorded through the tills to cash or credit card receipts, which represents the vast majority of revenue recorded during the financial year.

In addition we tested significant manual journal entries posted to revenue which included non-cash adjustments for items such as staff discounts, coupon redemptions and gift vouchers/cards, to identify and understand unusual or irregular items and obtained evidence to support their recognition.

We obtained an understanding of the underlying commercial rationale for each material property transaction.

Accounting for property transactions

A number of significant property transactions took place during the year.

We focused on these transactions as they were material in value and complex in nature, requiring consideration of the point at which the risks and rewards of ownership were transferred to or from the Group, which affects the recognition of assets and liabilities on the balance sheet. The Directors also had to exercise judgement in determining whether properties held under lease agreements were classified as either finance or operating leases (refer to note 11 and note 33 of the financial statements).

We evaluated the control environment surrounding the accounting for property transactions including testing of controls around disposal control forms and the approval of major capital expenditure projects.

Our audit procedures included obtaining and reviewing the legal documents to fully understand the terms and conditions of each transaction and therefore the associated accounting implications. We evaluated the appropriateness of the accounting treatments adopted and obtained independent valuation assessments for a sample of properties to test that the properties had been valued appropriately.

We obtained management's impairment assessment for land and stores under construction to assess whether or not the recoverable amount of the assets were below their carrying values.

Impairment of land and stores under construction

We focused on the carrying value of property held for development given the impairment recognised during the year and the judgements involved in determining the recoverable amount.

We evaluated the assumptions and valuation methodology used by management and the validity of data for a sample of assets. For those assets where recoverable amount was determined on a value in use basis we compared forecast sales with existing comparable stores. For those stores where recoverable amount was determined based on fair value less costs to dispose, we compared investment yields with industry standards and appropriate independent benchmarks.

Area of focus

Risk of management override of internal controls

ISAs (UK & Ireland) require that we consider this.

How the scope of our audit addressed the area of focus

We performed a fraud risk assessment in order to identify specific areas of risk relating to management override of controls.

We performed testing of journals, with particular focus on manual adjustments to the income statement, to mitigate the risk of manipulation of revenue and profit figures.

We independently assessed and challenged accounting estimates relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud, for example provisions, asset impairments, income taxes, post-employment benefits and assets' useful economic lives.

We also assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" and held meetings with members of the Board and Operating Board as well as the Group's Internal Audit function.

Going concern

Under the Listing Rules we are required to review the Directors' statement, on page 75, in relation to going concern. We have no exceptions to report arising from our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company has adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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
- we have not received all the information and explanations we require for our audit.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 76 of the Annual Report, as required by the Code Provision C.1.1, the Directors state that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy. On page 52, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under ISAs (UK & Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 76, the Directors are responsible for the preparation of the Group and Company 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 Group and Company 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.

Richard Hughes Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 May 2014

Group income statement

for the 52 weeks to 15 March 2014

	Note	2014 £m	Restated 2013 £m
Revenue	4	23,949	23,303
Cost of sales		(22,562)	(22,026)
Gross profit		1,387	1,277
Administrative expenses		(444)	(462)
Other income		66	67
Operating profit	5	1,009	882
Finance income	6	20	19
Finance costs	6	(159)	(153)
Share of post-tax profit from joint ventures and associates	14	28	24
Profit before taxation		898	772
Analysed as:			
Underlying profit before tax		798	758
Profit on disposal of properties	3	52	66
Investment property fair value movements	3	–	(10)
Retailing financing fair value movements	3	(8)	(10)
IAS 19 Revised pension financing charge	3	(23)	(16)
Defined benefit pension scheme expenses	3	(7)	(7)
Acquisition adjustments	3	18	–
One-off items	3	68	(9)
		898	772
Income tax expense	8	(182)	(170)
Profit for the financial year		716	602
Attributable to:			
Owners of the parent		716	602
Non-controlling interests		–	–
		716	602
Earnings per share	9	pence	pence
Basic		37.7	32.0
Diluted		36.9	31.5
Underlying basic		32.8	30.8
Underlying diluted		32.2	30.3

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

The notes on pages 86 to 138 form an integral part of these financial statements.

Group statement of comprehensive income

for the 52 weeks to 15 March 2014

	Note	2014 £m	Restated 2013 £m
Profit for the financial year		716	602
Items that will not be reclassified subsequently to the income statement:			
Remeasurements on defined benefit pension schemes	30b	(326)	(339)
Current tax relating to items not reclassified	8	34	23
Deferred tax relating to items not reclassified	8	19	53
		(273)	(263)
Items that may be reclassified subsequently to the income statement:			
Currency translation differences	24	(2)	1
Available-for-sale financial assets fair value movements			
Group		34	11
Joint ventures and associates		-	2
Cash flow hedges effective portion of fair value movements			
Group	24	(43)	22
Joint ventures and associates	24	2	1
Items reclassified from cash flow hedge reserve	24	4	(5)
Current tax relating to items that may be reclassified	8	(1)	1
Deferred tax relating to items that may be reclassified	8	(2)	1
		(8)	34
Total other comprehensive expense for the financial year (net of tax)		(281)	(229)
Total comprehensive income for the financial year		435	373
Attributable to:			
Owners of the parent		435	373
Non-controlling interests		-	-
		435	373

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

The notes on pages 86 to 138 form an integral part of these financial statements.

Balance sheets

At 15 March 2014, 16 March 2013 and 18 March 2012

	Note	Group			Company	
		2014 £m	Restated 2013 £m	Restated 2012 £m	2014 £m	2013 £m
Non-current assets						
Property, plant and equipment	11	9,880	9,804	9,329	16	17
Intangible assets	12	286	171	160	–	–
Investments in subsidiaries	13	–	–	–	7,562	7,316
Investments in joint ventures and associates	14	404	532	566	6	91
Available-for-sale financial assets	15	255	189	178	37	34
Other receivables	17a	26	38	38	1,229	1,264
Amounts due from Sainsbury's Bank customers	17b	1,292	–	–	–	–
Derivative financial instruments	29	28	47	37	23	41
Deferred income tax asset	21	–	–	–	–	1
		12,171	10,781	10,308	8,873	8,764
Current assets						
Inventories	16	1,005	987	938	–	–
Trade and other receivables	17a	433	306	286	1,428	1,254
Amounts due from Sainsbury's Bank customers	17b	1,283	–	–	–	–
Derivative financial instruments	29	49	91	69	48	72
Cash and bank balances	26b	1,592	517	739	136	351
		4,362	1,901	2,032	1,612	1,677
Non-current assets held for sale	18	7	13	–	–	–
		4,369	1,914	2,032	1,612	1,677
Total assets		16,540	12,695	12,340	10,485	10,441
Current liabilities						
Trade and other payables	19a	(2,692)	(2,726)	(2,740)	(4,457)	(4,571)
Amounts due to Sainsbury's Bank customers	19b	(3,245)	–	–	–	–
Borrowings	20	(534)	(165)	(150)	(341)	(24)
Derivative financial instruments	29	(65)	(65)	(88)	(47)	(65)
Taxes payable		(189)	(148)	(149)	–	(6)
Provisions	22	(40)	(11)	(9)	(2)	(1)
		(6,765)	(3,115)	(3,136)	(4,847)	(4,667)
Net current liabilities		(2,396)	(1,201)	(1,104)	(3,235)	(2,990)
Non-current liabilities						
Other payables	19a	(204)	(173)	(137)	(863)	(876)
Amounts due to Sainsbury's Bank customers	19b	(302)	–	–	–	–
Borrowings	20	(2,250)	(2,617)	(2,617)	(394)	(633)
Derivative financial instruments	29	(21)	(4)	(1)	(10)	(4)
Deferred income tax liability	21	(227)	(277)	(317)	–	–
Provisions	22	(29)	(39)	(63)	(2)	(2)
Retirement benefit obligations	30	(737)	(632)	(348)	–	–
		(3,770)	(3,742)	(3,483)	(1,269)	(1,515)
Net assets		6,005	5,838	5,721	4,369	4,259
Equity						
Called up share capital	23	545	541	538	545	541
Share premium account	23	1,091	1,075	1,061	1,091	1,075
Capital redemption reserve	24	680	680	680	680	680
Other reserves	24	127	140	111	7	11
Retained earnings	25	3,560	3,401	3,331	2,046	1,952
Equity attributable to owners of the parent		6,003	5,837	5,721	4,369	4,259
Non-controlling interests		2	1	–	–	–
Total equity		6,005	5,838	5,721	4,369	4,259

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

The notes on pages 86 to 138 form an integral part of these financial statements.

The financial statements on pages 80 to 138 were approved by the Board of Directors on 6 May 2014, and are signed on its behalf by:

Justin King Chief Executive

John Rogers Chief Financial Officer

Cash flow statements

for the 52 weeks to 15 March 2014

	Note	Group		Company	
		2014 £m	2013 £m	2014 £m	2013 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	26a	1,227	1,268	38	(25)
Interest paid		(148)	(143)	(73)	(85)
Corporation tax paid		(140)	(144)	–	–
Net cash generated from/(used in) operating activities		939	981	(35)	(110)
Cash flows from investing activities					
Purchase of property, plant and equipment		(916)	(1,067)	–	–
Purchase of intangible assets		(13)	(26)	–	–
Proceeds from disposal of property, plant and equipment		335	205	–	–
Acquisition of subsidiaries net of cash acquired	37c	1,016	(21)	(243)	–
Increase in loans to joint ventures		(7)	(5)	–	–
Investment in joint ventures		(13)	(1)	–	–
Investment in subsidiaries		–	–	(20)	–
Proceeds from repayment of loan to joint venture		4	16	–	–
Interest received		20	19	50	117
Dividends received		–	18	250	250
Net cash generated from/(used in) investing activities		426	(862)	37	367
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		19	17	18	16
Proceeds from short-term borrowings		200	–	200	–
Repayment of short-term borrowings		(200)	(50)	(200)	(50)
Proceeds from long-term borrowings		250	75	200	50
Repayment of long-term borrowings		(206)	(61)	(122)	(22)
Repayment of capital element of obligations under finance lease payments		(25)	(20)	–	–
Interest elements of obligations under finance lease payments		(8)	(7)	–	–
Dividends paid	10	(320)	(308)	(320)	(308)
Net cash used in financing activities		(290)	(354)	(224)	(314)
Net increase/(decrease) in cash and cash equivalents		1,075	(235)	(222)	(57)
Net opening cash and cash equivalents		504	739	351	408
Closing cash and cash equivalents	26b	1,579	504	129	351

The notes on pages 86 to 138 form an integral part of these financial statements.

Group statement of changes in equity

for the 52 weeks to 15 March 2014

	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 17 March 2013 Restated		541	1,075	820	3,401	5,837	1	5,838
Profit for the year	25	–	–	–	716	716	–	716
Other comprehensive (expense)/income:								
Currency translation differences	24	–	–	(2)	–	(2)	–	(2)
Remeasurements on defined benefit pension schemes (net of tax)	25	–	–	–	(273)	(273)	–	(273)
Available-for-sale financial assets fair value movements (net of tax):								
Group	24	–	–	31	–	31	–	31
Cash flow hedges effective portion of changes in fair value (net of tax):								
Group	24	–	–	(43)	–	(43)	–	(43)
Joint ventures	24	–	–	2	–	2	–	2
Items reclassified from cash flow hedge reserve	24	–	–	4	–	4	–	4
Total comprehensive (expense)/income for the year ended 15 March 2014		–	–	(8)	443	435	–	435
Transactions with owners:								
Dividends paid	10,25	–	–	–	(320)	(320)	–	(320)
Amortisation of convertible bond equity component	24,25	–	–	(5)	5	–	–	–
Share-based payment (net of tax)	25	–	–	–	31	31	–	31
Shares issued		–	–	–	–	–	1	1
Shares vested	25	–	–	–	12	12	–	12
Allotted in respect of share option schemes	23,25	4	16	–	(12)	8	–	8
At 15 March 2014		545	1,091	807	3,560	6,003	2	6,005
At 18 March 2012		538	1,061	315	3,715	5,629	–	5,629
IAS 19 Revised restatement		–	–	476	(384)	92	–	92
At 18 March 2012 Restated		538	1,061	791	3,331	5,721	–	5,721
Profit for the year	25	–	–	–	602	602	–	602
Other comprehensive income/(expense):								
Currency translation differences	24	–	–	1	–	1	–	1
Remeasurements on defined benefit pension schemes (net of tax)	25	–	–	–	(263)	(263)	–	(263)
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	–	–	22	–	22	–	22
Joint ventures	24	–	–	1	–	1	–	1
Items reclassified from cash flow hedge reserve	24	–	–	(5)	–	(5)	–	(5)
Total comprehensive income for the year ended 16 March 2013		–	–	34	339	373	–	373
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		–	–	–	1	1	–	1
Allotted in respect of share option schemes	23,25	3	14	–	(3)	14	–	14
At 16 March 2013 Restated		541	1,075	820	3,401	5,837	1	5,838

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

The notes on pages 86 to 138 form an integral part of these financial statements.

Company statement of changes in equity

for the 52 weeks to 15 March 2014

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
At 17 March 2013		541	1,075	691	1,952	4,259
Profit for the year	25	–	–	–	378	378
Other comprehensive income:						
Items reclassified from cash flow hedge reserve	24	–	–	1	–	1
Total comprehensive income for the year ended 15 March 2014		–	–	1	378	379
Transactions with owners:						
Dividends paid	10,25	–	–	–	(320)	(320)
Amortisation of convertible bond equity component	24,25	–	–	(5)	5	–
Allotted in respect of share option schemes	23,25	4	16	–	33	53
Utilised in respect of share option schemes	25	–	–	–	(2)	(2)
At 15 March 2014		545	1,091	687	2,046	4,369
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)		–	–	(1)	–	(1)
Items reclassified from cash flow hedge reserve	24	–	–	(1)	–	(1)
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

The notes on pages 86 to 138 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 15 March 2014 (prior financial year 52 weeks to 16 March 2013). The consolidated financial statements for the 52 weeks to 15 March 2014 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 and associates.

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

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') 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 and Company in these financial statements:

The Group and Company has considered the following new standards, interpretations and amendments to published standards that are effective for the Group and Company for the financial year beginning 17 March 2013:

- IAS 19 (revised 2011) 'Employee benefits'
- IFRS 13 'Fair value measurement'
- Amendments to IFRS 7 'Financial instruments asset and liability offsetting'
- Amendment to IAS 1 'Presentation of financial statements' on Other Comprehensive Income
- Amendment to IAS 12 'Income taxes' on deferred tax
- Annual improvements 2011

An amended version of IAS 19 'Employee Benefits' was issued in June 2011 ('IAS 19 Revised') and became effective for the Group's financial year ended 15 March 2014. Changes under the amended standard have been applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', resulting in an adjustment of prior year financial information. The changes to the Group's accounting policies have been to immediately recognise all past service costs and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. The defined benefit obligation no longer includes a reserve for scheme expenses; defined benefit pension scheme expenses are presented separately within the income statement and included within the Group's definition of adjusted items to arrive at underlying profit before tax as detailed in Note 3.

The change in accounting policy impacted the results for the 52 weeks to 15 March 2014 and 52 weeks to 16 March 2013 as follows:

	52 weeks to 15 March 2014 £m	52 weeks to 16 March 2013 £m
Impact on the income statement:		
Increase in administrative expenses	(5)	(5)
Increase in finance costs	(17)	(11)
Decrease in profit before tax	(22)	(16)
Increase in underlying profit before tax	1	2
Impact on other comprehensive expense:		
Decrease in remeasurements on defined benefit pension schemes	82	27
Decrease in tax credit on other comprehensive expense	(17)	(3)
Decrease in other comprehensive expense	65	24
Impact on the balance sheet:		
Decrease in retirement benefit obligations	194	134
Decrease in deferred income tax asset	(15)	(30)
Increase in net assets	179	104

As a result of the retrospective application of IAS 19 Revised, an opening balance sheet at 18 March 2012 has been presented. The retirement benefit obligation at this date has reduced by £123 million, with a £31 million increase in the associated deferred tax asset, resulting in an overall increase of £92 million in net assets from the previously published amounts in the 2013 Annual Report.

IFRS 13 'Fair value measurement' has impacted the measurement criteria of the fair value for certain assets and liabilities and also introduced new disclosures as set out in note 29. No retrospective changes were required as a result of the adoption of the Standard.

The amendments to IFRS 7 'Financial Instruments' for the offsetting of financial assets and financial liabilities have increased the disclosure requirements where netting arrangements are in place, which are provided in note 28.

The amendments to IAS 1 'Presentation of financial statements' require items of other comprehensive income and expense to be grouped into those items that will not be reclassified subsequently to the income statement and those items which may be reclassified in accordance with the respective IFRS to which they relate, including their associated income tax. This presentational amendment has been applied retrospectively to the Group statement of other comprehensive income and does not affect the Group's financial position.

2 Accounting policies continued

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

Effective for the Group and Company for the financial year beginning 16 March 2014:

- IFRS 10 'Consolidated financial statements'*
- IFRS 11 'Joint arrangements'*
- IFRS 12 'Disclosures of interests in other entities'*
- IAS 27 (revised 2011) 'Separate financial statements'*
- IAS 28 (revised 2011) 'Associates and joint ventures'*
- Amendments to IFRS 10,11 and 12 on transition guidance*
- Amendment to IAS 36 'Impairment of assets' on recoverable amount disclosures*
- Amendments to IAS 32 'Financial instruments: Presentation' on Financial instruments asset and liability offsetting*
- Amendment to IAS 39 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting*
- IFRIC 21 'Levies'*

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

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

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

- IFRS 9 'Financial instruments'
- Amendment to IAS 19 'Employee benefits', on defined benefit plans*
- Amendment to IFRS 9 'Financial instruments', on general hedge accounting
- Annual improvements 2012*
- Annual improvements 2013*

* These standards are effective for accounting periods starting on or after 1 July 2014.

The Group and Company has considered the impact of the above standards and revisions and has concluded that they will not have a significant impact on the Group and Company'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, except where noted above.

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 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 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 the income statement. The acquisition of Sainsbury's Bank has been detailed in note 37.

Joint ventures and associates

Joint ventures are jointly controlled entities in which the Group has an interest. Associates are entities over which the Group has significant influence but not control. The Group's share of the post-tax results of its joint ventures and associates are included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

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

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.

Sainsbury's Bank has been accounted as a 50 per cent owned joint venture for the 46 weeks to 31 January 2014 and consolidated as a 100 per cent owned subsidiary for the four weeks to 28 February 2014, as detailed in note 13.

Revenue

Revenue consists of sales through retail outlets and, in the case of Sainsbury's Bank, interest receivable, fees and commissions and excludes Value Added Tax.

Sale of goods – retail

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.

Financial statements

Notes to the financial statements continued

2 Accounting policies continued

Interest receivable

Interest income is recognised in the income statement for all instruments measured at amortised cost using the effective interest method. This calculation takes into account interest receivable or payable and fees and commissions receivable or payable that are integral to the yield, as well as incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset or liability at initial recognition.

Fees and commissions

Fees and commissions, that are not integral to the effective interest rate calculation, are recognised in the income statement as services are provided. In the case of insurance commissions the income comprises an initial commission and profit share both of which 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. Car insurance initial commission is recognised on completion of the service provided, with an element deferred to reflect cancellation expectation and services yet to be performed in future periods.

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 receivable or payable that are integral to the yield, as well as incremental transaction costs. For Sainsbury's Bank, finance cost on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

Interest paid and interest received for the purpose of the cash flow statement is retail only.

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 and, in the case of Sainsbury's Bank, interest expense on operating activities, calculated using the effective interest method.

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. Capital work in progress is 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 basis, on the following bases:

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

Capital work in progress is 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 expensed 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.

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.

Acquired intangible assets

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets with finite useful economic lives are carried at cost less accumulated amortisation and any provision for impairment and are amortised on a straight-line basis over their estimated useful economic lives, ranging from three to six years within administrative expenses.

Other intangible assets

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 retail property, plant and equipment and intangible assets excluding goodwill, the CGU is deemed to be each trading store. For retail goodwill, the CGU is deemed to be each retail chain of stores acquired. Sainsbury's Bank is deemed to be a separate CGU.

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.

2 Accounting policies continued

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

Non-current assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for sale in its present condition. A sale should be expected to complete within one year from the date of classification.

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 on a straight-line basis over the lease term.

Inventories

Inventories comprise 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 bank balances in the Group balance sheet comprise cash in hand and at bank, deposits at central banks, investments in money market funds and deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Current taxation

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

Deferred taxation

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

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

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

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

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

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of 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.

Financial statements

Notes to the financial statements continued

2 Accounting policies continued

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 consist of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses. The financing charge is determined by applying the discount rate used to measure the defined benefit obligation to the pension scheme liabilities and plan assets at the beginning of the financial year.

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 the 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.

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

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

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

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

Trade receivables

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

2 Accounting policies continued

Loans and advances including impairment

Loans and advances are held at amortised cost, using the effective interest method, less provision for impairment and recognised on the balance sheet when cash is advanced.

For Sainsbury's Bank's portfolios of loans, such as credit card lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. Such evidence may include a missed interest or principal payment or the breach of a banking covenant. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of impairment is calculated by comparing the present value of the cash flows discounted at the loans' original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement and a provision recognised in the balance sheet.

The written down value of the impaired loan is compounded back to its net realisable balance over time using an effective interest rate. This is reported through interest receivable within the income statement and represents the unwinding of the discount.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement. Subsequent recoveries of amounts written off decrease the charge for loan impairment in the income statement.

An allowance for impairment losses is also maintained in respect of assets which are impaired at the balance sheet date but which have not been identified as such, based on historical loss experience and other relevant factors. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results.

Financial liabilities

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

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

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

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

Trade payables

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

Impairment of financial assets

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

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

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

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

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

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

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

Fair value estimation

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

Derivative financial instruments and hedge accounting

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

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the exchange rate risk of future highly probable inventory purchases denominated in foreign currency. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast 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.

2 Accounting policies continued

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

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

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

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

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

Offsetting financial instruments

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

(c) Judgements and estimates

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

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

Goodwill impairment

The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of the CGU or group of CGUs to which it is allocated. 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 other than goodwill

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 dispose. 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.

Impairment loss calculations on loans and advances within Sainsbury's Bank (note 17(b)) involve the estimation of future cash flows of financial assets, based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. This will typically take into account the level of arrears, security, past loss experience and default levels. These calculations are undertaken on a portfolio basis using various statistical modelling techniques. Impairment models are continually reviewed to ensure data and assumptions are appropriate with the most material assumption being around expected loss rates. The accuracy of any such impairment calculation will be affected by unexpected changes to the economic situation, and assumptions which differ from actual outcomes. As such, judgement is applied when determining the levels of provisioning.

Acquisition accounting

The amount of goodwill initially recognised as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The acquisition of Sainsbury's Bank in January 2014 was accounted for in accordance with applicable accounting standards which require the recognition of the identifiable assets acquired and liabilities assumed at their acquisition-date fair values. As part of this process, it is also necessary to identify and recognise certain assets and liabilities which are not included on the acquiree's balance sheet, for example the value of customer relationships and other intangible assets. The exercise to fair value the Sainsbury's Bank balance sheet was inherently subjective and required management to make a number of assumptions and estimates.

The assumptions used in the modelling are sensitive to the market conditions at the time, in particular the current interest rates available and customer attrition patterns. Management uses its best knowledge to estimate the fair value of acquired assets and liabilities as of the acquisition date. The acquisition of Sainsbury's Bank has been detailed in note 37.

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 and the net financing charge recognised in the income statement are dependent on interest rates of high quality corporate bonds. 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. As detailed in note 30, the retirement benefit obligations are most sensitive to changes in the discount rate.

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. The carrying amount of provisions will be impacted by changes in the discount rate. Details of provisions are set out in note 22.

Income taxes

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

3 Non-GAAP performance measures

Certain items recognised in reported profit before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. Similarly, whilst defined benefit pension scheme expenses may not vary significantly, they no longer relate to the Group's ongoing activities given the closure of the defined benefit pension scheme to future accrual. The Directors believe that the 'underlying revenue', '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;
- Retailing 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 Revised;
- Defined benefit pension scheme expenses;
- Acquisition adjustments – these reflect the adjustments arising from the Sainsbury's Bank acquisition including the fair value unwind, the remeasurement of the previously held equity interest in Sainsbury's Bank and the amortisation of acquired intangibles; 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:

	2014 £m	Restated 2013 £m
Underlying profit before tax	798	758
Profit on disposal of properties ¹	52	66
Investment property fair value movements	–	(10)
Retailing financing fair value movements ²	(8)	(10)
IAS 19 Revised pension financing charge	(23)	(16)
Defined benefit pension scheme expenses	(7)	(7)
Acquisition adjustments (note 37(d))	18	–
One-off items	68	(9)
Total adjustments	100	14
Profit before tax	898	772

1 Profit on disposal of properties for the financial year comprised £51 million for the Group (2013: £67 million) and £1 million for the property joint ventures (2013: £1 million loss).

2 Financing fair value movements for the financial year comprised a £5 million loss for the Group (2013: £7 million loss) and a £3 million loss for the joint ventures (2013: £3 million loss).

The tax impact of adjusted items is included within note 8.

One-off items

The credit to one-off items of £68 million includes: the impact of a past service credit net of compensation payments of £148 million as a result of the closure of the Sainsbury's defined benefit pension scheme to future accrual; an impairment of £92 million; costs of £45 million in relation to the Sainsbury's Bank acquisition; a Nectar VAT upside of £76 million and other one-off costs of £19 million mainly in relation to internal restructuring and a provision for a commercial item, for which we intend to defend our position.

The past service credit net of compensation payments of £148 million includes £10 million of compensation payments to employees on transition to the Group's defined contribution schemes.

An impairment of £92 million has been recognised within administrative expenses to write down the value of certain sites where the Group no longer intends to build a supermarket following a review of the Group's property pipeline. The recoverable amount of these sites has been determined on a fair value less costs to dispose basis.

Costs of £45 million have been incurred in finalising the transaction to purchase the remaining 50 per cent of Sainsbury's Bank and transitioning the Bank to a new, more flexible banking platform.

Accounting for VAT on the redemption of Nectar points has been the subject of a legal case over a number of years between HMRC and Aimia, the company who administer the Nectar scheme. A Supreme Court ruling in June 2013 ruled in favour of Aimia, thereby enabling Sainsbury's to recognise an upside of £76 million relating to historic VAT overpayments.

The prior year one-off item of £9 million included £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 incurred for internal restructuring; and the release of a disposal provision for indemnities of £16 million which was no longer required.

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Notes to the financial statements continued

4 Segment reporting

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

- Retailing (Supermarkets and Convenience);
- Financial services (Sainsbury's Bank); 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 within retailing there is an increase in trading in the period leading up to Christmas.

The Group has continued to include additional disclosure analysing the Group's Financial services and Property investment joint ventures into separate reportable segments. As disclosed in note 14, Sainsbury's Bank has been accounted for as a 50 per cent owned joint venture for the 46 weeks to 31 January 2014 and consolidated as a 100 per cent owned subsidiary for the four weeks to 28 February 2014. Results for the periods pre and post the acquisition of the additional 50 per cent of shares in Sainsbury's Bank are included in the Financial services segment.

Revenue from operating segments is measured on a basis consistent with the revenue number disclosure in the income statement. Revenue is generated by the sale of goods and services, as set out in note 2.

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

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

	Retailing £m	Financial services £m	Property investments £m	Group £m
52 weeks to 15 March 2014				
Segment revenue				
Retailing sales to external customers	23,921	–	–	23,921
Financial services to external customers	–	25	–	25
Underlying revenue	23,921	25	–	23,946
Acquisition adjustment fair value unwind ¹	–	3	–	3
Revenue	23,921	28	–	23,949
Underlying operating profit	873	6	–	879
Underlying finance income	20	–	–	20
Underlying finance costs	(131)	–	–	(131)
Underlying share of post-tax (loss)/profit from joint ventures and associates	(4)	18	16	30
Underlying profit before tax	758	24	16	798
Profit on disposal of properties	51	–	1	52
Retailing financing fair value movements	(5)	–	(3)	(8)
IAS 19 Revised pension financing charge	(23)	–	–	(23)
Defined benefit pension scheme expenses	(7)	–	–	(7)
Acquisition adjustments	–	18	–	18
One-off items	113	(45)	–	68
Profit before tax	887	(3)	14	898
Income tax expense	–	–	–	(182)
Profit for the financial period				716
Assets	12,023	4,113	–	16,136
Investment in joint ventures and associates (note 14)	3	–	401	404
Segment assets	12,026	4,113	401	16,540
Segment liabilities	(6,907)	(3,628)	–	(10,535)
Other segment items				
Capital expenditure (including acquisitions through business combinations) ²	994	131	–	1,125
Depreciation expense (note 11)	536	–	–	536
Amortisation expense (note 12) ³	14	1	–	15
Share-based payments	33	–	–	33

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition, as detailed in note 37(d).

2 Retail capital expenditure consists of property, plant and equipment additions of £975 million and intangible asset additions of £19 million. Financial services capital expenditure consists of property, plant and equipment additions of £18 million acquired as part of the bank acquisition and intangible asset additions (including goodwill) of £113 million of which £88 million was acquired as part of the bank acquisition, as detailed in note 12.

3 Amortisation expense within the Financial services segment includes £1 million of intangible asset amortisation arising from acquisition fair value adjustments, as detailed in note 37(d).

4 Segment reporting continued

	Retailing £m	Financial services £m	Property investments £m	Group £m
52 weeks to 16 March 2013 Restated				
Segment revenue	23,303	–	–	23,303
Underlying operating profit	831	–	–	831
Underlying finance income	19	–	–	19
Underlying finance costs	(130)	–	–	(130)
Underlying share of post-tax profit from joint ventures and associates	–	22	16	38
Underlying profit before tax	720	22	16	758
Profit/(loss) on disposal of properties	67	–	(1)	66
Retailing financing fair value movements	(7)	–	(3)	(10)
Investment property fair value movements	–	–	(10)	(10)
IAS 19 Revised pension financing charge	(16)	–	–	(16)
Defined benefit pension scheme expenses	(7)	–	–	(7)
One-off items	11	(20)	–	(9)
Profit before tax	768	2	2	772
Income tax expense	–	–	–	(170)
Profit for the financial period	–	–	–	602
Assets	12,163	–	–	12,163
Investment in joint ventures and associates (note 14)	–	159	373	532
Segment assets	12,163	159	373	12,695
Segment liabilities	(6,857)	–	–	(6,857)
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.

5 Operating profit

	2014 £m	Restated 2013 £m
Operating profit is stated after charging/(crediting) the following items:		
Employee costs (note 7)	2,435	2,320
Depreciation expense (note 11)	536	504
Amortisation expense (note 12) ¹	15	13
Profit on disposal of properties (note 3)	(51)	(67)
Operating lease rentals – land and buildings	485	457
– other leases	59	55
– sublease payments received	(41)	(34)
Foreign exchange losses	6	–
Impairment losses on loans and advances	2	–
Acquisition adjustments (excluding amortisation on acquired intangibles) ²	(19)	–
One-off items (note 3) ³	(68)	9

1 Amortisation expense includes £1 million amortisation on acquired intangibles resulting from the Sainsbury's Bank acquisition fair value adjustments.

2 Acquisition adjustments exclude £1 million amortisation on acquired intangibles included in amortisation expense in this note. Acquisition adjustments are detailed in note 37(d).

3 Includes an impairment of £92 million (2013: £nil) as detailed within note 3.

Group	2014 £m	2013 £m
Auditors' remuneration		
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	0.3	0.2
Fees payable to the Company's auditors for other services:		
– The audit of the Company's subsidiaries	0.6	0.5
– Audit related assurance services	0.2	0.2
– Tax advisory, tax compliance, and other non-audit fees	0.1	0.1
Total fees	1.2	1.0

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6 Finance income and finance costs

	2014 £m	Restated 2013 £m
Interest on bank deposits and other financial assets	20	19
Finance income	20	19
Borrowing costs:		
Secured borrowings	(91)	(98)
Unsecured borrowings	(56)	(55)
Obligations under finance leases	(8)	(7)
Provisions – amortisation of discount (note 22)	(2)	(2)
	(157)	(162)
Other finance costs:		
Interest capitalised – qualifying assets (note 11)	26	32
Retailing financing fair value movements ¹	(5)	(7)
IAS 19 Revised pension financing charge (note 30)	(23)	(16)
	(2)	9
Finance costs	(159)	(153)

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

7 Employee costs

	2014 £m	Restated 2013 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	2,150	2,051
Social security costs	141	133
Pension costs – defined contribution schemes	77	44
Pension costs – defined benefit schemes (note 30)	34	59
Share-based payments expense (note 31)	33	33
	2,435	2,320

	Number 000s	Number 000s
The average number of employees, including Directors, during the year were:		
Full-time	49.4	49.1
Part-time	111.1	107.9
	160.5	157.0
Full-time equivalent	107.0	105.0

Details of key management compensation can be found in note 32 and within the Directors' Remuneration Report on pages 55 to 73.

8 Income tax expense

	2014 £m	Restated 2013 £m
Current tax expense:		
Current year UK tax	204	172
Current year overseas tax	2	1
Under/(over) provision in prior years	8	(20)
	214	153
Deferred tax (credit)/expense:		
Origination and reversal of temporary differences	31	30
(Over)/under provision in prior years	(12)	19
Effect of change in tax rate	(51)	(32)
Total deferred tax (credit)/expense (note 21)	(32)	17
Total income tax expense in income statement	182	170

8 Income tax expense continued

The effective tax rate of 20.3 per cent (2013: 22.0 per cent) is lower than (2013: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2014 £m	Restated 2013 £m
Profit before taxation	898	772
Income tax at UK corporation tax rate of 23.04% (2013: 24.08%)	207	186
Effects of underlying items:		
Disallowed depreciation on UK properties	31	29
Over provision in prior years	(7)	–
Revaluation of deferred tax balances	(31)	(21)
Other	(3)	(11)
Effects of non-underlying items:		
Profit on disposal of properties	(16)	(5)
Investment property fair value movements	–	2
Revaluation of deferred tax balances	(20)	(11)
Under/(over) provision in prior years	3	(1)
Property impairments	21	–
Other	(3)	2
Total income tax expense in income statement	182	170

On 20 March 2013, the Chancellor announced that the main rate of UK corporation tax would reduce to 21.0 per cent from 1 April 2014 and to 20.0 per cent from 1 April 2015. This was substantively enacted on 2 July 2013 and hence the effect of the change on the deferred tax balances has been included in the 2014 figures above.

Income tax (credited) or charged 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 15 March 2014				
Current tax recognised in equity or other comprehensive income	(1)	(34)	1	(34)
Deferred tax recognised in equity or other comprehensive income	3	(41)	8	(30)
Revaluation of deferred tax balances	–	22	(6)	16
Income tax charged/(credited)	2	(53)	3	(48)
52 weeks to 16 March 2013 Restated				
Current tax recognised in equity or other comprehensive income	–	(23)	(1)	(24)
Deferred tax recognised in equity or other comprehensive income	(3)	(61)	2	(62)
Revaluation of deferred tax balances	–	8	(3)	5
Income tax credited	(3)	(76)	(2)	(81)

The current and deferred tax in relation to the Group's defined benefit pension scheme's remeasurements 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, retailing financing fair value movements, impairment of goodwill, IAS 19 Revised pension financing element, defined benefit pension scheme expenses, acquisition adjustments 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.

	2014 million	2013 million
Weighted average number of shares in issue	1,896.8	1,881.5
Weighted average number of dilutive share options	25.4	20.5
Weighted average number of dilutive convertible bonds	46.3	46.0
Total number of shares for calculating diluted earnings per share	1,968.5	1,948.0

	£m	Restated £m
Profit for the financial year	716	602
Add interest on convertible bonds, net of tax	11	11
Diluted earnings for calculating diluted earnings per share	727	613

	£m	£m
Profit for the financial year attributable to owners of the parent	716	602
(Less)/add (net of tax):		
Profit on disposal of properties	(53)	(55)
Investment property fair value movements	–	10
Retailing financing fair value movements	7	8
IAS 19 Revised pension financing charge	18	12
Defined benefit pension scheme expenses	5	5
Acquisition adjustments	(17)	–
One-off items	(33)	8
Revaluation of deferred tax balances	(20)	(11)
Underlying profit after tax	623	579
Add interest on convertible bonds, net of tax	11	11
Diluted underlying profit after tax	634	590

	pence per share	Restated pence per share
Basic earnings	37.7	32.0
Diluted earnings	36.9	31.5
Underlying basic earnings	32.8	30.8
Underlying diluted earnings	32.2	30.3

10 Dividend

	2014 pence per share	2013 pence per share	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	11.9	11.6	225	218
Interim dividend of current financial year	5.0	4.8	95	90
	16.9	16.4	320	308

After the balance sheet date, a final dividend of 12.3 pence per share (2013: 11.9 pence per share) was proposed by the Directors in respect of the 52 weeks to 15 March 2014, resulting in a total final proposed dividend of £234 million (2013: £225 million). The proposed final dividend has not been included as a liability at 15 March 2014.

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 17 March 2013	9,422	5,551	14,973	19
Acquisition of subsidiaries (note 37)	–	18	18	–
Additions	580	395	975	–
Disposals	(341)	(915)	(1,256)	–
Transfer to assets held for sale	(9)	–	(9)	–
At 15 March 2014	9,652	5,049	14,701	19
Accumulated depreciation and impairment				
At 17 March 2013	1,591	3,578	5,169	2
Depreciation expense for the year	168	368	536	–
Impairment loss	92	–	92	1
Disposals	(75)	(899)	(974)	–
Transfer to assets held for sale	(2)	–	(2)	–
At 15 March 2014	1,774	3,047	4,821	3
Net book value at 15 March 2014	7,878	2,002	9,880	16
Capital work-in-progress included above	388	77	465	–
Cost				
At 18 March 2012	8,918	5,340	14,258	19
Acquisition of subsidiaries	21	–	21	–
Additions	635	464	1,099	–
Disposals	(140)	(252)	(392)	–
Transfer to assets held for sale	(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	–

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 over 25 years assuming a nil growth rate. The discount rate is based on the Group's pre-tax weighted average cost of capital of nine per cent (2013: ten per cent).

Non-store assets and the property, plant and equipment of Sainsbury's Bank are reviewed separately 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 and with its fair value less costs to dispose to determine the recoverable amount.

During the year, an impairment of £92 million (2013: £nil) was recognised to write down the value of certain sites to fair value less costs to dispose.

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11 Property, plant and equipment continued

Interest capitalised

Interest capitalised included in additions amounted to £26 million (2013: £32 million) for the Group and £nil (2013: £nil) for the Company. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £344 million (2013: £330 million) for the Group and £nil (2013: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.3 per cent (2013: 5.3 per cent).

Security

Property, plant and equipment of 125 (2013: 128) supermarket properties, with a net book value of £2,133 million (2013: £2,213 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 £66 million (2013: £67 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

	2014 Land and buildings £m	2014 Fixtures and equipment £m	2014 Total £m	2013 Land and buildings £m	2013 Fixtures and equipment £m	2013 Total £m
Group						
Cost	63	15	78	62	15	77
Accumulated depreciation and impairment	(27)	(13)	(40)	(26)	(9)	(35)
Net book value	36	2	38	36	6	42

12 Intangible assets

	Goodwill £m	Computer software £m	Acquired intangibles £m	Other £m	Total £m
Group					
Cost					
At 17 March 2013	100	188	–	46	334
Acquisition of subsidiaries (note 37)	45	4	39	–	88
Additions	–	42	–	2	44
Disposals	–	(48)	–	–	(48)
At 15 March 2014	145	186	39	48	418

Accumulated amortisation and impairment

At 17 March 2013	–	131	–	32	163
Amortisation expense for the year	–	12	1	2	15
Disposals	–	(47)	–	–	(47)
Impairment	1	–	–	–	1
At 15 March 2014	1	96	1	34	132

Net book value at 15 March 2014

	144	90	38	14	286
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Cost

At 18 March 2012	100	172	–	48	320
Acquisition of subsidiaries	1	–	–	–	1
Additions	–	16	–	8	24
Disposals	–	–	–	(10)	(10)
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
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12 Intangible assets continued

Acquired intangibles relating to customer relationships, purchased credit card relationships and the value of core deposits were recognised as part of the fair value accounting on the acquisition of Sainsbury's Bank. Other intangibles primarily comprise of pharmacy licences.

The goodwill balance above relates primarily to the Group's acquisitions of Sainsbury's Bank plc (£45 million), Bells Stores Ltd, Jacksons Stores Ltd (£55 million), J.B. Beaumont Limited, S.L. Shaw Limited, 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') or group of CGUs within the retailing or financial services segment. The CGUs to which goodwill has been allocated and the level at which it is monitored in the retailing segment are deemed to be the respective acquired retail chains of stores whilst within financial services, Sainsbury's Bank is deemed a separate CGU.

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 retail CGUs value in use, Board approved cash flows for the following financial year are assumed to remain flat and are discounted at a pre-tax rate of nine per cent (2013: ten per cent) over a 25 year period, being the estimated average remaining useful life of a store. To calculate Sainsbury's Bank value in use, Board approved cash flows are discounted at a pre-tax rate of nine per cent over a five year period with a terminal value. 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, an impairment loss of £1 million was identified in the current financial year (2013: £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

	2014 £m	2013 £m
Shares in subsidiaries – Company		
Beginning of year	7,316	7,285
Additions	381	33
Provision for diminution in value of investment	(135)	(2)
End of year	7,562	7,316

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

	Principal activity	Share of ordinary allotted capital and voting rights	Country of registration or incorporation
JS Insurance Limited	Insurance	100%	Isle of Man
JS Information Systems Limited	IT services	100%	England
Sainsbury's Supermarkets Ltd	Retailing	100%	England
Sainsbury's Bank plc	Financial services	100%	England

All principal operating subsidiaries operate in the countries of their registration or incorporation. Sainsbury's Bank plc has been consolidated for four weeks to 28 February 2014, the Bank's nearest month-end to the Group's year-end. Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

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 year, a provision of £135 million (2013: £2 million) was made against investments in subsidiaries where the carrying value exceeded the recoverable amount.

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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Notes to the financial statements continued

14 Investments in joint ventures and associates

	Group shares at cost £m	Group share of post- acquisition reserves £m	Group Total £m	Company shares at cost £m
At 17 March 2013	390	142	532	91
Additions	13	–	13	–
Disposals	(85)	(92)	(177)	(85)
Other adjustments	–	7	7	–
Share of retained profit:				
Underlying profit after tax	–	30	30	–
Retailing financing fair value movements	–	(3)	(3)	–
Share of profit on disposal of properties	–	1	1	–
Dividends received	–	(1)	(1)	–
	318	84	402	6
Movements in other comprehensive income (note 24)	–	2	2	–
At 15 March 2014	318	86	404	6
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)	–
Retailing 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

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 are:

	Year-end	Share of ordinary allotted capital	Country of registration or incorporation
BL Sainsbury Superstores Limited (property investment)	31 March	50%	England

On 31 January 2014, the Group acquired an additional 50 per cent of the share capital of Sainsbury's Bank plc, previously a joint venture, making the company a wholly-owned subsidiary which has been consolidated within the Group results from the date of acquisition onwards. The acquisition of Sainsbury's Bank has been detailed in note 37.

Where relevant, management accounts for the joint ventures have been used to include the results up to 15 March 2014. The Group's share of the assets, liabilities, income and expenses of its principal joint ventures are detailed below:

	2014 £m	2013 £m
Non-current assets	666	1,418
Current assets	46	1,763
Current liabilities	(48)	(1,809)
Non-current liabilities	(265)	(845)
Net assets	399	527
Income	213	208
Expenses	(185)	(174)
Investment property fair value movements	–	(10)
Profit after tax	28	24

Investments in joint ventures at 15 March 2014 include £5 million of goodwill (2013: £5 million).

15 Available-for-sale financial assets

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Non-current				
Unlisted equity investments	2	1	–	–
Investment securities	32	–	–	–
Interest bearing financial assets	37	34	37	34
Other financial asset	184	154	–	–
	255	189	37	34

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 (2013: three per cent) and a weighted average cost of capital of nine per cent (2013: 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 29 for sensitivity analysis).

Investment securities of £32 million (2013: £nil) relate to a euro denominated floating rate note held by Sainsbury's Bank. The fair value movement on investment securities classified as available for sale is £1 million (2013: £nil).

16 Inventories

	2014 £m	2013 £m
Goods held for resale	1,001	973
Development properties	4	14
	1,005	987

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 15 March 2014 was £17,883 million (2013: £17,602 million).

17 Receivables

(a) Trade and other receivables

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Non-current				
Amounts owed by Group entities	–	–	1,229	1,229
Other receivables	26	38	–	35
	26	38	1,229	1,264
Current				
Trade receivables	125	128	–	–
Amounts owed by Group entities	–	–	1,422	1,232
Other receivables	247	130	–	20
	372	258	1,422	1,252
Prepayments and accrued income	61	48	6	2
	433	306	1,428	1,254

Non-current other receivables of £26 million (2013: £38 million) include £nil of floating rate subordinated undated loan capital (2013: £5 million) and £nil of floating rate subordinated dated loan capital due from Sainsbury's Bank (2013: £30 million).

Trade receivables are non-interest bearing and are on commercial terms. Current other receivables of £247 million (2013: £130 million), which include £117 million (2013: £nil) of bank funds in the course of settlement, are generally non-interest bearing, other than £nil (2013: £20 million) of floating rate subordinated undated loan capital due from Sainsbury's Bank. The carrying amounts of trade and other receivables are denominated in sterling.

Following the acquisition of Sainsbury's Bank, an additional £25 million floating rate subordinated undated loan capital and £30 million floating rate subordinated dated loan capital was acquired from Lloyds Banking Group. In February 2014, both the existing and acquired floating rate subordinated undated loan capital, totalling £50 million, were repaid. Current amounts owed by Group entities to the Company include £60 million floating rate subordinated dated loan capital as detailed in note 32.

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.

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Notes to the financial statements continued

17 Receivables continued

(b) Amounts due from Sainsbury's Bank customers

	2014 £m	2013 £m
Non-current		
Loans and advances to customers	1,323	—
Impairment of loans and advances	(31)	—
	1,292	—
Current		
Loans and advances to customers	1,335	—
Impairment of loans and advances	(52)	—
	1,283	—

Loans and advances to customers accrue interest at commercial borrowing rates. Refer to note 28 for details on Sainsbury's Bank credit risk.

(c) Provision for impairment of loans and advances

	2014 £m	2013 £m
Acquisition of subsidiaries (note 37(a))	(83)	—
Additional provisions	(2)	—
Utilisation of provision	2	—
Closing provision	(83)	—

(d) Major counterparties

Major counterparties are identified as follows:

	2014 Number of counterparties	2014 Balance £m	2013 Number of counterparties	2013 Balance £m
Trade receivables	2	24	2	28
Other receivables	2	26	2	27
Related parties	1	28	2	76

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

At 15 March 2014, two significant other receivables were identified, being amounts due from the National Health Service of £15 million and CBRE of £11 million (2013: £16 million and £11 million) respectively.

The related party receivable in 2014 is from the Group's joint venture The Harvest Ltd Partnership, while in 2013 related party receivables were from The Harvest Ltd Partnership and Sainsbury's Bank. Loans are approved by the Investment Committee and Sainsbury's Bank loans are determined by capital funding requirements of the Prudential Regulation Authority.

No major counterparty balances are considered overdue or impaired.

18 Non-current assets held for sale

Non-current assets held for sale of £7 million (2013: £13 million) relate to properties held in the retailing segment. Sale of these assets is expected to occur in the financial year beginning 16 March 2014. Assets held for sale at 16 March 2013 were sold during the financial year ended 15 March 2014.

19 Payables

(a) Trade and other payables

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Current				
Trade payables	1,846	1,908	–	–
Amounts owed to Group entities	–	–	4,427	4,514
Other payables	590	534	30	57
Accruals and deferred income	256	284	–	–
	2,692	2,726	4,457	4,571
Non-current				
Amounts owed to Group entities	–	–	863	876
Other payables	10	3	–	–
Accruals and deferred income	194	170	–	–
	204	173	863	876

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 includes 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 £11 million (2013: £12 million) and US dollar denominated trade payables of £35 million (2013: £19 million).

(b) Amounts due to Sainsbury's Bank customers

	2014 £m	2013 £m
Current		
Customer accounts	3,245	–
	3,245	–
Non-current		
Customer accounts	302	–
	302	–

Amounts due to Sainsbury's Bank customers are generally repayable on demand and accrue interest at commercial deposit rates.

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20 Borrowings

Group	2014	2014	2014	2013	2013	2013
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Secured loans:						
Loan due 2018	88	868	956	82	957	1,039
Loan due 2031	28	827	855	21	847	868
Unsecured loans:						
Bank overdrafts	13	–	13	13	–	13
Revolving credit facility	–	200	200	–	–	–
Bank loan due 2014	69	–	69	–	25	25
Bank loans due 2015	96	92	188	23	268	291
Bank loans due 2016	–	42	42	–	43	43
Bank loans due 2017	–	60	60	–	111	111
Bank loans due 2018	–	–	–	4	19	23
Convertible bond due 2014	189	–	189	1	183	184
Other loans due 2015	24	–	24	–	25	25
Finance lease obligations	27	161	188	21	139	160
Total borrowings	534	2,250	2,784	165	2,617	2,782

Company	2014	2014	2014	2013	2013	2013
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Bank overdrafts	7	–	7	–	–	–
Revolving credit facility	–	200	200	–	–	–
Bank loan due 2014	25	–	25	–	25	25
Bank loans due 2015	96	92	188	19	227	246
Bank loans due 2016	–	42	42	–	43	43
Bank loans due 2017	–	60	60	–	111	111
Bank loans due 2018	–	–	–	4	19	23
Convertible bond due 2014	189	–	189	1	183	184
Other loans due 2015	24	–	24	–	25	25
Total borrowings	341	394	735	24	633	657

Secured loans

Secured loans are secured on 125 (2013: 128) supermarket properties (note 11) and comprise loans from two finance companies:

- a fixed rate amortising loan with an outstanding principal value of £929 million (2013: £1,002 million) at a weighted average rate of 5.37 per cent stepping up to 5.41 per cent and carrying amount of £956 million (2013: £1,039 million) with a final repayment date of April 2018; and
- an inflation linked amortising loan with an outstanding principal value of £829 million (2013: £841 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 £855 million (2013: £868 million) with a final repayment date of April 2031.

The Group has entered into interest rate swaps to convert £211 million (2013: £211 million) of the £929 million (2013: £1,002 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 (2013: £1 million).

The Group has entered into inflation swaps to convert £400 million (2013: £300 million) of the £829 million (2013: £841 million) loan due 2031 from RPI linked interest to fixed rate interest for periods maturing April 2017 to April 2019. These transactions have been designated as cash flow hedges (note 29).

Bank overdrafts

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

Revolving credit facility

In February 2014 the Group entered into a new syndicated committed revolving credit facility for £1,150 million replacing the £690 million facility maturing in October 2015. The new £1,150 million facility is split into two tranches, a £500 million Facility (A) maturing in March 2017 and a £650 million Facility (B) maturing in March 2019. At 15 March 2014, £200 million had been drawn under Facility (A) (2013: £nil).

The revolving credit facility incurs commitment fees at market rates and drawdowns bear interest at a spread above LIBOR.

Bank loan due 2014

In February 2014 the Group issued prepayment notices for the early repayment in April 2014 of a £25 million loan due July 2014 and for the early repayment in May 2014 of a £40 million loan due May 2015.

20 Borrowings continued

Bank loans due 2015

Bank loans due 2015 comprise a £20 million loan due March 2015 at floating rates of interest; 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. A £50 million loan due June 2015 at floating rates of interest was swapped into a fixed rate loan. The £50 million loan and associated interest rate swap have been designated as a cash flow hedge.

In February 2014, the Group prepaid a £54 million amortising loan due May 2015 without penalty.

Bank loans due 2016

Bank loans due 2016 comprise a €50 million loan due September 2016 at floating rates of interest swapped into a £44 million floating rate loan.

Bank loans due 2017

Bank loans due 2017 comprise a US\$100 million loan due March 2017 at floating rates of interest swapped into a £63 million fixed rate loan. The US\$100 million loan and associated cross currency swap have been designated as a cash flow hedge.

In February 2014, the Group prepaid a £45 million loan due February 2017 without penalty.

Bank loans due 2018

In February 2014, the Group prepaid a £23 million amortising bank loan due June 2018 without penalty.

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 405 pence.

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.

	2014 £m	2013 £m
Liability component as at the beginning of the financial year	184	179
Interest expense	14	14
Interest paid	(8)	(8)
Other ¹	(1)	(1)
Liability component as at the end of the financial year	189	184

1 Other relates to fair value movements and fees.

Other loans due 2015

Other loans due 2015 comprise 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).

Finance lease obligations

	Minimum lease payments 2014 £m	Minimum lease payments 2013 £m	Present value of minimum lease payments 2014 £m	Present value of minimum lease payments 2013 £m
Amounts payable under finance leases:				
Within one year	35	27	27	21
In the second to fifth years inclusive	122	94	101	75
After five years	195	201	60	64
	352	322	188	160
Less: future finance charges	(164)	(162)		
Present value of lease obligations	188	160		
Disclosed as:				
Current	27	21		
Non-current	161	139		
	188	160		

Finance leases have effective interest rates ranging from 2.4 per cent to 9.0 per cent (2013: 2.4 per cent to 9.0 per cent). The average remaining lease term is 68 years (2013: 69 years).

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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	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payment £m	Other £m	Total £m
At 17 March 2013	(214)	49	(36)	(100)	48	19	(43)	(277)
Acquisition of subsidiary (note 37)	–	–	4	–	–	–	–	4
Credit/(charge) to income statement	12	6	–	(11)	(22)	(2)	(2)	(19)
(Charge)/credit to equity or other comprehensive income	–	–	(8)	–	41	(3)	–	30
Rate change adjustment to income statement	26	(7)	–	15	13	(2)	6	51
Rate change adjustment to equity	–	–	6	–	(22)	–	–	(16)
At 15 March 2014	(176)	48	(34)	(96)	58	12	(39)	(227)
At 18 March 2012 Restated	(193)	57	(37)	(101)	(15)	12	(40)	(317)
(Charge)/credit to income statement	(39)	(4)	–	(7)	3	5	(7)	(49)
(Charge)/credit to equity or other comprehensive income	–	–	(2)	–	61	3	–	62
Rate change adjustment to income statement	18	(4)	–	8	7	(1)	4	32
Rate change adjustment to equity	–	–	3	–	(8)	–	–	(5)
At 16 March 2013 Restated	(214)	49	(36)	(100)	48	19	(43)	(277)

Group	2014 £m	2013 £m
Total deferred income tax liabilities	(345)	(393)
Total deferred income tax assets	118	116
Net deferred income tax liability recognised in non-current liabilities	(227)	(277)

Company	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Total £m
At 17 March 2013	29	1	(29)	1
Charge to income statement	–	(1)	–	(1)
Rate change adjustment to income statement	(4)	–	4	–
At 15 March 2014	25	–	(25)	–
At 18 March 2012	32	1	(32)	1
Rate change adjustment to income statement	(3)	–	3	–
At 16 March 2013	29	1	(29)	1

Company	2014 £m	2013 £m
Total deferred income tax liabilities	(25)	(29)
Total deferred income tax assets	25	30
Net deferred income tax asset	–	1

Deferred income tax assets have been recognised in respect of all 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.

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 17 March 2013	38	1	7	4	50	2	1	3
Acquired through business combinations	–	–	–	14	14	–	–	–
Additional provisions	1	–	–	16	17	1	–	1
Unused amounts reversed	(1)	–	–	–	(1)	–	–	–
Utilisation of provision	(10)	–	(1)	(2)	(13)	–	–	–
Amortisation of discount	1	–	1	–	2	–	–	–
At 15 March 2014	29	1	7	32	69	3	1	4
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

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Disclosed as:				
Current	40	11	2	1
Non-current	29	39	2	2
	69	50	4	3

The onerous lease provision covers residual lease commitments of up to an average of 29 years (2013: 26 years), after allowance for existing or anticipated sublet rental income.

The disposal provision was released during the prior year as any potential liability arising is no longer considered probable. See note 36.

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

The other provisions of £32 million (2013: £4 million) include £14 million of provisions acquired with Sainsbury's Bank, of which £6 million relate to potential customer redress in respect of Card Protection Plan insurance and similar products and £4 million to the Financial Services Compensation Scheme levy.

Additional provisions of £16 million included within other provisions mainly include a commercial item for which we intend to defend our position.

23 Called up share capital and share premium account

Group and Company	2014 million	2013 million	2014 £m	2013 £m
Called up share capital				
Allotted and fully paid – ordinary shares	1,907	1,893	545	541
Share premium account				
Share premium			1,091	1,075

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 17 March 2013	1,893	541	1,075
Allotted in respect of share option schemes	14	4	16
At 15 March 2014	1,907	545	1,091
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

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24 Capital redemption and other reserves

Group	Currency translation reserve £m	Available-for-sale assets £m	Cash flow hedge reserve £m	Convertible bond reserve £m	Total other reserves £m	Capital redemption reserve £m
At 17 March 2013	–	122	11	7	140	680
Currency translation differences	(2)	–	–	–	(2)	–
Available-for-sale financial assets fair value movements (net of tax):						
Group	–	31	–	–	31	–
Cash flow hedges effective portion of fair value movements (net of tax):						
Group	–	–	(43)	–	(43)	–
Joint ventures (note 14)	–	–	2	–	2	–
Items reclassified from cash flow hedge reserve	–	–	4	–	4	–
Amortisation of convertible bond equity component	–	–	–	(5)	(5)	–
At 15 March 2014	(2)	153	(26)	2	127	680
At 18 March 2012 Restated	(1)	107	(7)	12	111	680
Currency translation differences	1	–	–	–	1	–
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	–	–	22	–	22	–
Joint ventures (note 14)	–	–	1	–	1	–
Items reclassified from cash flow hedge reserve	–	–	(5)	–	(5)	–
Amortisation of convertible bond equity component	–	–	–	(5)	(5)	–
At 16 March 2013 Restated	–	122	11	7	140	680

Company	Available-for-sale assets £m	Convertible bond reserve £m	Cash flow hedge reserve £m	Total other reserves £m	Capital redemption reserve £m
At 17 March 2013	6	7	(2)	11	680
Items reclassified from cash flow hedge reserve	–	–	1	1	–
Amortisation of convertible bond equity	–	(5)	–	(5)	–
At 15 March 2014	6	2	(1)	7	680
At 18 March 2012	2	12	–	14	680
Available-for-sale financial assets fair value movements (net of tax)	4	–	–	4	–
Cash flow hedges effective portion of changes in fair value	–	–	(1)	(1)	–
Items reclassified from cash flow hedge reserve	–	–	(1)	(1)	–
Amortisation of convertible bond equity	–	(5)	–	(5)	–
At 16 March 2013	6	7	(2)	11	680

As part of the IAS 19 Revised restatement, remeasurements on defined benefit pension schemes have been reclassified from other reserves to retained earnings.

The 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 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.

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.

25 Retained earnings

	Group Own shares £m	Group Profit and loss account £m	Group Total retained earnings £m	Company Retained earnings £m
At 17 March 2013	(21)	3,422	3,401	1,952
Profit for the year	–	716	716	378
Remeasurements on defined benefit pension schemes (net of tax)	–	(273)	(273)	–
Dividends paid	–	(320)	(320)	(320)
Share-based payment (net of tax)	–	31	31	–
Shares vested	12	–	12	–
Allotted in respect of share option schemes	–	(12)	(12)	33
Utilised in respect of share option schemes	–	–	–	(2)
Amortisation of convertible bond equity	–	5	5	5
At 15 March 2014	(9)	3,569	3,560	2,046
At 18 March 2012 Restated	(22)	3,353	3,331	1,940
Profit for the year	–	602	602	284
Remeasurements on defined benefit pension schemes (net of tax)	–	(263)	(263)	–
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 Restated	(21)	3,422	3,401	1,952

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

The Group owned 2,061,793 (2013: 5,273,310) of its ordinary shares of 28⁴/₇ pence nominal value each. At 15 March 2014, the total nominal value of the own shares was £1 million (2013: £2 million).

All shares (2013: 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 15 March 2014 was £6 million (2013: £19 million).

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26 Notes to the cash flow statements

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

	Group 2014 £m	Restated Group 2013 £m	Company 2014 £m	Company 2013 £m
Profit before tax	898	772	375	290
Net finance costs	139	134	(23)	(27)
Share of post-tax profits of joint ventures (note 14)	(28)	(24)	–	–
Dividend income from subsidiaries	–	–	(250)	(250)
Operating profit	1,009	882	102	13
Adjustments for:				
Depreciation expense	536	504	–	–
Amortisation expense	15	13	–	–
Non-cash acquisition adjustments (note 5)	(19)	–	–	–
Sainsbury's Bank impairment losses on loans and advances	2	–	–	–
Profit on disposal of properties	(51)	(67)	–	–
Impairment of property, plant and equipment	92	–	1	–
Impairment of intangible assets	1	–	–	–
Nectar VAT recovery	(14)	–	–	–
Foreign exchange differences	6	–	–	–
Share-based payments expense	33	33	–	–
Retirement benefit obligations ¹	(244)	(71)	–	–
Provision for diminution in value of investment	–	–	135	2
Write down of advances to Group companies	–	–	(237)	–
Operating cash flows before changes in working capital	1,366	1,294	1	15
Changes in working capital:				
Increase in inventories	(19)	(57)	–	–
Decrease/(increase) in trade and other receivables	13	(34)	13	(46)
Increase in amounts due from Sainsbury's Bank customers	(23)	–	–	–
(Decrease)/increase in trade and other payables	(118)	87	22	22
Increase in amounts due to Sainsbury's Bank customers	6	–	–	–
Increase/(decrease) in provisions	2	(22)	2	(16)
Cash generated from/(used in) operations	1,227	1,268	38	(25)

1 The adjustment for retirement benefit obligations reflects the difference between the service charge of £34 million (2013: £59 million) for the defined benefit scheme, defined benefit pension scheme expenses of £7 million (2013: £7 million), one-off past service credit of £(158) million (2013: £nil) and the cash contributions of £127 million made by the Group to the defined benefit scheme (2013: £137 million).

(b) Cash and cash equivalents

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

	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Cash in hand and bank balances	409	115	1	1
Money market funds and deposits	656	402	135	350
Treasury bills	527	–	–	–
Cash and bank balances	1,592	517	136	351
Bank overdrafts (note 20)	(13)	(13)	(7)	–
Net cash and cash equivalents	1,579	504	129	351

27 Analysis of net debt

	Group 2014 £m	Sainsbury's Bank £m	Adjusted Group 2014 ¹ £m	Group 2013 £m
Non-current assets				
Interest bearing available-for-sale financial assets	37	–	37	34
Derivative financial instruments	28	(1)	27	47
	65	(1)	64	81
Current assets				
Cash and cash equivalents	1,592	(1,225)	367	517
Derivative financial instruments	49	–	49	91
	1,641	(1,225)	416	608
Current liabilities				
Bank overdrafts	(13)	–	(13)	(13)
Borrowings	(494)	–	(494)	(131)
Finance leases	(27)	–	(27)	(21)
Derivative financial instruments	(65)	–	(65)	(65)
	(599)	–	(599)	(230)
Non-current liabilities				
Borrowings	(2,089)	–	(2,089)	(2,478)
Finance leases	(161)	–	(161)	(139)
Derivative financial instruments	(21)	6	(15)	(4)
	(2,271)	6	(2,265)	(2,621)
Total net debt	(1,164)	(1,220)	(2,384)	(2,162)

1 The Group's definition of net debt includes the cost of acquiring Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances.

Reconciliation of net cash flow to movement in net debt

	2014 £m	2013 £m
Net debt at beginning of the year	(2,162)	(1,980)
Net increase/(decrease) in cash and cash equivalents	1,075	(235)
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	(1,225)	–
Net decrease in borrowings ²	1	27
Net increase in derivatives ²	–	26
Net increase of obligations under finance leases	(28)	(17)
Fair value movements	(45)	17
Net debt at the end of the year	(2,384)	(2,162)

2 Excluding fair value and Sainsbury's Bank derivative movements.

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Notes to the financial statements continued

28 Financial risk management

The principal financial risks faced by the Group relate to liquidity risk, counterparty credit risk, foreign currency risk, interest rate risk, commodity risk and capital risk.

Financial risk management is 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.

Financial risk management with respect to Sainsbury's Bank is separately managed by the Bank's Asset and Liability Management Committee ('ALCO') reporting to the Sainsbury's Bank's Board Risk Committee. The risks are more fully described in the Sainsbury's Bank section below.

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.

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 principal operational cash flow of the Group 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 sets 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 credit facilities.

Short term and seasonal funding is sourced from the Group's revolving credit facility and the wholesale inter-bank money market where interest is charged at various spreads above LIBOR. In February 2014 the Group entered into a new syndicated committed revolving credit facility for £1,150 million replacing the £690 million facility maturing in October 2015. The new £1,150 million facility is split into two tranches, a £500 million Facility (A) maturing in March 2017 and a £650 million Facility (B) maturing in March 2019. At 15 March 2014, £200 million had been drawn under Facility (A) (2013: £nil).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity 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 15 March 2014				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	(127)	(130)	(846)	–
Loan due 2031 ¹	(63)	(65)	(202)	(1,004)
Unsecured loans:				
Bank overdraft	(13)	–	–	–
Revolving credit facility ²	(2)	(2)	(203)	–
Bank loans due 2014 ²	(70)	–	–	–
Bank loans due 2015 ^{2,3}	(99)	(93)	–	–
Bank loans due 2016 ^{2,3}	(1)	(1)	(43)	–
Bank loans due 2017 ^{2,3}	(2)	(2)	(62)	–
Convertible bond due 2014	(194)	–	–	–
Other loans due 2015 ³	(25)	–	–	–
Finance lease obligations ²	(36)	(33)	(91)	(195)
Trade and other payables	(2,665)	(10)	–	–
Amounts due to Sainsbury's Bank customers ⁵	(3,543)	(231)	(75)	–
Derivative contracts – net settled				
Commodity contracts	(1)	–	–	–
Interest rate swaps in hedging relationships ^{1,4}	3	6	10	–
Other interest rate swaps ⁴	1	1	1	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow ³	(405)	(40)	–	–
Foreign exchange forwards – inflow ³	389	40	–	–
Commodity contracts – outflow	(13)	(13)	(39)	(74)
Commodity contracts – inflow	12	13	40	80
Cross currency swaps – outflow ^{3,4}	(110)	(50)	(145)	–
Cross currency swaps – inflow ^{3,4}	105	46	133	–

28 Financial risk management continued

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 16 March 2013				
Non-derivative financial liabilities				
Secured loans				
Loan due 2018	(124)	(127)	(401)	(575)
Loan due 2031 ¹	(61)	(63)	(202)	(1,101)
Unsecured loans				
Bank overdraft	(13)	–	–	–
Bank loan due 2014 ²	–	(25)	–	–
Bank loans due 2015 ^{2,3}	(29)	(128)	(157)	–
Bank loans due 2016 ^{2,3}	(1)	(1)	(45)	–
Bank loans due 2017 ^{2,3}	(3)	(3)	(117)	–
Bank loans due 2018 ²	(4)	(4)	(12)	(4)
Convertible bond due 2014	(8)	(194)	–	–
Other loans due 2015 ³	(1)	(26)	–	–
Finance lease obligations ²	(27)	(25)	(69)	(201)
Trade and other payables	(2,702)	–	–	–
Derivatives – net settled				
Commodity contracts	1	–	–	–
Interest rate swaps in hedging relationships ^{1,4}	10	11	27	1
Other interest rate swaps ⁴	1	1	3	–
Derivatives – gross settled				
Foreign exchange forwards – outflow ³	(374)	(56)	(3)	–
Foreign exchange forwards – inflow ³	388	57	3	–
Commodity contracts – outflow	(6)	(6)	(18)	(29)
Commodity contracts – inflow	6	6	20	32
Cross currency swaps – outflow ^{3,4}	(9)	(110)	(161)	–
Cross currency swaps – inflow ^{3,4}	7	112	160	–

Company	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 15 March 2014				
Bank overdraft	(7)	–	–	–
Revolving credit facility ²	(2)	(2)	(203)	–
Bank loan due 2014 ²	(25)	–	–	–
Bank loan due 2015 ^{2,3}	(99)	(93)	–	–
Bank loans due 2016 ^{2,3}	(1)	(1)	(43)	–
Bank loans due 2017 ^{2,3}	(2)	(2)	(62)	–
Convertible bond due 2014	(194)	–	–	–
Other loans due 2015 ³	(25)	–	–	–
Amounts owed to Group entities ²	(4,607)	(51)	(806)	–
Other payables	(30)	–	–	–
At 16 March 2013				
Bank loan due 2014 ²	–	(25)	–	–
Bank loan due 2015 ^{2,3}	(23)	(123)	(112)	–
Bank loans due 2016 ^{2,3}	(1)	(1)	(45)	–
Bank loans due 2017 ^{2,3}	(3)	(3)	(117)	–
Bank loans due 2018 ²	(4)	(4)	(12)	(4)
Convertible bond due 2014	(8)	(194)	–	–
Other loans due 2015 ³	(1)	(26)	–	–
Amounts owed to Group entities ²	(4,634)	(112)	(316)	(584)
Other payables	(57)	–	–	–

Assumptions:

- Cash flows relating to debt and swaps linked to inflation rates have been calculated using an RPI of 2.8 per cent for the year ended 15 March 2014 and 3.1 per cent for future years (2013: RPI of 3.9 per cent for the year ended 16 March 2013 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 15 March 2014 and 16 March 2013.
- Cash flows in foreign currencies have been translated using spot rates at 15 March 2014 and 16 March 2013.
- The swap rate which matches the remaining term of the interest rate swap at 15 March 2014 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2013: 16 March 2013).
- Cash flows relating to amounts due to Sainsbury's Bank customers are calculated using contractual terms and interest rates for fixed rate products. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.

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28 Financial risk management continued

Further information relating to liquidity risk in Sainsbury's Bank is more fully described in the section on Sainsbury's Bank financial risk factors below.

Counterparty credit risk

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of the Group's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables, loans and advances to customers. The Group considers its maximum credit risk to be £4,897 million (2013: £1,188 million), equivalent to the Group's total financial assets and of this amount £3,965 million relates to Sainsbury's Bank.

The Group sets counterparty limits for each of its banking and investment counterparties based on relative credit ratings but with minimum long-term credit ratings of BBB+ from Standard & Poor's and Fitch or Baa1 from Moody's or, in the case of sterling liquidity funds, AAAM from Standard & Poor's and Fitch or Aaa/MR1+ from Moody's.

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

Counterparty	Long-term rating	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Financial institutions – Money market funds	AAAm/Aaa	367	322	60	270
Financial institutions – Money market deposits	AA+/Aa1 to A/A2	289	80	75	80
UK Government Treasury Bills	AA+/Aa1 to A/A2	527	–	–	–

Management does not expect any losses arising 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	Long-term rating	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Interest rate swaps	AA+/Aa1 to A/A2	49	77	47	77
Interest rate swaps	A/A3- to BBB+/Baa1	24	36	24	36
FX forward contracts	AA+/Aa1 to A/A2	1	16	–	–
FX forward contracts	A/A3- to BBB+/Baa1	–	4	–	–
Commodity contracts	AA+/Aa1 to A/A2	–	1	–	–

Further information relating to counterparty credit risk in Sainsbury's Bank is more fully described in the section on Sainsbury's Bank financial risk factors below.

Offsetting of financial assets and liabilities

The following table sets out the Group's financial assets and financial liabilities that are subject to counterparty offsetting or a master netting agreement. The master netting agreements regulate settlement amounts in the event either party defaults on their obligations.

Group	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	Net amounts recognised in the balance sheet £m	Amounts not offset in balance sheet		Net amounts £m
				Balances subject to a contractual right of offset £m	Cash collateral pledged £m	
At 15 March 2014						
Derivative financial assets	77	–	77	(1)	(17)	59
Derivative financial liabilities	(86)	–	(86)	1	–	(85)
Cash and cash equivalents	1,592	–	1,592	(7)	(45)	1,540
Bank overdrafts	(13)	–	(13)	7	–	(6)
Trade and other payables	(1,005)	144	(861)	–	–	(861)
	565	144	709	–	(62)	647
At 16 March 2013						
Derivative financial assets	138	–	138	(1)	(47)	90
Derivative financial liabilities	(69)	–	(69)	1	–	(68)
Cash and cash equivalents	517	–	517	–	–	517
Bank overdrafts	(13)	–	(13)	–	–	(13)
Trade and other payables	(1,052)	128	(924)	–	–	(924)
	(479)	128	(351)	–	(47)	(398)

28 Financial risk management continued

Company	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	Net amounts recognised in the balance sheet £m	Amounts not offset in balance sheet		Net amounts £m
				Balances subject to a contractual right of offset £m	Cash collateral pledged £m	
At 15 March 2014						
Derivative financial assets	71	–	71	–	(16)	55
Derivative financial liabilities	(57)	–	(57)	–	–	(57)
Cash and cash equivalents	136	–	136	–	–	136
Bank overdrafts	(7)	–	(7)	–	–	(7)
	143	–	143	–	(16)	127
At 16 March 2013						
Derivative financial assets	113	–	113	(1)	(47)	65
Derivative financial liabilities	(69)	–	(69)	1	–	(68)
Cash and cash equivalents	351	–	351	–	–	351
	395	–	395	–	(47)	348

The Group holds certain financial derivatives which are subject to credit support agreements. Under these agreements cash collateral is posted by one party to the other party should the fair value of the financial derivative exceed a pre-agreed level. At 15 March 2014, the Group held £17 million of collateral against financial derivatives (2013: £47 million).

Sainsbury's Bank had a £45 million reverse repo transaction, which was fully collateralised by UK Gilts.

The Group also operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. At 15 March 2014, the Group had a £7 million overdraft (2013: £nil) under this facility.

Market risk

(a) Currency risk

Currency risk is the risk of increased costs arising from unexpected movements in exchange rates impacting the Group's supply contracts denominated in currencies other than pound sterling.

The Group's currency risk policy seeks to limit the impact of fluctuating exchange rates on the Group's income statement by requiring anticipated foreign currency cash flows to be hedged. The future cash flows, which may be either contracted or un-contracted, are hedged on a layered basis from 20 per cent 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:

	2014	2014	2013	2013
	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	2/(2)	(29)/36	1/(1)	(28)/34
EUR/GBP	-/-	(10)/12	-/-	(13)/15

(b) Interest rate risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates impacting on the Group's borrowing and investment portfolios. The Group's interest rate policy seeks to limit the impact of fluctuating interest and inflation rates by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

Interest on financial instruments is classified as fixed rate where interest re-set on the borrowings is greater than 12 months; floating rate where interest is re-set at intervals of one year or less and variable capped rate if interest is re-set at intervals of one year or less and the nominal interest rate is subject to a cap.

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28 Financial risk management continued

The mix of the Group's financial assets and liabilities at the balance sheet date were as follows:

	Fixed £m	Floating £m	Variable Capped £m	Total £m
At 15 March 2014				
Interest bearing available-for-sale financial assets	–	69	–	69
Amounts due from Sainsbury's Bank customers	1,948	627	–	2,575
Cash and cash equivalents	396	1,196	–	1,592
Borrowings	(1,182)	(515)	(899)	(2,596)
Finance lease obligations	(123)	(65)	–	(188)
Amounts due to Sainsbury's Bank customers	(619)	(2,928)	–	(3,547)
Derivative effect:				
Interest rate swaps	(943)	943	–	–
Cross currency swaps	(39)	39	–	–
Inflation linked swaps	(300)	–	300	–
Total	(862)	(634)	(599)	(2,095)

At 16 March 2013

Interest bearing available-for-sale financial assets	–	34	–	34
Cash and cash equivalents	113	404	–	517
Borrowings	(1,248)	(462)	(912)	(2,622)
Finance lease obligations	(86)	(74)	–	(160)
Derivative effect:				
Interest rate swaps	221	(221)	–	–
Cross currency swaps	(39)	39	–	–
Inflation linked swaps	(250)	–	250	–
Total	(1,289)	(280)	(662)	(2,231)

Further information relating to interest rate risk in Sainsbury's Bank is more fully described in the section on Sainsbury's Bank financial risk factors below.

(i) Cash flow sensitivity for floating rate instruments

The Group considers that a 100 basis point movement in interest rates is a reasonable measure of volatility. The sensitivity of floating rate balances to a change of 100 basis points in the interest rate (or such lesser amount as would result in a zero rate of interest) at the balance sheet date is shown below.

	2014 Impact on post-tax profit £m	2014 Impact on cash flow hedge reserve £m	2013 Impact on post-tax profit £m	2013 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	(3)/–	2/(2)	(2)/2	4/(2)

(ii) Cash flow sensitivity for variable capped rate liabilities

The Group holds £44 million of capped floating rate borrowings (2013: £44 million) and £855 million of capped inflation-linked borrowings (2013: £868 million) of which £300 million (2013: £250 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing April 2017 to April 2018. The Group has also entered into £100 million (2013: £50 million) of forward starting inflation rate swaps maturing April 2018 to April 2019.

The Group considers that a 100 basis point movement in the relevant floating rate is a reasonable measure of volatility. The sensitivity of variable capped balances to a change of 100 basis points in the relevant rate at the balance sheet date is shown below:

	2014 Impact on post-tax profit £m	2014 Impact on cash flow hedge reserve £m	2013 Impact on post-tax profit £m	2013 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	(4)/4	13/(13)	(5)/5	12/(12)

28 Financial risk management continued

Commodity risk

Commodity risk is the risk of increased costs arising from unexpected movements in commodity prices impacting the Group's own use consumption of electricity, gas and fuel. The Group's Energy Price Risk Committee seeks to limit the impact by requiring forecast purchases of power and fuel to be hedged.

The Group hedges own use consumption electricity and gas exposures with forward purchases under flexible purchasing arrangements with its suppliers. 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 prices a reasonable measure of volatility. A ten per cent (2013: ten per cent) change in the fair value of the power, diesel and gasoil price at the balance sheet date would have increased or decreased the cash flow equity reserve by £3 million (2013: £4 million).

Capital risk management

The Group defines capital as total equity plus net debt.

The Board's capital 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 status as a going concern. There has been no change to capital risk management policies during the year.

The Board monitors a broad range of financial metrics including return on capital employed, balance sheet gearing and fixed charge cover.

The Board can manage the Group's capital structure by diversifying the 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.

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; however the Group does not operate 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 various borrowing facilities. There have been no breaches of covenant in the financial year ended 15 March 2014.

For information relating to Sainsbury's Bank capital risk management see note 38.

Sainsbury's Bank

The principal financial risks faced by Sainsbury's Bank relate to liquidity risk, counterparty credit risk, market risk and interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its financial commitments as they fall due without an adverse impact on funding costs or profitability. The Bank's liquidity risk management framework complies with the standards set out by the Prudential Regulation Authority ('PRA') and sets a liquidity buffer above the minimum PRA requirements. The Bank seeks to maintain a funding and liquidity profile sufficient to enable it to meet its financial obligations under stressed market conditions. In meeting these limits the Bank maintains a stock of high quality liquid assets that can be readily sold to meet the Bank's obligations to depositors and other creditors. The portfolio of assets is managed on a daily basis.

In addition, the Bank prepares both long-term and short-term forecasts to assess liquidity requirements. Short-term forecasting covers a rolling 12 month period and takes into account factors such as ATM cash management, investment maturities and customer deposit patterns and balances.

Counterparty credit risk

Counterparty credit risk is the risk of a financial loss arising from a retail customer or wholesale counterparty default or non-performance in respect of the Bank's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers.

Credit risk in respect of retail lending customers is managed through automated credit decision techniques using both scorecards and policy rules for new applications. In addition, behavioural scoring is used to assess the conduct of customers' accounts on an ongoing basis. Underwriting is undertaken by specialist teams in operational areas to complement these processes. The Retail Credit Risk Committee ensures that appropriate policies are established and adhered to and this is subject to further oversight from the Board Risk Committee. Internal Audit teams carry out regular reviews of credit risk processes and policies are reviewed and re-approved on an annual basis.

The credit exposure relating to off balance sheet items mainly undrawn loan commitments to customers, was £58 million.

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28 Financial risk management continued

Credit quality per class of financial asset

Loans and advances to customers

Loans and advances to customers are summarised as follows:

	2014 £m	2013 £m
Impaired	103	–
Past due but not impaired	16	–
Neither past due nor impaired	2,540	–
Gross	2,659	–
Less: allowance for impairment	(83)	–
Less: hedging fair value adjustment	(1)	–
Net book value	2,575	–

	Unsecured lending £m	Secured lending £m	Total £m
Past due and impaired			
Less than three months, but impaired	2	–	2
Past due three to six months	7	1	8
Past due six to 12 months	–	–	–
Past due over 12 months	–	1	1
Recoveries	92	–	92
Possession	–	–	–
Total gross impaired loans	101	2	103
Past due but not impaired			
Past due less than three months but not impaired	13	3	16
Total gross past due but not impaired	13	3	16
Neither past due nor impaired			
Not impaired	2,486	54	2,540
Total gross neither past due nor impaired	2,486	54	2,540
Total gross amount due	2,600	59	2,659

Mortgages held over residential properties represent the only collateral held by the Bank for retail lending exposures. The fair value of collateral held for impaired secured loans and secured loans past due but not impaired was £10 million. The fair value of collateral held against possession cases was £nil.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market factors such as interest rates or foreign exchange rates. The Bank hedges all such risks within limits set by the Board Risk Committee. Exposures are managed and monitored using a variety of sensitivity measures to minimise volatility of earnings and economic value, taking into account expected future business flows.

Interest rate risk

The Bank offers lending and saving products with varying interest rate features and maturities which create potential interest rate risk exposures. Short-term exposures under 12 months are measured and controlled in terms of net interest income sensitivity to a variety of movement in interest rates. Potential exposures to interest rate movements in the medium to long-term are controlled through position and sensitivity limits, predominantly using Economic Value Equity ('EVE') measures for risk management purposes. Where residual balance sheet exposures exist, interest rate swaps are the primary hedging instrument used to mitigate that risk. The Bank does not operate a trading book.

29 Financial instruments

The fair value of derivative financial instruments has been disclosed in the balance sheet as follows:

	Group				Company			
	2014		2013		2014		2013	
	Asset £m	Liability £m	Asset £m	Liability £m	Asset £m	Liability £m	Asset £m	Liability £m
Non-current	28	(21)	47	(4)	23	(10)	41	(4)
Current	49	(65)	91	(65)	48	(47)	72	(65)
Total	77	(86)	138	(69)	71	(57)	113	(69)

The fair value and notional amount of financial derivatives analysed by hedge type are as follows:

Group	2014				2013			
	Asset	Asset	Liability	Liability	Asset	Asset	Liability	Liability
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	26	548	–	895	35	211	–	–
Cross currency swaps	–	–	–	23	1	23	–	–
Cash flow hedges								
Interest rate swaps	–	–	–	50	–	–	(1)	50
Cross currency swaps	–	–	(10)	90	2	63	–	–
Inflation rate swaps	–	–	(5)	400	–	300	–	–
Foreign exchange forward contract	1	126	(17)	323	19	408	–	28
Commodity contracts	–	–	(1)	28	2	31	–	–
Derivatives not in a formal hedging relationship								
Interest rate swaps	47	397	(44)	393	72	391	(65)	331
Cross currency swaps	–	–	(9)	167	3	78	(3)	89
Commodity contracts	3	13	–	–	4	5	–	–
Total	77	1,084	(86)	2,369	138	1,510	(69)	498

Company	2014				2013			
	Asset	Asset	Liability	Liability	Asset	Asset	Liability	Liability
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	24	211	–	–	35	211	–	–
Cross currency swaps	–	–	–	23	1	23	–	–
Cash flow hedges								
Interest rate swaps	–	–	–	50	–	–	(1)	50
Cross currency swaps	–	–	(4)	63	2	63	–	–
Derivatives not in a formal hedging relationship								
Interest rate swaps	47	391	(44)	331	72	391	(65)	331
Cross currency swaps	–	–	(9)	167	3	78	(3)	89
Total	71	602	(57)	634	113	766	(69)	470

Fair value hedges

Interest rate and cross currency swaps

The Group holds a £234 million (2013: £234 million) portfolio of interest rate and cross currency swaps to hedge a portion of fixed rate borrowings. Under the terms of the swaps, the Group receives fixed rate interest and pays floating rate interest. The notional principal amount of one of the interest rate swaps amortises from £211 million to £111 million from April 2016 to April 2018.

Sainsbury's Bank holds a £1,232 million portfolio of interest rate swaps to hedge the fixed-rate interest income on amounts due from Sainsbury's Bank customers. Under the terms of the swaps, the Bank receives floating rate interest and pays fixed rate interest.

For the year to 15 March 2014, the fair value movement in the Group's interest rate swaps resulted in a charge to the income statement of £13 million (2013: £3 million charge). The fair value movement in the underlying fixed rate borrowings and amounts due from Sainsbury's bank customers resulted in a credit to the income statement of £13 million (2013: £3 million credit).

Cash flow hedges

Interest rate and cross currency swaps

The Group holds a £400 million (2013: £300 million) portfolio of inflation rate swaps to hedge a portion of the inflation linked secured loan due 2031. Under the terms of the swaps, the Group receives annual RPI inflation (subject to a cap at five per cent and floor at nil per cent) and pays fixed rate interest.

The Group holds a £113 million (2013: £113 million) portfolio of interest rate and cross currency swaps to hedge a £50 million fixed rate bank loan 2015 and a US\$100 million fixed rate bank loan 2017. Under the terms of the swaps, the Group receives floating rate interest and pays fixed rate interest.

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Notes to the financial statements continued

29 Financial instruments continued

Sainsbury's Bank holds a £27 million portfolio of cross currency swaps to hedge the foreign exchange risks from cash flows arising on its euro denominated available for sale investment securities.

At 15 March 2014, an unrealised loss of £12 million (2013: £1 million gain) is included in other comprehensive income in respect of the swaps in cash flow hedges. This loss will be transferred to the income statement over the next four years.

Foreign exchange forward contracts

The Group holds a portfolio of foreign exchange forward contracts to hedge its future foreign currency trading liabilities. At 15 March 2014 the Group had forward purchased €129 million (2013: €167 million) and sold sterling at exchange rates ranging from 1.14 to 1.23 (2013: 1.15 to 1.27) with maturities from March 2014 to December 2015 (2013: March 2013 to December 2015) and forward purchased US\$533 million (2013: US\$469 million) and sold sterling at exchange rates ranging from 1.48 to 1.67 (2013: 1.48 to 1.62) with maturities from March 2014 to June 2015 (2013: March 2013 to April 2015).

At 15 March 2014, an unrealised loss of £13 million (2013: gain of £17 million) is included in other comprehensive income in respect of the forward contracts. This loss will be transferred to the income statement over the next 21 months. During the year a charge to the income statement of £3 million was transferred from the cash flow hedge equity reserve and included in cost of sales (2013: £3 million credit).

Commodity forward contracts

The Group holds a portfolio of commodity forward contracts to hedge its own use fuel consumption over the next 12 months.

At 15 March 2014, an unrealised loss of £1 million (2013: gain of £1 million) is included in other comprehensive income in respect of the commodity contracts. This gain will be transferred to the income statement over the next 12 months.

Derivatives not in a hedge relationship

Some of the Group's derivative contracts do not qualify for hedge accounting or, where the gains or losses on the derivative contract economically offset the underlying hedged item, are not designated in a hedging relationship.

Interest rate and cross currency swaps

The Group holds a £331 million (2013: £331 million) portfolio of interest rate swaps at fair value through profit or loss to convert floating rate obligations into fixed rates. Under the terms of the swaps, the Group receives floating rate interest and pays fixed rate interest. Offsetting these swaps the Group holds a £391 million (2013: £391 million) portfolio of interest rate swaps at fair value through profit or loss, to convert fixed rate obligations into floating rate interest. Under the terms of the swaps, the Group receives fixed rate interest and pays floating rate interest.

Sainsbury's Bank holds a £68 million portfolio of interest rate swaps at fair value through profit or loss. Under the terms of the swaps, the Bank receives fixed rate interest and pays floating rate interest.

The Group holds a £167 million (2013: £167 million) portfolio of cross currency swaps at fair value through profit or loss to convert floating rate borrowings denominated in euro and US dollars into floating rate sterling borrowings.

Commodity forward contracts

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.

Fair value

Set out on the next page is a comparison of the carrying amount and the fair value of financial instruments that are carried in the financial statements at a value other than fair value. The fair value of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of 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.

29 Financial instruments continued

	Group Carrying amount ⁴ £m	Group Fair value ⁴ £m	Company Carrying amount ⁴ £m	Company Fair value ⁴ £m
2014				
Financial assets				
Amounts owed by Group entities	–	–	2,651	3,233
Other receivables	273	273	–	–
Amounts due from Sainsbury's Bank customers ³	2,575	2,582	–	–
Financial liabilities				
Amounts owed to Group entities	–	–	(5,290)	(5,385)
Loans due 2018 ¹	(956)	(1,053)	–	–
Loans due 2031	(855)	(1,013)	–	–
Bank overdrafts	(13)	(13)	(7)	(7)
Revolving credit facility due 2017	(200)	(200)	(200)	(200)
Bank loans due 2014	(69)	(75)	(25)	(25)
Bank loans due 2015	(188)	(188)	(188)	(188)
Bank loans due 2016	(42)	(42)	(42)	(42)
Bank loans due 2017	(60)	(60)	(60)	(60)
Convertible bond due 2014	(189)	(193)	(189)	(193)
Other loans due 2015 ²	(24)	(24)	(24)	(24)
Finance lease obligations	(188)	(188)	–	–
Amounts due to Sainsbury's Bank customers	(3,547)	(3,543)	–	–
2013				
Amounts owed by Group entities	–	–	2,461	3,207
Other receivables	168	156	55	43
Financial liabilities				
Amounts owed to Group entities	–	–	(5,390)	(5,557)
Loans due 2018 ¹	(1,039)	(1,186)	–	–
Loans due 2031	(868)	(1,109)	–	–
Bank overdrafts	(13)	(13)	–	–
Bank loans due 2014	(25)	(25)	(25)	(25)
Bank loans due 2015	(291)	(303)	(246)	(249)
Bank loans due 2016	(43)	(43)	(43)	(43)
Bank loans due 2017	(111)	(111)	(111)	(111)
Bank loans due 2018	(23)	(23)	(23)	(23)
Convertible bond due 2014	(184)	(209)	(184)	(209)
Other loans due 2015 ²	(25)	(25)	(25)	(25)
Finance lease obligations	(160)	(160)	–	–

1 Includes £211 million accounted for as a fair value hedge (2013: £211 million).

2 Includes £23 million accounted for as a fair value hedge (2013: £23 million).

3 Includes £1,232 million accounted for as a fair value hedge.

4 The prior year amounts owed by Group entities, amounts owed to Group entities and other receivables have been restated to include both the current and non-current balances.

The fair value of financial assets as disclosed in the table above at 15 March 2014 was £2,855 million (2013: £156 million). The fair value of the financial assets has been calculated by discounting cash flows at prevailing interest rates and are within Level 2 of the fair value hierarchy. The fair value of financial liabilities was £6,592 million (2013: £3,207 million). £193 million (2013: £209 million) has been calculated using market values and are within Level 1 of the fair value hierarchy. £6,399 million (2013: £2,998 million) has been calculated by discounting cash flows at prevailing interest rates and are within Level 2 of the fair value hierarchy.

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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 market prices (unadjusted) in active markets for identical assets or liabilities at the balance sheet date. This level includes listed equity securities and debt instrument on public exchanges;
- 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). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates; 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
2014				
Available-for-sale financial assets				
Investment securities	–	32	–	32
Interest bearing financial assets	–	37	–	37
Other financial assets	–	–	184	184
Financial assets at FVTPL				
Derivative financial assets	–	74	3	77
Financial liabilities at FVTPL				
Derivative financial liabilities	–	(86)	–	(86)

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)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2014				
Available-for-sale financial assets				
Interest bearing financial assets	–	37	–	37
Financial assets at FVTPL				
Derivative financial assets	–	71	–	71
Financial liabilities at FVTPL				
Derivative financial liabilities	–	(57)	–	(57)

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)

29 Financial instruments continued

Reconciliation of Level 3 fair value measurements of financial assets:

	Available-for-sale financial assets £m	Commodity derivatives £m	Total £m
Opening balance	154	4	158
In finance cost in the Group income statement	–	(1)	(1)
In other comprehensive income	30	–	30
Closing balance	184	3	187

The available-for-sale financial assets relate 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 (2013: three per cent) and a discount rate of nine per cent (2013: 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:

	2014 Change in growth rate +/- 0.5% £m	2014 Change in discount rate +/- 1.0% £m	2013 Change in growth rate +/- 0.5% £m	2013 Change in discount rate +/- 1.0% £m
Available-for-sale assets	10/(11)	(17)/15	9/(10)	(14)/15

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial assets is £3 million (2013: £4 million) relating to these agreements. The Group values its Power Purchase agreements at 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 ten per cent in the implied forward energy prices holding other assumptions constant is shown below:

	2014 Change in volume +/- 20.0% £m	2014 Change in electricity forward price +/- 10.0% £m	2013 Change in volume +/- 20.0% £m	2013 Change in electricity forward price +/- 10.0% £m
Derivative financial instruments	1/(1)	10/(10)	1/(1)	5/(5)

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 15 March 2014 and 16 March 2013.

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
2014						
Cash and cash equivalents	1,592	–	–	–	–	1,592
Trade and other receivables	398	–	–	–	–	398
Amounts due from Sainsbury's Bank customers	2,575	–	–	–	–	2,575
Available-for-sale financial assets	–	255	–	–	–	255
Trade and other payables	–	–	–	–	(2,675)	(2,675)
Current borrowings	–	–	–	–	(534)	(534)
Non-current borrowings	–	–	–	–	(2,250)	(2,250)
Amounts due to Sainsbury's Bank customers	–	–	–	–	(3,547)	(3,547)
Derivative financial instruments	–	–	(3)	(6)	–	(9)
	4,565	255	(3)	(6)	(9,006)	(4,195)
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)

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Notes to the financial statements continued

29 Financial instruments continued

Company	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
2014						
Cash and cash equivalents	136	–	–	–	–	136
Trade and other receivables	2,651	–	–	–	–	2,651
Available-for-sale financial assets	–	37	–	–	–	37
Trade and other payables	–	–	–	–	(5,320)	(5,320)
Current borrowings	–	–	–	–	(341)	(341)
Non-current borrowings	–	–	–	–	(394)	(394)
Derivative financial instruments	–	–	(6)	20	–	14
	2,787	37	(6)	20	(6,055)	(3,217)
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)

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 is governed by a Trustee board, and the assets of the Scheme are held separately from the Group's assets. The Scheme is a Registered pension plan with HMRC, subject to UK legislation; and with oversight from the Pensions Regulator. The governance of the Scheme is the responsibility of the Trustee; the Trustee comprises 11 Directors – five selected from members, five appointed by the Company and one Independent Chairman. In accordance with legislation, the Trustee consults with the Company regarding the Scheme's investment strategy and agrees an appropriate funding plan with the Company.

The Scheme has three different benefit categories; Final Salary, Career Average and Cash Balance. For Final Salary and Career Average members, benefits at retirement are determined by length of service and salary. For Cash Balance members, benefits are determined by the accrued retirement account credits. The Scheme was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. A one-off past service credit has been recognised as a result as disclosed in note 3. The assets of the Scheme are valued at bid price and are held separately from the Group's assets.

The Scheme was subject to a triennial actuarial valuation, carried out by Towers Watson, at 17 March 2012 on the projected unit basis. The results of this valuation were finalised in August 2013 and a recovery plan agreed. Under the Scheme's recovery plan, the Company will pay annual deficit contributions of £49 million per annum for eight consecutive financial years to 2020. This plan is reviewed once every three years, with the next valuation effective date in March 2015.

The retirement benefit obligations at the year-end have been calculated by KPMG, as actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at 17 March 2012 for known events and changes in market conditions as allowed under IAS 19 Revised.

The unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

Sainsbury's Property Scottish Limited Partnership

Further to the funding plan agreed with the Scheme's Trustees, on 17 June 2010 Sainsbury's established the Sainsbury's Property Scottish Partnership (the 'Partnership') with the Scheme. Under this arrangement, properties to a fair value of £256 million were transferred to the Partnership. On 25 March 2011, further properties to a fair value of £501 million were transferred to the Partnership. Both transfers were effected via a 30 year sale and leaseback arrangement.

The Scheme's interest in the Partnership entitles it to an annual distribution for 20 years to 2030. The amount of this distribution is linked to the triennial actuarial valuation and will therefore vary once every three years. The annual distribution in previous years has been approximately £35 million and for 2014/15 it is expected to be in the region of £32 million. 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 Revised 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.

30 Retirement benefit obligations continued

The amounts recognised in the balance sheet are as follows:

	2014 £m	Restated 2013 £m
Present value of funded obligations	(6,855)	(6,460)
Fair value of plan assets	6,131	5,841
	(724)	(619)
Present value of unfunded obligations	(13)	(13)
Retirement benefit obligations	(737)	(632)
Deferred income tax asset	58	48
Net retirement benefit obligations	(679)	(584)

The retirement benefit obligation 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:

	2014 £m	Restated 2013 £m
Included within underlying profit before tax:		
Current service cost – funded scheme	(34)	(57)
Past service cost	–	(2)
Included in employee costs (note 7)	(34)	(59)
Excluded from underlying profit before tax:		
Interest cost on pension scheme liabilities ¹	(290)	(274)
Interest income on plan assets	267	258
Total included in finance costs (note 6)	(23)	(16)
Defined benefit pension scheme expenses	(7)	(7)
Past service credit ²	158	–
Total excluded from underlying profit before tax (note 3)	128	(23)
Total income statement credit/(expense)	94	(82)

1 Includes interest of £nil for the unfunded pension scheme (2013: £1 million).

2 One-off items presented within note 3 also include compensation payments to defined contribution schemes of £10 million.

Of the expense recognised in operating profit, £21 million (2013: £41 million) is included in cost of sales and £13 million (2013: £18 million) is included in administrative expenses. A past service credit of £158 million (2013: £nil) has been recognised in administrative expenses.

(b) Other comprehensive income

Remeasurement of the retirement benefit obligations have been recognised as follows:

	2014 £m	Restated 2013 £m
Return on plan assets, excluding amounts included in interest	70	401
Actuarial losses arising from changes in:		
Demographic assumptions	–	(22)
Financial assumptions ¹	(416)	(648)
Experience	20	(70)
Total actuarial losses	(396)	(740)
Total remeasurements	(326)	(339)

1 Includes £nil for the unfunded pension scheme (2013: £3 million).

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Notes to the financial statements continued

30 Retirement benefit obligations continued

(c) Valuations

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

	2014 £m	Restated 2013 £m
Beginning of year	(6,460)	(5,531)
Current service cost	(34)	(57)
Past service credit/(cost)	158	(2)
Interest cost	(290)	(273)
Contributions by plan participants	(3)	(6)
Remeasurement losses	(396)	(737)
Benefits paid	170	146
End of year	(6,855)	(6,460)

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

	2014 £m	Restated 2013 £m
Beginning of year	5,841	5,192
Interest income on plan assets	267	258
Pension scheme expenses	(7)	(7)
Remeasurement gains	70	401
Contributions by employer	127	137
Contributions by plan participants	3	6
Benefits paid	(170)	(146)
End of year	6,131	5,841

The Group's expected contributions to the defined benefit scheme for the next financial year beginning 16 March 2014 are £86 million (2013: £134 million). Actual contributions made by the Group during the financial year are lower than expected due to the closure of the Scheme to future accrual on 28 September 2013.

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

	2014 %	2013 %
Equities	29	37
Government bonds	6	3
Corporate bonds	36	38
Property	4	4
Other	25	18
	100	100

The fair value of plan assets split between those which have a quoted market price in an active market and those which are unquoted is as follows:

	2014 Quoted £m	2014 Unquoted £m	2014 Total £m	2013 Quoted £m	2013 Unquoted £m	2013 Total £m
Equities	1,592	209	1,801	1,913	241	2,154
Government bonds	355	–	355	181	–	181
Corporate bonds	2,173	57	2,230	2,254	(8)	2,246
Property	218	11	229	211	–	211
Other	644	872	1,516	423	626	1,049
	4,982	1,149	6,131	4,982	859	5,841

30 Retirement benefit obligations continued

(d) Assumptions

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

	2014 %	2013 %
Discount rate	4.25	4.60
Inflation rate – RPI	3.40	3.45
Inflation rate – CPI	2.40	2.55
Future salary increases	n/a	2.55
Future pension increases	2.15 – 3.20	2.15 – 3.25

The discount rate is based on the yield on AA-rated sterling corporate bonds appropriate to the term of the Scheme's liabilities.

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:

	2014 years	2013 years
Male pensioner	22.6	22.6
Female pensioner	25.3	25.2

The life expectancy for the Scheme operated at the balance sheet date for a future pensioner at normal retirement age is as follows:

	2014 years	2013 years
Male pensioner	24.4	24.3
Female pensioner	27.2	27.2

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.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years (2013: 21 years).

(e) Sensitivities

An increase of 0.5 per cent in the discount rate would decrease the retirement benefit obligations by £706 million. A decrease of 0.5 per cent in the discount rate would increase the retirement benefit obligations by £787 million.

An increase of 0.5 per cent in the inflation rate would increase the retirement benefit obligations by £474 million. A decrease of 0.5 per cent in the inflation rate would decrease the retirement benefit obligations by £444 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £165 million.

The sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

(f) Other disclosures

The Scheme exposes the Group to actuarial risks such as longevity risk, currency risk, inflation risk, interest rate risk and market (investment) risk. The Group is not exposed to any unusual, entity specific or Scheme specific risks.

The Trustee's investment strategy mitigates some of these risks. Market (investment) risk is addressed by diversification across asset classes and managers within those asset classes. With regards to currency risk, the Trustee's hedge around 75 per cent of the Scheme's non-sterling exposures. In addition, the Trustee has a framework in place to hedge a proportion of the Scheme's interest rate and inflation exposures. This framework is managed by investing in both physical and, for efficiency, derivative investments; and currently has a target to hedge 50 per cent of the interest rate and inflation linked liabilities. The target hedge level is kept under review and any change would be in consultation with the Company. The Trustee does not currently hedge the longevity risk, although prudent assumptions are made regarding anticipated longevity for the purposes of the actuarial valuation and Recovery Plan.

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Notes to the financial statements continued

31 Share-based payments

The Group recognised £33 million (2013: £33 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £nil (2013: £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 15 March 2014, the carrying amount of national insurance contributions payable was £7 million (2013: £9 million) of which £1 million (2013: £2 million) was in respect of vested grants.

The Group operates a number of share-based payment schemes as set out below:

(a) Savings Related Share Option Scheme ('SAVE')

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 SAVE 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 15 March 2014, UK employees held 21,445 five-year savings contracts (2013: 21,773) in respect of options over 20.4 million shares (2013: 22.3 million) and 24,950 three-year savings contracts (2013: 37,154) in respect of options over 27.8 million shares (2013: 24.8 million). A reconciliation of option movements is shown below:

	2014 Number of options million	2014 Weighted average exercise price pence	2013 Number of options million	2013 Weighted average exercise price pence
Outstanding at beginning of year	47.1	261	45.7	263
Granted	13.7	332	13.9	267
Forfeited	(5.4)	277	(6.9)	278
Exercised	(6.9)	266	(5.6)	270
Expired	(0.2)	257	–	–
Outstanding at end of year	48.3	279	47.1	261
Exercisable at end of year	3.3	260	2.9	303

The weighted average share price during the period for options exercised over the year was 346 pence (2013: 334 pence). The weighted average remaining contractual life of share options outstanding at 15 March 2014 was 2.3 years (2013: 2.4 years).

Details of options at 15 March 2014 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2014 million	Options outstanding 2013 million
20 December 2007 (5 year period)	31 August 2013	331	–	1.5
17 December 2008 (5 year period)	31 August 2014	224	1.7	4.6
10 December 2009 (3 year period)	31 August 2013	273	–	1.4
10 December 2009 (5 year period)	31 August 2015	273	3.1	3.3
10 December 2010 (3 year period)	31 August 2014	297	1.6	4.2
10 December 2010 (5 year period)	31 August 2016	297	3.3	3.6
9 December 2011 (3 year period)	31 August 2015	238	8.7	9.8
9 December 2011 (5 year period)	31 August 2017	238	4.7	5.1
12 December 2012 (3 year period)	31 August 2016	267	8.0	9.4
12 December 2012 (5 year period)	31 August 2018	267	3.7	4.2
11 December 2013 (5 year period)	31 August 2017	332	9.5	–
11 December 2013 (5 year period)	31 August 2019	332	4.0	–
			48.3	47.1

31 Share-based payments continued

Options granted during the year were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

	2014	2013
Share price at grant date (pence)	415	333
Exercise price (pence)	332	267
Expected volatility		
– 3 year period (%)	18.8	19.2
– 5 year period (%)	20.8	29.5
Option life		
– 3 year period (years)	3.2	3.2
– 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	4.5	5.1
Risk-free interest rate		
– 3 year period (%)	2.2	1.1
– 5 year period (%)	3.5	2.0
Fair value per option		
– 3 year period (pence)	74	50
– 5 year period (pence)	87	73

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.

(b) Long-Term Incentive Plan 2006

Under the Long-Term Incentive Plan 2006, shares are conditionally awarded to the senior 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 and 2013 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. Awards are structured as nil cost options.

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 %
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% p.a.
16 May 2013	£6,500m	12	Index+1% p.a.

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

	2014 million	2013 million
Outstanding at beginning of year	9.1	9.6
Conditionally allocated	1.9	2.1
Forfeited	(0.4)	(0.7)
Released to participants	(3.6)	(1.9)
Outstanding at end of year	7.0	9.1

The weighted average remaining contractual life of share options outstanding at 15 March 2014 was 1.3 years (2013: 1.0 years).

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Notes to the financial statements continued

31 Share-based payments continued

Details of shares conditionally allocated at 15 March 2014 are set out below:

Date of conditional award	2014 million	2013 million
28 May 2008	–	0.5
24 June 2009	0.1	2.0
21 June 2010	1.6	3.0
19 May 2011	1.5	1.6
17 May 2012	1.9	2.0
16 May 2013	1.9	–
	7.0	9.1

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:

	2014	2013
Share price at grant date (pence)	384	310
Expected volatility (%)	15.3	23.1
Option life (years)	4.2	4.2
Risk-free interest rate (%)	1.6	1.4
Fair value per option (pence)	384	310

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 2013, the three-year performance targets were met achieving a multiplier of 1.75 (2012: 1.70). During the year, a total number of 2.9 million shares were released to employees as a result of achieving the performance target and 7.4 million options were exercised. The weighted average share price during the year for options exercised was 378 pence (2013: 310 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:

	2014 million	2013 million
Outstanding at beginning of year	0.1	0.5
Exercised	(0.1)	(0.4)
Outstanding at end of year	–	0.1

The weighted average remaining contractual life of share options outstanding at 15 March 2014 was 0.0 years (2013: 0.0 years).

Details of shares conditionally allocated at 15 March 2014 are set out below:

	2014 million	2013 million
20 June 2008	–	0.1
	–	0.1

31 Share-based payments continued

(d) Deferred Share Award

The Deferred Share Award targets a diverse range of business critical financial and strategic 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. Awards are structured as nil cost options.

Share-based awards will be made to participants subject to performance against a basket of 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:

	2014 million	2013 million
Outstanding at beginning of year	3.6	2.4
Granted	1.3	1.5
Exercised	(2.3)	(0.3)
Outstanding at end of year	2.6	3.6

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

	2014 million	2013 million
20 May 2010	–	1.0
19 May 2011	–	1.2
17 May 2012	1.3	1.4
16 May 2013	1.3	–
	2.6	3.6

The weighted average remaining contractual life of share options outstanding at 15 March 2014 was 1.5 years (2013: 1.1 years).

(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:

	2014 million	2013 million
Outstanding at beginning of year	3.5	–
Granted	4.4	3.7
Lapsed	(0.4)	(0.2)
Outstanding at end of year	7.5	3.5

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

	2014 million	2013 million
17 May 2012	3.3	3.5
16 May 2013	4.2	–

The weighted average remaining contractual life of share options outstanding at 15 March 2014 was 1.7 years (2013: 2.2 years).

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Notes to the financial statements continued

32 Related party transactions

Group

During the year, the Group sold two properties with a fair value of £103 million to Manor Property Scottish Partnership, a Scottish partnership in which the Group has a 0.001 per cent interest and subsequently entered into a 25 year lease of these properties. The operations of the partnership are controlled by the J Sainsbury Pension Scheme and the Group has significant influence over the partnership by virtue of its contractual rights as General Partner to participate in the financial and operating policy decisions of the partnership. The partnership is therefore treated as an Investment in Associate in the Group's consolidated financial statements and accounted for using the equity method. The gain on the disposal of the properties recognised outside of underlying profit was £10 million and lease payments made to the partnership during the year were £3 million.

(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:

	2014 £m	2013 £m
Short-term employee benefits	11	9
Post-employment employee benefits	1	1
Share-based payments	10	11
	22	21

Nine key management personnel had credit card balances with Sainsbury's Bank (2013: seven). These arose in the normal course of business and were immaterial to the Group and the individuals. Nine key management personnel held saving deposit accounts with Sainsbury's Bank (2013: seven). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

(b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 15 March 2014, the Group entered into various transactions with joint ventures and associates as set out below:

	2014 £m	2013 £m
Management services provided	16	17
Remeasurement of previously held equity interest in Sainsbury's Bank	15	–
Offset of creditor balance with investment (note 14)	–	(43)
Revenue share received from joint ventures	4	–
Interest income received in respect of interest bearing loans	1	1
Dividend income received	1	18
Repayment of loan to joint ventures	4	16
Investment in joint ventures and associates	(13)	(1)
Loan to joint venture	(7)	(5)
Acquisition of companies	–	(21)
Rental expenses paid	(72)	(71)
Purchase of assets	(24)	–

Year-end balances arising from transactions with joint ventures and associates

	2014 £m	2013 £m
Receivables		
Other receivables	21	14
Loans due from joint ventures		
Floating rate subordinated undated loan capital ¹	–	25
Floating rate subordinated dated loan capital ¹	–	30
Other	18	15
Payables		
Loans due to joint ventures	(5)	(5)

¹ Balances due from Sainsbury's Bank. Following acquisition of the remaining 50 per cent of Sainsbury's Bank, year-end balances are now disclosed within the Company subsidiaries note a).

32 Related party transactions continued

(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.

Transactions with subsidiaries

	2014 £m	2013 £m
Acquisition of Sainsbury's Bank	(248)	–
Repayment of floating rate subordinated undated loan capital from Sainsbury's Bank ¹	50	–
Investment in subsidiaries	(70)	–
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	236	402
Loans and advances repaid by subsidiaries	(138)	(330)
Interest income received in respect of interest bearing loans and advances	183	161
Dividend income received	250	250
Loans and advances received from subsidiaries		
Loans and advances received	(282)	(318)
Loans and advances repaid	218	3
Interest expense paid in respect of interest bearing loans and advances	(132)	(104)

1 The undated subordinated loan capital was repaid in February 2014 following agreement in writing from the Prudential Regulation Authority.

Year-end balances arising from transactions with subsidiaries

	2014 £m	2013 £m
Receivables		
Loans and advances due from subsidiaries	2,591	2,461
Floating rate subordinated dated loan capital ¹	60	–
Payables		
Loans and advances due to subsidiaries	(5,290)	(5,390)

1 No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Prudential Regulation Authority and the Financial Conduct 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. The loan is due to be repaid in December 2014.

(b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 15 March 2014, the Company entered into transactions with joint ventures and associates as set out below.

	2014 £m	2013 £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 and associates

	2014 £m	2013 £m
Receivables		
Loans due from joint ventures		
Floating rate subordinated undated loan capital ¹	–	25
Floating rate subordinated dated loan capital ¹	–	30
Payables		
Loans due to joint ventures	(5)	(5)

1 Balances due from Sainsbury's Bank. Following acquisition of the remaining 50 per cent of Sainsbury's Bank, year-end balances are now disclosed within the Company subsidiaries note a).

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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.

	2014 £m	2013 £m
Aggregate future minimum lease payments:		
Within one year	554	507
In the second to fifth years inclusive	2,071	1,889
After five years	6,402	6,164
	9,027	8,560

Further analysis of the Group's future minimum lease payments after five years is as follows:

	2014 £m	2013 £m
Aggregate future minimum lease receipts:		
Greater than five years but less than ten years	1,811	1,725
Greater than ten years but less than 15 years	1,252	1,308
After 15 years	3,339	3,131
	6,402	6,164

The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index linked rent review (with a cap and collar). The timing of when rent reviews take place differs for each lease. The Group has pre-emption rights over a minor number of properties, which provides the Group with the right of first refusal to purchase the property in the event the landlord chooses to sell. The option price payable for the asset in each instance is normally referenced to current market value prevailing at the point of pre-emption.

For the purposes of calculating adjusted net debt, the total value of the Group's capitalised operating lease commitments is £5,095 million (2013: £4,839 million)¹.

The Group sublets certain leased properties:

	2014 £m	2013 £m
Aggregate future minimum lease receipts:		
Within one year	25	29
In the second to fifth years inclusive	86	95
After five years	104	120
	215	244

¹ Restated to reflect more detailed analysis of lease length beyond five years.

34 Capital commitments

The Group has entered into contracts totalling £230 million (2013: £295 million) for future capital expenditure in relation to property, plant and equipment and £nil (2013: £1 million) for intangible assets not provided for in the financial statements.

The Company does not have any capital commitments (2013: £nil).

35 Financial commitments

Sainsbury's Bank has off balance sheet financial instruments committing it to extend credit to customers of £58 million (2013: £48 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 Business combinations

On 31 January 2014 the Group acquired 50 per cent of the ordinary share capital of Sainsbury's Bank plc from Lloyds Banking Group for consideration of £193 million and at the same time purchased £25 million of floating rate subordinated undated loan capital and £30 million of floating rate subordinated dated loan capital. Sainsbury's Bank provides banking services and related financial services wholly within the UK.

Prior to the acquisition, the Group held 50 per cent of the ordinary share capital of Sainsbury's Bank, which was recorded within investments in joint ventures. The acquisition will benefit customers and shareholders, allowing the full future potential of the Bank to be realised. Accounting is on a provisional basis with the final consideration payment under negotiation with Lloyds Banking Group.

Details of the purchase consideration are as follows.

	2014 £m
Purchase consideration (refer to (c) below):	
Cash paid	199
Deferred consideration	5
Acquisition-date fair value of the previously held equity interest	193
Total purchase consideration	397

The provisional assets and liabilities recognised as a result of the acquisition are as follows:

	Pre acquisition carrying values £m	Fair value adjustments £m	Provisional values on acquisition £m
Cash and balances at central banks	1,259	–	1,259
Investment securities	31	–	31
Loans and advances to customers	2,597	(46)	2,551
Property, plant and equipment	18	–	18
Intangible assets	4	39	43
Deferred tax assets	–	4	4
Other assets, prepayments and accrued income	164	–	164
Derivatives and other liabilities	(29)	–	(29)
Customer accounts and deposits by banks	(3,532)	(11)	(3,543)
Provisions for liabilities and charges	(14)	–	(14)
Accruals and deferred income	(33)	–	(33)
Other borrowed funds	(110)	11	(99)
Net identifiable assets acquired	355	(3)	352
Add: goodwill			45
Net assets acquired			397

Goodwill arising on the acquisition is attributable to the synergies expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

(a) Acquired receivables – loans and advances to customers

The fair value of loans and advances to customers is £2,551 million. The gross loans and advances to customers pre-fair value adjustments are £2,680 million against which an £83 million provision for impairment is held. The fair value adjustment to loans and advances in the table above represents movements in credit spreads on collectable assets.

(b) Revenue and profit contribution

From the date of acquisition, the acquired business has contributed £28 million of revenue and £6 million of underlying operating profit to the Group. If the acquisition date had been on the first day of the financial year (assuming 50 weeks to 28 February), Group revenues for the year would have been £24,221 million and Group underlying profit would have been £926 million. These amounts have been calculated using the Group's accounting policies. The information is provided for illustrative purposes only and is not necessarily indicative of the results of the combined Group that would have occurred had the purchase actually been made at the beginning of the year, or indicative of future results of the combined Group.

(c) Cash impact of acquisition

	2014 £m
Cash consideration	(199)
Fair value of subordinated loan note receivables acquired	(44)
Cash acquired	1,259
Acquisition of subsidiaries, net of cash acquired	1,016
Direct costs relating to the acquisition	(7)
Net cash impact	1,009

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Notes to the financial statements continued

37 Business combinations continued

(d) Acquisition adjustments included in non-underlying profit before tax

The following items have been excluded from underlying profit before tax and are presented separately on the face of the income statement.

	2014 £m
Acquisition adjustment fair value unwind included in revenue	3
Remeasurement of the previously held equity interest included in other income	13
Acquisition adjustment fair value unwind included in cost of sales	1
Acquired intangible amortisation included in administrative expenses	(1)
Acquisition adjustments	18
Acquisition related costs included in administrative expenses	(7)
	11

Excluded from underlying profit before tax are costs of £45 million in relation to Sainsbury's Bank, of which £7 million are acquisition related and £38 million are the costs of transitioning to a new banking platform.

38 Capital resources

The following table shows the composition of regulatory capital resources of Sainsbury's Bank (before any Group adjustments), being the regulated entity, at the balance sheet date:

	2014 £m
Tier 1 capital:	
Ordinary share capital	240
Allowable reserves	138
Deduction for intangible assets	(35)
Total Tier 1 capital	343
Lower Tier 2 capital:	
Dated loan stock	10
Total Tier 2 capital	10
Total capital	353

The Bank's regulatory capital is analysed into two tiers. Tier 1 capital includes ordinary share capital and retained earnings after the deduction of intangible assets. Tier 2 capital includes dated loan stock. Various limits are applied to elements of the capital base. Tier 2 capital cannot exceed Tier 1, and lower Tier 2 capital cannot exceed 50 per cent of Tier 1 capital. The Bank meets both requirements.

Capital management

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. Capital adequacy is monitored on an ongoing basis by senior management, the Asset and Liability Committee, the Board Risk Committee and the Bank's Board. Our submissions to the PRA in the year have shown that the Bank has complied with all externally imposed capital requirements (until April 2013, submissions were made to the Financial Services Authority).

Five year financial record

	2014	Restated 2013	2012	2011	2010
Financial results (£m)					
Underlying sales (including Value Added Tax, including fuel, including bank)	26,353	25,632	24,511	22,943	21,421
Underlying operating profit					
Sainsbury's Supermarkets	873	831	789	738	671
Sainsbury's Bank	6	–	–	–	–
	879	831	789	738	671
Underlying net finance costs ¹	(111)	(111)	(109)	(97)	(79)
Underlying share of post-tax profit from joint ventures	30	38	32	24	18
Underlying profit before tax^{1,2}	798	758	712	665	610
Increase on previous year (%)	5.3	6.5	7.1	9.0	17.5
Underlying operating profit margin (%)³	3.65	3.57	3.54	3.50	3.36
Earnings per share					
Underlying basic (pence) ²	32.8	30.8	28.1	26.5	23.9
Increase on previous year (%)	6.5	9.6	6.0	10.9	12.7
Proposed dividend per share (pence) ⁴	17.3	16.7	16.1	15.1	14.2
Retail statistics for UK food retailing					
Number of outlets at financial year end					
over 55,000 sq ft sales area	101	94	81	64	45
40,001 - 55,000 sq ft sales area	127	123	123	124	125
25,001 - 40,000 sq ft sales area	146	147	152	155	156
15,000 - 25,000 sq ft sales area	116	118	115	113	115
under 15,000 sq ft sales area	713	624	541	478	431
	1,203	1,106	1,012	934	872
Sales area (000 sq ft)	22,160	21,265	20,347	19,108	17,750
Net increase on previous year (%) ⁵	4.2	4.5	6.5	7.7	6.3
New stores ⁵	104	101	92	68	89
Sales intensity (including Value Added Tax)^{5,6}	18.93	19.27	19.47	20.04	20.42
Per square foot (£ per week)	18.93	19.27	19.47	20.04	20.42

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

- 1 Net finance costs pre-retailing financing fair value movements, IAS 19 Revised pension financing (charge)/credit and one-off items that are material and infrequent in nature.
- 2 Profit before tax from continuing operations before any gain or loss on the sale of properties, investment property fair value movements, impairment of goodwill, retailing financing fair value movements, IAS 19 Revised pension financing (charge)/credit, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature.
- 3 Operating profit margin based on sales excluding Value Added Tax, including fuel.
- 4 Total proposed dividend in relation to the financial year.
- 5 Includes all convenience stores and convenience acquisitions.
- 6 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

Financial calendar 2014/15

Dividend payments

Ordinary dividend:

Ex-dividend date	14 May 2014
Record date	16 May 2014
Final dividend payable	11 July 2014
Ex-dividend date	20 November 2014
Record date	21 November 2014
Interim dividend payable	2 January 2015

Other dates

Annual General Meeting – London	9 July 2014
Interim results announced	12 November 2014
Interim report available at j-sainsbury.co.uk	12 November 2014
Preliminary Results announced	6 May 2015
Annual General Meeting – London	8 July 2015

Annual General Meeting ('AGM')

The AGM will be held at 11.00am on Wednesday, 9 July 2014 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.

Registrars

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact: Computershare Investor Services PLC, The Pavilions, Bridgewater Road, Bristol BS99 6ZZ. Telephone: 0870 702 0106

Please remember to tell Computershare if you move house or change bank details or if there is any other change to your account information.

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.

Having your dividends paid directly into your bank or building society account is a more secure way than receiving your dividend by cheque. If you would prefer your dividends to be paid directly into your bank or building society account further information is available from Computershare Investor Services (address and telephone number above). You will still receive a tax voucher detailing each dividend to enable you to complete your tax return to HMRC.

Shareholder communications

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.

Annual Report and Financial Statements

The Annual Report and Financial Statements 2014 (the 'Annual Report') is published on our website at www.j-sainsbury.co.uk/ar2014 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.

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. By registering with the eTree programme you will be giving the Company permission to send all shareholder documents to you via email with a link to a secure website.

Alternatively, 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 all methods, you will require your 11 character SRN which can be found on your share certificate or latest tax voucher.

Investor relations

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

Shareholder profiles

End of year information at 15 March 2014

	2014	2013
Number of shareholders	117,937	118,144
Number of shares in issue	1,907,210,915	1,892,990,218

By size of holding

	Shareholders		Shares	
	2014	% 2013	2014	% 2013
500 and under	61.70	62.21	0.43	0.44
501 to 1,000	12.34	12.64	0.58	0.60
1,001 to 10,000	23.80	23.13	4.10	3.97
10,001 to 100,000	1.66	1.53	2.50	2.36
100,001 to 1,000,000	0.35	0.35	7.46	7.62
Over 1,000,000	0.15	0.14	84.93	85.01
	100.00	100.00	100.00	100.00

By category of shareholder

	Shareholders		Shares	
	2014	% 2013	2014	% 2013
Individual and other shareholders	90.70	92.07	5.80	8.50
Insurance companies	0.08	0.07	0.03	0.03
Banks and Nominees	8.87	7.51	91.02	85.98
Investment Trusts	0.03	0.03	0.01	0.08
Pension Funds	0.01	0.01	0.01	0.01
Other Corporate Bodies	0.31	0.31	3.13	5.40
	100.00	100.00	100.00	100.00

Shareholder services

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.

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 29,600 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	20 June 2014
DRIP shares purchased for participants	11 July 2014
DRIP share certificates issued	21 July 2014

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'.

American Depository Receipts ('ADRs')

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

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

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.

Additional shareholder information

Continued

Share fraud

Over the past few years we have been aware, as have many listed companies, that our shareholders have received unsolicited phone calls or correspondence concerning investment matters. Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad. Further information on how to avoid share fraud or report a scam can be found on our website at www.j-sainsbury.co.uk

Dividends

Financial year	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
Interim	2.15p	2.15p	2.40p	3.00p	3.60p	4.00p	4.30p	4.50p	4.80p	5.00p
Final	5.65p	5.85p	7.35p	9.00p	9.60p	10.20p	10.80p	11.60p	11.90p	12.30p
Total net	7.80p	8.00p	9.75p	12.00p	13.20p	14.20p	15.10p	16.10p	16.70p	17.30p

The 2013/14 interim dividend was paid on 3 January 2014.

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.

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 came 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

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.

Registered office and advisers

Registered office

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

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Solicitors

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Stockbrokers

UBS
1 Finsbury Avenue
London EC2M 2PP

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Cautionary statement

Certain statements included in this Annual Report are forward looking and are therefore subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied because they relate to future events. These forward-looking statements include, but are not limited to, statements relating to the Company's expectations. Forward-looking statements can be identified by the use of relevant terminology including the words: 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'plans', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses we operate. Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

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 9 July 2014 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am.

basics – Sainsbury's entry level own-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.

Click & Collect – Service which allows customers to place general merchandise orders online for collection from over 900 stores.

CMBS – Commercial Mortgage Backed Securities.

Collection – Sainsbury's own-brand general merchandising products.

Company – J Sainsbury's plc.

Corporate Responsibility and Sustainability (CR&S) – The need to act responsibly in managing the impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment.

CPI – Consumer Price Index.

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.

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.

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.

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.

Like-for-like sales – The measure of year-on-year same store growth.

LTIP – Long Term Incentive Plan.

MSC – Marine Stewardship Council.

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.

PRA – Prudential Regulation Authority.

Real discount rate – Discount rate less inflation rate.

ROCE – Return on capital employed.

RPI – Retail Price Index.

Taste the Difference – Sainsbury's premium own-brand range of products.

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.

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, retailing financing fair value movements, the financing element of IAS 19 Revised, defined benefit pension scheme expenses, acquisition adjustments arising from the Sainsbury's Bank acquisition, 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 before 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 before 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, retailing financing fair value movements, the financing element of IAS 19 Revised, defined benefit pension scheme expenses, acquisition adjustments arising out of the Sainsbury's Bank acquisition, and one-off items that are material and infrequent in nature.

Achievements



Supermarket of the Year

For the third consecutive year, and the sixth time in eight years, we won Supermarket of the Year at the Retail Industry Awards 2013, as we continue to outperform the UK grocery market in a tough climate.



Embedding sustainability

Sainsbury's was listed in the Dow Jones Sustainability Index for the seventh consecutive year. This index is one of the leading ways that sustainability is measured in the international business community.



Best Convenience Retailer

For the fourth year running, we won Convenience Retailer of the Year, as our convenience business grew at around 19 per cent year-on-year.



Leading retailer for sustainability

We continue to be recognised for our sustainability approach in the independent, highly regarded FTSE4Good Index, which we have been part of since its inception in 2001. The index evaluates businesses from around the world against key social, environmental and governance practices.



Drinks Retailer of the Year

We were awarded Drinks Retailer of the Year for the second consecutive year.



Top employer for women

We were ranked in the Times Top 50 Employers for Women 2014 for our proactive approach to career development.



Consumer Initiative of the Year

We won Consumer Initiative of the Year at the Grocer Gold Awards 2013 for inspiring, delighting and winning the loyalty of our customers throughout our sponsorship of the London 2012 Paralympic Games.



Sourcing to high welfare standards

We won Responsible Business of the Year at the RSPCA Animal Hero Awards 2013 for our commitment to sourcing all meat, poultry, eggs, game and dairy products from suppliers who adhere to independent higher welfare standards by the year 2020.



Online Retailer of the Year

We won Online Retailer of the Year as we grow our online business, with initiatives such as the introduction of early morning delivery slots and increasing our service to more customers across the UK.



Animal welfare

We received the Best Retailer Marketing award from Compassion in World Farming for including high welfare products in our promotions throughout the year and engaging colleagues to ensure better communication of this work to our customers.



Green Retailer of the Year

As the UK's largest retail user of anaerobic digestion technology, we were recognised for our focus on food waste and our achievement of hitting our zero food waste to landfill target in 2012.



Investing in our people

We received a second Gold accreditation for our commitment to improve our business by investing in our colleagues. We are the only supermarket ever to receive this accolade.



Grocer 33 for Availability and Customer Service

We won the Grocer 33 awards for Availability and Customer Service. These awards are based on the results of the mystery shops that The Grocer carries out every week in supermarkets across the UK.



Business of the Year

We won QBE FTSE100 Business of the Year at the 2013 National Business Awards for achieving good growth in a highly competitive sector while aligning social impact with commercial objectives at every level.



Find out more at
j-sainsbury.co.uk

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ISO 14001 and is also CarbonNeutral™



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J Sainsbury plc

Annual Report
and Financial
Statements
2014



LIVE WELL FOR LESS



Sainsbury's
live well for less