We will make our customers' lives easier.

Great quality.

Great prices.

Whenever and wherever.

J Sainsbury plc
Annual Report and Financial Statements 2015

Sainsbury's
live well for less

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.

How we do it

We have the right size stores in the right locations; we are known for great customer service; and for nearly 150 years, we have offered great quality products at fair prices. Our values and our ethos have never changed.

But the dynamics of the industry do change and are changing today more rapidly than ever before, not least the way people shop. So this year we took a new look at our strategy to ensure our business evolves and that we continue to provide what customers want, when, where and how they want it.

Key to our strategy is knowing our customers better than anyone else. Read more in our Strategic Report.

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Financial highlights

Underlying Group sales

(0.9)%

(including VAT, including fuel)

Like-for-like retail sales

(1.9)%

(including VAT, excluding fuel)

Underlying profit before tax

£681m

Down 14.7%

Return on capital employed

9.7%

Down 157 bps

Underlying basic earnings per share

26.4p

Down 19.5%

Full-year dividend per share

13.2p

Down 23.7%

Find out more at j-sainsbury.co.uk/strategy

Business model

How we are organised to grow value for our shareholders

8
training colleges
for our colleagues

Name Badge

161,000
colleagues

168
Travel Money
bureaux

1,575
ATMs

Nearly 430
supermarkets
with clothing
and general
merchandise

597
Supermarkets

Nearly 215,000
Online orders
per week

4
Making a positive difference to our community

5
A great place to work

We know our customers better than anyone else

24.5 million
total transactions
per week

Around 4,000
people reached
online each
week through
'Trolley Talk'

Around
820 million
Brand Match
vouchers
issued to
date

BRAND MATCH

Nectar

Nearly
15.5 million
Nectar card
customers

Chairman's letter

Our job is to grow shareholder value over the medium and long term and we are confident that we can achieve this"

Dear Shareholder,

The UK grocery market is in the midst of major change as customers have significantly adjusted their shopping habits in recent years. People go grocery shopping more often, buy fewer items on each visit and are constantly looking for ways to make their lives more convenient. This trend has triggered significant growth in both convenience and discount stores but has adversely affected sales in supermarkets.

David Tyler,
Chairman

13.2p
Proposed full-year dividend, down 23.7%

There has also been a shift towards buying groceries online, which now represents five per cent of the total market. Finally, lower raw material costs combined with increased price competition in our market have led to price deflation.

Sainsbury's has chosen to invest in all areas of the market. We have achieved strong sales growth in our convenience stores and online, and we began a trial in the discount sector in November to bring the Netto brand back to the UK. We have, however, experienced a decline in sales in our supermarket stores this year which has adversely impacted our results.

Underlying profit before tax was down 14.7 per cent to £681 million. Underlying basic earnings per share was down 19.5 per cent to 26.4 pence. Return on capital employed declined 157 basis points year-on-year to 9.7 per cent.

This decline in profit is much less than that experienced by other major players in the market, but this is not of great comfort to your Board. Our job is to grow shareholder value over the medium and long term and we are confident, following the strategic review we conducted last summer, that we can achieve this despite the current trends in the grocery market.

£681m
Underlying profit before tax, down 14.7%

We have a very strong brand and broad customer base, and we are building on this. We know our customers better than anyone else and are making progress with our strategy of offering a wide range of products and services across food and non-food with our very particular focus on quality, customer service and value. Our food business is sustainable and trusted by our customers. We are already the seventh largest retailer of clothing in the UK by volume, we have a growing general merchandise business and Sainsbury's Bank shows great promise. We aim to grow in all these non-food areas where we believe there are good profit opportunities.

This is your Board's first report since Mike Coupe became Chief Executive last July. He has made a strong start and he leads a highly experienced and capable management team. We believe it is the team within our industry that is best positioned to succeed. Our recent initiatives such as our investment in price and quality are showing encouraging early signs – with volume and transaction growth coming through.

Our business is built on strong foundations and we have been able to take our decisions from a position of financial stability. We are making significant cost savings and reducing capital expenditure to maintain the strength of our balance sheet. We are also committed to ensuring we pay an affordable dividend and are fixing our dividend policy to two times cover over the next three years. With this in mind, we are recommending a final dividend of 8.2 pence per share this year, making the proposed full-year dividend 13.2 pence per share.

£50m+
Bonus awarded to colleagues

Our colleagues are our greatest asset. With their commitment and talent, they remain central to Sainsbury's success. On behalf of the Board, I would like to thank our colleagues for their hard work and dedication to Sainsbury's during this challenging year. They have dealt professionally with the far-reaching changes associated with our strategy and I am pleased to be able to announce a bonus of over £50 million to be shared by colleagues, compared with £80 million last year when profits were higher.

Our values are as important as ever and our priority is to ensure we work hard to achieve our objectives in the areas our customers really care about. This makes good business sense and also gives us real competitive advantage.

At the AGM, Gary Hughes is stepping down from the Board after ten years as a Non-Executive Director and as Chairman of our Audit Committee. I would like to thank Gary for his great contribution to Sainsbury's, particularly in the areas of financial and strategic management. He will be succeeded by David Keens, who joined the Board in April and will become Chairman of the Audit Committee. David brings great experience of the retail sector and of financial management, which will be valuable in the years ahead.

The UK grocery market will remain challenging. Food price deflation has had a major impact on all players this year and that looks set to continue for the foreseeable future. In addition, the number of established players in this market means we can expect the competitive intensity on price to remain. We have a business that is strongly equipped to meet these challenges and build on its successful heritage.

Chief Executive's letter

We are a grocer at heart, with growing businesses in general merchandise, clothing, convenience, financial services and online”

Dear Shareholder,

It is almost a year since I became your Chief Executive and we launched a thorough review of our business in the context of a UK marketplace changing faster than at any time in the past 30 years. These changes have impacted our profits and like-for-like sales and we have seen a 25 basis point decline in our market share this year as we compete with a growing discount sector and high levels of price competition. We continue to maintain our balance sheet strength by carefully managing our costs, working capital and capital expenditure to enable us to invest strategically for future growth.

Mike Coupe,
Chief Executive

Our strategy

Great products and services at fair prices
- Quality leader
- Strong value proposition
- Growth opportunities in non-food and services

There for our customers
- A competitively advantaged supermarket portfolio
- Convenience store network growth
- Developing our groceries online channel

Colleagues making the difference
- Delivering great customer service

We know that our customers still want the best quality food at great prices. Customers are buying similar products today to ten years ago, but the way that they shop has changed significantly, with more shops and channels available than ever before. Customers have more choice, are shopping more frequently and buy less when they shop. Supermarkets will remain the place where people do most of their grocery shopping, but they will increasingly top up in convenience stores and shop online.

In this context, our strategy is built on our strong foundations of selling great food with a focus on quality, provenance and sustainability. Over 95 per cent of our shoppers buy our core *by Sainsbury's* range and we continue to enhance our quality credentials by investing to improve the quality of 3,000 Sainsbury's own-brand products. At the same time, we know that our customers want value for money and we have therefore invested in lowering our prices; our prices versus our competitors have never been better.

We also have significant opportunities to grow our business. Clothing, general merchandise and financial services have all performed well over the past 12 months, as have our convenience and online channels. We have a significant ambition to grow these areas over the coming years.

Our supermarkets are generally the right size and are located in densely populated and growing areas, which gives us a real structural advantage. Encouragingly, this year we have seen a record number of customer transactions, with nearly one million additional transactions per week. Our investment in the quality and variety of our food and non-food products, combined with our strong store estate, position us well to capitalise on opportunities to serve our customers whenever and wherever they want to shop.

Importantly, we know our customers better than anyone else and are increasingly able to personalise our communication and offers to meet their individual needs. Our Nectar loyalty scheme gives us the ability to tell our customers about products and services that are relevant to them and to reward them with offers on things they want to buy.

Sainsbury's is a fantastic business, run by an experienced management team, supported by great colleagues and underpinned by strong values. Our investment in price and quality is showing encouraging early signs, with volume and transaction growth coming through. I believe we are taking the right decisions to ensure we remain fit for the future and are able to capitalise on our many growth opportunities.

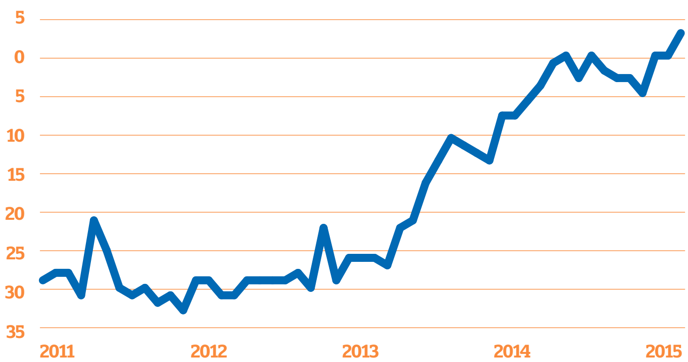
Market context

The UK grocery market is changing faster than at any other time in three decades. We must evolve to meet these new challenges”

The market

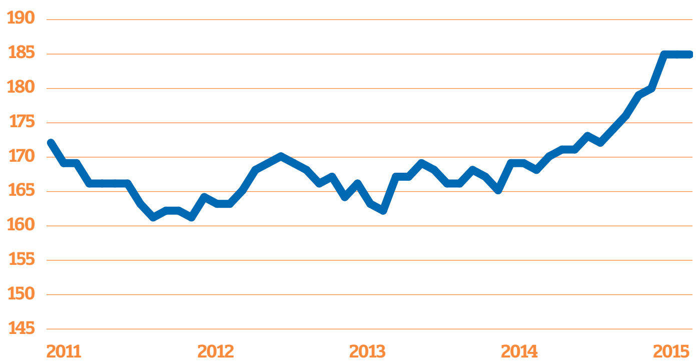
Over the past year, consumer confidence has recovered as household income has improved. Reduced unemployment rates and real wage growth have led to an increase in the amount of money consumers have to spend. In addition, there has been a slowing of inflation on many household essentials, with deflation in various commodities including fuel, fresh produce and meat. This, coupled with the competitive pricing environment which has seen significant price investment across the market, has allowed customers to benefit from reduced prices in their grocery shop. Even in this environment, volume growth has remained relatively low throughout the year. Instead, increasingly confident consumers are choosing to treat themselves to things which they missed out on during recessionary years like eating out more frequently and purchasing big ticket items for the home.

Customer confidence
Index score



Source: GfK Consumer Confidence Index

Average UK household discretionary income
£ per week



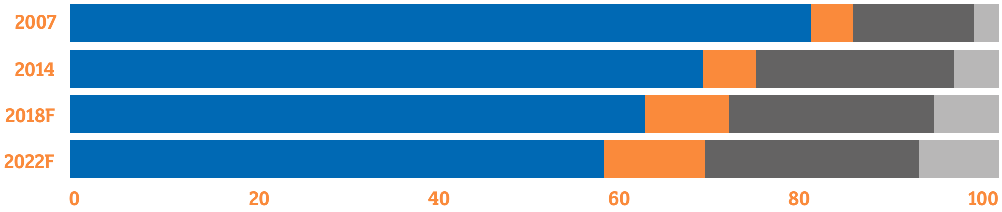
Source: CEBR

Customers now have more choice when deciding when, where and how to shop

Shopping habits

The savvy shopping behaviour learned during the recession has driven a structural shift in the market. Customers have been managing their budgets by shopping more frequently and wasting less. The move away from one weekly shop has been supported by the growth of convenience stores, improvements and confidence in the ease and security of shopping online and the rise of discounters. As customers use these channels more frequently, volumes in supermarkets are continuing to decline. However, supermarkets will remain the dominant channel, with forecasts indicating that approximately 60 per cent of grocery spend will still be made in supermarkets by 2022.

Grocery market channel share 2007–22F
(% of market)



Source: Company estimates

Shopping missions

As customers have started to shop more frequently and across an increasing range of shopping channels, they now enjoy an unprecedented level of flexibility and convenience in the way that they buy their groceries. This has allowed customers to tailor their expectations for each shopping trip and potentially have a very specific shopping mission in mind.

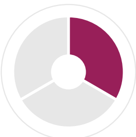
For example, a customer buying a product such as a sandwich is looking to consume that product either immediately or very shortly after purchase. The speed and ease of shop offered by a convenience store is likely to be more attractive to a customer with limited time. Price is important as this is an everyday purchase, but not necessarily the key consideration. A customer can still buy a sandwich in a supermarket but is doing so increasingly less. This migration of everyday purchases to a convenience store is a major reason behind the falling volumes in supermarkets. It is not only everyday purchases that are subject to changing shopping missions. Products which are designated for special events, for example Valentine's Day flowers, are also bought for immediate or short-term use, but here the customer is likely to be even less price sensitive as the purchase is a highly considered one, where quality and freshness really matter.

When buying for the longer term, shopping missions have become impacted by the growth of online. Customers can easily benchmark the prices of comparable products from one grocer to the next, and the convenience of home delivery, particularly for bulkier products, means the impact of shopping on their leisure time can be minimised. As with shorter-term purchases in convenience stores, this growing shopping mission, driven by increasing levels of confidence in the security of shopping online, is having an impact on supermarket volumes.

Traditional grocers need to adapt their business model to these changing shopping missions. Customers are leading increasingly busy lives and, with early signs of improvements to disposable income levels, there is still an opportunity to serve all of a customer's needs under one roof, or through one brand. Generating customer loyalty will be critical in this respect. Those grocers that evolve their offer to align to these changing habits will be the most successful. They will also have the licence to expand their range beyond just food, selling clothing, general merchandise and other products and services as customers build even greater levels of trust with their brands.

Great products and services at fair prices

Our investment in quality where it matters to our customers is at the heart of our strategy”



95%

Over 95 per cent of our customers buy the *by Sainsbury’s* product range

We are focused on maximising the strength of our food and non-food businesses. As well as being the grocer of choice, we also aim to be the clothing, general merchandise and financial services brand of choice and to expand our existing offer in these areas.

Quality leader

Providing great food is Sainsbury’s core purpose. Customers continue to rate us above our main supermarket peers on product quality and this is key to winning customer loyalty. We are making good progress in our programme to improve the quality of 3,000 own-brand products, investing in the products that matter most to our customers. For example, we improved the quality of our *Taste the Difference* burgers, our *by Sainsbury’s* cheesecake, and our *by Sainsbury’s* all-in-one dishwasher tablets recently won *Which?* Best Buy 2015. The rate at which we launch these new products will increase at pace over the next 12 months.

Own-brand products account for 49 per cent of our food sales, a small decline year-on-year. However, *Taste the Difference* outperformed the premium market and delivered growth of nearly five per cent and annualised sales of £1.1 billion. Despite the decline in own-brand sales, over 95 per cent of our customers choose *by Sainsbury’s* products.

Our focus on quality, provenance and sustainability differentiates us from our competitors. Our British sourcing credentials are an important part of our customer proposition. We sell over 1,900 own-brand products sourced from the UK and we are always looking to increase the number of British lines we sell. This year we developed our game range, including new venison lines, and we

You won't have to wait for a deal to get a good price

promoted lesser-known species of fish such as sustainably-caught coley and responsibly-sourced river cobbler, giving our customers greater variety and choice. For a number of years all our fresh, breaded and cooked chicken has come from the UK, as does fresh pork and fresh lamb in the main season. Our fresh and frozen beef is British or Irish. We continue to work with our long-standing Development Groups of farmers and growers to share best practice and develop more efficient and sustainable ways of working. This year, our *Love your Freezer* campaign inspired customers with practical advice on minimising waste and saving money, to make their lives easier.

We were named Drinks and Seafood Retailer of the Year at the Retail Industry Awards, Fish Retailer of the Year by the Marine Stewardship Council and in-store Bakery Retailer of the Year at the Bakery Industry Awards.

Strong value proposition

For our customers, quality and price are both important in the value proposition. Our new pricing strategy of regular lower prices reassures customers that they can always get a good price at Sainsbury's. Customers have responded positively to clearer, simpler pricing as we continue to adopt lower base prices for products not on promotion.

We are investing in lowering the prices of the everyday products that matter to our customers. This will be paid for through value chain efficiencies in future years. We have lowered the prices of over 1,100 products, including responsibly sourced Scottish salmon, British bacon and lamb. Our Brand Match promise continues to reinforce our value credentials and reassures customers that their branded shop will be good value: those who receive a coupon know that we have matched our branded prices to Asda's, including promotions.

We have never been more competitive on price than we are today. We will continue to invest in lowering prices and improving quality to ensure that we are well-positioned to meet the challenges of an increasingly competitive marketplace.

Price investment

We have never been more competitive on price

3,000

We are improving the quality of 3,000 own-brand products, investing in range, innovation, packaging and merchandising

"We will continue to focus on improving our differentiated quality position and build on our strong own-brand offer

£800m

***Tu* achieved sales of over £800 million in 2014/15**

Growth opportunities in non-food and services

Our clothing, general merchandise and financial services businesses are profitable, well established and continue to show excellent growth and strong potential. We see a firm correlation between increased loyalty and spend across our whole offer when customers buy into these categories.

Non-food

Clothing and general merchandise grew sales by over nine per cent last year. Our strategy for growth focuses on increasing our non-food presence in stores, changing the visual merchandising more frequently and emphasising our quality and design-led approach in clothing, cookware, homeware and seasonal products – categories that customers tell us matter most to them. The ranges are currently stocked in nearly 430 of our supermarkets.

We have seen *Tu* clothing sales grow to over £800 million this year and we are currently the UK's seventh largest clothing retailer by volume and tenth largest by value. We bring our customers new *Tu* collections every six weeks and our focus on being a destination for 'high street style at supermarket prices' and our successful partnership with Gok Wan have helped us increase market share and drive double-digit sales growth. We marked *Tu*'s tenth birthday in September with our largest-ever fashion collection, and we launched our 16th collection with Gok in February.

Customers are shopping our childrenswear ranges more frequently than ever before and we remain the sixth largest childrenswear retailer by volume and eighth by value.

Our trial of selling clothing online has been extended to a number of regions across the UK, including London and the South East, and we continue to evaluate the results. We anticipate a full roll-out of our clothing online offer this year.

Our general merchandise business grew by over seven per cent last year from a relatively low market share base. We increasingly source directly from the Far East and gross margins have improved as our scale has grown. Events such as Halloween and Valentine's Day continue to be successful, with our customers buying into a full selection of seasonal products.

430

Our clothing and general merchandise ranges are now available in nearly 430 of our supermarkets

"Our strategy for growth focuses on increasing our non-food presence and emphasising our quality and design-led approach in clothing, cookware, homeware and seasonal products; categories that customers tell us matter to them most

Travel Money

We created a new in-house Travel Money team this year

£1 of every £12 dispensed from a LINK ATM is from Sainsbury's Bank

Financial services

We took 100 per cent ownership of Sainsbury's Bank in January 2014 and are part way through our transition to become a standalone bank. We see significant growth opportunities for Sainsbury's Bank, in particular capitalising on the brand loyalty effect we see from our customers. Last year we saw a 13 per cent increase in the number of Sainsbury's Bank credit cards being used within our stores. Whilst reduced advertising activity has resulted in overall customer awareness of the Bank declining slightly during the year, the number of active accounts held by customers has now reached 1.7 million, an increase of six per cent.

In a challenging marketplace, we have continued to see sales and profit growth, with operating profit up 17 per cent to £62 million and total income up over 13 per cent to £260 million. In 2014, we grew credit card sales volumes by 50 per cent year-on-year. Our loans business had another very successful year with a 13 per cent year-on-year increase in sales volumes, as we continue to provide competitive, best buy table loan rates. Sainsbury's Bank Travel Money saw like-for-like growth in turnover of 24 per cent. In March, we welcomed 574 Travelex colleagues over to Sainsbury's Bank, a key milestone in our transition strategy to become a standalone bank, and opened our 168th Travel Money Bureau.

Despite insurance sales volumes and income declining year-on-year due to increased competition in the car and home markets, new business volumes in pet insurance grew by 64 per cent year-on-year. The Bank's ATM estate grew nearly seven per cent to 1,575 free-to-use ATMs, seeing over 236 million transactions in 2014/15. Sainsbury's Bank's website visitors have also grown by over 12 per cent year-on-year to over two million visits each month.

Whilst we have made good progress in certain areas of the transition programme in terms of building our new banking platform and planning customer migration, a complex project of this size always brings challenge and we have faced into a number of issues that are likely to impact the end costs. Although our transition plans remain on time and in line with budget to date, we see total costs (capital and revenue) for the project going forward rising by between £80 million and £120 million, taking our overall spend to between £340 million and £380 million. The smooth migration of savings customers in winter 2015 remains our primary near term objective.

New services

We continue to develop other services through *Mobile by Sainsbury's, Sainsbury's Energy* and *Sainsbury's Entertainment*. These investments take time and carry added risk and they remain a small loss making part of our overall business.

There for our customers

We have scale businesses across all our channels and we continue to invest to serve our customers”

We have developed our multi-channel credentials over a number of years and, as well as our core supermarket offer, we now have convenience and online businesses of scale. Ensuring the size and format of our estate meets our customers’ varied shopping needs is a fundamental part of our strategy for growth and we will continue to invest strategically so that we can serve our customers whenever, wherever and however they want.

A competitively advantaged supermarket portfolio

Our strategic review highlighted the relative long-term strength in our overall store estate, giving us a structural advantage despite the declines in supermarket grocery volumes we expect to see over the coming years.

Around a quarter of our stores will have some under-utilised space over the next five years – around six per cent of our total space. We will use half of this to expand our successful clothing and general merchandise offer, making more of the range available to more customers. With only one in five of our supermarkets selling the full non-food offer, there are significant opportunities for growth. The remaining three per cent of space will be used for carefully selected concession partners, offering complementary goods and services to give our customers more choice and convenience. For example, Argos digital stores will open in ten of our supermarkets this year and we are working with Timpsons, an existing concession partner, to bring their products and services to more of our supermarkets. GP and dental surgeries have also been popular.

During this financial year we opened eight supermarkets (of which two were replacement stores), extended five, refurbished 13, and closed one. As part of our review, we announced a reduction in our store opening programme. We will add only around 450,000 square feet of new space in each of the next two financial years, predominantly focused on convenience stores. As a result of the review of our supermarket estate, we have taken an impairment charge against some of our trading stores and withdrawn from a number of schemes in our property pipeline that are unlikely to achieve an appropriate return on capital. This resulted in a total impairment and onerous contract charge of £628 million which was recognised in the first half of the financial year.

450k

We are opening around 450,000 square feet of new space in each of the next two financial years

We continue to work with joint venture partners to maximise the value of our property assets

"As part of our strategy we will trial different store formats that will best suit our customers' changing needs

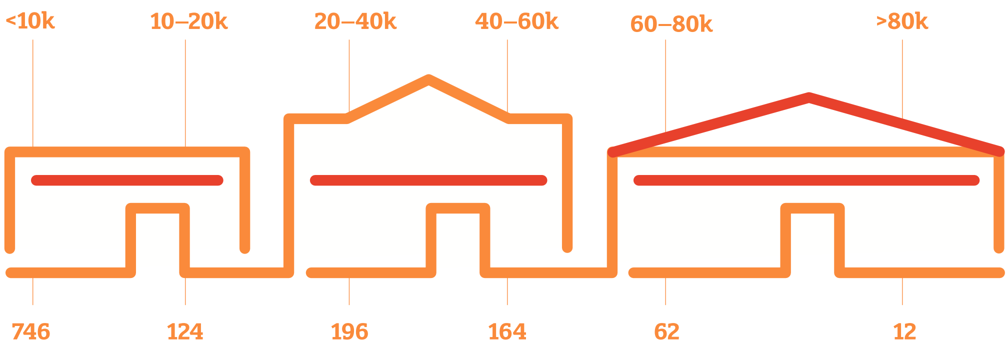
We are devoting more space to clothing and general merchandise and working with concession partners to give more choice to our customers

Despite a £0.9 billion decline in our property valuation, we aim to maximise the value of our property assets by working with joint venture partners to deliver new leisure, residential and commercial opportunities whilst adding trading space to our estate. We are delivering over 1,500 new homes across London as well as providing greater shopping choice to our customers and generating new local jobs. Our £500 million project with Barratt London at Nine Elms will complement the new tube station development and will open in 2016/17. It will deliver 737 new homes, a new Sainsbury's store and 27,000 square feet of local shops, restaurants and office space. We have also developed plans for a replacement store at Whitechapel Square in Tower Hamlets alongside 600 new homes and improved public space surrounding Whitechapel Station. Mixed use development schemes are expected to deliver property profits of around £200 million in the next two years.

We are also actively exploring different supermarket formats; we see great potential in tailoring formats and product ranges to best meet customers' needs and these will form a blueprint for future investment.

Right store, right size

Number of stores by store size (sq ft)



700th

We opened our 700th convenience store in February

> The trend towards more frequent and local shopping continues and our convenience store network is showing strong growth

Our convenience business generated sales of over £2.1 billion during the year

Convenience store network

The trend towards frequent, local top-up shopping continues and our convenience store network is showing strong growth. We aim to open stores at a rate of one to two per week while taking a disciplined approach to new space. This year we opened 98 convenience stores during the year, reaching a total of 707 stores. The business now generates sales of over £2.1 billion and delivered over 16 per cent growth during the year, with over seven million customer transactions each week. We took over £8 million on Christmas Eve – our biggest ever day for convenience sales and we were named Convenience Retailer of the Year for the fifth consecutive year at the Retail Industry Awards.

Our strategy of adapting our product range to serve the needs of the local community has started well. We will be trialling different convenience formats to cater for varying shopping missions such as 'food to go' and both smaller and larger format convenience stores. This will extend our understanding of customer shopping behaviour and open up the range of suitable locations for our convenience stores in the future. With fewer than one person in ten living within a 15 minute walk of a Sainsbury's Local, there is significant opportunity for growth.

Developing groceries online

Customers are looking to shop seamlessly across our channels, using laptops, mobile phones and tablets, and we are developing the technology to support this. We are also making online shopping more convenient, with a Click & Collect service for groceries being rolled out nationwide. We have also invested in the pricing and availability of delivery slots which has driven up order numbers and customer loyalty.


On average, our online business delivers nearly 215,000 orders per week

We are focused on profitable growth opportunities and we have invested in the successful upgrade of our online platform to enhance the customer shopping experience and improve availability. After the closure of the general merchandise website during the year, general merchandise is now incorporated on our groceries online site to give customers a convenient 'one click' option to include more everyday items in their online shop. This investment means that customers get access to a similar range of products online as they would in store.

We will continue to boost the infrastructure that supports online as a growth channel. In anticipation of demand in London, we are on track to open our first 'dark store' for online orders in Bromley-by-Bow in 2016.

Although the rate of growth of our online grocery business has slowed, we achieved over seven per cent growth during the year and on average we now deliver nearly 215,000 orders per week, up 13 per cent. We had our biggest online Christmas ever this year, and in the three days to 23 December 2014, our online team delivered more than 110,000 orders.

Netto UK trial

Our joint venture trial to bring Netto back to the UK continues and we now have five stores open. Our objective remains to open 15 stores by the end of the 2015/16 financial year. If successful, it will give us access to, and greater understanding of, the discount grocery sector and offer us exposure to an attractive growth channel.

Click & Collect

We plan to offer grocery Click & Collect at 100 stores across the country by the end of the year

Colleagues making the difference

The service our colleagues provide in store, online, at the door, or on the phone has built customer trust and loyalty”

33,000

Over 33,000 colleagues have attended City & Guilds-accredited training courses since 2010

Great customer service differentiates us from our competitors. We aim to make customers’ lives easier by helping them to access the products and services that are right for them, whenever, wherever and however they choose to shop with us.

Delivering great customer service

From being predominantly supermarket-based, more than one in twelve of our colleagues now works in our online operation and more than one in nine in our convenience stores. Our colleagues have demonstrated their ability to adapt to meet our customers’ changing shopping needs and we work hard to support them.

Since we opened our new training college in Brixton last March, we have run 360 courses in management skills, coaching and operations attended by over 3,600 colleagues. To support the growth of our general merchandise and clothing businesses, over 2,500 colleagues have been trained in visual merchandising techniques. Since opening our seven Food Colleges, over 33,000 colleagues working on our fresh food counters and in our bakeries and cafés have received City & Guilds-accredited training. This equips them with the skills and product knowledge to serve our customers better. We also launched two new apprenticeship programmes designed to upskill colleagues working on our fish counters and in our in-store bakeries. We won the Training Initiative of the Year Award at the Retail Industry Awards for a programme designed to improve operational outcomes and customer experience.

We restructured the way we work at our store support centres, ensuring we have the right talent in the right locations to serve our customers well into the future. Making these efficiencies reduced the number of roles at our store support centres by 500 and those colleagues were either re-deployed or left the business by the end of the financial year. We also announced a restructure in our stores in April 2015 to improve efficiency and customer service which we expect to result in around 800 fewer roles. In addition, we also created 480 specialist roles in London and Coventry, strengthening our in-house digital and technology capabilities.

We have invested in the right tools for the job to help colleagues work effectively together wherever they are located in our business. We recently introduced Yammer, which allows colleagues to share best practice, get questions answered in real time and, importantly, to communicate and celebrate success. Future investments in technology include a new Colleague Portal launching in the summer that will make communicating more efficient, and we are trialling tablets for store managers, allowing them to spend more time with customers and colleagues on the sales floor.

We monitor the progress we are making in enabling our colleagues to be the best they can be in delivering great customer service. Our Mystery Shopper programme measures service levels in each store every fortnight and our stores continue to perform strongly year-on-year. We also measure product availability and in this financial year, 17 of our stores have won the Grocer 33 award for service and availability.

Our Mystery Shopper programme measures service levels in each store every two weeks

Digital hub

We launched digital hubs in Coventry and London in April this year

> "Our programme to improve operational outcomes and customer experience won the Training Initiative of the Year Award at the Retail Industry Awards

We know our customers better than anyone else

Knowing our customers better helps us serve them better. By anticipating their needs and surpassing their expectations, we earn their trust and loyalty”

Customers are at the heart of our business and for our future success we need to understand what they want. We talk to customers regularly to get a detailed picture of how they shop with us across all our channels and to find out what they value, how their needs are changing and how we can serve them better.

This insight, combined with great products, a brand that people trust, the right retail space in good locations and technology that helps us deliver what our customers want, gives us a competitive advantage, now and in the future.

We take every opportunity to talk to our customers through face-to-face, telephone and online conversations. Focus groups and accompanied shopping with customers in our stores help us understand what people want when it comes to products, service and values. Trolley Talk, our new online customer panel launched in September, enables us to reach around 4,000 people online every week. The insight we gain helps us identify what is important and we can action change quickly and effectively. For example, Trolley Talk highlighted that the price dairy farmers are paid for their milk was a concern to many people. As a result, we took the initiative to advertise that we pay our farmers a higher price for milk than many of our peers. We also get valuable feedback from store colleagues and through our customer Careline.

15.5m

Nearly 15.5 million of our customers regularly use a Nectar card

To make the most of our opportunities for growth, over time we are investing in ways to become increasingly effective in our customer interactions, giving a smoother shopping experience such as through mobile 'scan and go'.

Our Nectar loyalty scheme is the source of much of our insight and gives us an important competitive advantage. Nearly 15.5 million Nectar card holders shopped with us during the year – in-store, online and through Sainsbury's Bank – giving us valuable information that increases our knowledge of how our customers are shopping and interacting with us.

With Nectar and coupon-at-till technology, we are able to reward customers in a targeted way, and this increases loyalty to Sainsbury's. Customers who shop all our channels spend more than twice as much as those who only shop for food in our stores. During the year we sent 35 million personalised mailings to Nectar card holders, using their shopping preferences to offer vouchers and other special offers for the products they want to buy.

In October, we announced changes to the way customers earn Nectar points with customers accruing one instead of two points per £1 spend from April 2015. As part of this we are re-investing in the scheme by launching a programme of high-value bonus events, like 10x points on fuel, that will help customers' points go further.

TROLLEY TALK

21,500

Over 21,500 customers have participated in our 'Trolley Talk' feedback since it launched in September

35m

This year we sent 35 million personalised mailings to Nectar card holders for the products they want to buy

Our values make us different

Our values remain at the core of our business and are part of our long-term strategy for growth”

Our values are part of our long-term strategy for growth and make good business sense. As we approach the half-way point in our *20x20 Sustainability Plan*, we are working to review our commitments to ensure we remain focused on delivering value and values for customers, suppliers, colleagues and shareholders. We anticipate that we will change our corporate responsibility commitments and key delivery goals, to further align with our new strategy.

Best for food and health

We are committed to producing healthier baskets and set tough salt reduction targets for our own-brand products over 15 years ago. Historically, around ten per cent of our products missed the Government's 2012 salt targets. We are addressing products such as bacon where, as signatories to the Government's Responsibility Deal 2017 pledge on salt, the targets present the greatest challenge in terms of customer perception. During the last year, we have also worked with our suppliers to reformulate our own-brand soft drinks and have removed 2,256 tonnes of sugar annually from our customers' baskets, equating to 8.9 billion calories per year.

We relaunched our *Taste the Difference* Conegliano Prosecco with an alcohol by volume reduction from 11 per cent to 10.5 per cent

Sourcing with integrity

British dairy farmers have come under pressure this year due to price volatility. Our dedicated Dairy Development Group protects members through a cost of production model that ensures they are paid a fair price and rewarded for environmental standards and animal welfare. We have nine other Agricultural Development Groups that contribute to our range of over 1,900 British own-brand products.

We continue to work with our suppliers to address the sustainability of our products. In 2007, we set a stretching commitment to use only sustainable palm oil by 2014, a target we did not reach. As of December 2014, 95 per cent of the palm oil we use to make own-brand products is certified sustainable. We continue to work with our suppliers to bring the remaining sustainable alternatives to market. We have also improved our seafood offer with the launch of the first Marine Stewardship Council ('MSC') certified tuna sandwich and our exclusive Freedom Food British rainbow trout. We have received external recognition for having the best own-brand seafood policy, coming joint top of the Marine Conservation Society's 2014 survey.

“

England and Liverpool striker Daniel Sturridge was announced as our new ambassador to support campaigns including Active Kids, alongside Paralympians Ellie Simmonds and Jonnie Peacock

Respect for our environment

We delivered industry leading environmental initiatives, including our Cannock store becoming the first retail outlet in the UK to be powered by food waste alone. Our Portishead store became our first to run fridges powered by ‘green’ gas created using waste from sugar beet suppliers. We operate the UK’s largest dual fuel lorry fleet and are working to increase this to beyond 12 per cent of our core fleet. We have also launched a unique lorry with a range of features designed to improve safety for cyclists and pedestrians.

Our pace of innovation for energy efficiency initiatives has slowed so we are searching for new ideas. Our existing efficiency programmes continue to deliver through award-winning initiatives such as the installation of over 100,000 LED lights. Our energy usage and associated emissions are discussed in more detail on page 52.

Making a positive difference to our community

This year, with help from our customers, colleagues and suppliers, we raised £52 million for charitable causes, including around £7 million in support of The Royal British Legion and over £11.5 million for Red Nose Day 2015. Through our Active Kids scheme, we have now donated over £150 million worth of equipment and experiences to schools and clubs since 2005, and the scheme was recognised in March 2015 by the Prime Minister, David Cameron, with a Big Society Award. We have 384 stores with a local food donation partner, 59 more stores than last year. However, 71 per cent of our stores are without a partner so we are focused on increasing this number.

MEMBER OF
Dow Jones
Sustainability Indices
In Collaboration with RobecoSAM

We were ranked as a Sustainability Leader in the 2014 Dow Jones Sustainability Index (‘Food and Staples Retailing’)

This year we invested in the future of British farming through our new Horticulture Apprenticeship scheme

A great place to work

Recognising that our colleagues make the difference, we have continued to provide training for a range of skills, introducing a new Level 2 Apprenticeship for Craft Skills for our fishmongers and bakers. We have also opened a new college for our Team Leaders and Store Managers, purely dedicated to leadership training.

Our business is changing, and as part of our strategic review we announced restructuring plans as well as a reduction in our store opening programme, which has disappointingly resulted in fewer job opportunities. We are, however, committed to being a good employer and work hard to promote the opportunities available. In the last year, over 450 colleagues pledged their time to mentor young people about careers in retail and since 2008, we have helped over 24,000 people who have faced barriers into work through our You Can scheme.

We are also 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. Further information about our values and our *20x20 Sustainability Plan* can be found at www.j-sainsbury.co.uk/responsibility.

Strategic key performance indicators

Our strategic KPIs provide measurable insight into the progress we are making on our new strategy”

Great products and services at fair prices

Product quality

We know customers value quality when deciding where to shop and it is therefore important for us to be ranked above our peers in relation to the quality perception of our brand.

Definition: Our rank based on a sample of approximately 1,000 consumers who rated product quality of each of the following brands: Sainsbury’s, Tesco, Morrisons and Asda.[1]

2012/13	2013/14	2014/15
1st	1st	1st

Price perception

Our new pricing strategy of regular lower prices seeks to reassure customers that they can always get a good price on and off promotion.

Definition: Our rank based on a sample of approximately 1,000 consumers who rated value of each of the following brands: Sainsbury’s, Tesco, Morrisons and Asda.[1]

2012/13	2013/14	2014/15
4th	4th	4th

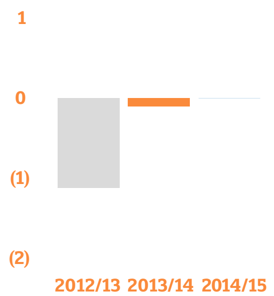
[1] HPI Brand & Communications Tracker.

Like-for-like transactions

The structural change in the market means that customers have more choice than ever when it comes to doing their grocery shopping. This means that like-for-like transactions are at risk and we need to ensure that we execute our strategy effectively. Customers will then continue to see that we offer great products at great prices.

Definition: Year-on-year growth in transactions from stores that have been open for more than one year.

Like-for-like transactions (%)

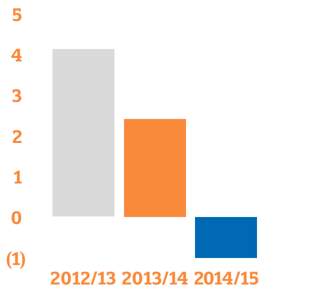


Sales growth by area

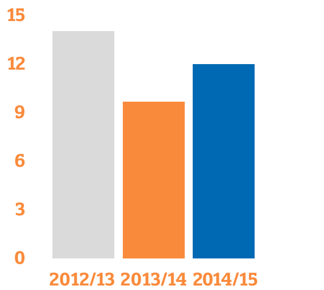
Grocery retailing is our core business but growing our clothing, general merchandise and financial services businesses is an important part of our strategy. We know that our customers value greater choice and that there is a correlation between increased loyalty and spend across our whole offer when customers buy into these categories.

Definition: Year-on-year growth of total sales, including VAT, for grocery, clothing and general merchandise. Year-on-year growth of Sainsbury's Bank total income for financial services.

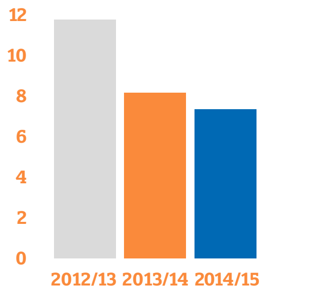
Grocery (%)



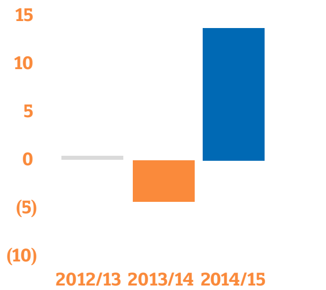
Clothing (%)



General merchandise (%)



Financial services (%)



Sainsbury's Bank was a joint venture until 31 January 2014. Measures presented represent 100 per cent of the Bank's total income for the 12 months to 28 February 2015, 50 weeks ended 28 February 2014 and 52 weeks ended 16 March 2013.

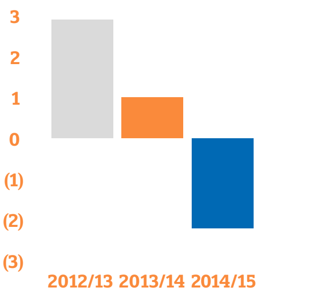
There for our customers

Sales growth by channel

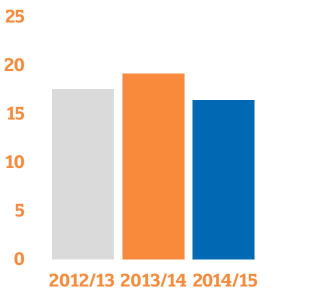
Customers are choosing to shop across channels and are using convenience and online more frequently, leading to a decline in supermarket sales. It is therefore important that we invest strategically so that we can serve our customers whenever, wherever and however they want.

Definition: Year-on-year growth of total sales, including VAT, excluding fuel.

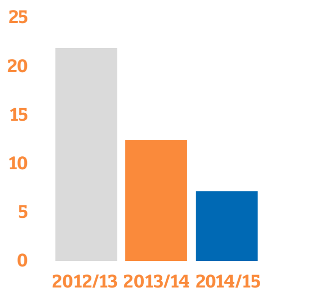
Supermarkets (%)



Convenience (%)



Online (%)



Colleagues making the difference

Availability

Offering our customers the products they want ensures they have a good shopping experience. This makes availability very important. We measure availability each week and have a minimum standard we expect to achieve.

Definition: Minimum standards have been reached.

Supermarket
Gold

Convenience
Bronze

Customer service

Our colleagues make the difference by delivering great customer service. We monitor this every fortnight with a Mystery Shopper programme which measures the service level of the three main components of the customer shopping experience.

Definition: Minimum standards have been reached in all three of the main components of the customer shopping experience.

Supermarket
Gold

Convenience
Gold

Financial key performance indicators

Financial KPIs are critical to understanding and measuring our financial health”

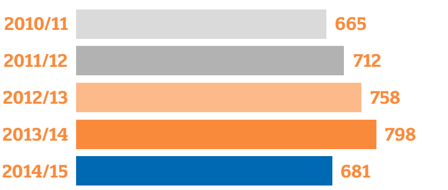
Group measures

Underlying profit before tax
Definition: Profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, retail financing fair value movements, impairment of goodwill, IAS 19 pension financing element, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature.

Underlying basic earnings per share
Definition: Underlying profit, net of attributable taxation, divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan trusts, which are treated as cancelled.

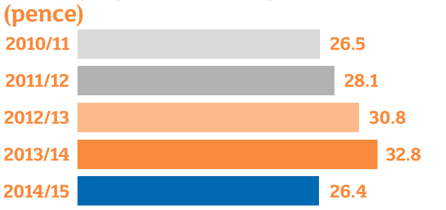
Cost savings
Definition: Excludes Sainsbury’s Bank and represents cost reductions as a result of identified initiatives.

Underlying profit before tax (£m)

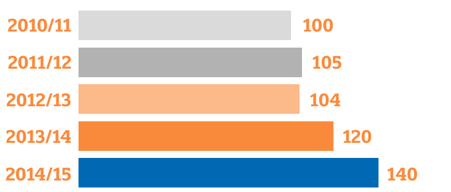


2012/13 restated for changes to IAS 19, prior years not restated

Underlying basic earnings per share (pence)



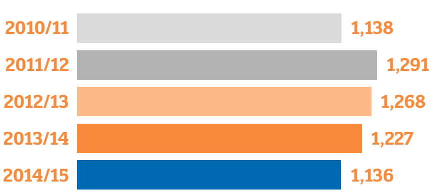
Cost savings (£m)



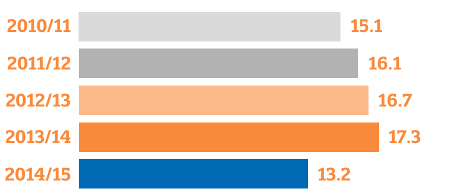
Operating cashflow
Definition: Cash generated from operations after changes in working capital.

Dividend per share
Definition: Total proposed dividend per share in relation to the financial year.

Operating cashflow (£m)



Dividend per share (pence)



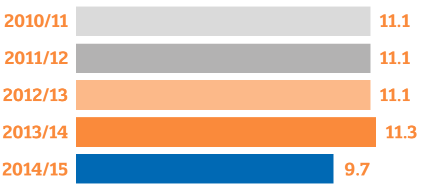
Maintaining balance sheet strength

Pre-tax return on capital employed
Definition: Underlying profit before interest and tax, divided by the average of opening and closing capital employed (net assets before net debt).

Gearing
Definition: Net debt divided by net assets.

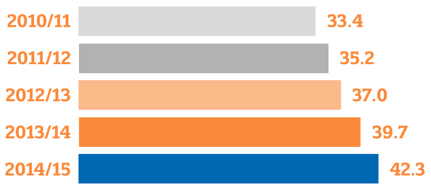
Lease adjusted net debt/underlying EBITDAR
Definition: Net debt plus capitalised lease obligations (5.5 per cent discount rate) divided by Group underlying EBITDAR.

Pre-tax return on capital employed (%)

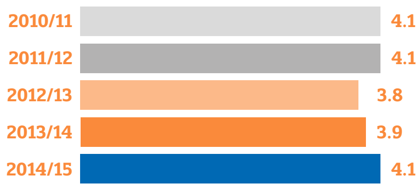


2013/14 closing capital employed has been adjusted to remove 50 per cent of Sainsbury's Bank net assets

Gearing (%)



Lease adjusted net debt/underlying EBITDAR



2010/11 and 2011/12 not restated for changes to IAS 19 or to reflect changes in disclosure of lease lengths beyond five years

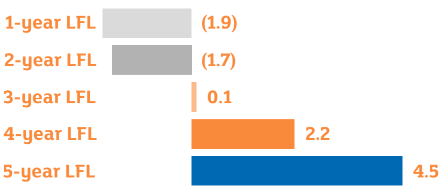
Retail

Like-for-like sales
Definition: Year-on-year growth in sales including VAT, excluding fuel, excluding Sainsbury's Bank, for stores that have been open for more than one year.

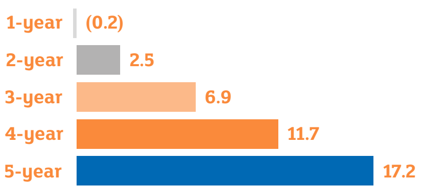
Retail sales growth
Definition: Year-on-year growth in sales including VAT, excluding fuel, excluding Sainsbury's Bank.

Retail underlying EBITDAR margin
Definition: Underlying profit before tax, underlying net finance costs, underlying share of post-tax results from joint ventures, depreciation, amortisation and rent, divided by sales excluding VAT, including fuel, excluding Sainsbury's Bank.

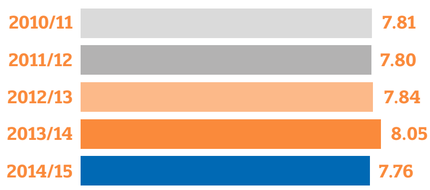
Like-for-like sales 2014/15 (%)



Retail sales growth 2014/15 (%)



Retail underlying EBITDAR margin (%)



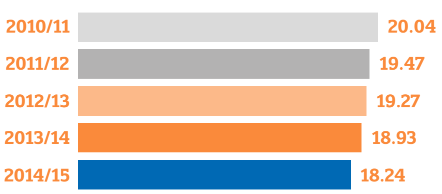
2012/13 restated for changes to IAS 19, prior years not restated

Trading intensity per square foot
Definition: Sales per week (including VAT, excluding fuel, excluding Sainsbury's Bank) divided by sales area.

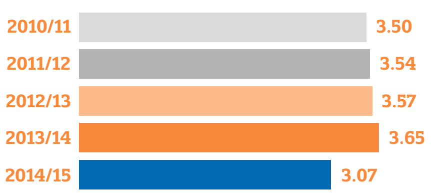
Retail underlying operating margin
Definition: Underlying profit before tax, underlying net finance costs and underlying share of post-tax results from joint ventures, divided by retail sales excluding VAT, including fuel, excluding Sainsbury's Bank.

Core retail capital expenditure
Definition: Capital expenditure excluding Sainsbury's Bank and before proceeds from sale and leasebacks and capital relating to the acquisition of freehold and trading properties.

Trading intensity per sq ft (£ per week)

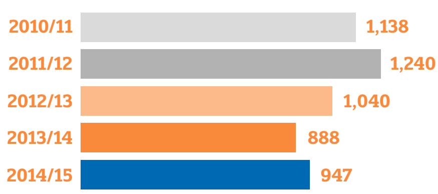


Retail underlying operating margin (%)



2012/13 restated for changes to IAS 19, prior years not restated

Core retail capital expenditure (£m)



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 the following areas of focus:

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 being the residual risk after mitigations. The risk appetite for each key risk is also discussed and assessed. 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, as part of the strategic review process the principal risks were reviewed and updated in line with the Company's strategic objectives. This has resulted in a more streamlined set of principal risks from the prior year with a number of key business as usual risks being returned to the divisional level for ongoing management and monitoring. In addition, the business strategy risk has been updated to provide focus on the risk associated with change initiatives forming part of the business strategy. In addition, risks associated with the competitive landscape are given greater focus as part of the trading environment and competitive landscape principal risk. Finally, the previously separate disclosure of pensions risk is now reflected as part of the 'Finance and treasury' risk where the mitigating actions sit.

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

Business continuity and major incidents response

Risk

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

Mitigation

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

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

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, change initiatives forming part of the strategy and other significant supporting change, such as the internal transformation of the Digital and Technology function, need to be properly understood and managed to deliver long-term growth for the benefit of all stakeholders alongside management of business as usual.

Mitigation

The strategic review was completed in November 2014 resulting in an update strategy focused on the following:

- We know our customers better than anyone else;
- There for our customers;
- Great products and services at fair prices;
- Colleagues making the difference; and
- Our values make us different.

Progress against these areas of focus and any risks to delivery, such as the ability to implement and deliver change and new business initiatives, 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. In addition, management performs ongoing monitoring of business as usual performance to determine indicators of potential negative performance as a result of change initiatives.

Colleague engagement, retention and capability

Risk

The Group employs over 150,000 colleagues who are critical to the success of our business. Attracting and maintaining good relations with talented colleagues and investing in their training and development is essential to the efficiency and sustainability of the Group's operations. Delivery of the strategic objectives, including development of new businesses and progress on multi-channel, increases the risk of ability to attract, motivate and retain talent, specific skill sets and capability. In addition, the challenging trading environment requires a focus on efficient operations which may include change initiatives impacting colleagues, therefore presenting a risk of loss of colleague trust or engagement.

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. In addition to strong leadership and nurturing of talent by line managers, processes are also in place to identify talent and actively manage succession planning throughout the business. Ongoing reviews are performed to understand the capability and specific skill sets required to deliver objectives. This is supported by embracing new ways of attracting talent and our corporate value 'Great Place to Work' reinforces our commitment to giving people the opportunity to be the best they can be.

Colleague surveys, performance reviews, listening groups, communications with trade unions, regular communication of business activities and colleague networking forums such as Yammer and My Sainsbury's are some of the methods the Group uses to understand and respond to colleagues' needs. As change initiatives are implemented, the methods described above will continue to be employed to understand and maintain colleague trust and engagement.

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 cyber crime 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. In July 2014, a Data Governance Programme Manager was appointed to oversee the activities of the working groups and ensure activities are co-ordinated and risk based. 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.

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 51 to 52.

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. The transitional risk may have an adverse impact on people, processes, regulatory compliance and technical infrastructure and failure to manage the transition successfully may have an adverse impact on the Sainsbury's brand.

In addition, there remains a risk around pensions as the Group operates a number of pension arrangements that are subject to risks in relation to liabilities as a result of changes in life expectancy and inflation and to risks regarding the value of investments and the returns derived from such investments.

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 pages 117 to 123. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.

Executive sponsorship and a change governance structure are in place to manage and oversee the Bank transition which includes the Bank Transition Committee. Regular updates of transition progress to plan are provided to the Bank Board and to the Sainsbury plc Board. In addition, Sainsbury's Bank operates an enterprise wide risk management framework and risk management processes include early identification of key transitional risks along with mitigation plans. Tracking of risk mitigation effectiveness will be ongoing throughout the transitional period.

The principal treasury risks relating to the Bank and associated mitigations are set out in note 28 to the financial statements on pages 117 to 123.

With regard to pensions, 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.

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 safety teams.

Trading environment and competitive landscape

Risk

Effective management of the trading account is key to the achievement of performance targets.

The sector outlook has been and is set to remain challenging. The challenging trading environment, food price deflation and the price reduction and price matching activity across the sector may adversely impact performance.

Mitigation

We adopt a differentiated strategy with a continued focus on delivering quality products and services at fair prices, helping our customers Live Well For Less. This is achieved through the continuous review of our product quality, key customer metrics, monitoring of current market trends, active management of price positions, development of sales propositions and focused promotion and marketing activity. In November 2014 we announced our plan to continue to invest in the quality of products. We also announced additional investment in price which will be used to cut regular prices on some of the most popular items in customers' baskets. In delivering our strategic plan, including our price investment, we will maintain the strength of our balance sheet and have therefore identified a series of measures to conserve cash in the business and deliver sustainable operating cost savings.

Financial Review

John Rogers,
Chief Financial Officer

Dear Shareholder,

Against the backdrop of a tough trading environment and food price deflation, Sainsbury's underlying Group sales (including VAT) declined by 0.9 per cent to £26,122 million (2013/14: £26,353 million). Underlying profit before tax ('UPBT') has declined by 14.7 per cent to £681 million (2013/14: £798 million). Over the past year, our market share has declined 25 basis points to 16.5 per cent as we continue to see customers changing the nature of their shop, strong growth from the discounters and a more competitive grocery market. This has resulted in our average trading intensity excluding fuel declining to £18.24 per sq ft per week (2013/14: £18.93 per sq ft per week). As a result of a £753 million charge to items excluded from underlying results, loss before tax was £72 million (2013/14: £898 million profit).

In response to this, Sainsbury's has made good progress against the strategy laid out in November 2014, which enables customers to shop whenever, wherever and however they want. We made a commitment to invest £150 million into the retail price of products. In practice, we have invested £50 million in the second half of 2014/15 and expect to invest a further £150 million in 2015/16, making our overall price investment £200 million. However, as a result of lowering our prices, volumes have increased, leading to a net cost to the business of £40 million in 2014/15 and an expected £110 million in 2015/16. To date, we have reduced the price of over 1,100 products and our price position versus our main competitors has never been better. We will continue to invest in price to remain competitive in the market. Our retail underlying operating profit decreased by 17.5 per cent to £720 million (2013/14: £873 million), and our retail underlying operating margin decreased by 58 basis points (62 basis points at constant fuel prices).

Growing our non-food and financial services businesses is an important part of our strategy. This is demonstrated by general merchandise, which grew by over seven per cent, and clothing, which grew by nearly 12 per cent. In its first full year fully consolidated, Sainsbury's Bank increased its total income by over 13 per cent to £260 million, and increased underlying operating profit to £62 million in 2014/15, compared with £53 million in 2013/14.

Our supermarkets are generally the right size and are located in densely populated and growing areas, which gives us a relative structural advantage. Nonetheless, as a result of the challenging market conditions, our supermarket sales declined by over two per cent. At the same time, we saw good growth in our other channels: our convenience business grew by over 16 per cent, ahead of the market, and annual sales are now over £2.1 billion; and our groceries online business grew by over seven per cent with annual sales of over £1.1 billion. In June 2014, we announced a joint venture ('JV') with Netto; this JV provides a great opportunity to gain exposure to the high growth discount channel and complements our convenience, online and non-food businesses, as well as our existing supermarket estate. We have now opened five stores, with a further ten to be opened by the end of 2015/16.

As part of our strategic review announced in November 2014, we reassessed our store pipeline and the potential to achieve an appropriate return on capital. This resulted in a decision that some sites will no longer be developed, for which a charge of £287 million has been recognised. A charge of £341 million has also been recognised in relation to unprofitable and marginally profitable trading stores.

Core retail capital expenditure this year was £947 million (2013/14: £888 million). New space delivered a 1.7 per cent contribution to sales growth, slightly below our expectations, as a result of the timing of store openings during the year.

Our return on capital employed ('ROCE') decreased by 157 basis points to 9.7 per cent. ROCE excluding the pension fund deficit was 9.0 per cent, a decline of 149 basis points year-on-year. ROCE decline was driven by reduced profitability, although this was partly offset by the impairment of fixed assets, reducing closing capital employed.

Sainsbury's achieved around £140 million of operational cost savings, which more than offset the impact of inflationary pressures on costs during the year. The balance sheet remained stable and the business has funding in place of over £3.8 billion, including a revolving credit facility ('RCF') of over £1.1 billion, of which only £0.1 billion was drawn at the year-end. On 5 May 2015, the Group refinanced its unsecured RCF with a new secured recourse £1,150 million RCF, with a final maturity of 2020. The new secured corporate facility is the same size as, and has substantially similar economic terms to, the previous unsecured facility, and contains no financial covenants. Net debt ended the year at £2,343 million, lower than expected, driven by improvements in retail working capital.

Underlying basic earnings per share decreased to 26.4 pence (2013/14: 32.8 pence), a 19.5 per cent decline year-on-year. This decline was greater than the decline in underlying profit, due to the impact of a higher underlying tax rate and the effect of additional shares issued during the year. Basic loss per share was 8.7 pence in 2014/15 (2013/14: 37.7 pence earnings per share), lower than the underlying basic earnings per share mainly due to the impact of the £628 million impairment and onerous contract provisions.

The Board has recommended a final dividend of 8.2 pence (2013/14: 12.3 pence), making a full-year dividend of 13.2 pence (2013/14: 17.3 pence), down 23.7 per cent year-on-year and covered two times by underlying earnings. In 2015/16, Sainsbury's will continue to pay an affordable dividend at two times cover.

Despite the challenging market environment, next year will be an exciting one for Sainsbury's as we progress with our strategy, which includes the continuing programme to integrate Sainsbury's Bank into the business and our convenience store opening programme. Alongside this, our priority is to step up our cost saving programme including an increased focus on delivering cross-functional efficiency savings, improving operational cash flow and working capital management and driving returns from our investments.

Summary income statement
52 weeks to 14 March 2015

	2015 £m	2014 £m	Change %
Underlying Group sales (including VAT)[1]	**26,122**	26,353	(0.9)
Retail sales (including VAT)	**25,813**	26,328	(2.0)
Underlying Group sales (excluding VAT)[1]	**23,752**	23,946	(0.8)
Retail sales (excluding VAT)	**23,443**	23,921	(2.0)
Underlying operating profit			
Retailing	**720**	873	(17.5)
Financial services – Sainsbury's Bank[2]	**62**	6	933.3
Total underlying operating profit	**782**	879	(11.0)
Underlying net finance costs[3]	**(107)**	(111)	3.6
Underlying share of post-tax profit from JVs[2,4]	**6**	30	(80.0)
Underlying profit before tax	**681**	798	(14.7)
Items excluded from underlying results	**(753)**	100	(853.0)
(Loss)/profit before tax	**(72)**	898	(108.0)
Income tax expense	**(94)**	(182)	48.4
(Loss)/profit for the financial period	**(166)**	716	(123.2)
Underlying basic earnings per share	**26.4p**	32.8p	(19.5)
Basic (loss)/earnings per share	**(8.7)p**	37.7p	(123.1)
Dividend per share	**13.2p**	17.3p	(23.7)

1. Underlying Group sales excludes a £23 million acquisition adjustment fair value unwind relating to Sainsbury's Bank (2013/14: £3 million).
2. In 2013/14 Sainsbury's Bank was recognised as a joint venture for 46 weeks and fully consolidated for four weeks (from 1 February 2014 to 28 February 2014).
3. Net finance costs before financing fair value movements and the IAS 19 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.

Retail sales (including VAT) and space

Retail sales (including fuel) decreased by 2.0 per cent to £25,813 million (2013/14: £26,328 million). This includes a 1.6 per cent contribution from new space (excluding extensions and replacements) and a like-for-like ('LFL') sales decline of 3.6 per cent.

Retail sales growth (including VAT, including fuel) 52 weeks to 14 March 2015	**2015** **%**	2014 %
Like-for-like sales	**(3.6)**	–
Net new space (excluding extensions and replacements)	**1.6**	2.7
Total sales growth	**(2.0)**	2.7

Retail sales (excluding fuel) decreased by 0.2 per cent, with a LFL decline of 1.9 per cent. This was a smaller decline than sales including fuel due to retail price deflation in fuel and lower LFL fuel volumes. The decline was due to the continued challenging market conditions, price deflation in many food categories and acceleration in more frequent, convenient shopping resulting in smaller basket sizes. Sainsbury's growth was behind the market, with market share declining 25 basis points year-on-year to 16.5 per cent for the 52 weeks to 1 March 2015 (as measured by Kantar).

The contribution from net new space (excluding extensions and replacements) of 1.7 per cent was slightly lower than Sainsbury's expectations, as a result of the timing of store openings during the year.

Our multi-channel strategy enables customers to shop whenever, wherever and however they want. The convenience business grew sales by over 16 per cent to over £2.1 billion, ahead of the market, and groceries online grew by over seven per cent year-on-year, lower than the previous year's growth reflecting increased competitor acquisition activity and customers shopping more frequently with smaller basket sizes across different channels. Sainsbury's non-food offer continued to grow sales ahead of the market, supported by continued range development and the roll-out of new space.

Retail sales growth (including VAT, excluding fuel) 52 weeks to 14 March 2015	**2015** **%**	2014 %
Like-for-like sales[1]	**(1.9)**	0.2
Net new space (excluding extensions and replacements)	**1.7**	2.5
Total sales growth	**(0.2)**	2.7

1. This includes a 0.2 per cent contribution from stores extended in 2014/15, net of disruptions (2013/14: 0.2 per cent).

Average trading intensity ('TI') excluding fuel declined to £18.24 per sq ft per week (2013/14: £18.93 per sq ft per week) due to the challenging market conditions, in particular declining supermarket food volumes. Convenience TI decreased £0.09 per sq ft to £26.90 per sq ft per week, primarily due to a slight fall in TI of newly opened stores.

Sainsbury's added a gross 733,000 sq ft of selling space in the year (including replacements and extensions), an increase of 3.3 per cent (2013/14: 1,013,000 sq ft, an increase of 4.8 per cent). Including the impact of closures, this translated into net space growth of 659,000 sq ft, an increase of 3.0 per cent since the start of the year (2013/14: 895,000 sq ft, an increase of 4.2 per cent).

In 2014/15, Sainsbury's opened eight new supermarkets, of which two were replacement stores (2013/14: 13 new supermarkets, of which three were replacements) and completed 13 supermarket refurbishments, five extensions and one closure (2013/14: 15 supermarket refurbishments, six extensions and one closure). Convenience continues to be a key area of growth, with 98 stores opened during the year (2013/14: 91 stores). Two convenience stores were closed (2013/14: three stores) and 43 were refurbished (2013/14: 39 stores).

Net of replacements, closures and disposals, closing space of 22,819,000 sq ft was 3.0 per cent higher than last year (2013/14: 22,160,000 sq ft).

Store numbers and retailing space 52 weeks to 14 March 2015	Supermarkets		Convenience		**Total**	
	Number	Area 000 sq ft	Number	Area 000 sq ft	**Number**	**Area 000 sq ft**
At 15 March 2014	592	20,744	611	1,416	**1,203**	**22,160**
New stores	8	381	98	229	**106**	**610**
Disposals/closures	(3)	(66)	(2)	(8)	**(5)**	**(74)**
Extensions/refurbishments/downsizes	–	131	–	(8)	**–**	**123**
At 14 March 2015	**597**	**21,190**	**707**	**1,629**	**1,304**	**22,819**
Memorandum:						
Extensions	5	79	–	–	**5**	**79**
Refurbishments/downsizes	13	52	43	(8)	**56**	**44**
Total projects	**18**	**131**	**43**	**(8)**	**61**	**123**

In 2015/16, Sainsbury's expects LFL sales to be negative, driven by challenging market conditions and food price deflation. Contribution from net new space (excluding extensions and replacements) is expected to be slightly lower than 2014/15. Contribution from extensions is expected to be 0.1 per cent.

In 2015/16, Sainsbury's expects to deliver around 450,000 sq ft of gross new space, with one to two new convenience store openings per week.

Retail underlying operating profit

Retail underlying operating profit decreased by 17.5 per cent to £720 million (2013/14: £873 million), reflecting lower LFL sales and investment in the customer offer in order to remain price competitive. This was partly offset by increased cost savings year-on-year of around £140 million (2013/14: £120 million).

Retail underlying operating margin declined by 58 basis points year-on-year to 3.07 per cent (2013/14: 3.65 per cent), which resulted in a 62 basis points decline at constant fuel prices. Retail underlying EBITDAR margin decreased by 29 basis points to 7.76 per cent, or a 39 basis points decline to 7.66 per cent at constant fuel prices.

Retail underlying operating profit
52 weeks to 14 March 2015

	2015	2014	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**720**	873	(17.5)%	
Retail underlying operating margin (%)[2]	**3.07**	3.65	(58)bps	(62)bps
Retail underlying EBITDAR (£m)[3]	**1,819**	1,926	(5.6)%	
Retail underlying EBITDAR margin (%)[4]	**7.76**	8.05	(29)bps	(39)bps

1. Underlying earnings before interest, tax, Sainsbury's Bank underlying operating profit and Sainsbury's underlying share of post-tax profit from JVs.
2. Retail underlying operating profit divided by retail sales excluding VAT.
3. Retail underlying operating profit before rent, depreciation and amortisation.
4. Retail underlying EBITDAR divided by retail sales excluding VAT.

In 2015/16, Sainsbury's expects cost inflation at the lower end of the two to three per cent range and efficiency savings of around £200 million, in line with our plan to deliver £500 million of savings over the next three years.

We have invested £50 million in price in the second half of 2014/15 and expect to invest a further £150 million in 2015/16, making our overall price investment £200 million. However, as a result of lowering our prices, volumes have increased, leading to a net cost to the business of £40 million in 2014/15 and an expected £110 million in 2015/16.

We will remain competitive on price in the market.

Financial services – Sainsbury's Bank

Sainsbury's completed its purchase of the remaining 50 per cent of Sainsbury's Bank on 31 January 2014 and the Bank has been 100 per cent consolidated throughout 2014/15. The Bank contributed £62 million to Group underlying profit before tax (2013/14: £24 million).

Sainsbury's Bank results	2015[1]	2014[2]	Change %
Total income (£m)[3]	**260**	229	13.5
Underlying operating profit (£m)	**62**	53	17.0
Recognised as a joint venture (£m)	**–**	18	
Consolidated as a subsidiary (£m)	**62**	6	
Impact on Group underlying profit before tax (£m)	**62**	24	158.3
Net interest margin (%)[4]	**3.9**	3.1	79bps
Bad debt as a percentage of lending (%)[5]	**0.7**	1.1	40bps
Tier 1 capital ratio (%)[6]	**12.7**	13.6	(91)bps

1. 12 months to 28 February 2015.
2. 50 weeks to 28 February 2014.
3. Net interest and net commission income.
4. Net interest receivable divided by average interest-bearing assets.
5. Bad debt expense divided by gross lending as at year-end.
6. Year-end Tier 1 capital divided by year-end risk-weighted assets.

Sainsbury's Bank total income increased by 13.5 per cent to £260 million (2013/14: £229 million), mainly due to lower market savings rates which resulted in a reduction in interest payable. In addition, lending increased, however this was offset by competition in the personal loans market causing headline rates to fall.

Sainsbury's Bank delivered an underlying operating profit of £62 million, a 17.0 per cent increase year-on-year. This increase was driven by the higher total income and favourable bad debt levels, partly offset by incremental running costs associated with the move to a new, more flexible banking platform.

Net interest margin increased by 79 basis points year-on-year to 3.9 per cent (2013/14: 3.1 per cent) mainly driven by changes to the funding structure. Bad debt levels as a percentage of lending improved to 0.7 per cent (2013/14: 1.1 per cent) as a result of improved recovery processes, low market interest rates and improving economic conditions. The Tier 1 capital ratio decreased by 91 basis points year-on-year to 12.7 per cent (28 February 2014: 13.6 per cent), reflecting increased customer lending and intangible assets and one-off costs associated with transitioning Sainsbury's Bank to a new, more flexible banking platform.

Whilst our transition plans remain on time and in line with budget to date, we see total costs (capital and revenue) for the project going forward rising by between £80 million and £120 million, taking our overall spend to between £340 million and £380 million. In 2015/16, Sainsbury's Bank is expected to deliver mid-single digit year-on-year growth in underlying operating profit. Capital injections to the Bank in 2015/16 are expected to be circa £80 million.

Property and other joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £13 million (2013/14: £14 million). Its underlying share of post-tax profit from the JV with Land Securities was £2 million (2013/14: £2 million).

An investment property fair value increase of £7 million was recognised within the share of post-tax profit from the JVs in the income statement (2013/14: £nil), with average property yields of the JVs decreasing to 5.0 per cent, 0.2 percentage points lower than the prior year (2013/14: 5.2 per cent), partly offset by rental increases.

In June 2014, Sainsbury's announced a 50 per cent JV with Dansk Supermarked to trial Netto, a discount retailer, within the UK market. Netto opened five stores in November 2014 in the north of England with the next ten stores to be opened by the end of 2015/16.

Sainsbury's recognised a net £9 million share of loss (2013/14: net £4 million share of loss) from the three start-up JVs: Netto, *Mobile by Sainsbury's* and I^{2}C. This loss was driven by start-up costs.

In 2015/16, Sainsbury's expects the share of profit from the property JVs to be slightly lower year-on-year. Sainsbury's share of loss from the start-up JVs, including Netto, is expected to be similar to 2014/15.

Underlying net finance costs

Underlying net finance costs decreased by £4 million year-on-year to £107 million (2013/14: £111 million). This was mainly driven by a change in mix of borrowings, partly offset by a reduction in capitalised interest.

Underlying net finance costs[1] 52 weeks to 14 March 2015	2015 £m	2014 £m
Underlying finance income	**19**	20
Interest costs	**(143)**	(157)
Capitalised interest	**17**	26
Underlying finance costs	**(126)**	(131)
Underlying net finance costs	**(107)**	(111)

1. Finance income/costs before financing fair value movements and the IAS 19 pension financing charge.

Sainsbury's expects underlying net finance costs in 2015/16 to increase slightly year-on-year driven by lower capitalised interest.

Items excluded from underlying results

Items excluded from underlying results totalled a charge of £753 million (2013/14: £100 million credit), mainly due to one-off items.

Items excluded from underlying results 52 weeks to 14 March 2015	2015 £m	2014 £m
Profit on disposal of properties	**7**	52
Investment property fair value movements	**7**	–
Retail financing fair value movements	**(30)**	(8)
IAS 19 pension financing charge	**(31)**	(23)
Defined benefit pension scheme expenses	**(6)**	(7)
Acquisition adjustments	**13**	18
One-off items	**(713)**	68
Total items excluded from underlying results	**(753)**	100

One-off items

The charge to one-off items of £713 million (2013/14: £68 million credit) includes: a non-cash impairment and onerous contract charge of £628 million; costs of £53 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform; £17 million pension compensation payments made to employees as a result of the closure of Sainsbury's defined benefit pension scheme to future accrual; and internal restructuring costs of £15 million.

The £628 million charge was announced in November 2014 following our strategic review, during which we reassessed our store pipeline and the potential to achieve an appropriate return on capital. This resulted in a decision that some sites will no longer be developed, for which a non-cash impairment charge of £257 million and onerous contract provisions of £30 million have been recognised. A charge of £341 million has also been incurred in relation to unprofitable and marginally profitable stores, comprising a £291 million impairment and £50 million of onerous lease provisions.

One-off items 52 weeks to 14 March 2015	2015 £m	2014 £m
Impairment and onerous contract charge	**(628)**	(92)
Sainsbury's Bank costs	**(53)**	(45)
Pension past service credit and compensation payments	**(17)**	148
Nectar VAT	**–**	76
Other	**(15)**	(19)
Total one-off items	**(713)**	68

In 2015/16, Sainsbury's Bank costs for transitioning to a new, more flexible banking platform are expected to be around £50 million (capital costs relating to the transition are expected to be around £75 million).

Property profits over the next two years from mixed-use developments are expected to be around £200 million.

Taxation

The income tax charge was £94 million (2013/14: £182 million), with an underlying tax rate of 25.8 per cent (2013/14: 21.9 per cent) and an effective tax rate of (130.6) per cent (2013/14: 20.3 per cent). The underlying rate is higher than last year, mainly due to the revaluation of deferred tax balances reducing the rate in the prior year, but not repeated in the current year. The effective tax rate was negative, mainly as a result of the impairment costs not being deductible for tax purposes.

Underlying tax rate 52 weeks to 14 March 2015	Profit £m	Tax £m	Rate %
Profit before tax, and tax thereon	(72)	(94)	(130.6)
Adjustments (and tax thereon) for:			
Profit on disposal of properties	(7)	(10)	
Investment property fair value movements	(7)	–	
Retail financing fair value movements	30	(5)	
IAS 19 pension financing charge	31	(7)	
Defined benefit pension scheme expenses	6	(1)	
Acquisition adjustments	(13)	4	
One-off items	713	(63)	
Underlying profit before tax, and tax thereon	**681**	**(176)**	**25.8**

In 2015/16, Sainsbury's expects the underlying tax rate to be similar to 2014/15.

In the UK, there are a large number of taxes, of which many are relevant for Sainsbury's. In 2014/15, Sainsbury's paid £1.7 billion (2013/14: £1.8 billion) to the UK government, of which £854 million (2013/14: £825 million) was borne by Sainsbury's and the remaining £863 million (2013/14: £949 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 2014, our total taxes borne ranked sixth amongst the survey participants.

The key taxes paid by Sainsbury's were business rates of £489 million (2013/14: £432 million), employers' national insurance of £145 million (2013/14: £141 million) and UK corporation tax of £90 million (2013/14: £140 million). Other taxes including customs duty, excise duty, VAT and energy taxes totalled £130 million (2013/14: £112 million). In addition, £1 million of corporation tax was paid to overseas governments.

Earnings per share

Underlying basic earnings per share decreased by 19.5 per cent to 26.4 pence (2013/14: 32.8 pence) reflecting the fall in underlying profits, a higher underlying tax rate year-on-year and additional shares issued during the year.

The weighted average number of shares in issue was 1,911.0 million (2013/14: 1,896.8 million), an increase of 14.2 million shares or 0.7 per cent. Basic loss per share was 8.7 pence (2013/14: 37.7 pence earnings). The basic loss per share was lower than the underlying basic earnings per share due to the items excluded from underlying results.

Underlying earnings per share 52 weeks to 14 March 2015	**2015 pence per share**	2014 pence per share
Basic (loss)/earnings per share	**(8.7)**	37.7
Adjustments (net of tax) for:		
Profit on disposal of properties	**(0.9)**	(2.8)
Investment property fair value movements	**(0.4)**	–
Retail financing fair value movements	**1.3**	0.4
IAS 19 pension financing charge	**1.3**	0.9
Defined benefit pension scheme expenses	**0.3**	0.3
Acquisition adjustments	**(0.5)**	(0.9)
One-off items	**34.0**	(1.7)
Revaluation of deferred tax balances	**–**	(1.1)
Underlying basic earnings per share	**26.4**	32.8

Dividends

The Board has recommended a final dividend of 8.2 pence per share (2013/14: 12.3 pence). This will be paid on 10 July 2015 to shareholders on the Register of Members at the close of business on 15 May 2015, subject to approval by shareholders at the AGM. This will result in a decrease to the full-year dividend of 23.7 per cent to 13.2 pence per share (2013/14: 17.3 pence).

The proposed final dividend was recommended by the Board on 5 May 2015 and, as such, has not been included as a liability as at 14 March 2015.

In 2015/16, Sainsbury's will maintain dividend cover at two times our underlying earnings for the full year.

Financing

The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate standby liquidity. As at 14 March 2015, the Group had drawn borrowing facilities of £2.8 billion and undrawn but committed borrowing facilities of £1.0 billion at its disposal.

The principal elements of the Group's core borrowings comprise two long-term loans of £850 million due 2018 and £811 million due 2031, both secured over property assets. In addition, the Group has unsecured borrowings totalling £339 million with maturities ranging from 2015 to 2019, and £127 million of hire purchase facilities.

During the year, the Group maintained a syndicated committed revolving credit facility ('RCF') for £1,150 million. The 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. As at 14 March 2015, £120 million had been drawn under Facility (A) (2013/14: £200 million) and £nil under Facility (B) (2013/14: £nil). The £1,150 million facility and bank 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 14 March 2015, Sainsbury's comfortably passed this covenant test.

On 5 May 2015, the Group refinanced its unsecured RCF with a new secured recourse £1,150 million RCF, with a final maturity of 2020. The new secured corporate facility is the same size as, and has substantially similar economic terms to, the previous unsecured facility, with the structure also maintained on a dual tranche basis (a £500 million Facility (A) due April 2018 and £650 million Facility (B) due April 2020). The new facility, which is secured against 60 supermarket properties, contains no financial covenants.

The Group also amended its £200 million unsecured bank loan due November 2019 and its €50 million unsecured bank loan due September 2016 into a secured recourse £200 million bank loan due November 2019 and a secured recourse €50 million bank loan due September 2016. The amended bank loans, which are secured against ten supermarket properties, contain no financial covenants.

Since March 2014, two bilateral bank loans have been repaid for a combined total of £65 million and in July 2014 the Group's £190 million convertible bond was repaid. The five unsecured private placement loans for £184 million were repaid in March 2015, before year-end. Of these, the $100 million (£63 million) tranche due March 2017 was prepaid before its maturity date.

A new five-year £450 million 1.25 per cent convertible bond was entered into in November 2014. A new bilateral bank loan for £200 million was drawn down in August 2014 and a new hire purchase loan for £30 million was entered into in May 2014.

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 14 March 2015, net debt was £2,343 million (15 March 2014: £2,384 million), a decrease of £41 million year-on-year. The year-on-year decrease was primarily driven by an improvement in retail working capital, partly offset by higher net capital expenditure, due to no sale and leaseback activity and a lower underlying operating profit.

Operating cash flows before changes in working capital decreased by 17.8 per cent to £1,123 million (2013/14: £1,366 million) and cash generated from operations decreased by 7.4 per cent to £1,136 million (2013/14: £1,227 million, 3.2 per cent decrease), mainly due to a lower underlying operating profit.

Total working capital decreased by £13 million from 15 March 2014, driven by a £313 million improvement in retail working capital, partly offset by a £300 million increase in Sainsbury's Bank working capital. The increase in Sainsbury's Bank working capital reflects positive steps taken by the Bank to optimise its funding position and support lending via the government's Funding for Lending Scheme. The £313 million improvement in retail working capital was mainly due to an increase in trade payables of £243 million as a result of operational efficiencies.

The net cash used in investing activities of £900 million was £310 million higher year-on-year (2013/14: £590 million), driven by lower proceeds from property transactions. Receipt of new debt of £674 million during the year mainly relates to a £200 million bilateral bank loan drawn down in August 2014 for a five-year term, £30 million from a five-year hire purchase agreement, and a new five-year £450 million convertible bond. The new debt offsets £659 million of borrowings repaid during the year.

Summary cash flow statement 52 weeks to 14 March 2015	2015 £m	2014 £m
Operating cash flow before changes in working capital	**1,123**	1,366
Decrease/(increase) in retail working capital	**313**	(128)
Increase in Sainsbury's Bank working capital	**(300)**	(11)
Cash generated from operations	**1,136**	1,227
Interest paid	**(134)**	(148)
Corporation tax paid	**(91)**	(140)
Net cash from operating activities	**911**	939
Net cash used in investing activities	**(900)**	(590)
Acquisition of Sainsbury's Bank, net of cash acquired	**–**	1,016
Proceeds from issue of shares	**19**	19
Purchase of own shares	**(18)**	–
Receipt of new debt	**674**	450
Repayment of borrowings	**(659)**	(439)
Dividends paid	**(330)**	(320)
(Decrease)/increase in cash and cash equivalents	**(303)**	1,075
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	**343**	(1,225)
Increase in debt	**(31)**	(27)
Fair value and other non-cash movements	**32**	(45)
Movement in net debt	**41**	(222)

Sainsbury's expects 2015/16 year-end net debt to reduce year-on-year and a small improvement in retail working capital.

Retail capital expenditure

Core retail capital expenditure increased by £59 million year-on-year to £947 million (2013/14: £888 million). Core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) was 3.7 per cent (2013/14: 3.4 per cent).

Supermarket openings decreased by five during the year to eight (2013/14: 13 supermarkets). Sainsbury's stepped up its convenience opening programme in the year with 98 new convenience stores (2013/14: 91 convenience stores).

During the year, there were five extensions completed (2013/14: six extensions). Sainsbury's also delivered 56 refurbishments during the year (2013/14: 54 refurbishments) consisting of 13 supermarkets (2013/14: 15 supermarkets) and 43 convenience stores (2013/14: 39 convenience stores).

There were no sale and leaseback proceeds in the year (2013/14: £301 million), resulting in net retail capital expenditure of £941 million (2013/14: £628 million).

Retail capital expenditure 52 weeks to 14 March 2015	2015	2014
New store development (£m)	**425**	418
Extensions and refurbishments (£m)	**284**	274
Other – including supply chain and IT (£m)	**238**	196
Core retail capital expenditure (£m)	**947**	888
Acquisition of freehold and trading properties (£m)[1]	**(9)**	41
Proceeds from property transactions (£m)[2]	**3**	(301)
Net retail capital expenditure (£m)	**941**	628
Capex/sales ratio (%)[3]	**3.7**	3.4

1. 2014/15 balance includes income from Harvest, our JV with Land Securities, relating to the repayment of a loan.
2 Includes movement in timing of capital debtors and creditors.
3 Core retail capital expenditure divided by retail sales (including fuel, including VAT).

In 2015/16, Sainsbury's expects core retail capital expenditure (excluding Sainsbury's Bank) to be around £550 million.

Return on capital employed

The return on capital employed ('ROCE') over the 52 weeks to 14 March 2015 was 9.7 per cent (2013/14: 11.3 per cent), a decrease of 157 basis points year-on-year. ROCE is enhanced by the net pension deficit, which reduces capital employed.

ROCE excluding the net pension deficit over the 52 weeks to 14 March 2015 was 9.0 per cent (2013/14: 10.4 per cent), a year-on-year decrease of 149 basis points. ROCE decline was due to the fall in underlying operating profit driven by lower LFL sales, partly offset by the non-cash impairment and onerous contract charge of £628 million, reducing closing capital employed.

Return on capital employed 52 weeks to 14 March 2015	2015	2014[2]
Underlying operating profit (£m)	**782**	879
Underlying share of post-tax profit from JVs (£m)	**6**	30
Underlying profit before interest and tax (£m)	**788**	909
Average capital employed (£m)[1]	**8,136**	8,073
Return on capital employed (%)	**9.7**	11.3
Return on capital employed (excluding pension fund deficit) (%)	**9.0**	10.4
52 week ROCE movement to 14 March 2015	**(157)bps**	
52 week ROCE movement to 14 March 2015 (excluding pension fund deficit)	**(149)bps**	

1. Average of opening and closing net assets before net debt.
2. The closing capital employed for the 52 weeks to 15 March 2014 has been reduced by 50 per cent of Sainsbury's Bank consolidated 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.

Summary balance sheet

Shareholders' funds as at 14 March 2015 were £5,539 million (15 March 2014: £6,005 million), a decrease of £466 million, mainly attributable to the non-cash impairment and onerous contract charge of £628 million.

The book value of property, plant and equipment, including land and buildings, decreased by £240 million (excluding Sainsbury's Bank) since the year-end driven by the impairment, offset by continued space growth.

Net debt was £41 million lower than at 15 March 2014 driven by improvements in retail working capital, partly offset by increases in capital expenditure and lower profit.

Sainsbury's Bank net assets at 28 February 2015 of £504 million (28 February 2014: £485 million) have been consolidated and separately identified.

Adjusted net debt to EBITDAR was 4.1 times (2013/14: 3.9 times) and interest cover reduced to 7.4 times (2013/14: 8.2 times). Fixed charge cover reduced to 2.9 times (2013/14: 3.1 times). Gearing increased year-on-year to 42.3 per cent (15 March 2014: 39.7 per cent) as a result of the reduction in equity shareholder funds. Excluding the pension deficit, gearing increased to 37.9 per cent (15 March 2014: 35.7 per cent).

Summary balance sheet (Sainsbury's Bank separated)
at 14 March 2015

	2015 £m	2014 £m	Movement £m
Land and buildings (freehold and long leasehold)	**6,890**	7,127	(237)
Land and buildings (short leasehold)	**791**	751	40
Fixtures and fittings	**1,941**	1,984	(43)
Property, plant and equipment	**9,622**	9,862	(240)
Other non-current assets	**828**	790	38
Inventories	**997**	1,005	(8)
Trade and other receivables	**294**	290	4
Sainsbury's Bank assets[1]	**4,267**	4,113	154
Cash and cash equivalents	**403**	367	36
Debt	**(2,746)**	(2,751)	5
Net debt	**(2,343)**	(2,384)	41
Trade and other payables and provisions	**(3,712)**	(3,364)	(348)
Retirement benefit obligations, net of deferred tax	**(651)**	(679)	28
Sainsbury's Bank liabilities[1]	**(3,763)**	(3,628)	(135)
Net assets	**5,539**	6,005	(466)

Key financial ratios

Adjusted net debt to EBITDAR[2]	**4.1 times**	3.9 times
Interest cover[3]	**7.4 times**	8.2 times
Fixed charge cover[4]	**2.9 times**	3.1 times
Gearing[5]	**42.3%**	39.7%
Gearing (excluding pension deficit)[6]	**37.9%**	35.7%

1. As at 28 February.
2. Net debt of £2,343 million plus capitalised lease obligations of £5,417 million (5.5 per cent discount rate), divided by Group underlying EBITDAR of £1,890 million.
3. Underlying profit before interest and tax divided by underlying net finance costs.
4. Group 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.

As at 14 March 2015, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £11.1 billion (15 March 2014: £12.0 billion). The £0.9 billion decrease year-on-year was mainly due to a reduction in market rental values which has impacted the portfolio value by £0.6 billion, as well as a £0.2 billion non-cash impairment taken in the first half. 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 (Sainsbury's Bank consolidated)
at 14 March 2015

	2015 £m	2014 £m	Movement £m
Land and buildings (freehold and long leasehold)	**6,892**	7,127	(235)
Land and buildings (short leasehold)	**791**	751	40
Fixtures and fittings	**1,965**	2,002	(37)
Property, plant and equipment	**9,648**	9,880	(232)
Other non-current assets	**2,411**	2,234	177
Inventories	**997**	1,005	(8)
Trade and other receivables	**2,070**	1,716	354
Sainsbury's Bank cash and cash equivalents	**882**	1,225	(343)
Cash and cash equivalents	**403**	367	36
Debt	**(2,746)**	(2,751)	5
Net debt	**(2,343)**	(2,384)	41
Trade and other payables and provisions	**(7,475)**	(6,992)	(483)
Retirement benefit obligations, net of deferred tax	**(651)**	(679)	28
Net assets	**5,539**	6,005	(466)

Defined benefit pensions

As at 14 March 2015, the post-tax pension deficit was £651 million, an improvement of £28 million year-on-year (15 March 2014: £679 million). The year-on-year reduction in the deficit was driven by outperformance of assets, partly offset by a fall in the real discount rate that increased the present value of funded obligations. Sainsbury's defined benefit pension scheme was closed to future accrual from September 2013.

Retirement benefit obligations
at 14 March 2015

	2015 £m	2014 £m
Present value of funded obligations	**(7,680)**	(6,855)
Fair value of plan assets	**6,988**	6,131
Pension deficit	**(692)**	(724)
Present value of unfunded obligations	**(16)**	(13)
Retirement benefit obligations	**(708)**	(737)
Deferred income tax asset	**57**	58
Net retirement benefit obligations	**(651)**	(679)

Enhanced disclosure

In response to the Financial Reporting Council issued press notice in December 2014, calling on boards of retailers, suppliers and other businesses to provide investors with sufficient information on their accounting policies, judgements and estimates arising from their complex supplier arrangements, we have provided additional information explaining the types of supplier income at Sainsbury's and any significant judgements and estimates.

Supplier incentives, rebates and discounts, collectively known as 'supplier income', are recognised within cost of sales on an accruals basis as they are earned for each relevant supplier contract. These fall into three key categories:

— Discounts and supplier incentives, representing the majority of all supplier income, linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period. These are calculated through a mechanical process with no judgement and estimation involved in recording the income received, which is collected in a timely manner throughout the period.

- Fixed amounts agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to confirm that the terms of the arrangement are satisfied and that amounts are recognised in the correct period.
- Supplier rebates are typically agreed on an annual basis, aligned with the financial year and are earned based on pre-agreed targets, mainly linked to sales. These require estimates of the income earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, supplier confirmations are also obtained to agree the value to be recognised at year-end, prior to it being invoiced. Rebates represent the smallest element of Sainsbury's supplier income and by aligning the agreements to Sainsbury's financial year where possible, judgements required are minimised.

Supplier income represents a material deduction to cost of sales and directly affects the Group's reported margin. The supplier arrangements resulting in this supplier income can be complex, with income spanning multiple products over different time periods, and there can be multiple triggers and discounts.

We have not disclosed the quantum of supplier income within the Group income statement as this information is commercially sensitive. We have not disclosed the quantum of supplier income within the balance sheet as the amounts are considered to be not significant in the context of the balance sheet as a whole and give no further understanding or comparability to other companies for the reader of the financial statements.

John Rogers
Chief Financial Officer

Approval of the Strategic Report

Pages 1 to 39 of the Annual Report form the Strategic Report. Disclosures concerning diversity, greenhouse gas emissions and human rights appear on pages 50, 52 and 75 respectively.

By order of the Board
Tim Fallowfield
Company Secretary and Corporate Services Director

5 May 2015

J Sainsbury plc: Board of Directors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1. David Tyler
Chairman (Age 62)
✳
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. Mike Coupe
Chief Executive Officer (Age 54)
♥
Appointed Chief Executive Officer on 9 July 2014, Mike has been a member of the Operating Board since October 2004 and an Executive Director since 1 August 2007. Mike joined Sainsbury's from The Big Food Group where he was a Board Director of The 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 is a Non-Executive Director of Greene King plc and was formerly a director of I²C.

3. John Rogers
Chief Financial Officer (Age 46)
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. John is a Non-Executive Director of Travis Perkins plc.

4. Matt Brittin
Non-Executive Director (Age 46)
●✳
Appointed to the Board on 27 January 2011, Matt is Google's President – Europe, Middle East & Africa. Before joining Google to run its UK operations 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.

5. Mary Harris
Non-Executive Director (Age 49)
♦♥✳
Appointed to the Board on 1 August 2007, Mary is a Non-Executive Director of ITV plc and a Non-Executive Director of RB plc (formerly Reckitt Benckiser Group plc) and 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. Mary previously worked for PepsiCo in Greece and the UK, as a sales and marketing executive.

6. Gary Hughes
Non-Executive Director (Age 53)
●✳
Appointed to the Board on 1 January 2005, Gary is a Senior Advisor within the Portfolio Support Group of Apax Partners LLP, the global private equity firm, a Non-Executive Director of SMART Technologies Inc, The Scottish Football Association Limited, Matomy Media Group plc and Premier Farnell plc and a Director of Scottish Exhibition Centre Limited. Formerly he was Chief Financial Officer of Gala Coral Group (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.

7. David Keens
Non-Executive Director (Age 61)
●✳
Appointed to the Board on 29 April 2015, David is also a Non-Executive Director of Auto Trader Group plc. David was formerly Group Finance Director of NEXT plc (1991-2015) and their Group Treasurer (1986-91). Previous management experience includes nine years in the UK and overseas operations of multinational food manufacturers Nabisco (1977-86) and prior to that seven years in the accountancy profession.

8. John McAdam (Age 67)
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 Group 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 (Age 69)
●✳
Appointed to the Board on 1 June 2013, Susan is Chairman of Scottish Water and the new Scottish Fiscal Commission, and a Non-Executive Director of Big Society Capital Limited, the North American Income Trust and the new Banking Standards Board. Susan also 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 Chief Executive, then Chairman of Lloyds TSB Scotland (2000-09) and Managing Director, Lloyds Banking Group (2009-14), a Non-Executive Director of Bank of England (2007-14), SSE plc (2003-14) and Scotland's Future Forum.

10. Jean Tomlin
Non-Executive Director (Age 60)
♦♥✳
Appointed to the Board on 1 January 2013, Jean is an Independent Board member of Michael Kors Holdings Limited, Trustee Board Member of Join in Trust and Step up to Serve and a member of the Council of Loughborough University. Formerly, Jean was the Director of HR, Workforce and Accreditation for The London Organising Committee of the Olympic Games 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

Operating Board

1. Mike Coupe
Chief Executive Officer
See page 41

2. John Rogers
Chief Financial Officer
See page 41

3. Helen Buck
Business Development Director
Helen was appointed to the Operating Board in 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 our online business. 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 Safeway and was a senior manager at McKinsey & Company. Since December 2011, Helen has been a Non-Executive Director of LSL Property Services PLC.

4. 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. In September 2012 he joined the Board of Transport for London, for which he is also a member of the Surface Transport Panel.

5. 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, Data Governance 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 and is a qualified solicitor.

6. Peter Griffiths
Chief Executive Officer, Sainsbury's Bank
Peter was appointed Chief Executive Officer, 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. Peter was awarded an OBE in the Queen's Birthday Honours 2010, in recognition of his support for the Financial Services Industry.

7. Paul Mills-Hicks
Food Commercial Director
Paul joined the Operating Board in May 2014 as Food Commercial Director having spent more than ten years at Sainsbury's. He was closely involved in the formation and execution of the 'Making Sainsbury's Great Again' strategy in a variety of roles in commercial, strategy and finance, most recently as Business Unit Director for Grocery. Previously 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.

8. 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 and is Chairman of the Great Place to Work Steering Committee. 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 that an Executive Director at Whitbread plc with responsibility for HR and Corporate Social Responsibility. She was a member of the Low Pay Commission.

9. 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.

10. Sarah Warby
Marketing Director
Sarah joined Sainsbury's and the Operating Board in January 2012 as Marketing Director. She has responsibility for all Sainsbury's marketing activity: all-brand communications, 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

David Tyler
Chairman

Dear Shareholder,

This has been a year of change for the Company, particularly with Mike Coupe's succession as CEO in July 2014, and it comes at a time when our market is facing significant challenges. It has therefore been a busy year for the Board which is described in detail on the following pages.

I would especially like to draw shareholders' attention to the following key activities that we have focused on during the year.

- Last year, I described the Board's succession planning in preparation for Justin King's departure in July 2014. One of our key priorities has been to ensure and support a smooth transition to Mike from Justin. Mike has made a strong start and he is leading a highly experienced and capable management team which has driven the business forward very effectively during the year.
- Mike and his management team have developed a new strategy designed to create value for shareholders at a time of change in our industry. The Board's engagement, challenge and approval of the strategy was a key aspect of its year.
- We have also managed succession planning amongst our Non-Executive Directors. In April, we announced that David Keens would join the Board and take over as Audit Committee Chairman from Gary Hughes with effect from our AGM in July. The Nomination Committee has clear plans for future Non-Executive succession which are set out below.
- The Audit Committee's report on its key activities is set out on pages 53 - 57 including a detailed summary of the audit tender process that the Committee carried out during the year. This has led to our recommendation to shareholders that Ernst & Young should succeed PwC as our auditors with effect from the forthcoming AGM.
- In this year of change, the Remuneration Committee continues to be focused on ensuring that there is a direct link between pay and performance in the areas most valued by our shareholders. Mary Harris' letter to shareholders and our Remuneration Report are set out on pages 58 - 73.

As a Board, we take governance very seriously and we regularly discuss and review our ways of working and our effectiveness. In March, we carried out a comprehensive internal review of our performance which built upon the conclusions and action plan from our last external Board evaluation by Manchester Square Partners in January 2014. This year's review is described in detail below. We are now working through an action plan to build on our strong foundations.

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. This is reflected in the smooth CEO transition from Justin King to Mike Coupe.

Since I became Chairman in November 2009, we have appointed four new Non-Executive Directors who have brought new skills and experience to the Board, as well as adding to our Board diversity. As I explained last year, we were keen to ensure that we had a stable Non-Executive team to support Mike in the year of transition following his appointment and, accordingly, we asked Gary Hughes to remain on the Board until this year's AGM. Gary has been a highly effective Board member and Chairman of our Audit Committee for ten years and the Board thanks him for his very valuable contribution over this time.

We announced in April that David Keens would be joining the Board and that he would take over as Chairman of the Audit Committee following Gary's departure. I am delighted to welcome him to the Board. His extensive retail knowledge gained as Finance Director at Next plc for 24 years will add considerably to the Board's discussions, while his deep, up-to-date financial experience will ensure strong leadership of our Audit Committee in the future.

As part of our succession planning, the Nomination Committee has a clear plan for John McAdam's succession. John will reach the ninth anniversary of his appointment at the 2015 AGM. The Board believes that it is in shareholders' best interests for him to remain on the Board for another year, until the 2016 AGM, ensuring that we benefit from John's vast experience. The Board believes that John continues to make a major contribution to the Company, both as a Non-Executive Director and as our Senior Independent Director and that he remains 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 John when he steps down from the Board in July 2016. The Nomination Committee will oversee our planning for this appointment during the year.

Diversity

We continue to have three women on our Board (33 per cent as at year-end) and three on our Operating Board (30 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. Our diversity continues to be one of our strengths and is based on the number of women who have been appointed on merit throughout the organisation. Our diversity has exceeded the Davies Report target and, importantly, it is appropriate for Sainsbury's and its customer base.

We believe that we have a committed and challenging Board and that our strong governance, culture and values hold us in good stead for the future.

David Tyler

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, save as follows.

In last year's Annual Report, we explained that Gary Hughes would reach the ninth anniversary of his appointment at the AGM in July 2014. The Board had concluded that it was 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 went through the important period of transition from Justin King to Mike Coupe. This would also enable Gary to play a key role in the audit tender which was planned for later in 2014. The Board concluded that Gary was independent in every respect, notwithstanding the time he had spent on the Board.

During the year Gary has continued to make an outstanding contribution and to demonstrate his independence. He will stand down at the AGM in July 2015 and David Keens will succeed him as Audit Committee Chairman.

The role of the Board

The Board is chaired by David Tyler and, at the year-end, there were two Executive Directors and six Non-Executive Directors. John McAdam is the Senior Independent Director. The Directors' biographical details are set out on page 41.

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 together 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
- Corporate (five year) plan
- CEO Report and trading update
- Financial items
- Preliminary and Interim results
- Annual Report
- Dividend policy and recommendations
- Committee reports
- Investor Relations
- Strategic items
- Safety reports (Health & Safety and Food)
- Customer insights
- HR policy and update
- Pensions
- Project updates
- Treasury and tax policy
- Governance
- Risk management
- Board evaluation
- Public Affairs

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 and other senior executives.

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, partly by the Chairman of each Committee providing 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 has given particular focus to strategic matters during the year, given the fundamental structural change in the sector and the appointment of Mike Coupe as Chief Executive. We held a two day Strategy Conference in the autumn which all the Board and Operating Board Directors attended. This enabled the Board to conduct an in-depth review of the sector, the structural and cyclical changes in it, and the latest customer insights. The Board evaluated key opportunities and threats, the five year corporate plan, including cost savings, capital expenditure and balance sheet projections. Our brokers UBS and Morgan Stanley, and our investor relations advisers Makinson Cowell, attended for part of the meeting in order to provide an external view of the sector. The Board also considered plans for Grocery Online, the Digital & Technology strategy and Sainsbury's Bank. The decisions made at the conference led to the approval of the strategy presented by Mike in November, which is fully described on pages 6 to 27.

The Board receives regular updates on progress against the agreed strategy and, in July, will agree the objectives and principal areas of focus for the next conference. Specific projects are considered at other meetings during the year as necessary. During the year, the Board approved the Netto joint venture with Dansk Supermarked and received regular updates on the progress of Sainsbury's Bank's transition programme.

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 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 56 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 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 47 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 in all aspects of its role and setting its agenda. 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 manages the risk profile in line with the risk appetite and categories of risk identified and accepted by the Board. He takes a leading role, with the Chairman, in the relationship with all external agencies and in promoting Sainsbury's.

Independence

The Non-Executive Directors bring wide and varied commercial experience to Board and Committee deliberations. On appointment they confirm that they will have sufficient time available to be able to discharge their responsibilities effectively. They are appointed for an initial three-year term, subject to election by shareholders at the first AGM after their appointment and re-election 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 Gary Hughes, will retire and seek election or 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. John McAdam 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 2016 AGM. The Board is convinced that John, who has been our Senior Independent Director since his appointment, continues to make an outstanding contribution to the Company.

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.

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 continue to be 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 advisers. 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. Following his appointment to the Board in April 2015, David Keens' induction programme includes each of these aspects.

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 external audit tender, changes to the UK Corporate Governance Code applicable to the Group for the 2015/16 financial year, including the requirement for a viability statement and changes to risk management disclosures, Financial Reporting Council guidance on complex supplier arrangement disclosures and current and future accounting standard changes, such as the new consolidation standards, revenue recognition and lease accounting.

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 Oscar Mayer Ferndale, a major supplier to the Company of ready meals, received a presentation on their long standing relationship with Sainsbury's and toured their facility in Erith, Kent. Directors have also visited stores and other sites as part of their continuing engagement with the business.

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

Board evaluation

The 2013/14 annual evaluation was conducted on an external basis when Manchester Square Partners ('MSP') (who had no other relationship with Sainsbury's) led the review. This was described in detail in last year's Annual Report, including the key themes that emerged. MSP concluded that the Board functioned extremely well and in line with first class corporate governance, operating as a team with shared values, open dialogue, strong levels of trust, respect and collaboration, but also appropriate challenge. The Board identified some areas that would remain on the agenda following the MSP report, 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 that the 2014/15 review should be carried out by the Company Secretary, who has previously facilitated a number of internal evaluation exercises. The Board is satisfied that these internal reviews follow an established process which enables a thorough review with full and open participation from all Directors. The key objectives were to determine whether progress had continued on the key points raised by MSP, to identify any emerging themes in a key year of transition, and to consider whether the Board and its Committees were working effectively.

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

The Board recognised that the last year had seen significant change, particularly regarding the appointment of Mike Coupe and the transition to a new Operating Board, and the announcement of the new strategy. The Board was satisfied that the transition had made good progress and that Mike and the management team were well placed to lead the business in this period of significant change for the sector. In addition:

- Given the scale of change in the sector the Board agreed to continue to devote more time to reviewing the implementation of the strategy.
- The Board considered a number of key decisions that it had made during the year and concluded that its decision making processes were robust.
- The Board would continue to develop strong links to the broader management team. The Board met the Operating Board on several occasions during the year, and the combination of formal and informal sessions was an effective means of understanding management priorities. The Board will be visiting the new Daventry Distribution Centre in June 2015, and the new Sainsbury's Bank offices in September 2015, which will provide opportunities to engage with the relevant management teams. Other opportunities to meet management have also been identified over the course of the year.
- There were clear succession plans for the Non-Executive Directors. This would enable an orderly transition from long serving Non-Executives to new appointees, including the handover from Gary Hughes to David Keens as Audit Committee Chairman. The succession plans regarding John McAdam were also clear and fully considered.
- The Board continued to operate very effectively with a good balance and diversity, and a strong culture reflecting Sainsbury's values, with Directors working well together with a high degree of trust and integrity.

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

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.

The Nomination Committee also received a number of updates, outside of its scheduled meetings, relating to the search process for a new Non-Executive Director.

	Board	Audit Committee	CR&S Committee	Nomination Committee	Remuneration Committee
Matt Brittin	8(8)	5(5)	–	2(2)	–
Mike Coupe	8(8)	–	1(1)	–	–
Mary Harris	8(8)	–	2(2)	2(2)	6(6)
Gary Hughes	8(8)	5(5)	–	2(2)	–
Justin King	2(2)	–	1(1)	–	–
John McAdam	7(8)	–	–	2(2)	6(6)
Susan Rice	8(8)	5(5)		2(2)	
John Rogers	8(8)	–	–	–	–
Jean Tomlin	8(8)	–	2(2)	2(2)	6(6)
David Tyler	8(8)	–	–	2(2)	–

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

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

Investor relations

The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of Mike Coupe, John Rogers and Duncan Cooper, 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 Investor Relations ('IR') programme. In addition, Makinson Cowell provide investor relations consultancy services to the Company and external analysis to the Board on the views of institutional investors and sell-side analysts. Non-Executive Directors also receive regular market reports and broker updates from the Company's IR department.

Shareholders have the opportunity to meet and question the Board at the AGM, which this year will be held on 8 July 2015. There will be a display of various aspects of the Company's activities and Mike Coupe 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 small shareholders is set out on pages 142 to 144 and on the Company's website (www.j-sainsbury.co.uk/investor-centre).

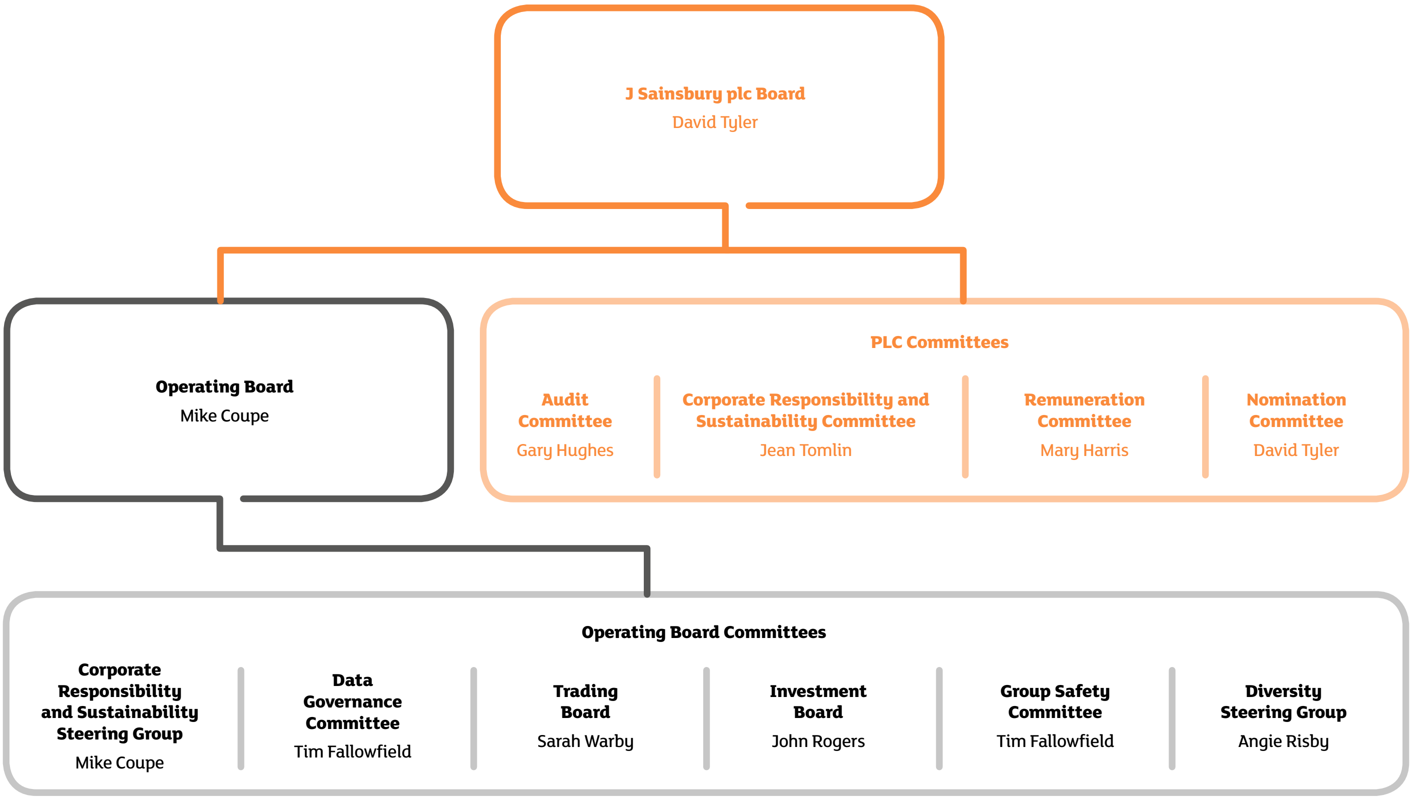
Board Committees

The Board has delegated certain responsibilities to the Operating Board and to the Audit, 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 Mike Coupe. The Operating Board held ten scheduled meetings during the year and each Director's responsibilities are set out on page 43. 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, the Diversity Steering Group and the Data Governance Committee, each of which has approved terms of reference setting out its areas of responsibility.



Nomination Committee

Dear Shareholder,

The Nomination Committee ensures that the Board has an effective balance of skills and experience around the Boardroom table. Succession and diversity at Board and senior management levels are key aspects of our agenda.

The Committee's priorities over recent years have been:

- to implement the succession plan 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 manage the appointment process for a new Non-Executive Director to replace Gary Hughes.

The Committee also oversees the Company's approach to resourcing the needs of the business, developing our colleagues and recruiting new talent.

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

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. Mike Coupe 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 extensive experience of consumer-facing businesses and other highly relevant skills derived from serving in a range of major executive and non-executive positions throughout their careers. Each of our Non-Executive Directors has been recruited following a robust selection process which has been facilitated by Egon Zehnder International, who provide search and recruitment services for the Company. Following the confirmation last year that Gary Hughes would step down at the 2015 AGM, the Nomination Committee instructed Egon Zehnder in connection with the recruitment of a new Non-Executive Director who would chair the Audit Committee from July 2015. The Committee considered both the balance of skills, experience and diversity on the Board, and the specific skills required of an audit committee chairman, in determining the types of candidate who might best fit the specification of this role. Following a thorough search process which involved meetings with the Chairman and other Directors, the Board was delighted to be able to appoint David Keens as a Non-Executive Director on 29 April 2015. David's deep financial experience and knowledge of the retail sector will be of great benefit to Board discussions.

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

Board tenure Non-Executive	Number	Percentage
1-2 years	2	29
3-4 years	1	14
4-5 years	1	14
6-7 years	1	14
8-9 years	1	14
9-10 years	1	14

The above table includes the Chairman. Tenure taken from first AGM appointment.

On an annual basis, the Committee reviews succession plans for the Operating Board, as well as Divisional Director development and talent management.

The Committee's terms of reference are available on the website at www.j-sainsbury.co.uk/investor-centre/corporate-governance and set out the Committee's responsibilities. The Committee meets on such occasions as are necessary and in 2014/15 held two formal meetings and a number of other updates, particularly relating to the search process for a new Non-Executive Director.

Diversity and inclusion

Our diversity and inclusion vision is to be 'the most inclusive retailer where people love to work and shop'. 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 Board Sponsors lead our diversity strategy: Roger Burnley (gender), Helen Buck (race and age), Tim Fallowfied (disability and carers) and Sarah Warby (lesbian, gay, bisexual and transgender). Our Board Sponsors, together with our Group HR Director, Angie Risley, form our Diversity Steering Group. The Group leads our strategy, meeting regularly to govern progress. They are also responsible for updating the Board and Operating Board. In addition, we have 160 Diversity Champions who support the agenda in every part of our organisation.

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 recommended that at least 25 per cent of Board members should be women by 2015. We have exceeded this target for some years and at year-end, women made up 33 per cent of our Board and 30 per cent of our Operating Board. This compares with an average of 23.5 per cent women on FTSE 100 boards. A number of our senior women also hold non-executive director positions in other organisations. Over the last 12 months more of our colleagues have signed up to the Inspiring the Future campaign, and we now have over 450 colleagues sharing their careers experience with schools and colleges.

	Colleagues	Male	Female
Board (at year-end)	9	6 (66%)	3 (33%)
Operating Board	10	7 (70%)	3 (30%)
Divisional Directors and Senior Managers	204	138 (68%)	66 (32%)
Company	160,917	71,711 (45%)	89,206 (55%)

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 manager grades by encouraging talented colleagues to progress within the business; for example, through our Inspiring Diverse Talent events and BAME colleagues participating both in Race for Opportunity's cross-organisational mentoring circles and our own internal mentoring networks.

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. In May 2014, all of our supermarkets held a focus day on disability, rolling out our new brand standards which will improve the service our disabled customers receive in store, and by October 2014 all supermarket stores were in receipt of our exclusively designed disabled child trolley. Our 'You Can' programme continues to be successful and has attracted over 24,000 people who have faced barriers into work.

We are one of few FTSE 100 companies with a carer's policy and have worked with Carers UK for 15 years. Last year, 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 also invested in licences of Carers UK's Jointly App for all our colleagues who are juggling work with caring responsibilities. We are proud to Chair the Retail Group of the Prime Minister's Dementia Challenge.

We are members of Stonewall's Diversity Champions programme. 2014 saw us launch our LGBTA (lesbian, gay, bisexual, transgender and allies) colleague network, with nominated co-chairs, and we held three successful networking events in the year. 2014 also saw our first official participation in a Pride event (Brighton Pride).

Corporate Responsibility and Sustainability Committee

Jean Tomlin
Chairman, Corporate Responsibility and Sustainability Committee

Dear Shareholder,

Throughout its 146-year history, Sainsbury's has looked to lead the way in corporate responsibility. Our values are embedded in our new strategy and are integral to our 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 of our corporate responsibility activities and the sustainability targets set out in our *20x20 Sustainability Plan*. Sainsbury's is proud to have a Board level corporate responsibility committee, which has been in place since 2007, overseeing our five corporate values: 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 we approach the half-way point of our *20x20 Sustainability Plan*, work is underway to review these commitments to ensure they remain aligned to our new strategy.

Since 2007, Sainsbury's has continued to innovate in the delivery of our corporate responsibility and sustainability activities. During 2014/15 our store in Cannock became the first retail outlet in the UK to be solely powered by food waste, coming off the National Grid. In another first for the business, our store in Portishead runs fridges powered by 'green' gas, created using waste from sugar beet suppliers.

Success in a number of industry benchmarks has added credibility to our wide range of corporate responsibility activities. During the year, Sainsbury's was the only UK company to be ranked as a Sustainability Leader in the 'Food and Staples Retailing' category of the Dow Jones Sustainability Index ('DJSI'). The DJSI is the leading global sustainability benchmark and Sainsbury's is one of the few companies that has been a member of the DJSI since its inception in 1999. This year we outperformed 92 per cent of our industry category and obtained the highest score for environmental performance worldwide. Sainsbury's also received our highest ever performance score in the Carbon Disclosure Project's ('CDP') annual survey. For the first time we were awarded a position in the CDP's Climate Performance Leadership Index for our actions to reduce carbon emissions and mitigate the business risks of climate change.

These achievements have been delivered by experts working throughout the business, supported by strong governance. The Committee is supported by a Corporate Responsibility and Sustainability Steering Group, chaired by Mike Coupe, as well as five Value Steering Groups, chaired by members of the Operating Board. These Value Steering Groups provide updates to the Committee at each of our meetings, with one value area providing an in-depth review of its activities. In the year, I have also hosted three events for external stakeholders covering pertinent topics within Sourcing with integrity, Respect for our environment and Making a positive difference to our community.

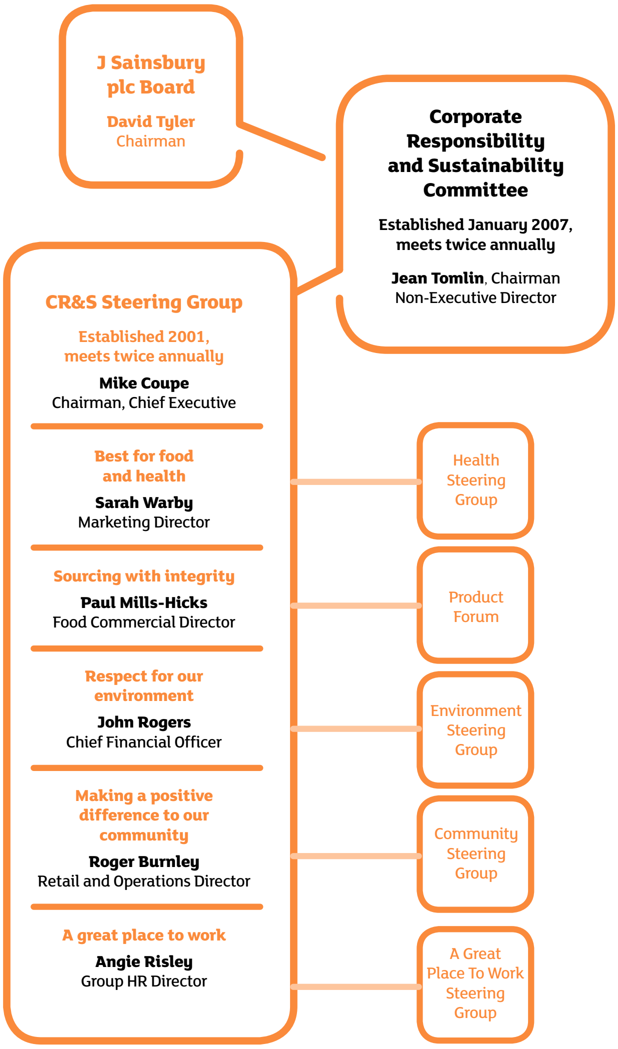
Further information about our approach can be found at www.j-sainsbury.co.uk/responsibility.

Jean Tomlin
Chairman, Corporate Responsibility and Sustainability Committee

Corporate Responsibility and Sustainability Committee

Our Corporate Responsibility and Sustainability Committee is chaired by Jean Tomlin, Mary Harris is a member of the Committee and during the year Mike Coupe replaced Justin King as a Committee member. David Tyler attends each meeting. It met twice during the year to oversee the governance of each of our five values as well as our *20x20 Sustainability Plan*.

These formal Committee meetings are supported by Corporate Responsibility and Sustainability ('CR&S') stakeholder meetings that are hosted by Jean Tomlin and Mike Coupe. Each meeting is based around one of our five values and key external stakeholders are invited to attend including representatives from Government, industry, non-governmental organisations and key suppliers to our business. During the year three such meetings were held, relating to the value areas of Sourcing with integrity, Respect for our environment and Making a positive difference to our community. Meetings for our Best for food and health and A great place to work value areas are already scheduled for the 2015/16 financial year.



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

This year's *20x20 Sustainability Plan* update will be published in December 2015.

Our *20x20 Sustainability Plan*

We have sought throughout our 146-year history to lead the way in corporate responsibility and sustainability. Examples of our contribution over the past decade include supporting British farming; transforming the market for fairly traded products and sustainable seafood; improving animal welfare; and championing food donation partnerships.

With our *20x20 Sustainability Plan*, we formalised our activities around our values in light of the new and changing issues which today's world faces.

In developing the plan, we undertook a detailed auditing and materiality process. Since its launch in 2011, we have continued to listen to our customers, suppliers and opinion formers to make sure we have the most relevant and effective agenda, leverage the knowledge and experience of experts and remain at the forefront of sustainability between now and 2020. The 2015/16 financial year marks the half-way point of our *20x20 Sustainability Plan* and we are currently reviewing our commitments to ensure they remain aligned with our new business strategy. With the clarity of purpose that the *20x20 Sustainability Plan* brings, we are focused on its delivery, while also ensuring we continue to look beyond 2020.

Further information about our approach can be found at www.j-sainsbury.co.uk/responsibility, with quarterly updates also given as part of our regular trading statements.

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 2005 baseline (and 65 per cent relative to our sales floor area). Information on our initiatives to reduce our GHG footprint can be found at www.j-sainsbury.co.uk/responsibility.

	GHG emissions (tCO_2e)		
Emission source	2012/13	2013/14*	2014/15
Combustion of fuel and operation of facilities ('Scope 1')	722,835	635,191	571,673
Electricity, heat, steam and cooling purchased for own use ('Scope 2')	771,380	737,075	794,429
Total	1,494,215	1,372,266	1,366,102
Intensity measurement (tCO_2e/'000 sq ft)	70.27	61.93	59.87

* The GHG emissions reported for 2013/14 differ from those reported in the 2014 Annual Report because they have been adjusted to correct for previously estimated data. Due to the short time between financial year-end and Annual Report publication, it was necessary to estimate some gas and electricity consumption data.

In 2014/15, our total emissions decreased by almost half a per cent. This was in part driven by installing natural refrigerant gases in 31 stores during the year.

Emissions from electricity use (Scope 2) reported for 2014/15 increased by nearly eight per cent, affected by a change in the National Grid average carbon conversion factor set by the Department for Environment, Food & Rural Affairs. However, in 2014/15 our electricity consumption actually reduced by three per cent year-on-year as a result of our investment in energy reduction initiatives, such as the installation of LED lighting. Overall, our energy reduction activities have decreased electricity use by nearly eight per cent since 2005/06 despite a 50 per cent increase in sales area.

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 decreased by three per cent in 2014/15 to just under 60 tCO_2e/'000 sq ft.

Methodology

We have reported for the 2014/15 financial year on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) 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 the Government's GHG Conversion Factors for Company Reporting 2014. 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 control 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 emission calculations could be subject to minor change.

Audit Committee

Gary Hughes
Chairman,
Audit Committee

Dear Shareholder,

As explained in last year's Audit Committee report, a key aspect of the Committee's work during the year was to oversee a formal and comprehensive tender process for the external auditor appointment.

In January 2015, following the completion of the tender process, the Board announced that it intended to recommend to shareholders, for approval at the 2015 AGM, the appointment of Ernst & Young as the Group's auditor for the 52 weeks ending 12 March 2016. The Group's current auditor, PricewaterhouseCoopers LLP ('PwC'), has continued in the role and has undertaken the audit of the Group's consolidated accounts for the 52 weeks ended 14 March 2015. On behalf of the Committee I would like to thank PwC, and specifically the Sainsbury's audit partners, for their significant contribution as the Group's auditor over many years. Going forward we expect an orderly transition and look forward to working with Ernst & Young into the future.

Our audit tender process is described in more detail in the following pages, together with the Committee's other principal activities during the year. In addition to our regular review of risk management and internal controls, we have continued to focus on data governance across the organisation, as a major breach of information security could have a material and significant impact on the business and its reputation. The Committee has received regular presentations on data governance from throughout the business, and will continue to do so.

We have also continued to monitor the transition, financial performance and governance of Sainsbury's Bank following the completion of our full acquisition of the Bank in January 2014. We receive updates at every meeting on the key agenda items discussed at the Bank's Audit Committee and Risk Committee and the Chairmen of both Committees, and the Bank's auditors, have attended meetings of the Committee during the year.

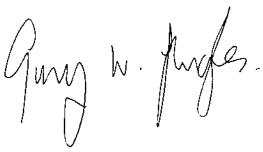
From an accounting and reporting perspective the significant issues considered in detail by the Committee are set out on page 55.

In December 2014, the FRC issued a press notice calling on boards of retailers, suppliers and other businesses to provide investors with sufficient information on their accounting policies, judgements and estimates arising from their complex supplier arrangements. The Committee continues to review detailed papers from management on the Group's supplier income policies, accounting and analysis of the quantitative impact, by supplier income type, on the Group's results, including the value and volume of transactions. In light of the guidance, we have included further disclosure on supplier income within our cost of sales accounting policies, judgements and estimates and significant reporting issues considered by the Committee. We are satisfied that the additional disclosures provide users of the accounts with enough clear and relevant information to be able to evaluate the impact supplier income has on the Company's performance and financial position.

The Committee has always ensured that the identification and management of all significant risks is embedded across all areas of the business, with continuous and effective oversight from the Operating Board. We are satisfied that the business has maintained robust risk management and internal controls, supported by strong overall governance processes, and that management continues to instil a strong risk management culture across the business.

The Company's principal risks and uncertainties are set out on pages 28 to 30. We have reviewed these in detail and are comfortable that the business has addressed them appropriately within its ongoing operating model and priorities.

This is my last report to shareholders as Audit Committee chairman, a role that I have held for ten years. I am pleased to be handing over to David Keens, and I am sure that his recent and relevant financial experience and his deep understanding of retail businesses will provide strong leadership of the Committee.



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. The Chairman, Mike Coupe, 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.

David Keens was appointed to the Board on 29 April 2015 as a Non-Executive Director. He will take over as Chairman of the Audit Committee when Gary Hughes steps down as a Director at the 2015 AGM.

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

Activities during the year

During the year, the Committee has considered a number of matters under the general headings below. 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 the progress of the external audit tender, supplier income accounting and proposed disclosure, provisions made by the Company, dilapidations of properties and land, impairments, 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 80.

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 Data governance and security 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 fees Internal Audit Half Year Plan
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 Sainsbury's Bank audit committee overview Sainsbury's Bank risk management report Non-audit services and fees
March	Accounting and tax update Litigation report Data governance update Internal controls framework and fraud update Internal Audit Plan Risk management update 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 Sainsbury's Bank audit committee overview

The Committee considered the key matters related to the progress of the Bank's transition following acquisition. To enable the Committee to receive 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, at every meeting. Representatives from the Bank Audit Committee and the Bank Risk Committee now attend meetings of the Committee at least twice a year.

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 change 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 has also continued to review data governance across the organisation and has received regular presentations and updates.

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 an element 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 key 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 process 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, highlighting areas where it has met the requirements of the Code. 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 and issues. Specific accounting papers have also been prepared when considered necessary.

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 to the financial statements, 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 impact of adapting to our changing customer needs and analysis of unprofitable and marginally profitable trading stores were identified as trigger events prior to the interim results reporting date. This resulted in the estimation of the recoverable amount of all impacted assets to determine the extent of any impairment loss. The Committee reviewed management's assessment of recoverable value and the assumptions and judgements made. As a result, a £628 million non-cash impairment and onerous contract charge has been recognised during the year to write down the value of certain store pipeline and trading store assets, as disclosed in note 3.
Pensions accounting	The Committee reviewed a summary of the key assumptions used in arriving at a valuation for the defined benefit pension scheme for both half-year and year-end reporting. The Committee reviewed the key assumptions driving the movement in the retirement benefit funded obligations including inflation, discount and mortality rates. The assumptions are also benchmarked to ensure they are reasonable.
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 remains consistent with the prior year and in the current year the Committee has been involved in assessing the appropriateness of including impairment, onerous lease and contract charges and restructuring within this disclosure, on the basis that they are one-off material items not relating to the Group's ongoing activities. Please refer to note 3 for further detail.
Sainsbury's Bank reporting	The Committee receives updates on the key agenda items discussed at the Bank's Audit Committee and Board Risk Committee including accounting judgements and estimates 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 Board Risk Committee attend meetings of the Committee at least twice a year. Representatives from the Internal Audit team attend as requested. During the year the accounting judgements and estimates reviewed by the Committee have included impairment assessments of the loans and advances due from Sainsbury's Bank customers, progress on the Bank transition, tax judgements and provisions.
Supplier income	Supplier income has historically been discussed and during the current year, the Committee reviewed the latest management supplier income paper. This summarised the types of supplier income, how each is accounted for, the key judgements and estimates involved in recognition and how these are managed by the business to ensure appropriate accounting can be applied. The majority of supplier income is calculated based on an agreed discount per individual unit sale, resulting in a mechanical process with no judgement and estimation.
Supplier income (continued)	Where consideration is required for the time period to recognise the supplier income over, or thresholds are required to be met in order to recognise the income, the judgement and estimation increases. The Committee reviewed management's paper and is comfortable with the controls in place to manage this judgement and estimation. As a result of the increased focus on supplier income, additional disclosures have been included in the cost of sales accounting policy and the judgements and estimates section of note 2 on page 94, including detailed explanations of the types of supplier income Sainsbury's receives. We reviewed the different and varied supplier income disclosures given by the other companies to date. We concluded not to disclose the quantum of supplier income within the Group income statement as this information is commercially sensitive. We concluded not to disclose the quantum of supplier income within the balance sheet as the amounts are considered to be not significant in the context of the balance sheet as a whole and give no further understanding or comparability to other companies for the reader of the financial statements.

The 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 performance and independence and the effectiveness of the overall audit process.

External Audit tender

Last year, we advised that PwC had been the Company's auditors since 1995. In line with the changes made to the Code in 2012, which recommended that the external audit is put out to tender at least every ten years, we advised that an external tender would commence after the AGM, for the 2015/16 audit. PwC were not invited to participate in the audit tender.

The tender process, initiated in July 2014, involved an audit tender team led by Gary Hughes, and comprising David Tyler (Chairman), John Rogers (Chief Financial Officer) and Ed Barker (Director of Group Finance), as well as support from representatives of the Finance, IT, Procurement, Legal and Corporate Secretarial teams. Three firms participated in the process which included an Expression of Interest, Request for Proposal (RFP) and a presentation followed by a questions and answers session. The firms were given the opportunity to meet with management across the business enabling a detailed proposal document to be prepared by each firm incorporating an audit and transition plan, team structure, approach to working with management, independence assessment and details of the firm's credentials, team experience and cost proposals.

Detailed evaluation criteria and a scoring matrix were used to assist the Committee in making its decision, which included input from all management meetings. Following the conclusion of the formal tender process in January, the Board announced its intention to recommend to shareholders, for approval at the 2015 AGM, the appointment of Ernst & Young LLP as the Group's auditor for the 52 weeks ending 12 March 2016.

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 2014/15 was audit related assurance services such as the interim review and the provision of accounting advice, which totalled £0.1 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 £1.0 million. The Committee remains satisfied with PwC's independence and their overall challenge to management. Ernst & Young have confirmed their independence in preparation for their appointment as Auditors following the 2015 AGM.

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 the Auditor 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 responsible 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 a majority of independent Non-Executive Directors.

The Bank will continue to provide to each Audit Committee an update on performance and the chairs of the Bank's Audit Committee and Risk Committee 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 Sainsbury's Bank equivalent 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 Chair 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. Two of these alleged breaches were referred to 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 below. 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

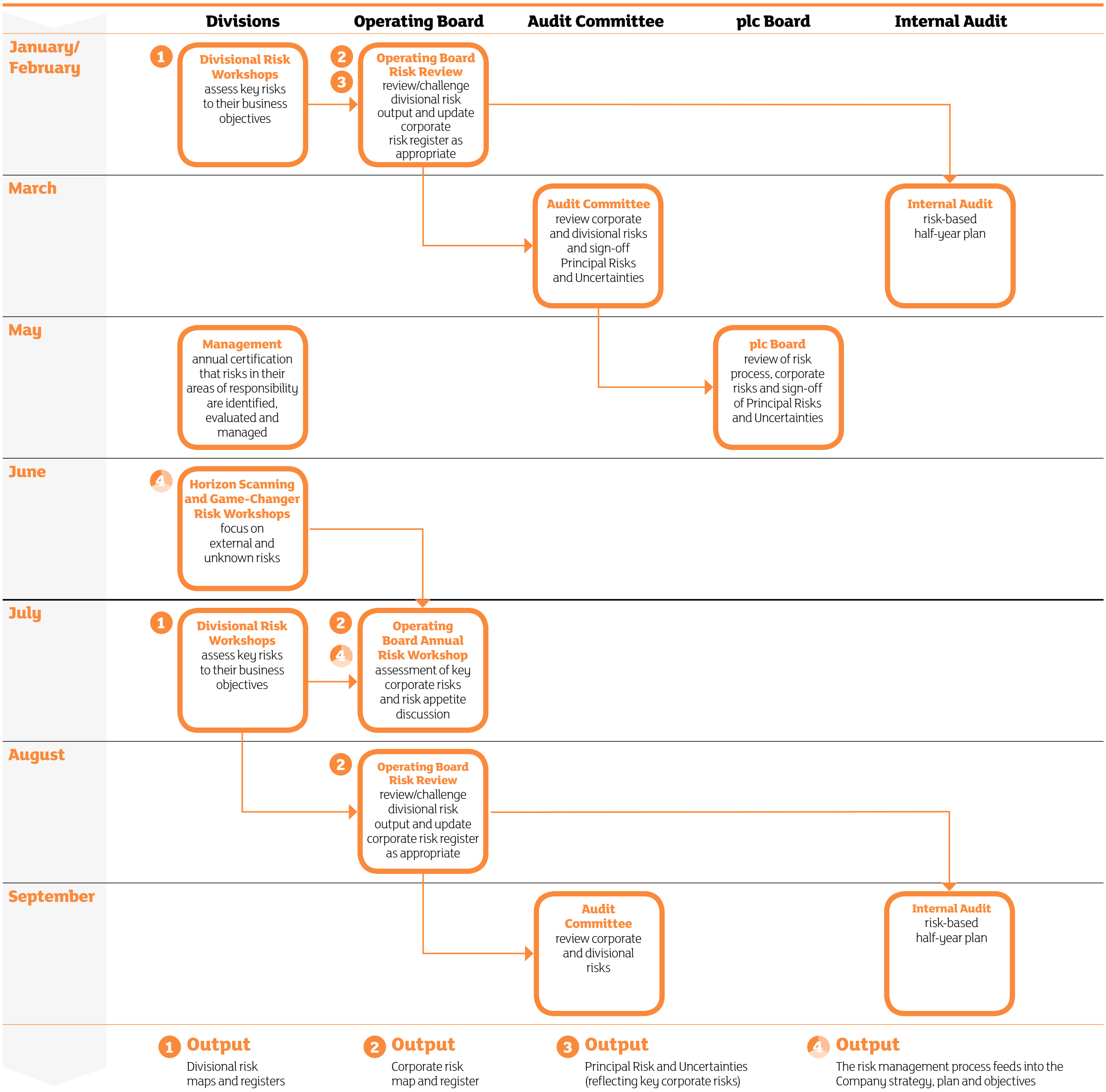
Accepting that risk is an inherent part of doing business, the risk management system is designed to identify key risks and to provide assurance that these risks are fully understood and managed. The effectiveness of the process is reviewed twice a year by the Audit Committee. The Board carries out an 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 pages 28 to 30).

Risk Management Process



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

Mary Harris
Chairman, Remuneration Committee

Dear Shareholder,

As the grocery retail sector continues to go through major structural change, it is vital that our remuneration policy reflects both the environment in which we are operating and the Company's updated strategy.

This has been a challenging year for the grocery retail sector. The heightened competitive environment, food price deflation and price investments have impacted our financial performance as well as the sector overall. Within this difficult context, we have outperformed our main supermarket peers in terms of profit and made good progress on our strategic goals.

Remuneration for 2014/15

Our Executive Directors have remained committed to the management of our business in the very difficult environment of the UK grocery retail industry. Despite these efforts, the level of payments from our incentive plans in 2014/15 reflect the financial outcomes during the year and the stretching targets we set.

As a result, pay for Executive Directors is significantly lower in 2014/15 than in 2013/14. This is predominantly as a result of no payments being made under either the annual bonus or Future Builder (our long-term incentive plan) which was due to vest in May 2015. However, given the progress made on our new strategy and key aspects of our relative performance, the Deferred Share Award ('DSA') outcome for the year was 52 per cent of the maximum (compared with 80 per cent last year).

Remuneration for 2015/16

The overall structure of the remuneration package will remain unchanged and we will, therefore, continue to operate within the policy approved by shareholders at the 2014 AGM. Salaries for the Executive Directors increased in March 2015 by 1.75 per cent, which is in line with the percentage salary increases for other central colleagues and below the three per cent for store colleagues awarded in September 2014. There are no changes proposed to the maximum opportunities under the incentive plans.

Future Builder – performance measures and targets for 2015 awards

In November 2014, we announced an updated strategy to navigate the challenging retail environment. Following this, the Committee undertook a review of our Future Builder plan to ensure alignment with our strategy.

During the year, we actively consulted with our top 15 shareholders and the main shareholder bodies regarding our long-term incentive arrangement. The Committee values the views of our shareholders, and I would like to take the opportunity to thank all those who took part in the consultation process.

Following the review, and consistent with the remuneration policy approved last year, the Committee approved changes to the performance conditions for the 2015 Future Builder. This award shall be based on four equally weighted financial metrics with target ranges that reflect the new challenging environment:

- Return on capital employed has been retained as a measure;
- Earnings per share has been introduced as a new measure;
- The cash flow measure has been expanded to take into account capital expenditure – this reflects the reduced capital expenditure targets in our strategy; and
- A strategic cost savings measure has been introduced, which explicitly focuses on the structural cost savings identified as one of our key strategic targets over the next few years.

The target ranges applying to each measure for awards to be made in 2015 are set out in the Annual Report on Remuneration. The Committee's approach was to set the top of the range at a level which far exceeds market expectations and could be expected in principle to result in a re-rating of the share price.

The Committee also wanted to ensure the targets are appropriately motivating to the broader management team, as circa 200 senior colleagues participate in this arrangement. We have an experienced management team with deep sector experience who will provide the necessary leadership and execution skills to succeed in this market and differentiate ourselves against our peers. It is critical this team value their incentives and view targets as both challenging and yet achievable in the current environment.

Recovery provisions – introduction of clawback

In line with best practice, the Committee has also taken the opportunity to strengthen the recovery provisions applicable to our incentive plans. The existing recovery provision that applies to the Future Builder will be extended to the Deferred Share Award. In addition, a clawback provision has been introduced for future incentive awards, which enables incentive payments to be reclaimed in certain scenarios.

Looking ahead to 2016

The Long-Term Incentive Plan, under which the Future Builder awards are currently granted, was approved by shareholders in 2006 and will expire in July 2016. During 2015/16, the Committee will give further consideration to how any replacement plan should be structured with a view to presenting this to shareholders for approval at next year's AGM. We will look to appropriately consult with shareholders regarding any new arrangements later in the year.

Structure of report and AGM

Following this letter, we have included a two-page executive summary, which details pay and performance for 2014/15 and an overview of how remuneration arrangements will be operated for 2015/16. We hope this section provides shareholders with a useful overview of the key features of our remuneration arrangements. This is followed by the Annual Report on Remuneration. For ease of reference, at the back of this report we have also included the policy tables which formed part of the Directors' Remuneration Policy approved by shareholders at the 2014 AGM. The full policy can be found in our 2014 Annual Report on our website at: http://www.j-sainsbury.co.uk/investor-centre/reports/.

In line with the regulations, this Directors' Remuneration Report, excluding the Directors' Remuneration Policy, will be put to an advisory vote at the AGM on 8 July 2015.

You can see from this report that the Remuneration Committee remains committed to being focused on pay for performance and aligning rewards of the senior leadership team with the experience of long-term shareholders, while staying true to our Company values. We look forward to receiving your support for this report at the AGM.

Mary Harris
Chairman, Remuneration Committee

Summary of remuneration for 2014/15 – alignment between performance and pay

How did we perform in 2014/15?

Full details of our performance against our strategic and financial key performance indicators are set out on pages 24 to 27.

The impact on our performance-related pay is set out below.

		2014/15 payout	2013/14 payout
Annual bonus	— Profit and sales targets not met	0% of max	60% of max
Deferred Share Award	— Targets partially met — Strong relative performance against listed peers — New strategy launched and progressed — Many elements of financial performance and returns to shareholders below targeted levels	52% of max	80% of max
LTIP/Future Builder	— Within performance vesting range — But earnings underpin not achieved	0% of max	40% of max

How much were Executive Directors paid in 2014/15?

		Mike Coupe £000		John Rogers £000	
		2014/15[1]	2013/14	**2014/15**	2013/14
Fixed pay	Salary	**801**	587	**600**	520
	Benefits	**17**	18	**17**	18
	Pension	**231**	147	**150**	112
Performance-related pay	Annual bonus	**–**	318	**–**	282
	Deferred Share Award	**458**	423	**281**	374
	LTIP/Future Builder	**–**	495	**–**	390
Total pay		**1,507**	1,988	**1,048**	1,696

1 Mike was appointed Chief Executive on 9 July 2014 on a base salary of £900,000; previously he was the Group Commercial Director. The 2014/15 figures relate to the whole of the 2014/15 financial year.

Summary of remuneration for 2015/16 – focused on pay for performance

How will pay be structured in 2015/16?

Pay element	Summary of policy	Approach for 2015/16
Salary **Increase in line with colleagues**	Salaries are set taking into consideration a range of internal and external factors. Increases are normally in line with those for the wider workforce.	The Executive Directors received a salary increase of 1.75 per cent in March 2015 in line with other central colleagues. The 2015/16 salaries are: — Mike Coupe – £915,750 — John Rogers – £610,500
Benefits	Range of benefits provided in line with market practice and reflecting individual circumstances.	No changes to current arrangements.
Pension	Participation in either the Company defined contribution plan and/or a cash salary supplement. The maximum value is 30 per cent of salary.	No changes to salary supplement in lieu of pension for Mike Coupe (30 per cent of salary) and John Rogers (25 per cent of salary).
Annual bonus **No change to quantum and general structure**	Based on key financial, operational and individual objectives measured over one year, with bonus payable in cash after the year-end. Maximum opportunity of up to 125 per cent of salary per annum.	Performance is based on profit, sales, customer and personal performance. Profit will account for at least half of the bonus. A profit gateway needs to be achieved before any bonus is payable. The maximum bonus for 2015/16 is: — Mike Coupe – 110 per cent of salary — John Rogers – 90 per cent of salary
Deferred Share Award **No change to quantum and general structure**	Recognises and rewards for delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth. Performance measured over one year, after which award made as conditional shares deferred for two financial years. Maximum opportunity of up to 125 per cent of salary per annum.	Performance over the financial year is based on financial performance, returns to shareholders, relative performance against peers and strategic goals. Financial performance and returns to shareholders account for over half of the DSA. A profit gateway needs to be achieved before any award is made. The maximum award for 2015/16 is: — Mike Coupe – 110 per cent of salary — John Rogers – 90 per cent of salary
LTIP/Future Builder **No change to quantum** **Performance measures aligned to strategic priorities**	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Awards of conditional share awards 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. 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 are structured as core awards, with a performance multiplier of up to four times. The 2015/16 awards are: — Mike Coupe – core award of 62.5 per cent of salary (max 250 per cent) — John Rogers – core award of 50 per cent of salary (max 200 per cent)

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
Return on capital employed	25%	9.0%	12.0%
Underlying basic earnings per share	25%	23.0p	30.0p
Cumulative underlying cash flow from retail operations after capex	25%	£3,500m	£5,150m
Cumulative strategic cost savings	25%	£450m	£600m

Performance gateway: The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting.

Shareholding guidelines	The Executive Directors are required to build a shareholding (Mike Coupe 2.5 x salary and John Rogers 1.5 x salary), within five years of appointment.
Recovery provisions	The Committee has reviewed the recovery provisions applicable to incentive plans for Executive Directors and has strengthened the existing terms by expanding the current provision to the Deferred Share Award and introducing a new clawback provision for incentives operated in the future.

Annual Report on Remuneration

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:

Linked to business strategy	Supports Sainsbury's values	Drives long-term growth	Secures high calibre leaders	Encourages share ownership
Specifically built around our updated strategy	Aligned to the Company's values as outlined in our *20x20 Sustainability Plan*	Encourages the right behaviours to deliver long-term growth	Recruit and retain high calibre leaders who can deliver operational excellence	Enables executives to become shareholders in the Company

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 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 remuneration arrangements, the Committee considers pay practices across the Company and the retail sector more generally, the impact on colleagues, the cost to the Company, stakeholder views (including shareholders, governance bodies and colleagues) and best practice.

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 14 March 2015, together with comparative figures for the 52 weeks to 15 March 2014.

		Mike Coupe[5] £000		John Rogers[5] £000		Justin King[5,6] £000	
	Notes	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
Base salary		**801**	587	**600**	520	**306**	960
Benefits	1	**17**	18	**17**	18	**7**	31
Pension		**231**	147	**150**	112	**92**	288
Total fixed pay		**1,049**	752	**767**	650	**405**	1,279
Annual bonus	2	**–**	318	**–**	282	**–**	781
Deferred Share Award	3	**458**	423	**281**	374	**–**	960
Long-Term Incentive Plan	4	**–**	495	**–**	390	**–**	886
Total		**1,507**	1,988	**1,048**	1,696	**405**	3,906

1 Benefits include a combination of cash and non-cash benefits, valued at the taxable value. For Mike Coupe and John Rogers this includes a cash car allowance (£15,250) and private medical cover. Also included is a value for Sharesave options based on a 20 per cent discount on the savings in the year. Justin King's benefits include the provision of a company car and private medical cover.
2 Annual bonus relates to performance during the financial year, paid in May following the relevant year-end. Justin King was not eligible for an annual bonus in relation to 2014/15.
3 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. Justin King was not eligible for a Deferred Share Award in relation to 2014/15.
4 The Long-Term Incentive Plan value relates to the Future 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 2013/14 awards are based on the share price on the initial vesting date of 15 May 2014 (£3.3278).
5 The Executive Directors are entitled to retain the fees earned from non-executive appointments outside the Company. Mike Coupe was appointed a Non-Executive Director of Greene King plc on 26 July 2011 and received £44,269 (2013/14: £43,762) for his services during 2014/15. John Rogers was appointed a Non-Executive Director of Travis Perkins plc on 1 November 2014 and received £23,192 for his services during the year. Justin King was appointed a Non-Executive Director of Staples, Inc. on 17 September 2007. He received US$23,901 for his services during 2014/15 while he was an Executive Director (2013/14: $75,000). During the relevant period no restricted Staples stock was released to Justin King (2013/14: 13,715) and no share awards were made (2013/14: 15,412 restricted shares awarded).
6 The figures for Justin King relate to the period to 9 July 2014 when he stepped down from the Board.

The following sections provide details for each element of the package during 2014/15 as well as details of the Committee's intended approach in respect of 2015/16.

Base salary

	Salary effective from 16 March 2014	Salary effective from 15 March 2015
Mike Coupe	£900,000[1]	£915,750
John Rogers	£600,000	£610,500

1 Effective 9 July 2014 on appointment as Chief Executive. His salary prior to appointment as Chief Executive was £587,000.

In line with our Remuneration 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 2015 was generally 1.75 per cent and for hourly-paid retail colleagues in September 2014 was three 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. The Committee agreed a 1.75 per cent increase for both Mike Coupe and John Rogers in March 2015.

Pension

In lieu of pension plan participation, Mike Coupe receives a cash pension supplement of 30 per cent of salary and John Rogers 25 per cent of salary. Neither Director has any entitlement to a defined benefit pension.

Benefits

For 2014/15 and 2015/16, 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.

In November 2014, we announced our new strategy in response to the major structural change taking place in the UK grocery market. The table below outlines each of the performance measures to be used in our 2015/16 performance-related pay arrangements and how they support our business strategy.

	What the business is focused on		
	Core focus: Great products and services at fair prices There for our customers Colleagues making the difference	We know our customers better than anyone else	Our values make us different
Annual bonus			
Profit	✓		
Sales	✓	✓	✓
Customer	✓	✓	✓
Individual performance	✓	✓	✓
DSA			
Financial performance	✓		
Returns to shareholders	✓		
Relative performance	✓	✓	
Strategic goals	✓	✓	✓
Future Builder			
ROCE	✓		
EPS	✓		
Cash flow	✓		
Strategic cost savings	✓		

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 2014/15 and 2015/16 awards has not been provided. However, in the following sections and consistent with the approach taken in last year's Annual Report on Remuneration, the Committee has looked to provide expanded disclosure where possible so that shareholders can understand the basis for payments.

Annual bonus

2015/16 policy

All bonus plans across the Company are aligned under a set of common principles. The Board and senior management plans are based on profit, sales, a customer-focused measure and personal 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 2015/16, the targets have been set such that stretching performance in excess of internal and external forecasts is required for maximum payout. The customer-focused measure for 2015/16 is based on customer service (relating to how well the store support centres support customers and stores).

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 is unchanged from 2014/15, and for the Chief Executive is 110 per cent of base salary and for the Chief Financial Officer is 90 per cent of base salary.

2014/15 annual bonus payment (audited information)

The performance measures for 2014/15 were the same as outlined above for 2015/16, apart from the customer-focused measure which was based on product availability and customer service measures. The Committee considers that the detail of targets applying to the annual bonus for 2014/15 continues 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
Above target			•
Target			
Threshold			
Below threshold	•	•	

The Committee assessed performance against the targets following the end of the financial year. The continuing structural change to the grocery retail market, the heightened competitive environment, food price deflation and price investments have had a significant impact on the profitability of the sector and on our financial performance. The absolute financial targets were set at the start of the year, when there was considerable uncertainty regarding market conditions, and ultimately the profit and sales outcomes for 2014/15 were below the stretching thresholds set, despite outperforming our main supermarket peers in terms of profit. As the threshold level of the financial metrics were not achieved, the Committee determined that no bonus would be paid to the Executive Directors for 2014/15.

While no bonus is payable for the senior team, other colleagues outperformed some of their performance targets. Therefore, colleagues and managers will share in a bonus pool of over £50m. This amount is lower than in previous years, but recognises the performance of our colleagues.

Deferred Share Award

2015/16 policy

The Deferred Share Award 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 the top 40 senior leaders 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 2015/16 are set out below.

Financial performance	*Profit, earnings per share, sales*
Returns to shareholders	*Total shareholder return, dividend yield*
Relative performance against peers	*Market share, industry profit pool*
Strategic goals	*Updated strategy objectives*

As outlined in our Remuneration Policy, 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 a profit gateway target 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 Chief Executive is 110 per cent of base salary and for the Chief Financial Officer 90 per cent of base salary.

2014/15 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.

In the context of the major structural change taking place in the market, the Company performed well against its main supermarket peers and delivered strongly against key strategic objectives during the highly competitive and challenging 2014/15 financial year. However, many elements of financial performance and returns to shareholders were below targeted levels. The profit gateway, which was set to reflect economic conditions, was met.

Given the performance and progress during the year, the Committee agreed that for 2014/15 awards would be made at 52 per cent of the maximum level (see table below), compared with 80 per cent last year. These are the figures set out in the DSA row of the single total figure table. The share award is made in May 2015 and the shares vest in March 2017 subject to continued employment.

	Deferred Share Award for 2014/15			
	Value £000	Per cent of salary	Per cent of maximum	Maximum per cent of salary
Mike Coupe[1]	458	57%	52%	110%
John Rogers	281	47%	52%	90%

1 The Deferred Share Award is based on Mike Coupe's average salary for 2014/15.

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

2014/15 Deferred Share Award performance

Financial performance

A tough trading environment…

- Underlying PBT of £681 million, a decline of 14.7 per cent
- Underlying retail operating margin of 3.07 per cent, a decline of 58 basis points
- Net debt reduced to £2.34 billion

Returns to shareholders

Resulting in lower returns to shareholders…

- ROCE 9.7 per cent
- Underlying basic EPS of 26.4 pence
- Proposed full-year dividend 13.2 pence, with dividend cover 2.0x underlying earnings

Relative performance against peers

But a strong relative profit performance…

- Our profit has outperformed our main supermarket peers
- We have never been more competitive on price than we are today

Strategic goals

New strategy

- After Mike took over as CEO, Sainsbury's undertook a thorough review of the market, the business and our customers' rapidly changing lives
- Announced in November, our updated strategy builds on our strong foundations as a business that has been successful for 146 years, our brand heritage, our great quality and our fair prices
- It remains focused on helping our customers *Live Well For Less*. Our values and our vision, to be the most trusted retailer where people love to work and shop, remain unchanged

Great products and services at fair prices

- We are improving the quality of 3,000 own-brand products, investing in the products that matter most to customers
- Since November we have lowered the price of over 1,100 products
- Our clothing, general merchandising and financial services businesses are profitable, well-established and continue to show excellent growth and strong potential
- Sainsbury's Bank's operating profit has increased by 17 per cent to £62 million

There for our customers

- Convenience sales grew at over 16 per cent, and now contribute sales of over £2.1 billion
- We opened 98 convenience stores in the year, reaching a total of 707 stores
- Groceries online delivered sales growth of over seven per cent. On average we now deliver nearly 215,000 orders per week, up 13 per cent
- Our joint venture trial to bring Netto back to the UK continues and there are now five stores open

Colleagues making a difference

- Our customer service and availability measures are at an all-time high
- Since we opened our new training college in Brixton we have run 360 courses in management skills, coaching and operations
- We have invested in the right tools for the job to help colleagues work effectively together wherever they are located in our business

We know our customers better than anyone else

- Our new Trolley Talk initiative, launched in September, enables us to reach around 4,000 people online every week
- With Nectar and coupon-at-till technology, we are able to reward, in a targeted way, those who shop with us
- Over time we are investing in ways to give customers a smoother shopping experience and engaging with the new technology of shopping formats such as mobile scan & go

Our values make us different

- This year with help from our customers, colleagues and suppliers we raised £52 million for charitable causes, including over £11.5 million for Red Nose Day 2015 and around £7 million in support of The Royal British Legion
- Our dedicated Dairy Development Group protects members through a Cost of Production model that ensures they are paid a fair price
- Our Cannock store became the first retail outlet in the UK to be powered by food waste alone

Long-term incentives

2015/16 policy

The long-term incentive vehicle in use at Sainsbury's is known as Future Builder. 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 200 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 Annual Statement from the Remuneration Committee Chairman, during the year the Committee reviewed the Future Builder performance measures and targets in the context of market expectations over the next three years, and to ensure they were aligned to the updated business plan. After consulting with shareholders, and within the scope of the approved remuneration policy, the Committee agreed the following performance measures, targets and weightings for the 2015 awards:

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
Return on capital employed ('ROCE')	25%	9.0%	12.0%
Underlying basic earnings per share ('EPS')	25%	23.0p	30.0p
Cumulative underlying cash flow from retail operations after capex ('cash flow')	25%	£3,500m	£5,150m
Cumulative strategic cost savings ('cost savings')	25%	£450m	£600m

In addition, a performance gateway must be achieved before any element 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.

In 2015 Mike Coupe will receive a core award of 62.5 per cent of salary (maximum 250 per cent of salary) and John Rogers will receive a core award of 50 per cent of salary (maximum 200 per cent of salary).

Future Builder performance measures

ROCE

- ROCE reflects the returns generated for shareholders and measures the efficiency of capital use.
- It is based on the underlying profit before interest and tax 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 IAS 19 pension deficit.

EPS

- EPS directly reflects returns generated for shareholders.
- Underlying basic EPS is based on underlying profit after tax divided by the weighted average number of ordinary shares in issue during the year.

Cash flow

- Cash flow measures the total flow of cash in and out of the business as well as providing an assessment of underlying profitability. The expanded cash flow measure for 2015 awards takes into account the reduced capital expenditure targets in our strategy.
- Cumulative underlying cash flow from retail operations after capital expenditure is based on the reported cash flow generated from core retail operations over the performance period after adding back net rent, cash pension costs and deducting core capital expenditure. Only core retail operations are included in recognition of the differences in cash generation between the retail business and Sainsbury's Bank.

Cost savings

- Cost saving is one of our key strategic targets and the level of savings targeted will require structural changes. This is a key long-term measure which is fundamental to delivering returns to shareholders.
- Cumulative strategic cost savings represents cost reductions over the performance period as a result of identified initiatives. It excludes Sainsbury's Bank.

2015 vesting (audited information)

The 2012 Future Builder award was subject to ROCE, cash flow and relative sales performance targets. In addition, the award was also subject to an EPS performance gateway which required EPS growth of at least four per cent per annum (further details are set out in the footnotes to the table on page 71). The EPS gateway applicable to the 2012 awards was not achieved and therefore no awards will vest under this plan in May 2015, despite the Company's performance being within the vesting range for the performance conditions.

Recovery provisions

The approved remuneration policy contains a recovery provision in relation to Future Builder awards. In cases of material mis-statement of financial results, serious reputational damage, serious misconduct and fraud, the Committee may reduce the number of shares under an unvested award, cancel an unvested award in full or impose further conditions on an unvested award. This provision will now be extended to the Deferred Share Award from 2015/16.

In addition, the Committee has further strengthened the recovery provisions applicable to future awards. For future awards, a clawback provision will be introduced in relation to all incentive plans. In the circumstances listed above, the Committee may require an Executive Director to make a repayment in relation to bonus payments or share awards received within two years of the end of the relevant performance period. This provision will apply to the cash bonus and DSA for 2015/16 and to the Future Builder award granted in 2015.

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
Mike Coupe	Future Builder[1,2]	250% of salary	£2,002,782	25% of each element	599,740	11/03/2017
	DSA[3]	72% of salary	£422,640	N/A	126,561	N/A
John Rogers	Future Builder[1]	200% of salary	£1,200,000	25% of each element	359,344	11/03/2017
	DSA[3]	72% of salary	£374,400	N/A	112,115	N/A
Former Director:						
Justin King	DSA[3]	100% of salary	£960,000	N/A	287,476	N/A

1 The performance conditions applying to 2014 Future Builder awards were set out in last year's Annual Report on Remuneration. The awards are based on ROCE – 50% (threshold – 10.75%; maximum – 12%), cumulative cash flow from retail operations – 30% (threshold – £5,750m; maximum – £6,750m) and relative sales against the IGD index – 20% (threshold – match index; maximum – index + 1% pa). For threshold performance, up to 25% of the element may vest. In addition, a performance gateway must be achieved, whereby the Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting. The basis of award shows the maximum value, being four times the core award. The award was made on 15 May 2014 and the number of shares has been calculated using the five-day average share price prior to grant (8 to 14 May 2014) of £3.3394. Subject to performance, 50 per cent of the award vests on 11 May 2017 and 50 per cent 12 months later. The award is structured as a nil-cost option with a two-year exercise period.

2 Mike Coupe received his Future Builder awards in 2014 in two parts – an award on 15 May 2014 relating to his role as Group Commercial Director and an additional award on 10 July 2014 following his appointment as Chief Executive. The overall award of 250 per cent is based on his average salary for the 2014/15 financial year. The performance conditions, share price to calculate the number of shares and vesting dates are the same for both awards.

3 The DSA was made on 15 May 2014 based on performance over the 2013/14 financial year. The award was made at 80 per cent of the maximum level (maximum of 90 per cent of salary for Mike Coupe and John Rogers and 125 per cent of salary for Justin King). The number of shares has been calculated using the five-day average share price prior to grant (8 to 14 May 2014) of £3.3394. No further performance conditions apply. Awards become exercisable on 18 March 2016. 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 ('Sharesave') 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. Mike Coupe participates in Sharesave and John Rogers currently participates in both plans. 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 2009 Sharesave plan (five-year), with a £2.73 option price, and the 2011 Sharesave plan (three-year), with a £2.38 option price, came to an end on 1 March 2015 for around 13,000 colleagues. Colleagues could either take their savings and any tax-free bonus or use the money to buy Sainsbury's shares at the 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 £29 million. The Company currently has over 31,000 colleagues participating in Sharesave with around 62,000 individual savings contracts.

Dilution

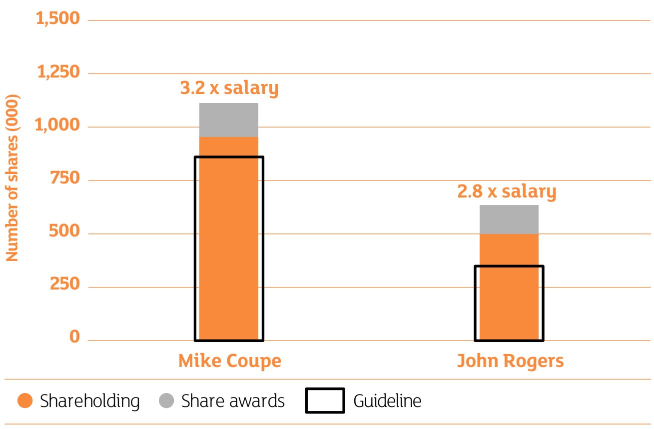
The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines so that dilution from employee share awards does not exceed ten per cent of the Company's issued share capital for all-employee share plans and five per cent in respect of executive share plans in any ten-year rolling period. The Company monitors dilution levels on a regular basis and the Committee reviews these at least once a year. Up to 14 March 2015, an estimated 9.0 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 4.1 per cent over ten years in respect of its executive share plans. This is on the basis that all outstanding awards vest in full.

Shareholding guidelines (audited information)

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 the Chief Financial Officer 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).

Both Executive Directors have shareholdings that meet and significantly exceed the current shareholding guideline.

Shareholding guidelines



Notes

Shareholding calculated using (i) salaries as at 14 March 2015, (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 14 March 2015 and (iii) the closing mid-market share price on 13 March 2015 of £2.5910.

Executive Directors' shareholdings and share interests (audited information)

The table below sets out details of the Executive Directors' shareholdings and a summary of their outstanding share awards at the end of the 2014/15 financial year. Further details of the movements of the Executive Directors' share awards during the year are set out on page 71.

	Ordinary shares[1]			Scheme interests[3]			
	15 March 2014	14 March 2015	5 May 2015[2]	Deferred Share Awards[4]	Value Builder awards with performance period completed[5]	Future Builder awards with performance period outstanding[6]	SAYE
Mike Coupe	801,949	960,487	960,487	238,509	63,730	1,276,712	4,518
John Rogers	376,644	501,351	501,437	211,408	50,194	959,452	6,302
Former Director:							
Justin King	1,282,115	1,438,835[7]	N/A	541,659	114,150	1,217,592	0

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 14 March 2015 and 5 May 2015.
3 Deferred Share Awards and Value/Future Builder awards are structured as nil-cost options.
4 Relates to 2012/13 and 2013/14 Deferred Share Awards.
5 Relates to 2011 Value Builder awards that have met the performance test but have not yet vested.
6 Relates to 2012, 2013 and 2014 Future Builder awards (maximum) where the performance period has not ended. The 2012 award has subsequently lapsed after the end of the financial year.
7 As at date of cessation of employment.

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 6.0 million shares (2014: 2.1 million) held by the Trustees.

Departure terms of Justin King

Justin King stepped down from the Board at the AGM on 9 July 2014. Full details of his departure terms were set out in the January 2014 announcement of his departure and in last year's Annual Report on Remuneration. His contract provided for a cash severance payment potentially worth up to 175 per cent of his base salary at departure. However, he offered to waive this cash entitlement. The Remuneration Committee determined the following treatment:

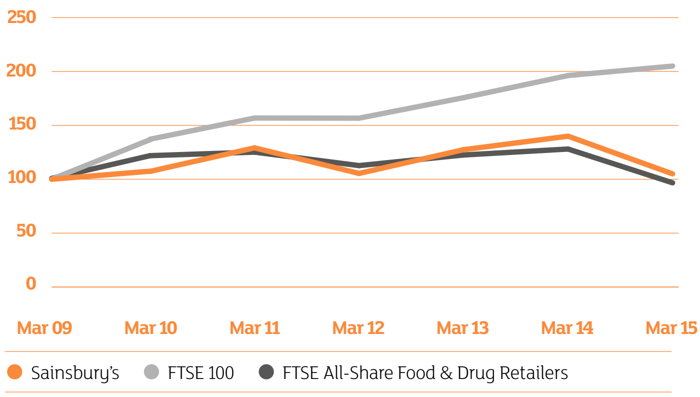
- There were no payments in lieu of notice;
- He received no annual bonus, Deferred Share Award or Future Builder for 2014/15;
- There was no acceleration of vesting for any share awards;
- The 2012/13 and 2013/14 Deferred Share Awards subsist in full until the end of the normal deferral period; and
- The 2011 Value Builder and 2012 and 2013 Future Builder awards subsist in full until the end of the normal vesting period, subject to performance (i.e. at a vesting level consistent with other colleagues). As noted above, the 2012 Future Builder award lapsed in full after the year-end.

Justin subsequently ceased to be an employee on 2 August 2014. He earned £125,000 (including salary, pension and benefits) in the year after he ceased to be a Director at the AGM.

Performance graph and remuneration table

The graph shows the TSR performance of an investment of £100 in J Sainsbury plc shares over the last six 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 graph also includes the FTSE All-Share Food & Drug Retailers Index. The Company is a constituent of both indices. The following table details the total remuneration for the Chief Executive over this period.

TSR performance since March 2009



	Chief Executive's total remuneration in last six financial years						
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15[1]	
						Justin King	Mike Coupe
Single figure remuneration £000	4,441	4,380	3,471	4,366	3,906	405	1,507
Bonus/DSA award as a percentage of maximum	92%	65%	61%	84%	73%	0%	26%
LTIP vesting percentage of maximum	80%	48%	43%	44%	40%	0%	0%

1 Justin King's figures relate to the time he was Chief Executive during 2014/15. Consistent with the single figure table, the figures for Mike Coupe relate to the whole of 2014/15; he was Chief Executive from 9 July 2014.

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 2013/14 and 2014/15 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]	N/A	-5.6%	-100%
All colleagues[2]	3.4%	11.3%	-33.8%

1 Mike Coupe's salary was adjusted on appointment as Chief Executive; he did not receive any other salary change during the year. The benefit and bonus figures relate to the whole year. 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).

Colleague pay			Distribution to shareholders		
2013/14 £m	2014/15 £m	% change	2013/14 £m	2014/15 £m	% change
2,435	2,445	0.4%	320	330	3.1%

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 14 March 2015 for each Non-Executive Director, together with comparative figures for the 52 weeks to 15 March 2014.

	2014/15			2013/14		
	Fees[1] £000	Benefits[2] £000	Total £000	Fees[1] £000	Benefits[2] £000	Total £000
David Tyler	490	1	491	480	1	481
Matt Brittin	62	–	62	61	–	61
Mary Harris	80	4	84	77	5	82
Gary Hughes	80	12	92	77	12	89
John McAdam	80	–	80	77	–	77
Susan Rice	62	8	70	49	5	54
Jean Tomlin	75	–	75	74	–	74

1 Paid in relation to the year.
2 David Tyler received a non-cash benefit of private medical cover. The benefits for the other Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office.

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 47.

During the year, the Chairman and Non-Executive Directors' fees were reviewed but no changes were made.

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

The beneficial interest of the Non-Executive Directors, in post at the year-end, and their families in the shares of the Company are shown below.

	Ordinary shares[1]		
	15 March 2014	14 March 2015	5 May 2015
David Tyler	50,000	50,000	50,000
Matt Brittin	1,000	1,000	1,000
Mary Harris	12,123	12,848	12,848
Gary Hughes	33,032	35,006	35,006
John McAdam	1,000	1,000	1,000
Susan Rice	1,000	1,000	1,000
Jean Tomlin	1,315	1,315	1,315

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

Dates of Directors' service contracts and letters of appointment

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, Executive Directors and Operating Board Directors;
- 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).

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. David Tyler, Mike Coupe, Angie Risley (Group HR Director), Lorna Godman (Head of Reward) and Ed Barker (Director of Group Finance), are invited to attend Committee meetings. John Rogers has 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 are not present when their own remuneration is being determined.

Principal activities and matters addressed during 2014/15
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. The key issues the Committee discussed during the year were the incentive arrangements and the targets applying to the 2015 Future Builder awards.

	Standard agenda items
September	— Performance update on outstanding incentive awards — Review of incentive arrangements — Review of dilution under Company share plans — Corporate governance and market update — Review of the Chairman's fee
January	— 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
March	— Review of incentive arrangements for the next financial year — Executive Directors' salary review decisions — Performance update on outstanding incentive awards — Review of advisers and their independence
April	— 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'). Deloitte were reappointed by the Committee as advisers in 2013 following a competitive tender. During the year they provided advice to the Committee on a range of topics including remuneration trends, corporate governance, incentive plan design and consulting with shareholders. Their consultants attended all of the Committee meetings. In relation to their advice, Deloitte received fees of circa £170,000 (fees are based on hours spent). During the year, Deloitte provided the Company with unrelated advice and consultancy regarding information technology, organisational structure, data analytics, taxation and matters relating to Sainsbury's Bank.

Towers Watson provided comparative data, which was considered by the Committee in setting remuneration levels, for which they received fees of circa £25,000. Towers Watson also provided comparative data to Sainsbury's Bank and other services to the Company relating to pensions and employee engagement.

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 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.

Statement of voting at general meeting

The table below sets out the votes on the Directors' Remuneration Report at the 2014 AGM. 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
Remuneration Report	99.48% 1,203 million	0.52% 6.3 million	3.7 million
Remuneration Policy	99.15% 1,154 million	0.85% 9.8 million	49.8 million

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 2014	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 as at 15 March 2015
Mike Coupe	Long-Term Incentive Plan 2006[1]	21.06.10	329	Nil	68,908	14,947[5]	83,855	–	16.05.14	348	83,855	292	–
		19.05.11	343	Nil	318,648[4]	10,622[6]	74,352	191,189[6]	16.05.14	348	74,352	259	63,730
		17.05.12	295	Nil	370,988[4]	–	–	–	–	–	–	–	370,988[4]
		16.05.13	375	Nil	305,984[4]	–	–	–	–	–	–	–	305,984[4]
		15.05.14[9]	333	Nil	–	599,740[4]	–	–	–	–	–	–	599,740[4]
	Deferred Share Award[2]	17.05.12	295	Nil	127,953	13,505[7]	141,458	–	08.05.14	331	141,458	469	–
		16.05.13	375	Nil	111,948	–	–	–	–	–	–	–	111,948
		15.05.14	333	Nil	–	126,561	–	–	–	–	–	–	126,561
	Sharesave[3]	11.12.13	388	332	4,518	–	–	–	–	–	–	–	4,518
Total					**1,308,947**	**765,375**	**299,665**	**191,189**			**299,665**	**1,020[8]**	**1,583,469**
John Rogers	Long-Term Incentive Plan 2006[1]	21.06.10	329	Nil	41,885	9,085[5]	50,970	–	16.05.14	348	50,970	177	–
		19.05.11	343	Nil	250,972[4]	8,366[6]	58,560	150,584[6]	16.05.14	348	58,560	204	50,194
		17.05.12	295	Nil	329,052[4]	–	–	–	–	–	–	–	329,052[4]
		16.05.13	375	Nil	271,056[4]	–	–	–	–	–	–	–	271,056[4]
		15.05.14	333	Nil	–	359,344[4]	–	–	–	–	–	–	359,344[4]
	Deferred Share Award[2]	17.05.12	295	Nil	113,233	11,951[7]	125,184	–	08.05.14	331	125,184	415	–
		16.05.13	375	Nil	99,293	–	–	–	–	–	–	–	99,293
		15.05.14	333	Nil	–	112,115	–	–	–	–	–	–	112,115
	Sharesave[3]	09.12.11	297	238	6,302	–	–	–	–	–	–	–	6,302
Total					**1,111,793**	**500,861**	**234,714**	**150,584**			**234,714**	**796[8]**	**1,227,356**
Justin King	Long-Term Incentive Plan 2006[1]	21.06.10	329	Nil	133,763	29,016[5]	162,779	–	16.05.14	348	162,779	566	–
		19.05.11	343	Nil	570,748[4]	19,025[6]	133,175	342,448[6]	16.05.14	348	133,175	463	114,150
		17.05.12	295	Nil	667,136[4]	–	–	–	–	–	–	–	667,136[4]
		16.05.13	375	Nil	550,456[4]	–	–	–	–	–	–	–	550,456[4]
	Deferred Share Award[2]	17.05.12	295	Nil	289,373	30,546[7]	319,919	–	08.05.14	331	319,919	1,060	–
		16.05.13	375	Nil	254,183	–	–	–	–	–	–	–	254,183
		15.05.14	333	Nil	–	287,476	–	–	–	–	–	–	287,476
	Sharesave[3]	11.12.13	388	332	2,710	–	–	2,710	–	–	–	–	–
Total					**2,468,369**	**366,063**	**615,873**	**345,158**			**615,873**	**2,089[8]**	**1,873,401**

1 The 2012 and 2013 awards are based on ROCE – 50% (threshold – 10.75%; maximum – 12%), cumulative cash flow from operations – 30% (threshold – £5,500m; maximum – £6,500m) and relative sales against the IGD index – 20% (threshold – match index; maximum – index + 1% pa). In addition, a performance gateway must be achieved, whereby EPS must grow by at least four per cent per annum for any award to vest. Details of the performance conditions applying to 2014 Future Builder awards are set out in the footnotes to the share awards made during the financial year table on page 67.
2 See page 64 for details of the Deferred Share Award, including performance conditions.
3 Sharesave is an all-employee share option plan and has no performance conditions as per HMRC Regulations.
4 Maximum award which could be achieved.
5 The second half of the award which vested in May 2013 was released in May 2014. The number of dividend shares was determined by a five-day average share price from 8 to 14 May 2014.
6 The performance of the award made in May 2011 was tested in May 2014 and a multiplier of 1.6 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 2014 whilst the remainder of the achieved award will vest in May 2015. The number of dividend shares was determined by a five-day average share price from 8 to 14 May 2014.
7 The number of dividend shares for the 2012 award was determined by a five-day average share price following the announcement of interim and preliminary results: 10 to 16 May 2012, 15 to 21 November 2012, 9 to 15 May 2013 and 14 to 20 November 2013.
8 This is the notional gain on the date of exercise had all shares been sold.
9 Mike Coupe's 2014 Future Builder award was made in two parts on 15 May 2014 and 10 July 2014. The combined award is shown. Further details are set out in the footnotes to the share awards made during the financial year table on page 67.

Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 9 July 2014. The full policy, including approach to recruitment, service contracts, termination arrangements etc, can be found in the 2014 Annual Report on our website.

The approved remuneration policy tables for Executive Directors and Non-Executive Directors, which were published in last year's Directors' Remuneration Policy, are set out below. For clarity, where the policy table included references to implementation of the policy in 2013/14 or 2014/15, these references have been removed. Details of remuneration arrangements for 2014/15 and 2015/16 are set out in the Annual Report on Remuneration.

Remuneration policy for Executive Directors

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: — 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.
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 threshold payment for performance varies depending on the performance measure, with payouts from zero per cent. Full vesting requires outperformance of stretch objectives.
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.
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 four 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 one times the core award.
Performance details	In line with the scope of the approved policy and following a shareholder consultation in 2015, the performance measures for 2015 have been updated – see page 66. A performance gateway must be achieved before any awards vest. 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.

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.

Remuneration	
Approach to setting remuneration	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. Typically reviewed annually in September. Judgement is used but consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and colleague pay increases. Where appropriate, benefits may be provided such as private medical cover, annual medical assessment and colleague discount. Travel and other reasonable expenses (including any associated taxes) incurred in the course of performing their duties are reimbursed to Non-Executive Directors.
Opportunity	Fee opportunity reflects responsibility and time commitment. Additional fees are paid for further responsibilities such as chairmanship of committees. 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.

The Directors' Remuneration Report, excluding the Directors' Remuneration Policy, will be put to an advisory vote at the AGM on 8 July 2015. 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 5 May 2015.

Other disclosures

Dividends
The Directors recommend the payment of a final dividend of 8.2 pence per share (2014: 12.3 pence), making a total dividend for the year of 13.2 pence per share (2014: 17.3 pence), a decrease of 23.7 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting ('AGM'), the dividend will be paid on 10 July 2015 to shareholders on the register at the close of business on 15 May 2015.

Directors and re-election
At the AGM on 9 July 2014, Justin King stood down from his position as Chief Executive and was succeeded by Mike Coupe. On 27 April 2015, we announced the appointment of David Keens as a Non-Executive Director with effect from 29 April 2015. David will succeed Gary Hughes as the Audit Committee Chairman with effect from the 2015 AGM.

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 David Keens, who will stand for election for the first time, and Gary Hughes, who is stepping down, 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 41.

Annual General Meeting
The AGM will be held on Wednesday 8 July 2015 at QEII 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, elect or re-elect all of the other Directors except Gary Hughes, and to appoint Ernst & Young LLP as auditors. In addition, shareholders will be asked to renew both the general authority of the Directors to issue shares and to authorise the Directors to issue shares without applying the statutory pre-emption rights. In this regard, the Company will continue to adhere to the provisions in the Pre-emption Group's Statement of Principles.

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

Following the acquisition of Sainsbury's Bank last year, customer deposits with the Bank are currently treated as borrowings under Article 98 of the Company's Articles of Association and therefore limit the borrowing headroom which was previously available to the Company and its subsidiaries. As a result, at the AGM, the Company will propose a special resolution to replace Article 98 with a new Article which, in line with general market practice, excludes the Bank and its subsidiary undertakings from the limit on borrowings set out in the Article and includes extra clarity around what constitutes borrowing. This reflects general market practice in relation to the content of articles of association of banks and the fact that those investing in, and dealing with, banks are protected by sophisticated regulatory safeguards which are more detailed and prescriptive than can be included in a set of articles. The limit on borrowing in the new Article will remain unchanged at one and one-half times adjusted capital and reserves.

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 2014, 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 112. At the date of this report, 1,920,946,556 ordinary shares of $28\frac{4}{7}$ pence have been issued, are fully paid up and are listed on the London Stock Exchange.

Major interests in shares
As at 5 May 2015, the Company had been notified by the following investors of their interests in three 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	3.18
Judith Portrait	3.32
Qatar Holdings LLC	25.10

Proceedings in Egypt
Proceedings have been brought against Mike Coupe in Cairo arising out of a sale by J Sainsbury plc in 2001 of its shares in an Egyptian joint venture. Mike was not employed by Sainsbury's in 2001 and has had no involvement with this historic commercial dispute. The proceedings represent the latest of a number of criminal and civil actions against the Company and its employees originating from the counterparty to that sale, all the others of which to date have been unsuccessful or ultimately withdrawn. The current proceedings involve an allegation of fraud arising out of the share sale transaction. Despite the fact that no notice of the proceedings were served on him or the Company, Mike was convicted in absentia on 1 September 2014.

The Company has been advised by Egyptian counsel that the claims on which the conviction was obtained have no merit and that the conviction should be overturned. An appeal is currently ongoing on the basis that the allegations are wholly spurious.

Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown in the Annual Report on Remuneration on pages 68 and 69. 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 2014/15, which has been renewed for 2015/16. 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 an equal opportunities policy 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 adapt and retrain colleagues who have become disabled during their employment. See page 50 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. Our *20x20 Sustainability Plan* includes a number of commitments within the category; for further information see our website at http://www.j-sainsbury.co.uk/responsibility/factsheets/.

Human rights

The Company does not have a specific human rights policy but fairness and integrity are an important part of the responsible way we run our 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 we are a founder member 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 at http://www.j-sainsbury.co.uk/suppliers/ethical-trading/.

Donations

The Company made no political donations in 2015 (2014: £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 the business of Sainsbury's.

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, China, India and Bangladesh – these offices source many of our non-food products, and local taxes of £1 million were paid in the year (2013/14: £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

Events after the balance sheet are disclosed in note 38 on page 140 of the financial statements.

Financial risk management

The financial risk management and policies of the Group are disclosed in note 28 on pages 117 to 123 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 39. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 31 to 39. 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 109 to 111 to the financial statements. In addition, notes 28 and 29 on pages 117 to 129 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 82 to 140.

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

Ernst & Young LLP have expressed their willingness to be appointed as auditors of the Company. Upon the recommendation of the Audit Committee, resolutions to appoint 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

5 May 2015

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 39, 50, 52 and 75 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 41, 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 loss of the Group; and
- the Strategic Report and Directors' Report contained in the Annual Report and financial statements include 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
5 May 2015

Independent auditors' report to the members of J Sainsbury plc

Report on the financial statements

Our opinion

In our opinion:

- J Sainsbury plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 14 March 2015 and of the Group's loss and the Group's and Company's cash flows for the period 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.

What we have audited

J Sainsbury plc's financial statements comprise:

- the Group and Company balance sheets as at 14 March 2015;
- the Group income statement and statement of comprehensive income for the period then ended;
- the Group and Company cash flow statements for the period then ended;
- the Group and Company statements of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Financial Statements (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.

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

Our audit approach

Overview

Materiality

- Overall Group materiality: £32 million, which represents five per cent of profit before tax adjusted for one-off items.

Audit scope

- We performed an audit of the complete financial information of three of the Group's reporting units (J Sainsbury plc, Sainsbury's Supermarkets Limited and Sainsbury's Bank plc) due to their financial significance to the Group or their risk characteristics.
- We also performed specific audit procedures on material balances and transactions within the property companies, joint ventures and insurance company due to the materiality of certain individual balances within these entities to the Group financial statements as a whole.
- These reporting units account for 99 per cent of Group revenue and 98 per cent of Group profit before tax adjusted for one-off items.

Areas of focus

- Supplier income;
- Impairment of pipeline development sites and trading stores;
- Impairment of loans and advances to Sainsbury's Bank customers;
- The IT environment, including IT security; and
- Valuation of gross pension assets and liabilities.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Supplier income Refer to the Audit Committee section on pages 53 to 56 and note 2, accounting policies, including judgements and estimates in the financial statements. The Group earns material supplier income across three main income streams being discounts and supplier incentives linked to individual unit sales, fixed amounts and supplier rebates (stated in order of value, highest to lowest). This income is recognised as a reduction to the cost of goods purchased and is billed by the Group to the relevant supplier. Determining whether the Group was entitled to income under these various arrangements, whether amounts had been correctly calculated and whether they were recorded in the correct period was an area of focus for our audit due to the quantum of the amounts recorded against cost of sales under the various supplier income arrangements and their significance in relation to the result for the period. It is also an area of heightened focus in light of recent market coverage. While the recognition of the majority of supplier income is mechanical and routine in nature, the amount to be recognised in the income statement for elements of supplier income requires management to apply judgement based on the contractual terms in place with suppliers and estimates of amounts the Group is entitled to where arrangements span the financial year-end. **Discounts and incentives linked to individual unit sales** relate to supplier income earned (and therefore accrued) each time a unit of a product is sold. This income stream involves high volume, lower value arrangements, calculated through a mechanical process, and therefore management considers there to be no judgement in determining the amount that the Group is entitled to. Notwithstanding this, this income is material and we therefore primarily focused on the existence of the supplier deals and the accuracy of the data used in the calculations of amounts due. **Fixed amounts** are agreed with suppliers primarily to support in-store activity, including promotions, such as utilising specific space. These deals vary in length and hence may span a financial year-end. Given the nature of these arrangements, income is recorded at the point of billing, which will typically be when the deal commences. A cut-off process is performed by management at year-end to ensure any income relating to deals that span the balance sheet date is recognised in the correct period. Our focus was therefore on whether the fixed deal income recognised existed, whether it had been recorded at the correct amount and whether income recognised was recorded in the appropriate period. **Supplier rebates** are received from suppliers when pre-agreed targets are achieved. These arrangements are typically negotiated annually. The calculation of elements of this income is mechanical in nature as it will typically involve a percentage discount on all relevant product purchased once predetermined volume targets are reached. Management judgement is required when incentive targets span a financial year-end, as management must estimate and accrue the income earned as at the balance sheet date based on forecast sales over the term of the incentive arrangement. Our focus was therefore on whether the supplier rebate income recognised existed and whether it had been recorded at the correct amount and in the appropriate period.	We tested key system controls, including those used to determine the volume of items sold under the terms of a supplier income arrangement. We determined that the testing of these controls provided us with audit evidence that supplier income had been recorded appropriately and in the correct period. Our testing also included checking the computation of amounts billed to suppliers. We understood and tested the interface between the different systems in place over supplier income to satisfy ourselves as to the accuracy and integrity of the data. We tested management's reconciliation of the supplier income systems to the income recognised in the general ledger. On a sample basis, we agreed key deal inputs (such as promotion date, product and income per unit sale or total income due) recorded in the supplier income systems to individual supplier agreements. We then re-performed management's calculations, using the tested inputs, to confirm 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. In addition, for amounts manually accrued as at the financial year-end (which related to fixed amounts and supplier rebates), we sought to agree a sample of the income accrued to cash received or reduction in payments made after the balance sheet date for settled transactions. For deals that had not been settled, we traced these transactions through to the balance sheet control accounts, sought to understand from management whether there were any issues with the recoverability of the deal income and assessed the ageing of the assets recognised on the balance sheet. We also performed procedures to satisfy ourselves that amounts were recorded in the correct period, agreeing key deal inputs for a sample of fixed amounts and supplier rebates recorded in the final period of the financial year and the first two weeks of the subsequent financial period to individual supplier agreements to evaluate whether income had been recorded in the appropriate period. We sought to obtain written confirmations from a sample of suppliers to confirm individual deals recognised in the financial year and accrued on the balance sheet at year-end, reconciling the confirmations received to the Group's financial information. Where no confirmation was forthcoming, we performed additional testing of individual deals by tracing these to cash settlement. If the individual deal had not been cash settled we agreed the deal to an individual supplier agreement, traced the accrued income through to the balance sheet, and assessed the ageing of the assets recognised on the balance sheet. We analysed the periodic supplier income recognised and compared this amount with the equivalent periods in each of the previous four years to identify whether there were any unusual trends in the amounts of supplier income recognised in each period. No such items were identified. We also analysed trends in supplier income for certain key suppliers and obtained explanations and supporting documentation to verify significant period-on-period or year-on-year movements. We satisfied ourselves as to the accuracy of management's disclosures of their supplier income and the appropriateness of the associated accounting policies.

Area of focus	How our audit addressed the area of focus
Impairment of pipeline development sites and trading stores Refer to notes 2, 3, 11 and 12 in the financial statements. The Group recognised an impairment charge of £628 million in the financial year relating to development pipeline sites and unprofitable and marginally profitable trading stores. The development pipeline sites represented those which will not be developed due to the sites no longer having the potential to achieve an appropriate return on capital. This was an area of focus in our audit as the calculation of any impairment requires management to exercise judgement (described below) in determining the recoverable amount of each asset. It is also an area of heightened focus in light of current trends in consumer spending patterns in the retail sector. For those assets where recoverable amount has been determined on the basis of fair value less costs to dispose ('FVLCD'), most notably the majority of the development pipeline sites, we focused on the significant estimates and judgements reflected in the Group's assessment of expected sales proceeds including estimated costs to complete (where applicable), expected future rental yields and consideration of alternate use. For those assets where recoverable amount has been measured on the basis of value-in-use, in particular trading stores, we focused on the significant estimates and judgements reflected in the Group's cash flow forecasts including sales growth rates and expected changes in operating margins, as well as the rate used to discount future cash flows to their present value.	We verified the mathematical accuracy of management's impairment models and agreed relevant inputs to the latest Board approved cash flow projections for five years, noting no exceptions. In addition, we reviewed updated cash flow forecasts, noting no change in our assessment. For those assets valued on the basis of FVLCD, we assessed the reasonableness of management's key assumptions, including expected future rental yields, through applying our knowledge and experience of property valuations and considerations of alternative uses for sites. We compared management's assumptions (as listed in our area of focus) with industry and economic forecasts and agreed them to external third party information where available, concluding that, based on the evidence obtained, management's assumptions were supportable. We discussed with management the viability of key development projects and confirmed that the Investment Board, Operating Board and plc Board had each approved management's development plans. We evaluated the historical accuracy of management's estimates of fair value in previous impairment assessments by comparing the estimated FVLCD at that time with the realised selling prices subsequently obtained, which indicated that management's previous valuations were generally reasonably accurate. For those assets valued on the basis of value-in-use, we benchmarked key market related assumptions in the models, such as future sales growth rates for the retail sector, against external data. We independently calculated the Group's Weighted Average Cost of Capital, which drives the discount rate, and found management's calculation of the discount rate to be reasonable. We confirmed the completeness of the related disclosures in note 11 of the financial statements and determined these were adequate.
Impairment of loans and advances to Sainsbury's Bank customers Refer to notes 2 and 17 in the financial statements. As at 14 March 2015, the gross value of loans and advances to Sainsbury's Bank customers was £3,098 million. As at the balance sheet date, an impairment provision of £87 million was recorded against credit cards and loan receivables. Management applies judgement in selecting appropriate assumptions in calculating the impairment provisions. These assumptions include management's expectation of the proportion of customers who will default on their loans and the level of loss that will be incurred by the Group once a customer has defaulted. We focused on the measurement of impairment, including the assessment of whether historical experience is appropriate when assessing the likelihood of incurred losses in the future, particularly given the gradual improvement in economic conditions. The impairment provision was calculated using statistical modelling for portfolios of loans and advances.	We verified the mathematical accuracy of management's impairment models and confirmed that the methodology applied was in accordance with the requirements of IAS 39, 'Financial Instruments: recognition and measurement'. We tested the completeness and accuracy of the data from underlying systems that were used in the impairment models. We tested key assumptions used within the models to internal and external information. We compared the key assumptions within the models to our knowledge of assumptions used in the banking sector and also with historical trends within Sainsbury's Bank, concluding that, based on the evidence obtained, management's conclusions were supportable. We assessed the completeness of the Bank's modelling approach based on our broader industry knowledge of model methodologies. Based on the evidence obtained from the work described above, we determined that the quantum of impairment recognised as at 14 March 2015 was reasonable. We confirmed the completeness and adequacy of the related disclosures in note 17 of the financial statements, and determined these were adequate.
The IT environment, including IT security As with many retailers, the Group's retailing IT systems are complex. The adequacy and effective operation of controls over these systems, including the adequacy and appropriateness of IT security and system access controls, is critical to the integrity of financial reporting within the Group and to the accurate presentation of the Group's financial statements. Our focus was on whether appropriate IT controls were in place to reduce financial reporting risk. In respect of IT security and access we focused on whether any enhancements had been made to the control environment to reduce the risk of unauthorised access to the Group's IT network. In addition, Sainsbury's Bank is currently transitioning onto a new banking platform. In the meantime Sainsbury's Bank continues to utilise outsourced systems and controls. We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the accounting processes and controls and the impact of the outsourcing arrangements on the Bank's financial reporting. Our focus was on whether IT controls remained effective under the outsourcing arrangement such that there was no heightened risk of error that would impact the financial statements and our audit thereon.	We held regular meetings with management throughout the year to understand developments in the IT environment and inform our understanding of changes that had a direct bearing on the Group's controls over financial reporting. We evaluated the IT general control environment and performed IT application testing, including review of the controls over segregation of duties within the general ledger system to mitigate the risk of unauthorised transactions being posted into the general ledger. We performed additional substantive testing over areas in which IT general control weaknesses were identified in order to mitigate the risks of material misstatement, such as performing additional testing over the employee leaver process and testing a sample of amended purchase orders. In assessing the controls at Sainsbury's Bank, we considered the control environment in place at the Bank's main outsourced service provider to the extent relevant for our audit. The Bank relies on this provider for key IT systems and controls. Our assessment involved obtaining and reading the relevant controls report, issued by the external auditors of the provider in accordance with generally accepted assurance standards for such work, to gain an understanding of the service provider's control environment. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

Area of focus	How our audit addressed the area of focus
Valuation of gross pension assets and liabilities See notes 2 and 30 in the financial statements. As at 14 March 2015, the Group has a net defined benefit pension obligation of £692 million, with gross assets of £7,680 million and gross liabilities of £6,988 million. These gross balances are material in the context of the overall balance sheet of the Group. The valuation of the pension liabilities requires judgement in determining appropriate assumptions. In particular we focused on inflation levels, discount rates and mortality rates. Movements in these assumptions can have a material impact on the determination of the liability. Management uses external actuaries to assist in determining these assumptions and in valuing the gross assets and liabilities within the pension plan. Judgement is also required in the measurement of the fair value of certain pension assets and for this reason we focused on assets that have been valued based on unobservable inputs.	We used our actuarial experience to satisfy ourselves that the assumptions used in calculating the pension plan liabilities, including inflation and mortality rate assumptions, were consistent with relevant national and industry benchmarks. We also verified that the discount and inflation rates used in the valuation of the pension liabilities were consistent with our internally developed benchmarks and with other companies reporting as at March 2015. For pension plan assets, we obtained third party confirmations of ownership and valuations of pension assets. We also obtained the valuation models for those assets with unobservable inputs and tested the underlying assumptions against our own, internally developed data and satisfied ourselves that the valuations were reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the systems, accounting processes and controls, and the industry in which the Group operates.

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. Each of these operating segments include a number of reporting units, which together form the consolidated financial statements, comprising: 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.

We determined that we needed to perform an audit of the complete financial information of three reporting units (J Sainsbury plc, Sainsbury's Supermarkets Limited and Sainsbury's Bank plc) due to their financial significance to the Group financial statements or their risk characteristics.

We also performed specific audit procedures on material balances and transactions within the property companies, joint ventures (including BL Sainsbury's Superstore Limited) and the insurance company (JS Insurance Limited) due to the materiality of certain individual balances within these entities to the Group financial statements as a whole.

The Group engagement team at the head office perform all aspects of the audit except for the work on Sainsbury's Bank plc, BL Sainsbury's Superstore Limited and JS Insurance Limited. The Group engagement team reviewed the reporting received from each of these component audit teams, and for the audit of the Bank specifically, met with the Bank audit team to discuss their findings and directly attended both the Bank audit clearance meeting and the year-end Bank Audit Committee meeting.

Taken together, the reporting units and functions where we performed our audit work accounted for 99 per cent of Group revenues and 98 per cent of Group profit before tax and our audit procedures thereon, together with additional procedures performed at the Group level, including audit of the consolidation process and consolidation journals, gave us the evidence that we needed for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and 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 financial statements as a whole as follows:

Overall Group materiality	£32 million (2014: £40 million).
How we determined it	Five per cent of profit before tax adjusted for one-off items.
Rationale for benchmark applied	We believe that profit before tax, adjusted for one-off items as defined in note 3 on page 95, is the key measure used by the shareholders in assessing the Group's performance. Adjusting for one-off items also provides us with a consistent year-on-year basis for determining materiality by eliminating the volatility that is inherent in one-off items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3 million (2014: £3 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 75, in relation to going concern. We have nothing to report having performed 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 have 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 Company's ability to continue as a going concern.

Other required reporting
Consistency of other information

Companies Act 2006 opinion

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.

ISAs (UK & Ireland) reporting

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 — otherwise misleading.	We have no exceptions to report arising from this responsibility.
— the statement given by the Directors on page 76, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), 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 and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
— the section of the Annual Report on page 55, as required by provision C.3.8 of the Code, 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.

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:

- we have not received all the information and explanations we require for our audit; or
- 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 Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not 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 ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

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 financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus 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.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.

Richard Hughes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 May 2015

Group income statement

for the 52 weeks to 14 March 2015

	Note	2015 £m	2014 £m
Revenue	4	**23,775**	23,949
Cost of sales		**(22,567)**	(22,562)
Gross profit		**1,208**	1,387
Administrative expenses		**(1,132)**	(444)
Other income		**5**	66
Operating profit	5	**81**	1,009
Finance income	6	**19**	20
Finance costs	6	**(180)**	(159)
Share of post-tax profit from joint ventures and associates	14	**8**	28
(Loss)/profit before tax		**(72)**	898
Analysed as:			
Underlying profit before tax		**681**	798
Profit on disposal of properties	3	**7**	52
Investment property fair value movements	3	**7**	–
Retail financing fair value movements	3	**(30)**	(8)
IAS 19 pension financing charge	3	**(31)**	(23)
Defined benefit pension scheme expenses	3	**(6)**	(7)
Acquisition adjustments	3	**13**	18
One-off items	3	**(713)**	68
		(72)	898
Income tax expense	8	**(94)**	(182)
(Loss)/profit for the financial year		**(166)**	716

(Loss)/earnings per share	9	**pence**	pence
Basic		**(8.7)**	37.7
Diluted		**(8.7)**	36.9
Underlying basic		**26.4**	32.8
Underlying diluted		**25.7**	32.2

The notes on pages 88 to 140 form an integral part of these financial statements.

Group statement of comprehensive income

for the 52 weeks to 14 March 2015

	Note	2015 £m	2014 £m
(Loss)/profit for the financial year		**(166)**	716
Items that will not be reclassified subsequently to the income statement			
Remeasurements on defined benefit pension schemes	30b	**(19)**	(326)
Current tax relating to items not reclassified	8	**6**	34
Deferred tax relating to items not reclassified	8	**(1)**	19
		(14)	(273)
Items that may be reclassified subsequently to the income statement			
Currency translation differences	24	**3**	(2)
Available-for-sale financial assets fair value movements			
Group		**(39)**	34
Items reclassified from available-for-sale assets reserve	24	**1**	–
Cash flow hedges effective portion of fair value movements			
Group	24	**(13)**	(43)
Joint ventures and associates	24	**3**	2
Items reclassified from cash flow hedge reserve	24	**21**	4
Current tax relating to items that may be reclassified	8	**–**	(1)
Deferred tax relating to items that may be reclassified	8	**9**	(2)
		(15)	(8)
Total other comprehensive loss for the financial year (net of tax)		**(29)**	(281)
Total comprehensive (loss)/income for the financial year		**(195)**	435

The notes on pages 88 to 140 form an integral part of these financial statements.

Balance sheets

At 14 March 2015 and 15 March 2014

	Note	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Non-current assets					
Property, plant and equipment	11	**9,648**	9,880	**1**	16
Intangible assets	12	**325**	286	**–**	–
Investments in subsidiaries	13	**–**	–	**7,630**	7,562
Investments in joint ventures and associates	14	**359**	404	**18**	6
Available-for-sale financial assets	15	**184**	255	**37**	37
Other receivables	17a	**83**	26	**1,363**	1,229
Amounts due from Sainsbury's Bank customers	17b	**1,412**	1,292	**–**	–
Derivative financial instruments	29	**21**	28	**33**	23
		12,032	12,171	**9,082**	8,873
Current assets					
Inventories	16	**997**	1,005	**–**	–
Trade and other receivables	17a	**471**	433	**1,399**	1,428
Amounts due from Sainsbury's Bank customers	17b	**1,599**	1,283	**–**	–
Derivative financial instruments	29	**69**	49	**44**	48
Cash and bank balances	26b	**1,285**	1,592	**92**	136
		4,421	4,362	**1,535**	1,612
Non-current assets held for sale	18	**84**	7	**15**	–
		4,505	4,369	**1,550**	1,612
Total assets		**16,537**	16,540	**10,632**	10,485
Current liabilities					
Trade and other payables	19a	**(2,961)**	(2,692)	**(4,422)**	(4,457)
Amounts due to Sainsbury's Bank customers and banks	19b	**(3,395)**	(3,245)	**–**	–
Borrowings	20	**(260)**	(534)	**(87)**	(341)
Derivative financial instruments	29	**(75)**	(65)	**(57)**	(47)
Taxes payable		**(188)**	(189)	**(21)**	–
Provisions	22	**(44)**	(40)	**(2)**	(2)
		(6,923)	(6,765)	**(4,589)**	(4,847)
Net current liabilities		**(2,418)**	(2,396)	**(3,039)**	(3,235)
Non-current liabilities					
Other payables	19a	**(265)**	(204)	**(798)**	(863)
Amounts due to Sainsbury's Bank customers and banks	19b	**(266)**	(302)	**–**	–
Borrowings	20	**(2,506)**	(2,250)	**(764)**	(394)
Derivative financial instruments	29	**(38)**	(21)	**(18)**	(10)
Deferred income tax liability	21	**(215)**	(227)	**–**	–
Provisions	22	**(77)**	(29)	**(2)**	(2)
Retirement benefit obligations	30	**(708)**	(737)	**–**	–
		(4,075)	(3,770)	**(1,582)**	(1,269)
Net assets		**5,539**	6,005	**4,461**	4,369
Equity					
Called up share capital	23	**548**	545	**548**	545
Share premium account	23	**1,108**	1,091	**1,108**	1,091
Capital redemption reserve	24	**680**	680	**680**	680
Other reserves	24	**146**	127	**40**	7
Retained earnings	25	**3,057**	3,560	**2,085**	2,046
Equity attributable to owners of the parent		**5,539**	6,003	**4,461**	4,369
Non-controlling interests		**–**	2	**–**	–
Total equity		**5,539**	6,005	**4,461**	4,369

The notes on pages 88 to 140 form an integral part of these financial statements.

The financial statements on pages 82 to 140 were approved by the Board of Directors on 5 May 2015, and are signed on its behalf by:

Mike Coupe Chief Executive

John Rogers Chief Financial Officer

Cash flow statements

for the 52 weeks to 14 March 2015

	Note	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	26a	**1,136**	1,227	**(492)**	38
Interest paid		**(134)**	(148)	**(74)**	(73)
Corporation tax paid		**(91)**	(140)	**–**	–
Net cash generated from/(used in) operating activities		**911**	939	**(566)**	(35)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(951)**	(916)	**–**	–
Purchase of intangible assets		**(78)**	(13)	**–**	–
Proceeds from disposal of property, plant and equipment		**40**	335	**–**	–
Acquisition of subsidiaries net of cash acquired		**(6)**	1,016	**–**	(243)
Increase in loans to joint ventures		**–**	(7)	**–**	–
Investment in joint ventures		**(12)**	(13)	**(12)**	–
Investment in subsidiaries		**–**	–	**(59)**	(20)
Disposal of subsidiaries		**–**	–	**450**	–
Proceeds from repayment of loan to joint venture		**17**	4	**–**	–
Interest received		**20**	20	**44**	50
Dividends and distributions received		**70**	–	**252**	250
Net cash (used in)/generated from investing activities		**(900)**	426	**675**	37
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		**19**	19	**19**	18
Proceeds from short-term borrowings		**–**	200	**–**	200
Repayment of short-term borrowings		**(381)**	(200)	**(336)**	(200)
Proceeds from long-term borrowings		**674**	250	**644**	200
Repayment of long-term borrowings		**(240)**	(206)	**(143)**	(122)
Purchase of own shares		**(18)**	–	**–**	–
Repayment of capital element of obligations under finance lease payments		**(29)**	(25)	**–**	–
Interest elements of obligations under finance lease payments		**(9)**	(8)	**–**	–
Dividends paid	10	**(330)**	(320)	**(330)**	(320)
Net cash used in financing activities		**(314)**	(290)	**(146)**	(224)
Net (decrease)/increase in cash and cash equivalents		**(303)**	1,075	**(37)**	(222)
Net opening cash and cash equivalents		**1,579**	504	**129**	351
Closing cash and cash equivalents	26b	**1,276**	1,579	**92**	129

The notes on pages 88 to 140 form an integral part of these financial statements.

Group statement of changes in equity

for the 52 weeks to 14 March 2015

	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 16 March 2014		**545**	**1,091**	**807**	**3,560**	**6,003**	**2**	**6,005**
Loss for the year	25	**–**	**–**	**–**	**(166)**	**(166)**	**–**	**(166)**
Other comprehensive (loss)/income:								
Currency translation differences	24	**–**	**–**	**3**	**–**	**3**	**–**	**3**
Remeasurements on defined benefit pension schemes (net of tax)	25	**–**	**–**	**–**	**(14)**	**(14)**	**–**	**(14)**
Available-for-sale financial assets fair value movements (net of tax):								
Group	24	**–**	**–**	**(30)**	**–**	**(30)**	**–**	**(30)**
Items reclassified from available-for-sale financial asset reserve	24	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Cash flow hedges effective portion of changes in fair value (net of tax):								
Group	24	**–**	**–**	**(13)**	**–**	**(13)**	**–**	**(13)**
Joint ventures	24	**–**	**–**	**3**	**–**	**3**	**–**	**3**
Items reclassified from cash flow hedge reserve	24	**–**	**–**	**21**	**–**	**21**	**–**	**21**
Total comprehensive loss for the year ended 14 March 2015		**–**	**–**	**(15)**	**(180)**	**(195)**	**–**	**(195)**
Transactions with owners:								
Dividends paid	10,25	**–**	**–**	**–**	**(330)**	**(330)**	**–**	**(330)**
Convertible bond – equity component	24	**–**	**–**	**39**	**–**	**39**	**–**	**39**
Amortisation of convertible bond – equity component	24,25	**–**	**–**	**(5)**	**5**	**–**	**–**	**–**
Share-based payment (net of tax)	25	**–**	**–**	**–**	**21**	**21**	**–**	**21**
Purchase of own shares	25	**–**	**–**	**–**	**(18)**	**(18)**	**–**	**(18)**
Shares vested	25	**–**	**–**	**–**	**9**	**9**	**–**	**9**
Allotted in respect of share option schemes	23,25	**3**	**17**	**–**	**(12)**	**8**	**–**	**8**
Purchase of non-controlling interest	25	**–**	**–**	**–**	**2**	**2**	**(2)**	**–**
At 14 March 2015		**548**	**1,108**	**826**	**3,057**	**5,539**	**–**	**5,539**

	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		541	1,075	820	3,401	5,837	1	5,838
Profit for the year	25	–	–	–	716	716	–	716
Other comprehensive (loss)/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 (loss)/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

The notes on pages 88 to 140 form an integral part of these financial statements.

Company statement of changes in equity

for the 52 weeks to 14 March 2015

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity £m
At 16 March 2014		**545**	**1,091**	**687**	**2,046**	**4,369**
Profit for the year	25	**–**	**–**	**–**	**344**	**344**
Other comprehensive (loss)/income:						
Available-for-sale financial assets fair value movements (net of tax)	24	**–**	**–**	**2**	**–**	**2**
Cash flow hedges effective portion of changes in fair value (net of tax)	24	**–**	**–**	**(5)**	**–**	**(5)**
Items reclassified to cash flow hedge reserve	24	**–**	**–**	**2**	**–**	**2**
Total comprehensive (loss)/income for the year ended 14 March 2015		**–**	**–**	**(1)**	**344**	**343**
Transactions with owners:						
Dividends paid	10,25	**–**	**–**	**–**	**(330)**	**(330)**
Convertible bond – equity component	24	**–**	**–**	**39**	**–**	**39**
Amortisation of convertible bond – equity component	24,25	**–**	**–**	**(5)**	**5**	**–**
Allotted in respect of share option schemes	23,25	**3**	**17**	**–**	**21**	**41**
Utilised in respect of share option schemes	25	**–**	**–**	**–**	**(1)**	**(1)**
At 14 March 2015		**548**	**1,108**	**720**	**2,085**	**4,461**
At 17 March 2013		541	1,075	691	1,952	4,259
Profit for the year	25	–	–	–	378	378
Other comprehensive income:						
Items reclassified to cash flow hedge reserve		–	–	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

The notes on pages 88 to 140 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 14 March 2015 (prior financial year 52 weeks to 15 March 2014). The consolidated financial statements for the 52 weeks to 14 March 2015 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 ('IFRIC') 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.

In the prior year the Group acquired 50 per cent of the ordinary share capital of Sainsbury's Bank. The acquisition accounting was on a provisional basis and has been finalised in the current financial year with no adjustment required.

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 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'

The Group and Company has concluded that the 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.

There are no standards or revisions effective for the Group and Company for the financial year beginning 15 March 2015.

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

- IFRS 9, 'Financial instruments'
- IFRS 15, 'Revenue from contracts with customers'
- Amendment to IFRS 11, 'Joint arrangements', on acquisition of an interest in a joint operation
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation
- Amendment to IFRS 9, 'Financial instruments', on general hedge accounting
- Amendments to IAS 27, 'Separate financial statements', on equity accounting
- Amendments to IFRS 10, 'Consolidated financial statements', and IAS 28, 'Investments in associates and joint ventures' on sale or contribution of assets
- Annual Improvements 2012
- Annual Improvements 2013

The Bank is currently implementing a project to assess the impact of IFRS 9 and implement systems to ensure ongoing compliance with its requirements. The most significant impact on the Bank is likely to be in relation to impairment methodology as a result of the move to the expected credit loss model.

The Group and Company has considered the impact of the remaining 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 have been applied consistently to all periods presented in the financial statements by the Group and the Company.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

2 Accounting policies continued

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.

Joint ventures and associates

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is 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.

Associates are entities over which the Group has significant influence but not control.

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.

In the prior financial year, Sainsbury's Bank was 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, as detailed in note 13. In the current financial year, Sainsbury's Bank is consolidated as a 100 per cent owned subsidiary for the 12 months to 28 February 2015.

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.

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.

Sainsbury's Bank 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 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 income

Supplier incentives, rebates and discounts, collectively known as 'supplier income', are recognised within cost of sales on an accruals basis as they are earned for each relevant supplier contract. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset.

2 Accounting policies continued

The most common types of supplier income, in order of magnitude, which Sainsbury's receives, are:

- Discounts and supplier incentives, representing the majority of all supplier income, linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period.
- Fixed amounts agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space.
- Supplier rebates are the smallest proportion of supplier income. These are typically agreed on an annual basis, aligned with the financial year and are earned based on pre-agreed targets, mainly linked to sales.

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 less any associated costs of disposal 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 ten 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, being the higher of its fair value less costs to dispose 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 or store pipeline development site. For retail goodwill, the CGU is deemed to be each retail chain of stores acquired. Sainsbury's Bank is a separate CGU, and non-store assets, including depots and IT assets, are reviewed separately.

Any impairment loss 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 notional accumulated depreciation if lower.

Capitalisation of interest

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

Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of the carrying amount and fair value less costs to 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.

2 Accounting policies continued

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

Operating leases
Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement 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 tax
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 tax
Deferred tax is accounted for on the basis of temporary differences arising from differences between the tax base and accounting base of assets and liabilities.

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

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

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

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

Provisions
Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Onerous leases
The need for provisions for onerous leases, measured net of expected rental income, is assessed when the leased property becomes vacant and is no longer used in the operations of the business or when the leased property relates to an unprofitable trading store. Onerous lease provisions are recognised after any impairment of assets. Provisions for dilapidation costs are recognised on a lease-by-lease basis.

Onerous contracts
Provisions for onerous contracts are recognised where expected cash outflows exceed the anticipated future benefits. The amounts provided are based on the Group's best estimate of the likely committed outflow net of anticipated future benefits and after any impairment of pipeline development site assets where applicable.

Restructuring
A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

2 Accounting policies continued

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 consists 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 FVTPL are initially recognised at fair value and transaction costs are expensed.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group has no intention of trading these loans and receivables. 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.

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

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

Trade receivables

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

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, other deposits 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(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.

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, onerous contracts, dilapidations, restructuring and long service awards. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events and market conditions. 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.

Supplier income

Supplier incentives, rebates and discounts, collectively known as 'supplier income', represent a material deduction to cost of sales and directly affect the Group's reported margin. The supplier arrangements resulting in this supplier income can be complex, with income spanning multiple products over different time periods, and there can be multiple triggers and discounts. The three key types are explained in the cost of sales accounting policy on pages 89 and 90, and the level of judgement and estimation involved is considered below:

- Discounts and incentives linked to individual unit sales are calculated through a mechanical process with no judgement and estimation involved in recording the income received, which is collected in a timely manner throughout the period.
- Arrangements for fixed amounts involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.
- Supplier rebates, which are agreed with a supplier on an annual basis, require estimates of the income earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, supplier confirmations are obtained to agree the value to be recognised at year-end, prior to it being invoiced. Rebates represent the smallest element of Sainsbury's supplier income and by aligning the agreements to Sainsbury's financial year, where possible the judgements required are minimised.

3 Non-GAAP performance measures

Certain items recognised in reported loss or 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;
- Retail 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;
- Defined benefit pension scheme expenses;
- Acquisition adjustments – these reflect the adjustments arising from the Sainsbury's Bank acquisition including the fair value unwind, amortisation of acquired intangibles and, in the prior year, the remeasurement of the previously held equity interest in Sainsbury's Bank; 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 (loss)/profit before tax to arrive at underlying profit before tax are:

	2015 £m	2014 £m
Underlying profit before tax	**681**	798
Profit on disposal of properties[1]	**7**	52
Investment property fair value movements	**7**	–
Retail financing fair value movements[2]	**(30)**	(8)
IAS 19 pension financing charge	**(31)**	(23)
Defined benefit pension scheme expenses	**(6)**	(7)
Acquisition adjustments[3]	**13**	18
One-off items	**(713)**	68
Total adjustments	**(753)**	100
(Loss)/profit before tax	**(72)**	898

1 Profit on disposal of properties for the financial year comprised £5 million for the Group (2014: £51 million) and £2 million for the property joint ventures (2014: £1 million).
2 Retail financing fair value movements for the financial year comprised a £23 million loss for the Group (2014: £5 million loss) and a £7 million loss for the joint ventures (2014: £3 million loss).
3 Acquisition adjustments include £23 million (2014: £3 million) fair value unwind included in revenue, £nil (2014: £15 million) remeasurement of the previously held equity interest included in other income, £8 million (2014: £1 million) fair value unwind included in cost of sales offset by £18 million (2014: £1 million) acquired intangible amortisation included in administrative expenses.

The tax impact of adjusted items is included within note 8.

One-off items

One-off items of £713 million includes: a non-cash impairment and onerous contract charge of £628 million; restructuring costs of £15 million; costs of £53 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform; and £17 million of pension compensation payments.

As part of adapting to our changing customer needs, we have reassessed our store pipeline and the potential to achieve an appropriate return on capital, which resulted in a decision that some sites will no longer be developed. A charge of £287 million has been recognised within administration expenses, including £256 million of property, plant and equipment, which is all land and buildings, £1 million of goodwill, and £30 million of onerous contract provisions.

A charge of £341 million has also been recognised, £310 million within cost of sales and £31 million within administrative expenses, in relation to unprofitable and marginally profitable trading stores. This includes £284 million of property, plant and equipment, comprised of £156 million land and buildings and £128 million of fixtures and fittings, £7 million intangible assets, comprised of £2 million goodwill and £5 million of other intangibles, and onerous lease provisions of £50 million.

The recoverable amount of these assets has been determined as the higher of value-in-use or fair value less costs to dispose. Refer to notes 11 and 12 for further details of the impairment.

Compensation payments of £17 million were made in the current year to employees on transition to the Group's defined contribution pension schemes resulting from the closure of the Sainsbury's defined benefit pension scheme to future accrual in the prior year.

The prior year credit to one-off items of £68 million included 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; a store pipeline 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 restructuring and a provision for a commercial item, for which we continue to defend our position.

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 (joint ventures with the British Land Company PLC and Land Securities Group PLC).

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.

As disclosed in notes 13 and 14, Sainsbury's Bank was 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 and for the 2014/15 financial year. 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 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/(loss) before tax.

52 weeks to 14 March 2015	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue				
Retail sales to external customers	**23,443**	**–**	**–**	**23,443**
Financial services to external customers	**–**	**309**	**–**	**309**
Underlying revenue	**23,443**	**309**	**–**	**23,752**
Acquisition adjustment fair value unwind[1]	**–**	**23**	**–**	**23**
Revenue	**23,443**	**332**	**–**	**23,775**
Underlying operating profit	**720**	**62**	**–**	**782**
Underlying finance income	**19**	**–**	**–**	**19**
Underlying finance costs	**(126)**	**–**	**–**	**(126)**
Underlying share of post-tax (loss)/profit from joint ventures and associates	**(9)**	**–**	**15**	**6**
Underlying profit before tax	**604**	**62**	**15**	**681**
Profit on disposal of properties	**5**	**–**	**2**	**7**
Investment property fair value movements	**–**	**–**	**7**	**7**
Retail financing fair value movements	**(23)**	**–**	**(7)**	**(30)**
IAS 19 pension financing charge	**(31)**	**–**	**–**	**(31)**
Defined benefit pension scheme expenses	**(6)**	**–**	**–**	**(6)**
Acquisition adjustments	**–**	**13**	**–**	**13**
One-off items	**(660)**	**(53)**	**–**	**(713)**
(Loss)/profit before tax	**(111)**	**22**	**17**	**(72)**
Income tax expense				**(94)**
Loss for the financial year				**(166)**
Assets	**11,908**	**4,270**	**–**	**16,178**
Investment in joint ventures and associates (note 14)	**8**	**–**	**351**	**359**
Segment assets	**11,916**	**4,270**	**351**	**16,537**
Segment liabilities	**(7,232)**	**(3,766)**	**–**	**(10,998)**
Other segment items				
Capital expenditure[2]	**968**	**82**	**–**	**1,050**
Depreciation expense (note 11)	**540**	**5**	**–**	**545**
Amortisation expense (note 12)[3]	**14**	**20**	**–**	**34**
Impairment (note 11 and 12)[4]	**548**	**–**	**–**	**548**
Share-based payments	**21**	**–**	**–**	**21**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition in 2013/14.
2 Retail capital expenditure consists of property, plant and equipment additions of £951 million and intangible asset additions of £17 million. Financial services capital expenditure consists of property, plant and equipment additions of £14 million and intangible asset additions of £68 million.
3 Amortisation expense within the financial services segment includes £18 million of intangible asset amortisation arising from Sainsbury's Bank acquisition fair value adjustments.
4 Impairment charge includes £540 million recognised against property, plant and equipment and £8 million against intangible assets, as detailed in note 11 and note 12.

4 Segment reporting continued

52 weeks to 15 March 2014	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue				
Retail 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
Retail financing fair value movements	(5)	–	(3)	(8)
IAS 19 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 year				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
Impairment (note 11)	92	–	–	92
Share-based payments	33	–	–	33

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.

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 Sainsbury's Bank acquisition and intangible asset additions (including goodwill) of £113 million of which £88 million was acquired as part of the Sainsbury's 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.

5 Operating profit

	2015 £m	2014 £m
Operating profit is stated after charging/(crediting) the following items:		
Employee costs (note 7)	**2,445**	2,435
Depreciation expense (note 11)	**545**	536
Amortisation expense (note 12)[1]	**34**	15
Profit on disposal of properties (note 3)	**(5)**	(51)
Operating lease rentals – land and buildings	**516**	485
– other leases	**72**	59
– sublease payments receivable	**(41)**	(41)
Foreign exchange (gains)/losses	**(12)**	6
Impairment losses on loans and advances	**21**	2
Acquisition adjustments (note 3)	**(13)**	(18)
One-off items (note 3)[2,3]	**713**	(68)

1 Amortisation expense includes £18 million (2014: £1 million) amortisation on acquired intangibles resulting from the Sainsbury's Bank acquisition fair value adjustments also included in acquisition adjustments in this note.
2 One-off items includes £17 million (2014: £7 million) employee restructuring costs also included in employee costs in this note.
3 One-off items includes an impairment charge of £540 million (2014: £92 million) recognised against property, plant and equipment and £8 million (2014: £nil) against intangible assets, as detailed in note 11 and 12.

Group	2015 £m	2014 £m
Auditors' remuneration[1]		
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	**0.3**	0.3
Fees payable to the Company's auditors for other services:		
– The audit of the Company's subsidiaries	**0.7**	0.6
– Audit related assurance services	**0.1**	0.2
– Tax advisory, tax compliance, and other non-audit fees	**0.1**	0.1
Total fees	**1.2**	1.2

1 In addition to the above, also included in administrative expenses is £0.3m (2014: £nil) payable to Lloyds Banking Group ('LBG') in respect of a review by their auditors, PwC, of controls operated on Sainsbury's Bank's behalf by LBG under contractual arrangements.

6 Finance income and finance costs

	2015 £m	2014 £m
Interest on bank deposits and other financial assets	**19**	20
Finance income	**19**	20
Borrowing costs:		
Secured borrowings	**(84)**	(91)
Unsecured borrowings	**(47)**	(56)
Obligations under finance leases	**(9)**	(8)
Provisions – amortisation of discount (note 22)	**(3)**	(2)
	(143)	(157)
Other finance costs:		
Interest capitalised – qualifying assets (note 11)	**17**	26
Retail financing fair value movements[1]	**(23)**	(5)
IAS 19 pension financing charge (note 30)	**(31)**	(23)
	(37)	(2)
Finance costs	**(180)**	(159)

1 Retail financing fair value movements includes net fair value movements on derivative financial instruments not designated in a hedging relationship of £(18) million (2014: £(4) million) and fair value movements on early repayment of bank loans carried at amortised cost of £(5) million (2014: £(1) million).

7 Employee costs

	2015 £m	2014 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**2,180**	2,150
Social security costs	**144**	141
Pension costs – defined contribution schemes	**100**	77
Pension costs – defined benefit schemes (note 30)	**–**	34
Share-based payments expense (note 31)	**21**	33
	2,445	2,435

	Number 000s	Number 000s
The average number of employees, including Directors, during the year was:		
Full-time	**48.9**	49.4
Part-time	**112.2**	111.1
	161.1	160.5
Full-time equivalent	**107.4**	107.0

Details of key management compensation can be found in note 32 and within the Directors' Remuneration Report on pages 58 to 73.

8 Income tax expense

	2015 £m	2014 £m
Current tax expense:		
Current year UK tax	**123**	204
Current year overseas tax	**1**	2
(Over)/under provision in prior years	**(26)**	8
	98	214
Deferred tax credit:		
Origination and reversal of temporary differences	**(25)**	31
Under/(over) provision in prior years	**20**	(12)
Effect of change in tax rate	**1**	(51)
Total deferred tax credit (note 21)	**(4)**	(32)
Total income tax expense in income statement	**94**	182

The effective tax rate of (130.6) per cent (2014: 20.3 per cent) is lower than (2014: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2015 £m	2014 £m
(Loss)/profit before tax	**(72)**	898
Income tax at UK corporation tax rate of 21.09% (2014: 23.04%)	**(15)**	207
Effects of underlying items:		
Disallowed depreciation on UK properties	**30**	31
Over provision in prior years	**(5)**	(7)
Revaluation of deferred tax balances	**1**	(31)
Other	**6**	(3)
Effects of non-underlying items:		
Profit on disposal of properties	**(6)**	(16)
Investment property fair value movements	**(1)**	–
Revaluation of deferred tax balances	**–**	(20)
(Over)/under provision in prior years	**(1)**	3
Impairments	**84**	21
Other one-off items	**1**	–
Other	**–**	(3)
Total income tax expense in income statement	**94**	182

On 20 March 2013, the Chancellor announced that the main rate of UK corporation tax would reduce 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 was included in the 2014 figures above.

8 Income tax expense continued

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 14 March 2015				
Current tax recognised in equity or other comprehensive income	**–**	**(6)**	**–**	**(6)**
Deferred tax recognised in equity or other comprehensive income	**–**	**1**	**(9)**	**(8)**
Income tax credited	**–**	**(5)**	**(9)**	**(14)**
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)

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 where appropriate.

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, retail financing fair value movements, impairment of goodwill, IAS 19 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.

	2015 million	2014 million
Weighted average number of shares in issue	**1,911.0**	1,896.8
Weighted average number of dilutive share options	**17.3**	25.4
Weighted average number of dilutive convertible bonds	**62.3**	46.3
Total number of shares for calculating diluted earnings per share	**1,990.6**	1,968.5

	£m	£m
(Loss)/profit for the financial year	**(166)**	716
Add interest on convertible bonds, net of tax[1]	**–**	11
Diluted (loss)/earnings for calculating diluted earnings per share	**(166)**	727

	£m	£m
(Loss)/profit for the financial year attributable to owners of the parent	**(166)**	716
(Less)/add (net of tax):		
Profit on disposal of properties	**(17)**	(53)
Investment property fair value movements	**(7)**	–
Retail financing fair value movements	**25**	7
IAS 19 pension financing charge	**24**	18
Defined benefit pension scheme expenses	**5**	5
Acquisition adjustments	**(9)**	(17)
One-off items	**650**	(33)
Revaluation of deferred tax balances	**–**	(20)
Underlying profit after tax	**505**	623
Add interest on convertible bonds, net of tax	**7**	11
Diluted underlying profit after tax	**512**	634

	pence per share	pence per share
Basic (loss)/earnings	**(8.7)**	37.7
Diluted (loss)/earnings[1]	**(8.7)**	36.9
Underlying basic earnings	**26.4**	32.8
Underlying diluted earnings	**25.7**	32.2

1 Dilutive share options and convertible bonds have been excluded from the calculation as in accordance with IAS 33, 'Earnings per share', they are only included where the impact is dilutive.

10 Dividend

	2015 pence per share	2014 pence per share	2015 £m	2014 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	**12.3**	11.9	**234**	225
Interim dividend of current financial year	**5.0**	5.0	**96**	95
	17.3	16.9	**330**	320

After the balance sheet date, a final dividend of 8.2 pence per share (2014: 12.3 pence per share) was proposed by the Directors in respect of the 52 weeks to 14 March 2015, resulting in a total final proposed dividend of £157 million (2014: £234 million). The proposed final dividend has not been included as a liability at 14 March 2015.

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 16 March 2014	**9,652**	**5,049**	**14,701**	**19**
Acquisition of subsidiaries	**5**	**–**	**5**	**–**
Additions	**475**	**485**	**960**	**–**
Disposals	**(110)**	**(608)**	**(718)**	**–**
Transfer to assets held for sale	**(90)**	**(4)**	**(94)**	**(17)**
At 14 March 2015	**9,932**	**4,922**	**14,854**	**2**
Accumulated depreciation and impairment				
At 16 March 2014	**1,774**	**3,047**	**4,821**	**3**
Depreciation expense for the year	**158**	**387**	**545**	**–**
Impairment	**412**	**128**	**540**	**–**
Disposals	**(86)**	**(604)**	**(690)**	**–**
Transfer to assets held for sale	**(9)**	**(1)**	**(10)**	**(2)**
At 14 March 2015	**2,249**	**2,957**	**5,206**	**1**
Net book value at 14 March 2015	**7,683**	**1,965**	**9,648**	**1**
Capital work-in-progress included above	**322**	**90**	**412**	**–**
Cost				
At 17 March 2013	9,422	5,551	14,973	19
Acquisition of subsidiaries	–	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	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	–

11 Property, plant and equipment continued

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 stores using the latest budget and forecast data, the results of which are reviewed by the Board. Budget and forecast data reflect both past experience and future expectation of market conditions. The key assumptions in the value in use calculation are the discount rate, sales growth rates and expected changes in operating margins. Changes in income and expenditure are based on past experience and expectations of future changes in the market. Board approved cash flow projections for five years are used and then extrapolated out assuming flat cashflows and discounted at a pre-tax rate of nine per cent (2014: nine per cent) over the earlier of a 25-year period, being the estimated average remaining useful life of a freehold store, or lease length for leasehold stores. The discount rate is based on the Group's pre-tax weighted average cost of capital. An increase in the discount rate of one per cent would result in an additional trading store impairment charge of around £50 million.

Non-store assets, including depots, store pipeline development sites and IT 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. The key assumptions in the fair value less costs to dispose include expected future rental yields, estimated costs to completion where applicable and consideration of alternative use values.

During the year, an impairment of £540 million (2014: £92 million) was recognised, as detailed in note 3.

Interest capitalised

Interest capitalised included in additions amounted to £17 million (2014: £26 million) for the Group and £nil (2014: £nil) for the Company. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £360 million (2014: £344 million) for the Group and £nil (2014: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.3 per cent (2014: 5.3 per cent).

Security

Property, plant and equipment of 125 (2014: 125) supermarket properties, with a net book value of £2,102 million (2014: £2,133 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 £65 million (2014: £66 million), has been pledged as security to underpin the residual value guarantee given by the Group with regards to 16 supermarket properties sold in March 2000 and ten supermarket properties sold in July 2000.

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

Analysis of assets held under finance leases

Group	2015 Land and buildings £m	2015 Fixtures and equipment £m	2015 Total £m	2014 Land and buildings £m	2014 Fixtures and equipment £m	2014 Total £m
Cost	**75**	**–**	**75**	63	15	78
Accumulated depreciation and impairment	**(29)**	**–**	**(29)**	(27)	(13)	(40)
Net book value	**46**	**–**	**46**	36	2	38

12 Intangible assets

Group	Goodwill £m	Computer software £m	Acquired intangibles £m	Other £m	Total £m
Cost					
At 16 March 2014	**145**	**186**	**39**	**48**	**418**
Additions	**–**	**84**	**–**	**1**	**85**
Disposals	**(2)**	**(73)**	**–**	**–**	**(75)**
At 14 March 2015	**143**	**197**	**39**	**49**	**428**
Accumulated amortisation and impairment					
At 16 March 2014	**1**	**96**	**1**	**34**	**132**
Amortisation expense for the year	**–**	**15**	**18**	**1**	**34**
Impairment	**3**	**4**	**–**	**1**	**8**
Disposals	**–**	**(71)**	**–**	**–**	**(71)**
At 14 March 2015	**4**	**44**	**19**	**36**	**103**
Net book value at 14 March 2015	**139**	**153**	**20**	**13**	**325**
Cost					
At 17 March 2013	100	188	–	46	334
Acquisition of subsidiaries	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
Impairment	1	–	–	–	1
Disposals	–	(47)	–	–	(47)
At 15 March 2014	1	96	1	34	132
Net book value at 15 March 2014	144	90	38	14	286

The goodwill balance above relates primarily to the Group's acquisitions of Sainsbury's Bank plc (£45 million), Bells Stores Ltd, Jacksons Stores Ltd (£53 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 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 or group of CGUs with the carrying value of its goodwill. The calculation of the retail CGU's value in use is detailed in note 11. The Sainsbury's Bank CGU's value in use is calculated using Board approved cash flows discounted at a pre-tax rate of nine per cent over a five-year period with a terminal value.

Based on the operating performance of the CGUs, an impairment of retail goodwill of £3 million was identified in the current financial year (2014: £1 million). The remaining valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill.

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 pharmacy licences.

13 Investments in subsidiaries

	2015 £m	2014 £m
Shares in subsidiaries – Company		
Beginning of year	**7,562**	7,316
Additions	**530**	381
Disposals	**(450)**	–
Provision for diminution in value of investment	**(23)**	(135)
Release of provision for diminution in value of investment	**11**	–
End of year	**7,630**	7,562

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 the 12 months to 28 February 2015, 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, the Company subscribed for and subsequently disposed of £450 million preference shares in a Group subsidiary to facilitate the issue of £450 million of unsecured convertible bonds. A provision of £23 million (2014: £135 million) was also made against investments in subsidiaries where the carrying value exceeded the recoverable amount.

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

14 Investments in joint ventures and associates

	Group shares at cost £m	Group share of post-acquisition reserves £m	Group total £m	Company shares at cost £m
At 16 March 2014	**318**	**86**	**404**	**6**
Additions	**12**	**–**	**12**	**12**
Disposals	**(4)**	**–**	**(4)**	**–**
Dividends and distributions received[1]	**(30)**	**(40)**	**(70)**	**–**
Share of retained profit:				
Underlying profit after tax	**–**	**12**	**12**	**–**
Investment property fair value movements	**–**	**7**	**7**	**–**
Retail financing fair value movements	**–**	**(7)**	**(7)**	**–**
Share of profit on disposal of properties	**–**	**2**	**2**	**–**
	296	**60**	**356**	**18**
Movements in other comprehensive income (note 24)	**–**	**3**	**3**	**–**
At 14 March 2015	**296**	**63**	**359**	**18**
At 17 March 2013	390	142	532	91
Additions	13	–	13	–
Disposals	(85)	(92)	(177)	(85)
Other adjustments	–	7	7	–
Dividends received	–	(1)	(1)	–
Share of retained profit:				
Underlying profit after tax	–	30	30	–
Retail financing fair value movements	–	(3)	(3)	–
Share of profit on disposal of properties	–	1	1	–
	318	84	402	6
Movements in other comprehensive income (note 24)	–	2	2	–
At 15 March 2014	318	86	404	6

1 The dividends and distributions received include £30 million return of partner capital.

14 Investments in joint ventures and associates continued

The Group's principal joint ventures are:

	Statutory Year-end	Share of ordinary allotted capital	Country of registration or incorporation
BL Sainsbury Superstores Limited (property investment)	31 March	50%	England
Harvest[1] (property investment)	31 March	50%	England

1 Harvest includes The Harvest Limited Partnership, Harvest Development Management and Harvest Two Limited Partnership.

In the prior financial year, 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.

In the current year, joint ventures with a different year-end date to the Group that were previously reported to include the results up to the Group's year-end (2014: 15 March 2014), are now reported to include the results up to 28 February 2015, the nearest month-end to the Group's year-end. BL Sainsbury Superstores Limited joint venture continues to be reported to the Group's year-end 14 March 2015. Management accounts for the joint ventures are used where relevant and adjustments have been made for the effects of significant transactions or events that occurred between 28 February and the Group's balance sheet date. The Group's share of the assets, liabilities, income and expenses of its joint ventures are detailed below:

	2015 £m	2014 £m
Non-current assets	**558**	666
Current assets	**53**	46
Current liabilities	**(45)**	(48)
Non-current liabilities	**(218)**	(265)
Net assets	**348**	399
Share of joint venture losses	**6**	–
Investments in joint ventures and associates	**354**	399
Income	**73**	213
Expenses	**(72)**	(185)
Investment property fair value movements	**7**	–
Share of joint venture profit after tax	**8**	28

Investments in joint ventures and associates at 14 March 2015 include £5 million of goodwill (2014: £5 million).

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

	BL Sainsbury Superstores Limited		Harvest	
	2015[1] £m	2014[2] £m	**2015[3] £m**	2014[2] £m
Non-current assets	**1,038**	1,208	**63**	115
Current assets	**11**	2	**31**	46
Current liabilities	**(21)**	(43)	**(15)**	(30)
Non-current liabilities	**(435)**	(524)	**–**	(4)
Joint venture net assets	**593**	643	**79**	127
Income	**63**	65	**18**	25
Expenses	**(41)**	(38)	**(5)**	(17)
Investment property fair value movements	**14**	6	**–**	(5)
Joint venture profit after tax	**36**	33	**13**	3

1 As at and for the 52 weeks ended 14 March 2015.
2 As at and for the 52 weeks ended 15 March 2014.
3 As at and for the 50 weeks ended 28 February 2015.

15 Available-for-sale financial assets

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Non-current				
Unlisted equity investments	**2**	2	**–**	–
Investment securities	**–**	32	**–**	–
Interest bearing financial assets	**37**	37	**37**	37
Other financial asset	**145**	184	**–**	–
	184	255	**37**	37

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 0.8 per cent (2014: three per cent) and a weighted average cost of capital of nine per cent (2014: nine 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 £nil (2014: £32 million) related 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 £nil (2014: £1 million).

16 Inventories

	2015 £m	2014 £m
Goods held for resale	**994**	1,001
Development properties	**3**	4
	997	1,005

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 14 March 2015 was £17,501 million (2014: £17,883 million).

17 Receivables

(a) Trade and other receivables

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Non-current				
Amounts owed by Group entities	**–**	–	**1,363**	1,229
Other receivables	**73**	26	**–**	–
	73	26	**1,363**	1,229
Prepayments and accrued income	**10**	–	**–**	–
	83	26	**1,363**	1,229
Current				
Trade receivables	**101**	125	**–**	–
Amounts owed by Group entities	**–**	–	**1,395**	1,422
Other receivables	**271**	247	**–**	–
	372	372	**1,395**	1,422
Prepayments and accrued income	**99**	61	**4**	6
	471	433	**1,399**	1,428

Trade receivables are non-interest bearing and are on commercial terms. Current other receivables of £271 million (2014: £247 million), which include £121 million (2014: £117 million) of bank funds in the course of settlement, are generally non-interest bearing. The carrying amounts of trade and other receivables are denominated in sterling.

17 Receivables continued

Current amounts owed by Group entities to the Company include £nil (2014: £60 million) of 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.

(b) Amounts due from Sainsbury's Bank customers

	2015 £m	2014 £m
Non-current		
Loans and advances to customers	**1,444**	1,323
Impairment of loans and advances	**(32)**	(31)
	1,412	1,292
Current		
Loans and advances to customers	**1,654**	1,335
Impairment of loans and advances	**(55)**	(52)
	1,599	1,283

Loans and advances to customers accrue interest at commercial borrowing rates. Sainsbury's Bank has pledged the rights to £487 million in a pool of Bank issued loans and advances to customers for £240 million of Treasury Bills (under the Bank of England Funding for Lending Scheme). These Treasury Bills can then be converted to cash as a source of future funding to the Bank. As at 14 March 2015, there was £nil (2014: £nil) borrowings drawn down.

Refer to note 28 for details on Sainsbury's Bank credit risk.

(c) Provision for impairment of loans and advances

	2015 £m	2014 £m
Opening provision	**(83)**	–
Acquisition of subsidiaries	**–**	(83)
Additional provisions	**(21)**	(2)
Utilisation of provision	**16**	2
Amortisation of discount	**1**	–
Closing provision	**(87)**	(83)

(d) Major counterparties

Major counterparties are identified as follows:

	2015 Number of counterparties	2015 Balance £m	2014 Number of counterparties	2014 Balance £m
Trade receivables	**–**	**–**	2	24
Other receivables	**2**	**35**	2	26
Related parties	**1**	**13**	1	28

In the prior year significant trade receivables identified above relate to amounts receivable from credit card companies and balances due from external suppliers.

At 14 March 2015, two significant other receivables were identified, being amounts due from CBRE of £11 million and an amount due from Lloyds Banking Group of £24 million (2014: £15 million due from the National Health Service and £11 million due from CBRE).

The related party receivable in 2015 and 2014 is from the Group's joint venture The Harvest Limited Partnership. Loans are approved by the Investment Committee.

No major counterparty balances are considered overdue or impaired.

18 Non-current assets held for sale

Non-current assets held for sale of £84 million (2014: £7 million) for the Group and £15 million (2014: £nil) for the Company relate to properties held in the retailing segment. Sale of these assets is expected to occur in the financial year beginning 15 March 2015. Assets held for sale at 15 March 2014 were sold during the financial year ended 14 March 2015.

19 Payables

(a) Trade and other payables

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Current				
Trade payables	**2,089**	1,846	**–**	–
Amounts owed to Group entities	**–**	–	**4,403**	4,427
Other payables	**580**	590	**19**	30
Accruals and deferred income	**292**	256	**–**	–
	2,961	2,692	**4,422**	4,457
Non-current				
Amounts owed to Group entities	**–**	–	**798**	863
Other payables	**9**	10	**–**	–
Accruals and deferred income	**256**	194	**–**	–
	265	204	**798**	863

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 £16 million (2014: £11 million) and US dollar denominated trade payables of £46 million (2014: £35 million).

(b) Amounts due to Sainsbury's Bank customers and banks

	2015 £m	2014 £m
Current		
Customer accounts	**3,305**	3,245
Other deposits	**20**	–
Senior secured loan notes	**70**	–
	3,395	3,245
Non-current		
Customer accounts	**185**	302
Other deposits	**3**	–
Senior secured loan notes	**78**	–
	266	302

Amounts due to Sainsbury's Bank customers are generally repayable on demand and accrue interest at commercial deposit rates.

Sainsbury's Bank, via its subsidiary undertakings, has entered a £400 million asset backed commercial paper securitisation of consumer loans of which £150 million had been drawn prior to year end. Interest on the notes is repayable at a floating rate linked to three-month LIBOR and their contractual repayment is determined by cash flows on the relevant personal loans included in the collateral pool.

Other deposits include £23 million (2014: £nil) of UK non-financial wholesale counterparties.

20 Borrowings

Group	2015 Current £m	2015 Non-current £m	2015 Total £m	2014 Current £m	2014 Non-current £m	2014 Total £m
Secured loans:						
Loan due 2018	**95**	**778**	**873**	88	868	956
Loan due 2031	**39**	**795**	**834**	28	827	855
Unsecured loans:						
Bank overdrafts	**9**	**–**	**9**	13	–	13
Revolving credit facility due 2017	**–**	**120**	**120**	–	200	200
Bank loan due 2014	**–**	**–**	**–**	69	–	69
Bank loans due 2015	**86**	**–**	**86**	96	92	188
Bank loans due 2016	**–**	**35**	**35**	–	42	42
Bank loans due 2017	**–**	**–**	**–**	–	60	60
Bank loans due 2019	**–**	**200**	**200**	–	–	–
Convertible bond due 2014	**–**	**–**	**–**	189	–	189
Convertible bond due 2019	**1**	**409**	**410**	–	–	–
Other loans due 2015	**–**	**–**	**–**	24	–	24
Finance lease obligations	**30**	**169**	**199**	27	161	188
Total borrowings	**260**	**2,506**	**2,766**	534	2,250	2,784

Company	2015 Current £m	2015 Non-current £m	2015 Total £m	2014 Current £m	2014 Non-current £m	2014 Total £m
Bank overdrafts	**–**	**–**	**–**	7	–	7
Revolving credit facility due 2017	**–**	**120**	**120**	–	200	200
Bank loan due 2014	**–**	**–**	**–**	25	–	25
Bank loans due 2015	**86**	**–**	**86**	96	92	188
Bank loans due 2016	**–**	**35**	**35**	–	42	42
Bank loans due 2017	**–**	**–**	**–**	–	60	60
Bank loans due 2019	**–**	**200**	**200**	–	–	–
Convertible bond due 2014	**–**	**–**	**–**	189	–	189
Convertible bond due 2019	**1**	**409**	**410**	–	–	–
Other loans due 2015	**–**	**–**	**–**	24	–	24
Total borrowings	**87**	**764**	**851**	341	394	735

Secured loans

Secured loans are secured on 125 (2014: 125) supermarket properties (note 11) and comprise loans from two finance companies, Eddystone Finance plc and Longstone Finance plc:

- a fixed rate amortising loan from Eddystone Finance plc with an outstanding principal value of £850 million (2014: £929 million) at a weighted average rate of 5.43 per cent and carrying amount of £873 million (2014: £956 million) with a final repayment date of April 2018; and
- an inflation linked amortising loan from Longstone Finance plc with an outstanding principal value of £811 million (2014: £829 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 £834 million (2014: £855 million) with a final repayment date of April 2031.

The Group has entered into interest rate swaps to convert £211 million (2014: £211 million) of the £850 million (2014: £929 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 fixed to floating rate 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 (2014: £1 million).

The Group has entered into inflation swaps to convert £400 million (2014: £400 million) of the £811 million (2014: £829 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).

The principal activity of Eddystone Finance plc and Longstone Finance plc is the issuing of commercial mortgage backed securities and applying the proceeds towards the Secured loans due 2018 and 2031 with the Group as summarised above.

SFM Corporate Services Limited holds all the issued share capital of Eddystone Finance Holdings Limited and Longstone Finance Holdings Limited on trust for charitable purposes. Eddystone Finance Holdings Limited beneficially owns all the issued share capital of Eddystone Finance plc and Longstone Finance Holdings Limited beneficially owns all the issued share capital of Longstone Finance plc. As the Group has no interest, power or bears any risk over these entities they are not included in the Group consolidation.

Bank overdrafts

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

Revolving credit facility

The Group maintains a syndicated committed revolving credit facility for £1,150 million. The £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 14 March 2015, £120 million had been drawn under Facility (A) (2014: £200 million).

The revolving credit facility incurs commitment fees at market rates and drawdowns bear interest at a spread above LIBOR.

20 Borrowings continued

Bank loans due 2014

In April 2014, the Group prepaid a £25 million loan due July 2014 without penalty and also prepaid a £40 million loan due May 2015 at fair value.

Bank loans due 2015

Bank loans due 2015 comprise a €50 million loan due March 2015 at floating rates of interest swapped into a £45 million floating rate loan; and a £50 million loan due June 2015 at floating rates of interest swapped into a fixed rate loan. The £50 million loan and associated interest rate swap have been designated as a cash flow hedge.

During March 2015, the Group repaid upon maturity a £20 million loan due March 2015 at floating rates of interest, 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.

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

During March 2015, the Group prepaid at fair value 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 had been designated as a cash flow hedge.

Bank loans due 2019

Bank loans due 2019 comprise a new £200 million five-year bilateral loan due August 2019 at floating rates of interest, £100 million of which was swapped into fixed rate liabilities. The £100 million portion of the loan and associated interest rate swap has been designated as a cash flow hedge.

Convertible bond due 2014

In July 2014, the £190 million convertible bond matured and was repaid.

	2015 £m	2014 £m
Liability component as at the beginning of the year	**189**	184
Repaid during the financial year	**(190)**	–
Interest expense	**5**	14
Interest paid	**(4)**	(8)
Other	**–**	(1)
Liability component as at the end of the year	**–**	189

Convertible bond due 2019

In November 2014, the Group issued £450 million of unsecured convertible bonds due November 2019. The bonds pay a coupon of 1.25 per cent payable semi-annually. Each bond is convertible into ordinary shares of J Sainsbury plc at any time up to 21 November 2019 at a conversion price of 353 pence.

The net proceeds of the convertible bond have been split into a liability component of £411 million and an equity component of £39 million. The equity component represents the fair value of the embedded option to convert the bond into ordinary shares of the Company.

	2015 £m	2014 £m
Face value of the convertible bond issued in November 2014	**450**	–
Equity component	**(39)**	–
Liability component on initial recognition in November 2014	**411**	–
Interest expense	**5**	–
Other[1]	**(6)**	–
Liability component as at the end of the financial year	**410**	–

1 Other relates to fees.

Other loans due 2015

The three non-bank fixed rate loans due March 2015 totalling €28 million swapped into a £23 million floating rate loan were repaid upon maturity in March 2015. These transactions had been accounted for as fair value hedges (note 29).

Finance lease obligations

	Minimum lease payments 2015 £m	Minimum lease payments 2014 £m	**Present value of minimum lease payments 2015 £m**	Present value of minimum lease payments 2014 £m
Amounts payable under finance leases:				
Within one year	**38**	35	**30**	27
In the second to fifth years inclusive	**124**	122	**100**	101
After five years	**207**	195	**69**	60
	369	352	**199**	188
Less: future finance charges	**(170)**	(164)		
Present value of lease obligations	**199**	188		
Disclosed as:				
Current	**30**	27		
Non-current	**169**	161		
	199	188		

20 Borrowings continued

Finance leases have effective interest rates ranging from 2.4 per cent to 9.0 per cent (2014: 2.4 per cent to 9.0 per cent). The average remaining lease term is 67 years (2014: 68 years).

In May 2014, the Group entered into a £30 million five-year hire purchase facility with respect to moveable in-store assets due 2019.

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 16 March 2014	**(176)**	**48**	**(34)**	**(96)**	**58**	**12**	**(39)**	**(227)**
Credit/(charge) to income statement	**16**	**4**	**(4)**	**(1)**	**–**	**(6)**	**(4)**	**5**
Credit/(charge) to equity or other comprehensive income	**–**	**–**	**9**	**–**	**(1)**	**–**	**–**	**8**
Rate change adjustment to income statement	**(2)**	**–**	**–**	**–**	**–**	**–**	**1**	**(1)**
At 14 March 2015	**(162)**	**52**	**(29)**	**(97)**	**57**	**6**	**(42)**	**(215)**
At 17 March 2013	(214)	49	(36)	(100)	48	19	(43)	(277)
Acquisition of subsidiary	–	–	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)

Group	**2015 £m**	2014 £m
Total deferred income tax liabilities	**(330)**	(345)
Total deferred income tax assets	**115**	118
Net deferred income tax liability recognised in non-current liabilities	**(215)**	(227)

Company	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Total £m
At 16 March 2014	**25**	**–**	**(25)**	**–**
Charge to income statement	**–**	**–**	**–**	**–**
Rate change adjustment to income statement	**–**	**–**	**–**	**–**
At 14 March 2015	**25**	**–**	**(25)**	**–**
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)	–

Company	**2015 £m**	2014 £m
Total deferred income tax liabilities	**(25)**	(25)
Total deferred income tax assets	**25**	25
Net deferred income tax asset	**–**	–

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 and onerous contracts £m	Group long service awards £m	Other provisions[1] £m	Group total £m	Company onerous leases £m	Company disposal provision £m	Company total £m
At 16 March 2014	**29**	**7**	**33**	**69**	**3**	**1**	**4**
Additional provisions	**88**	**1**	**21**	**110**	**–**	**–**	**–**
Unused amounts reversed	**(3)**	**–**	**(2)**	**(5)**	**–**	**–**	**–**
Utilisation of provision	**(29)**	**(1)**	**(26)**	**(56)**	**(1)**	**–**	**(1)**
Amortisation of discount	**3**	**–**	**–**	**3**	**1**	**–**	**1**
At 14 March 2015	**88**	**7**	**26**	**121**	**3**	**1**	**4**
At 17 March 2013	38	7	5	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	7	33	69	3	1	4

1 Group disposal provisions of £1 million (2014: £1 million) have been included in other provisions in the current and prior year.

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Disclosed as:				
Current	**44**	40	**2**	2
Non-current	**77**	29	**2**	2
	121	69	**4**	4

The onerous lease provision covers residual lease commitments of up to an average of 23 years (2014: 29 years), after allowance for existing or anticipated sublet rental income. The additional provisions of £88 million includes £50 million onerous lease charge and £30 million onerous contract charge, recognised as part of the impairment review discussed in note 3. The assumptions used in the calculation of the onerous lease charge recognised as part of the impairment review are consistent with those discussed in note 11. The onerous contract provision is expected to be utilised within the next financial year and hence is classified as current.

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

Additional provisions of £21 million within other provisions include a £14 million provision for restructuring costs. The prior year additional provisions of £16 million included within other provisions mainly included a commercial item for which we continue to defend our position. The prior year £14 million acquired through business combinations related to Sainsbury's Bank provisions.

23 Called up share capital and share premium account

Group and Company	2015 million	2014 million	2015 £m	2014 £m
Called up share capital				
Allotted and fully paid ordinary shares – 28 4/7	**1,919**	1,907	**548**	545
Share premium account				
Share premium			**1,108**	1,091

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 16 March 2014	**1,907**	**545**	**1,091**
Allotted in respect of share option schemes	**12**	**3**	**17**
At 14 March 2015	**1,919**	**548**	**1,108**
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

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 16 March 2014	**(2)**	**153**	**(26)**	**2**	**127**	**680**
Currency translation differences	**3**	**–**	**–**	**–**	**3**	**–**
Available-for-sale financial assets fair value movements (net of tax):						
Group	**–**	**(30)**	**–**	**–**	**(30)**	**–**
Items reclassified from available-for-sale financial assets reserve	**–**	**1**	**–**	**–**	**1**	**–**
Cash flow hedges effective portion of fair value movements (net of tax):						
Group	**–**	**–**	**(13)**	**–**	**(13)**	**–**
Joint ventures (note 14)	**–**	**–**	**3**	**–**	**3**	**–**
Items reclassified from cash flow hedge reserve	**–**	**–**	**21**	**–**	**21**	**–**
Convertible bond – equity component	**–**	**–**	**–**	**39**	**39**	**–**
Amortisation of convertible bond – equity component	**–**	**–**	**–**	**(5)**	**(5)**	**–**
At 14 March 2015	**1**	**124**	**(15)**	**36**	**146**	**680**
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

Company	Available-for-sale assets £m	Convertible bond reserve £m	Cash flow hedge reserve £m	**Total other reserves £m**	Capital redemption reserve £m
At 16 March 2014	**6**	**2**	**(1)**	**7**	**680**
Available-for-sale financial assets fair value movements (net of tax)	**2**	**–**	**–**	**2**	**–**
Cash flow hedges effective portion of fair value movements (net of tax)	**–**	**–**	**(5)**	**(5)**	**–**
Items reclassified from cash flow hedge reserve	**–**	**–**	**2**	**2**	**–**
Convertible bond – equity component	**–**	**39**	**–**	**39**	**–**
Amortisation of convertible bond – equity component	**–**	**(5)**	**–**	**(5)**	**–**
At 14 March 2015	**8**	**36**	**(4)**	**40**	**680**
At 17 March 2013	6	7	(2)	11	680
Items reclassified from cash flow hedge reserve	–	–	1	1	–
Amortisation of convertible bond – equity component	–	(5)	–	(5)	–
At 15 March 2014	6	2	(1)	7	680

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, which matured and was repaid in July 2014, and the £450 million convertible bond issued in November 2014.

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 16 March 2014	**(9)**	**3,569**	**3,560**	**2,046**
(Loss)/profit for the year	**–**	**(166)**	**(166)**	**344**
Remeasurements on defined benefit pension schemes (net of tax)	**–**	**(14)**	**(14)**	**–**
Dividends paid	**–**	**(330)**	**(330)**	**(330)**
Share-based payment (net of tax)	**–**	**21**	**21**	**–**
Shares vested	**9**	**–**	**9**	**–**
Purchase of own shares	**(18)**	**–**	**(18)**	**–**
Allotted in respect of share option schemes	**–**	**(12)**	**(12)**	**21**
Utilised in respect of share option schemes	**–**	**–**	**–**	**(1)**
Amortisation of convertible bond – equity component	**–**	**5**	**5**	**5**
Purchase of non-controlling interest	**–**	**2**	**2**	**–**
At 14 March 2015	**(18)**	**3,075**	**3,057**	**2,085**
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 component	–	5	5	5
At 15 March 2014	(9)	3,569	3,560	2,046

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

The Group owns 5,960,476 (2014: 2,061,793) of its ordinary shares of 28$^4/_7$ pence nominal value each. At 14 March 2015, the total nominal value of the own shares was £2 million (2014: £1 million).

All shares (2014: 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 14 March 2015 was £15 million (2014: £6 million).

26 Notes to the cash flow statements

(a) Reconciliation of operating (loss)/profit to cash generated from operations

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
(Loss)/profit before tax	**(72)**	898	**373**	375
Net finance costs	**161**	139	**(123)**	(23)
Share of post-tax profits of joint ventures (note 14)	**(8)**	(28)	**–**	–
Dividend income from subsidiaries	**–**	–	**(252)**	(250)
Operating profit/(loss)	**81**	1,009	**(2)**	102
Adjustments for:				
Depreciation expense	**545**	536	**–**	–
Amortisation expense	**34**	15	**–**	–
Non-cash acquisition adjustments[1]	**(31)**	(19)	**–**	–
Sainsbury's Bank impairment losses on loans and advances	**21**	2	**–**	–
Profit on disposal of properties	**(5)**	(51)	**–**	–
Impairment of property, plant and equipment	**540**	92	**–**	1
Impairment of intangible assets	**8**	1	**–**	–
Nectar VAT recovery	**–**	(14)	**–**	–
Foreign exchange differences	**(12)**	6	**–**	–
Share-based payments expense	**21**	33	**–**	–
Retirement benefit obligations[2]	**(79)**	(244)	**–**	–
Provision for diminution in value of investment	**–**	–	**23**	135
Release of provision for diminution in value of investment	**–**	–	**(11)**	–
Write down of advances to Group companies	**–**	–	**(28)**	(237)
Operating cash flows before changes in working capital	**1,123**	1,366	**(18)**	1
Changes in working capital:				
Decrease/(increase) in inventories	**6**	(19)	**–**	–
Decrease in available-for-sale financial assets	**32**	–	**–**	–
(Increase)/decrease in trade and other receivables	**(57)**	13	**45**	13
Increase in amounts due from Sainsbury's Bank customers	**(426)**	(23)	**–**	–
(Increase)/decrease in trade and other payables	**294**	(118)	**(519)**	22
Increase in amounts due to Sainsbury's Bank customers	**114**	6	**–**	–
Increase in provisions	**50**	2	**–**	2
Cash generated from/(used in) operations	**1,136**	1,227	**(492)**	38

1 Refer to note 3 for details of acquisition adjustments. This excludes £18 million (2014: £1 million) amortisation on acquired intangibles included within amortisation in this note.
2 The adjustment for retirement benefit obligations reflects the difference between the service charge of £nil (2014: £34 million) for the defined benefit scheme, defined benefit pension scheme expenses of £6 million (2014: £7 million), one-off past service credit of £nil (2014: £(158) million) and the cash contributions of £85 million made by the Group to the defined benefit scheme (2014: £127 million).

(b) Cash and cash equivalents

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

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cash in hand and bank balances	**970**	409	**1**	1
Money market funds and deposits	**262**	656	**91**	135
Treasury bills	**53**	527	**–**	–
Cash and bank balances	**1,285**	1,592	**92**	136
Bank overdrafts (note 20)	**(9)**	(13)	**–**	(7)
Net cash and cash equivalents	**1,276**	1,579	**92**	129

27 Analysis of net debt

	Group 2015 £m	Sainsbury's Bank £m	Adjusted Group 2015[1] £m	Group 2014 £m	Sainsbury's Bank £m	Adjusted Group 2014[1] £m
Non-current assets						
Interest bearing available-for-sale financial assets	**37**	**–**	**37**	37	–	37
Derivative financial instruments	**21**	**(1)**	**20**	28	(1)	27
	58	**(1)**	**57**	65	(1)	64
Current assets						
Cash and cash equivalents	**1,285**	**(882)**	**403**	1,592	(1,225)	367
Derivative financial instruments	**69**	**–**	**69**	49	–	49
	1,354	**(882)**	**472**	1,641	(1,225)	416
Current liabilities						
Bank overdrafts	**(9)**	**–**	**(9)**	(13)	–	(13)
Borrowings	**(221)**	**–**	**(221)**	(494)	–	(494)
Finance leases	**(30)**	**–**	**(30)**	(27)	–	(27)
Derivative financial instruments	**(75)**	**1**	**(74)**	(65)	–	(65)
	(335)	**1**	**(334)**	(599)	–	(599)
Non-current liabilities						
Borrowings	**(2,337)**	**–**	**(2,337)**	(2,089)	–	(2,089)
Finance leases	**(169)**	**–**	**(169)**	(161)	–	(161)
Derivative financial instruments	**(38)**	**6**	**(32)**	(21)	6	(15)
	(2,544)	**6**	**(2,538)**	(2,271)	6	(2,265)
Total net debt	**(1,467)**	**(876)**	**(2,343)**	(1,164)	(1,220)	(2,384)

1 The Group's definition of net debt excludes Sainsbury's Bank's own net debt balances (2014: 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

	2015 £m	2014 £m
Net debt as at the beginning of the year	**(2,384)**	(2,162)
Net (decrease)/increase in cash and cash equivalents	**(303)**	1,075
Elimination of net decrease/(increase) in Sainsbury's Bank cash and cash equivalents	**343**	(1,225)
Net (increase)/decrease in borrowings[1]	**(20)**	1
Net increase of obligations under finance leases	**(11)**	(28)
Fair value movements	**(7)**	(45)
Equity component of convertible bond	**39**	–
Net debt as at the end of the year	**(2,343)**	(2,384)

1 Excluding fair value and Sainsbury's Bank derivative movements.

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 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 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 core long-dated borrowings, pre-funding future cash flow commitments and holding adequate contingent liquidity in the form of committed 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. The Group maintains a syndicated committed revolving credit facility for £1,150 million. The £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 14 March 2015, £120 million had been drawn under Facility (A) (2014: £200 million).

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 14 March 2015				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	**(130)**	**(134)**	**(712)**	**–**
Loan due 2031[1]	**(64)**	**(65)**	**(204)**	**(863)**
Unsecured loans:				
Bank overdraft	**(9)**	**–**	**–**	**–**
Revolving credit facility due 2017[2]	**(1)**	**(1)**	**(120)**	**–**
Bank loans due 2015[2,3]	**(86)**	**–**	**–**	**–**
Bank loans due 2016[2,3]	**(1)**	**(36)**	**–**	**–**
Bank loans due 2019[2]	**(4)**	**(4)**	**(211)**	**–**
Convertible bond due 2019	**(6)**	**(6)**	**(467)**	**–**
Finance lease obligations[2]	**(39)**	**(46)**	**(88)**	**(207)**
Trade and other payables	**(2,926)**	**(9)**	**–**	**–**
Amounts due to Sainsbury's Bank customers and banks[5]	**(3,763)**	**(171)**	**(101)**	**–**
Derivative contracts – net settled				
Commodity contracts	**(8)**	**–**	**–**	**–**
Interest rate swaps in hedging relationships[1,4]	**(4)**	**(3)**	**1**	**–**
Other interest rate swaps[4]	**1**	**1**	**–**	**–**
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	**(367)**	**(21)**	**–**	**–**
Foreign exchange forwards – inflow[3]	**382**	**21**	**–**	**–**
Commodity contracts – outflow	**(15)**	**(15)**	**(46)**	**(61)**
Commodity contracts – inflow	**12**	**13**	**38**	**60**
Cross currency swaps – outflow[3,4]	**(47)**	**(45)**	**–**	**–**
Cross currency swaps – inflow[3,4]	**37**	**36**	**–**	**–**

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 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 due 2017[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	–

Company	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 14 March 2015				
Revolving credit facility due 2017[2]	**(1)**	**(1)**	**(120)**	**–**
Bank loan due 2015[2,3]	**(86)**	**–**	**–**	**–**
Bank loans due 2016[2,3]	**(1)**	**(36)**	**–**	**–**
Bank loans due 2019[2]	**(4)**	**(4)**	**(211)**	**–**
Convertible bond due 2019	**(6)**	**(6)**	**(467)**	**–**
Amounts owed to Group entities[2]	**(4,438)**	**(131)**	**(724)**	**–**
Other payables	**(19)**	**–**	**–**	**–**
At 15 March 2014				
Bank overdraft	(7)	–	–	–
Revolving credit facility due 2017[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)	–	–	–

Assumptions:
1 Cash flows relating to debt and swaps linked to inflation rates have been calculated using a RPI of 1.1 per cent for the year ended 14 March 2015, 1.8 per cent for the year ended 13 March 2016 and 2.6 per cent for future years (2014: RPI of 2.8 per cent for the year ended 15 March 2014 and 3.1 per cent for future years).
2 Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates at 14 March 2015 and 15 March 2014.
3 Cash flows in foreign currencies have been translated using spot rates at 14 March 2015 and 15 March 2014.
4 The swap rate which matches the remaining term of the interest rate swap at 14 March 2015 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2014: 15 March 2014).
5 Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. 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.

28 Financial risk management continued

Further information relating to liquidity risk in Sainsbury's Bank is more fully described in the separate 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 Group 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. The Group considers its maximum credit risk to be £5,124 million (2014: £4,897 million), equivalent to the Group's total financial assets, and of this amount £4,074 million relates to Sainsbury's Bank (2014: £3,965 million).

The Group sets counterparty limits for each of its banking and investment counterparties based on their credit ratings but with minimum senior unsecured 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 and cash at ATMs:

Counterparty	Long-term rating	**Group 2015 £m**	Group 2014 £m	**Company 2015 £m**	Company 2014 £m
Financial institutions – Money market funds	AAAm/Aaa	**114**	367	**65**	60
Financial institutions – Money market deposits	AA+/Aa1 to A/A2	**148**	289	**25**	75
UK Government Treasury Bills	AA+/Aa1 to A/A2	**53**	527	**–**	–
Deposits of central banks	AA+/Aa1	**485**	5	**–**	–

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 2015 £m**	Group 2014 £m	**Company 2015 £m**	Company 2014 £m
Interest rate swaps	AA+/Aa1 to A/A2	**43**	49	**43**	47
Interest rate swaps	A/A3- to BBB+/Baa1	**21**	24	**21**	24
FX forward contracts	AA+/Aa1 to A/A2	**24**	1	**–**	–
FX forward contracts	A/A3- to BBB+/Baa1	**2**	–	**–**	–

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.

				Amounts not offset in balance sheet		
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**	Balances subject to a contractual right of offset £m	Cash collateral pledged £m	Net amounts £m
At 14 March 2015						
Derivative financial assets	**90**	**–**	**90**	**(16)**	**(10)**	**64**
Derivative financial liabilities	**(113)**	**–**	**(113)**	**16**	**5**	**(92)**
Cash and cash equivalents	**1,285**	**–**	**1,285**	**(8)**	**–**	**1,277**
Bank overdrafts	**(9)**	**–**	**(9)**	**8**	**–**	**(1)**
Trade and other payables	**(1,939)**	**247**	**(1,692)**	**–**	**–**	**(1,692)**
	(686)	**247**	**(439)**	**–**	**(5)**	**(444)**
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

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: Balances subject to a contractual right of offset £m	Amounts not offset in balance sheet: Cash collateral pledged £m	Net amounts £m
At 14 March 2015						
Derivative financial assets	**77**	**–**	**77**	**–**	**(10)**	**67**
Derivative financial liabilities	**(75)**	**–**	**(75)**	**–**	**–**	**(75)**
Cash and cash equivalents	**92**	**–**	**92**	**–**	**–**	**92**
	94	**–**	**94**	**–**	**(10)**	**84**
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

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 14 March 2015, the Group held £10 million of collateral against financial derivatives (2014: £17 million).

At 14 March 2015, Sainsbury's Bank had no collaterised reverse repo transactions, (2014: £45 million fully collaterised by UK Gilts).

The Group operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. At 14 March 2015, the Group had a £8 million overdraft (2014: £7 million) 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 foreign currency denominated supply contracts.

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 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:

	2015 Change in exchange rate impact on post-tax loss +/-10% £m	**2015 Change in exchange rate impact on cash flow hedge reserve +/-10% £m**	2014 Change in exchange rate impact on post-tax profit +/-10% £m	2014 Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	**(3)/4**	**(25)/31**	2/(2)	(29)/36
EUR/GBP	**(1)/1**	**(10)/12**	–/–	(10)/12

(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 if 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.

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 14 March 2015				
Interest bearing available-for-sale financial assets	**–**	**37**	**–**	**37**
Amounts due from Sainsbury's Bank customers	**2,163**	**848**	**–**	**3,011**
Cash and cash equivalents	**656**	**629**	**–**	**1,285**
Borrowings	**(1,291)**	**(442)**	**(834)**	**(2,567)**
Finance lease obligations	**(133)**	**(66)**	**–**	**(199)**
Amounts due to Sainsbury's Bank customers and banks	**(509)**	**(3,152)**	**–**	**(3,661)**
Derivative effect:				
Interest rate swaps	**(1,602)**	**1,602**	**–**	**–**
Inflation linked swaps	**(350)**	**–**	**350**	**–**
Total	**(1,066)**	**(544)**	**(484)**	**(2,094)**
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)

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.

	2015 Impact on post-tax loss £m	**2015 Impact on cash flow hedge reserve £m**	2014 Impact on post-tax profit £m	2014 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(10)/11**	**5/(4)**	(3)/–	2/(2)

(ii) Cash flow sensitivity for variable capped rate liabilities

The Group holds £nil capped floating rate borrowings (2014: £44 million) and £834 million of capped inflation-linked borrowings (2014: £855 million) of which £350 million (2014: £300 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing April 2017 to April 2018. The Group has also entered into £50 million (2014: £100 million) of forward starting inflation rate swaps maturing April 2019.

The Group considers that a 100 basis point movement in the RPI rate is a reasonable measure of volatility. The sensitivity of variable capped balances to a change of 100 basis points in the RPI rate at the balance sheet date is shown below:

	2015 Impact on post-tax loss £m	**2015 Impact on cash flow hedge reserve £m**	2014 Impact on post-tax profit £m	2014 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(4)/4**	**10/(10)**	(4)/4	13/(13)

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 of electricity and gas 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.

	2015 Impact on cash flow hedge reserve £m	2014 Impact on cash flow hedge reserve £m
Change in the fair value of the power, diesel and gasoil price +/-10%	**2/(2)**	3/(3)

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.

In November 2014, the Board announced a new affordable dividend policy under which dividend cover is fixed at two times underlying earnings for 2014/15 and the next three years.

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 14 March 2015.

Information relating to Sainsbury's Bank capital risk management is detailed in note 37.

Sainsbury's Bank

The principal financial risks faced by Sainsbury's Bank relate to liquidity and funding risk, counterparty credit risk (retail and wholesale) and market risk, including interest rate risk.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Bank is unable to meet its financial commitments as they are expected to 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'). The Bank has completed an Individual Liquidity Adequacy Assessment (ILAA) that allows the Bank to demonstrate that it understands the liquidity risks it is running and has appropriate controls in place to mitigate them, including establishment of minimum levels of liquidity to be held. Limits are informed by a number of stress scenarios that assess the survival period of the Bank. In meeting internal limits as well as PRA requirements, the Bank maintains a portfolio of highly liquid assets that can be readily sold to meet the Bank's obligations to depositors and other creditors. The portfolio is managed on a daily basis and within the framework as outlined in the ILAA and by the PRA.

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 was £319 million (2014: £58 million), being £79 million (2014: £58 million) of undrawn loan commitments and £240 million (2014: £nil) of Treasury Bills obtained under the Bank of England Funding for Lending Scheme (FLS). Sainsbury's Bank had pledged the rights to a pool of Bank issued loans and advances to customers in exchange for FLS Treasury Bills which are accounted for off balance sheet but are available as a source of liquidity to the Bank.

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:

	2015 £m	2014 £m
Impaired	**107**	103
Past due but not impaired	**16**	16
Neither past due nor impaired	**2,970**	2,540
Gross	**3,093**	2,659
Less: allowance for impairment	**(87)**	(83)
Less: hedging fair value adjustment	**5**	(1)
Net book value	**3,011**	2,575

	Unsecured lending £m	Secured lending £m	Total £m
At 14 March 2015			
Past due and impaired			
Less than three months, but impaired	**2**	**–**	**2**
Past due three to six months	**6**	**–**	**6**
Past due six to 12 months	**–**	**–**	**–**
Past due over 12 months	**–**	**1**	**1**
Recoveries	**98**	**–**	**98**
Possession	**–**	**–**	**–**
Total gross impaired loans	**106**	**1**	**107**
Past due but not impaired			
Past due less than three months but not impaired	**14**	**2**	**16**
Total gross past due but not impaired	**14**	**2**	**16**
Neither past due nor impaired			
Not impaired	**2,923**	**47**	**2,970**
Total gross neither past due nor impaired	**2,923**	**47**	**2,970**
Total gross amount due	**3,043**	**50**	**3,093**
At 15 March 2014			
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 £8 million (2014: £10 million). The fair value of collateral held against possession cases was £nil (2014: £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 movements 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			
	2015	**2015**	2014	2014	**2015**	**2015**	2014	2014
	Asset £m	**Liability £m**	Asset £m	Liability £m	**Asset £m**	**Liability £m**	Asset £m	Liability £m
Non-current	**21**	**(38)**	28	(21)	**33**	**(18)**	23	(10)
Current	**69**	**(75)**	49	(65)	**44**	**(57)**	48	(47)
Total	**90**	**(113)**	77	(86)	**77**	**(75)**	71	(57)

The fair value and notional amount of financial derivatives analysed by hedge type are as follows:

	2015				2014			
	Asset		**Liability**		Asset		Liability	
Group	**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	**21**	**733**	**(6)**	**1,435**	26	548	–	895
Cross currency swaps	**–**	**–**	**–**	**–**	–	–	–	23
Cash flow hedges								
Interest rate swaps	**–**	**–**	**(4)**	**150**	–	–	–	50
Cross currency swaps	**–**	**–**	**–**	**–**	–	–	(10)	90
Inflation rate swaps	**–**	**–**	**(14)**	**400**	–	–	(5)	400
Foreign exchange forward contracts	**26**	**268**	**(10)**	**118**	1	126	(17)	323
Commodity contracts	**–**	**–**	**(8)**	**24**	–	–	(1)	28
Derivatives not in a formal hedging relationship								
Interest rate swaps	**41**	**391**	**(38)**	**331**	47	397	(44)	393
Cross currency swaps	**2**	**17**	**(19)**	**89**	–	–	(9)	167
Commodity contracts	**–**	**–**	**(14)**	**15**	3	13	–	–
Total	**90**	**1,409**	**(113)**	**2,562**	77	1,084	(86)	2,369

	2015				2014			
	Asset		**Liability**		Asset		Liability	
Company	**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	**20**	**211**	**–**	**–**	24	211	–	–
Cross currency swaps	**–**	**–**	**–**	**–**	–	–	–	23
Cash flow hedges								
Interest rate swaps	**–**	**–**	**(4)**	**150**	–	–	–	50
Cross currency swaps	**–**	**–**	**–**	**–**	–	–	(4)	63
Derivatives not in a formal hedging relationship								
Interest rate swaps	**55**	**791**	**(52)**	**731**	47	391	(44)	331
Cross currency swaps	**2**	**17**	**(19)**	**89**	–	–	(9)	167
Total	**77**	**1,019**	**(75)**	**970**	71	602	(57)	634

Fair value hedges

Interest rate and cross currency swaps

The Group holds a £211 million portfolio of interest rate and cross currency swaps (2014: £234 million) 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 and its subsidiaries hold a £1,957 million portfolio of interest rate swaps accounted for as fair value hedges. Interest rate swaps are transacted to hedge the Bank's customer assets and non-interest bearing items (including reserves) through a combination of pay and receive fixed swaps (£1,719 million and £238 million respectively). All derivatives are designated into effective fair value hedge accounting relationships.

For the year to 14 March 2015, the fair value movement in the Group's interest rate swaps resulted in a charge to the income statement of £4 million (2014: £13 million charge). The fair value movement in the underlying fixed rate borrowings and Sainsbury's Bank loans and advances to customers resulted in a credit to the income statement of £4 million (2014: £13 million credit).

29 Financial instruments continued

Cash flow hedges

Interest rate and cross currency swaps
The Group holds a £400 million (2014: £400 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 £150 million portfolio of interest rate swaps (2014: £113 million portfolio of interest rate swaps and cross currency swaps) to hedge a £50 million fixed rate bank loan due 2015 and £100 million of a £200 million floating rate bank loan due 2019. Under the terms of the swaps, the Group receives floating rate interest and pays fixed rate interest.

At 14 March 2015, an unrealised loss of £18 million (2014: £12 million loss) 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 14 March 2015 the Group had forward purchased €153 million (2014: €129 million) and sold sterling at exchange rates ranging from 1.20 to 1.41 (2014: 1.14 to 1.23) with maturities from March 2015 to January 2017 (2014: March 2014 to December 2015) and forward purchased US$407 million (2014: US$533 million) and sold sterling at exchange rates ranging from 1.50 to 1.70 (2014: 1.48 to 1.67) with maturities from March 2015 to June 2016 (2014: March 2014 to June 2015).

At 14 March 2015, an unrealised profit of £12 million (2014: loss of £13 million) is included in other comprehensive income in respect of the forward contracts. This profit will be transferred to the income statement over the next 21 months. During the year a charge to the income statement of £13 million was transferred from the cash flow hedge equity reserve and included in cost of sales (2014: £3 million charge).

Commodity forward contracts
The Group holds a portfolio of commodity forward contracts to hedge its own use fuel consumption over the next 24 months.

At 14 March 2015, an unrealised loss of £7 million (2014: loss of £1 million) is included in other comprehensive income in respect of the commodity contracts. This loss will be transferred to the income statement over the next 24 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 underling hedged item, are not designated in a hedging relationship.

Interest rate and cross currency swaps
The Group holds a £331 million (2014: £331 million) portfolio of interest rate swaps at FVTPL 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 (2014: £391 million) portfolio of interest rate swaps at FVTPL, 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.

The Group holds an £89 million (2014: £167 million) portfolio of cross currency swaps at FVTPL to convert floating rate borrowings denominated in Euro and US dollars into floating rate sterling borrowings. The Group holds a £17 million (2014: £nil) cross currency swap to hedge a Hong Kong dollar intercompany loan due September 2015.

Commodity forward contracts
Commodity forward contracts at FVTPL relates to the Group's long-term fixed price power purchase agreements with independent producers.

Fair value

Set out below 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 £m	Group Fair value £m	Company Carrying amount £m	Company Fair value £m
At 14 March 2015				
Financial assets				
Amounts owed by Group entities	**–**	**–**	**2,758**	**2,950**
Other receivables	**344**	**344**	**–**	**–**
Amounts due from Sainsbury's Bank customers[1]	**3,011**	**3,024**	**–**	**–**
Financial liabilities				
Amounts owed to Group entities	**–**	**–**	**(5,201)**	**(5,278)**
Loans due 2018[2]	**(873)**	**(950)**	**–**	**–**
Loans due 2031	**(834)**	**(1,012)**	**–**	**–**
Bank overdrafts	**(9)**	**(9)**	**–**	**–**
Revolving credit facility due 2017	**(120)**	**(120)**	**(120)**	**(120)**
Bank loans due 2015	**(86)**	**(86)**	**(86)**	**(86)**
Bank loans due 2016	**(35)**	**(35)**	**(35)**	**(35)**
Bank loans due 2017	**–**	**–**	**–**	**–**
Bank loans due 2019	**(200)**	**(200)**	**(200)**	**(200)**
Convertible bond due 2019	**(410)**	**(475)**	**(410)**	**(475)**
Finance lease obligations	**(199)**	**(199)**	**–**	**–**
Amounts due to Sainsbury's Bank customers and banks	**(3,661)**	**(3,661)**	**–**	**–**
At 15 March 2014				
Financial assets				
Amounts owed by Group entities	–	–	2,651	3,233
Other receivables	273	273	–	–
Amounts due from Sainsbury's Bank customers[1]	2,575	2,582	–	–
Financial liabilities				
Amounts owed to Group entities	–	–	(5,290)	(5,385)
Loans due 2018[2]	(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[3]	(24)	(24)	(24)	(24)
Finance lease obligations	(188)	(188)	–	–
Amounts due to Sainsbury's Bank customers	(3,547)	(3,543)	–	–

1 Includes £1,957 million accounted for as a fair value hedge (2014: £1,232 million).
2 Includes £211 million accounted for as a fair value hedge (2014: £211 million).
3 Includes £nil accounted for as a fair value hedge (2014: £23 million).

The fair value of financial assets as disclosed in the table above at 14 March 2015 was £3,368 million (2014: £2,855 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 £6,747 million (2014: £6,592 million). £475 million (2014: £193 million) has been determined using market values and is within Level 1 of the fair value hierarchy. £6,272 million (2014: £6,399 million) has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy.

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
At 14 March 2015				
Available-for-sale financial assets				
Interest bearing financial assets	**–**	**37**	**–**	**37**
Other financial assets	**–**	**–**	**145**	**145**
Financial assets at fair value through profit or loss				
Derivative financial assets	**–**	**90**	**–**	**90**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	**–**	**(99)**	**(14)**	**(113)**

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 15 March 2014				
Available-for-sale financial assets				
Investment securities	–	32	–	32
Interest bearing financial assets	–	37	–	37
Other financial assets	–	–	184	184
Financial assets at fair value through profit or loss				
Derivative financial assets	–	74	3	77
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	–	(86)	–	(86)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 14 March 2015				
Available-for-sale financial assets				
Interest bearing financial assets	**–**	**37**	**–**	**37**
Financial assets at fair value through profit or loss				
Derivative financial assets	**–**	**77**	**–**	**77**
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	**–**	**(75)**	**–**	**(75)**

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 15 March 2014				
Available-for-sale financial assets				
Interest bearing financial assets	–	37	–	37
Financial assets at fair value through profit or loss				
Derivative financial assets	–	71	–	71
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	–	(57)	–	(57)

29 Financial instruments continued

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

52 weeks to 14 March 2015	Available-for-sale financial assets £m	Commodity derivatives £m	Total £m
At 16 March 2014	**184**	**3**	**187**
In finance cost in the Group income statement	**–**	**(17)**	**(17)**
In other comprehensive income	**(39)**	**–**	**(39)**
At 14 March 2015	**145**	**(14)**	**131**

52 weeks to 15 March 2014	Available-for-sale financial assets £m	Commodity derivatives £m	Total £m
At 17 March 2013	154	4	158
In finance cost in the Group income statement	–	(1)	(1)
In other comprehensive income	30	–	30
At 15 March 2014	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 0.8 per cent per annum (2014: three per cent) and a discount rate of nine per cent (2014: nine per cent), (see note 15). The sensitivity of this balance to changes of one 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:

	2015 Change in growth rate +/- 1.0% £m	2015 Change in discount rate +/- 1.0% £m	2014 Change in growth rate +/- 0.5% £m	2014 Change in discount rate +/- 1.0% £m
Available-for-sale assets	**16/(15)**	**(11)/10**	10/(11)	(17)/15

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial liabilities is £14 million (2014: £3 million within derivative financial assets) relating to these agreements. The Group values its Power Purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted back at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

	2015 Change in volume +/- 20.0% £m	2015 Change in electricity forward price +/- 20.0% £m	2014 Change in volume +/- 20.0% £m	2014 Change in electricity forward price +/- 10.0% £m
Derivative financial instruments	**3/(3)**	**17/(18)**	1/(1)	10/(10)

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 14 March 2015 and 15 March 2014.

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
At 14 March 2015						
Cash and cash equivalents	**1,285**	**–**	**–**	**–**	**–**	**1,285**
Trade and other receivables	**445**	**–**	**–**	**–**	**–**	**445**
Amounts due from Sainsbury's Bank customers	**3,011**	**–**	**–**	**–**	**–**	**3,011**
Available-for-sale financial assets	**–**	**184**	**–**	**–**	**–**	**184**
Trade and other payables	**–**	**–**	**–**	**–**	**(2,935)**	**(2,935)**
Current borrowings	**–**	**–**	**–**	**–**	**(260)**	**(260)**
Non-current borrowings	**–**	**–**	**–**	**–**	**(2,506)**	**(2,506)**
Amounts due to Sainsbury's Bank customers and banks	**–**	**–**	**–**	**–**	**(3,661)**	**(3,661)**
Derivative financial instruments	**–**	**–**	**(28)**	**5**	**–**	**(23)**
	4,741	**184**	**(28)**	**5**	**(9,362)**	**(4,460)**
At 15 March 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)

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
At 14 March 2015						
Cash and cash equivalents	**92**	**–**	**–**	**–**	**–**	**92**
Trade and other receivables	**2,758**	**–**	**–**	**–**	**–**	**2,758**
Available-for-sale financial assets	**–**	**37**	**–**	**–**	**–**	**37**
Trade and other payables	**–**	**–**	**–**	**–**	**(5,220)**	**(5,220)**
Current borrowings	**–**	**–**	**–**	**–**	**(87)**	**(87)**
Non-current borrowings	**–**	**–**	**–**	**–**	**(764)**	**(764)**
Derivative financial instruments	**–**	**–**	**(14)**	**16**	**–**	**2**
	2,850	**37**	**(14)**	**16**	**(6,071)**	**(3,182)**

At 15 March 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)

30 Retirement benefit obligations

Retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme (the 'Scheme'), and an unfunded pension liability relating to senior employees. The Scheme 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 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 was recognised in 2013/14 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 and statutory completion date in June 2016.

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, 'Employee Benefits'.

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 £33 million and for 2015/16 it is expected to be in the region of £29 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 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:

	2015 £m	2014 £m
Present value of funded obligations	**(7,680)**	(6,855)
Fair value of plan assets	**6,988**	6,131
	(692)	(724)
Present value of unfunded obligations	**(16)**	(13)
Retirement benefit obligations	**(708)**	(737)
Deferred income tax asset	**57**	58
Net retirement benefit obligations	**(651)**	(679)

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:

	2015 £m	2014 £m
Included within underlying profit before tax:		
IAS 19 defined benefit service cost	**–**	(34)
Included in employee costs (note 7)	**–**	(34)
Excluded from underlying profit before tax:		
Interest cost on pension scheme liabilities[1]	**(288)**	(290)
Interest income on plan assets	**257**	267
Total included in finance costs (note 6)	**(31)**	(23)
Defined benefit pension scheme expenses	**(6)**	(7)
Past service credit[2]	**–**	158
Total excluded from underlying profit before tax (note 3)	**(37)**	128
Total income statement (expense)/credit	**(37)**	94

1 Includes interest of £1 million for the unfunded pension scheme (2014: £nil).
2 One-off items presented within note 3 also include transition payments to defined contribution schemes of £17 million (2014: £10 million).

Of the expense recognised in operating profit, £nil (2014: £21 million) is included in cost of sales and £nil (2014: £13 million) is included in administrative expenses. A past service credit of £nil (2014: £158 million) has been recognised in administrative expenses.

(b) Other comprehensive income

Remeasurements of the retirement benefit obligations have been recognised as follows:

	2015 £m	2014 £m
Return on plan assets, excluding amounts included in interest	**696**	70
Actuarial losses arising from changes in:		
Financial assumptions[1]	**(735)**	(416)
Experience	**20**	20
Total actuarial losses	**(715)**	(396)
Total remeasurements	**(19)**	(326)

1 Includes £2 million for the unfunded pension scheme (2014: £nil).

30 Retirement benefit obligations continued

(c) Valuations

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

	2015 £m	2014 £m
As at the beginning of the year	**(6,855)**	(6,460)
Current service cost	**–**	(34)
Past service credit	**–**	158
Interest cost	**(287)**	(290)
Contributions by plan participants	**–**	(3)
Remeasurement losses	**(713)**	(396)
Benefits paid	**175**	170
As at the end of the year	**(7,680)**	(6,855)

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

	2015 £m	2014 £m
As at the beginning of the year	**6,131**	5,841
Interest income on plan assets	**257**	267
Pension scheme expenses	**(6)**	(7)
Remeasurement gains	**696**	70
Contributions by employer	**85**	127
Contributions by plan participants	**–**	3
Benefits paid	**(175)**	(170)
As at the end of the year	**6,988**	6,131

The Group's expected contributions to the defined benefit scheme for the next financial year beginning 15 March 2015 are £83 million (2014: £86 million).

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

	2015 %	2014 %
Equities	**27**	29
Government bonds	**14**	6
Corporate bonds	**34**	36
Property	**4**	4
Other	**21**	25
	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:

	2015 Quoted £m	2015 Unquoted £m	2015 Total £m	2014 Quoted £m	2014 Unquoted £m	2014 Total £m
Equities	**1,704**	**215**	**1,919**	1,592	209	1,801
Government bonds	**979**	**–**	**979**	355	–	355
Corporate bonds	**2,422**	**(21)**	**2,401**	2,173	57	2,230
Property	**274**	**7**	**281**	218	11	229
Other	**712**	**696**	**1,408**	644	872	1,516
	6,091	**897**	**6,988**	4,982	1,149	6,131

30 Retirement benefit obligations continued

(d) Assumptions

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

	2015 %	2014 %
Discount rate	**3.50**	4.25
Inflation rate – RPI	**3.00**	3.40
Inflation rate – CPI	**2.00**	2.40
Future salary increases	**n/a**	n/a
Future pension increases	**1.80 – 2.85**	2.15 – 3.20

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:

	2015 years	2014 years
Male pensioner	**22.7**	22.6
Female pensioner	**25.4**	25.3

The life expectancy for the Scheme operated at the balance sheet date for a future pensioner at normal retirement age is as follows:

	2015 years	2014 years
Male pensioner	**24.5**	24.4
Female pensioner	**27.3**	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 (2014: 21 years).

(e) Sensitivities

An increase of 0.5 per cent in the discount rate would decrease the retirement benefit obligations by £755 million. A decrease of 0.5 per cent in the discount rate would increase the retirement benefit obligations by £880 million.

An increase of 0.5 per cent in the inflation rate would increase the retirement benefit obligations by £505 million. A decrease of 0.5 per cent in the inflation rate would decrease the retirement benefit obligations by £480 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £240 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 investment managers. Approximately 75 per cent of the Scheme's non-sterling asset exposure is hedged back to sterling. A framework governs the hedging of interest rate and inflation risk exposures with a 60 per cent (2014: 50 per cent) hedging target for both. Physical assets and derivative instruments are used to hedge these risks. The target hedge ratios and the hedging framework are kept under review by the Trustee and the Company is consulted when changes are made to either. The Trustee does not currently hedge longevity risk although prudent assumptions are made regarding anticipated longevity for the purposes of the Actuarial Valuation and Recovery Plan.

31 Share-based payments

The Group recognised £21 million (2014: £33 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £nil (2014: £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 14 March 2015, the carrying amount of national insurance contributions payable was £6 million (2014: £7 million) of which £nil (2014: £1 million) was in respect of vested grants.

The Group operates a number of share-based payment schemes as set out below:

(a) Savings-Related Share Option Scheme (Sharesave)

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 Sharesave, 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 14 March 2015, UK employees held 25,016 five-year savings contracts (2014: 21,445) in respect of options over 22.6 million shares (2014: 20.4 million) and 39,675 three-year savings contracts (2014: 24,950) in respect of options over 32.4 million shares (2014: 27.9 million). A reconciliation of option movements is shown below:

	2015 Number of options million	**2015 Weighted average exercise price pence**	2014 Number of options million	2014 Weighted average exercise price pence
Outstanding at the beginning of the year	**48.3**	**279**	47.1	261
Granted	**23.5**	**213**	13.7	332
Forfeited	**(9.2)**	**288**	(5.4)	277
Exercised	**(7.6)**	**247**	(6.9)	266
Expired	**–**	**261**	(0.2)	257
Outstanding at the end of the year	**55.0**	**254**	48.3	279
Exercisable at the end of the year	**5.8**	**253**	3.3	260

The weighted average share price during the period for options exercised over the year was 290 pence (2014: 346 pence). The weighted average remaining contractual life of share options outstanding at 14 March 2015 was 2.4 years (2014: 2.3 years).

Details of options at 14 March 2015 are set out below:

Date of grant	Date of expiry	Exercise price pence	**Options outstanding 2015 million**	Options outstanding 2014 million
17 December 2008 (5 year period)	31 August 2014	224	**–**	1.7
10 December 2009 (5 year period)	31 August 2015	273	**2.5**	3.1
10 December 2010 (3 year period)	31 August 2014	297	**–**	1.6
10 December 2010 (5 year period)	31 August 2016	297	**2.8**	3.3
9 December 2011 (3 year period)	31 August 2015	238	**3.5**	8.7
9 December 2011 (5 year period)	31 August 2017	238	**4.1**	4.7
12 December 2012 (3 year period)	31 August 2016	267	**6.4**	8.0
12 December 2012 (5 year period)	31 August 2018	267	**3.1**	3.7
11 December 2013 (3 year period)	31 August 2017	332	**6.7**	9.5
11 December 2013 (5 year period)	31 August 2019	332	**2.9**	4.0
12 December 2014 (3 year period)	31 August 2018	213	**15.8**	–
12 December 2014 (5 year period)	31 August 2020	213	**7.2**	–
			55.0	48.3

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:

		2015	2014
Share price at grant date (pence)		**265**	415
Exercise price (pence)		**213**	332
Expected volatility	– 3 year period (%)	**21.9**	18.8
	– 5 year period (%)	**21.2**	20.8
Option life	– 3 year period (years)	**3.2**	3.2
	– 5 year period (years)	**5.2**	5.2
Expected dividends (expressed as dividend yield %)		**5.6**	4.5
Risk-free interest rate	– 3 year period (%)	**1.6**	2.2
	– 5 year period (%)	**2.1**	3.5
Fair value per option	– 3 year period (pence)	**43**	74
	– 5 year period (pence)	**41**	87

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 Sharesave 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 award granted in 2014 is assessed against ROCE, cumulative underlying cash flow from operations and relative sales measured against the IGD Index. 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:

	Targets to achieve maximum multiplier	
Date of conditional award	Cash flow per share %	Return on capital employed %
21 June 2010	15	15
19 May 2011	12	15

	Targets to achieve maximum multiplier		
Date of conditional award	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.
15 May 2014	£6,750m	12	Index+1% p.a.

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

	2015 million	2014 million
Outstanding at the beginning of the year	**7.0**	9.1
Conditionally allocated	**2.1**	1.9
Forfeited	**(0.8)**	(0.4)
Released to participants	**(2.2)**	(3.6)
Outstanding at the end of the year	**6.1**	7.0

The weighted average remaining contractual life of share options outstanding at 14 March 2015 was 1.5 years (2014: 1.3 years).

31 Share-based payments continued

Details of shares conditionally allocated at 15 March 2014 are set out below:

Date of conditional award	2015 million	2014 million
24 June 2009	–	0.1
21 June 2010	**0.2**	1.6
19 May 2011	**0.7**	1.5
17 May 2012	**1.6**	1.9
16 May 2013	**1.6**	1.9
15 May 2014	**2.0**	–
	6.1	7.0

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:

	2015	2014
Share price at grant date (pence)	**334**	384
Expected volatility (%)	**20.9**	15.3
Option life (years)	**4.2**	4.2
Risk-free interest rate (%)	**2.7**	1.6
Fair value per option (pence)	**334**	384

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 2014, the three-year performance targets were met achieving a multiplier of 1.60 (2013: 1.75). During the year, a total number of 1.6 million shares were granted to employees as a result of achieving the performance target and 4.6 million options were exercised. The weighted average share price during the year for options exercised was 322 pence (2014: 378 pence).

(c) 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 40 managers in the Company, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. 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:

	2015 million	2014 million
Outstanding at the beginning of the year	**2.6**	3.6
Granted	**1.5**	1.3
Exercised	**(1.6)**	(2.3)
Outstanding at the end of the year	**2.5**	2.6

The number of shares allocated at the end of the year is set out below:

	2015 million	2014 million
17 May 2012	–	1.3
16 May 2013	**1.2**	1.3
15 May 2014	**1.3**	–
	2.5	2.6

The weighted average remaining contractual life of share options outstanding at 14 March 2015 was 1.5 years (2014: 1.5 years).

31 Share-based payments continued

(d) 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 40 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:

	2015 million	2014 million
Outstanding at the beginning of the year	**7.5**	3.5
Granted	**3.9**	4.4
Lapsed	**(1.2)**	(0.4)
Outstanding at the end of the year	**10.2**	7.5

The number of shares allocated at the end of the year is set out below:

	2015 million	2014 million
17 May 2012	**3.0**	3.3
16 May 2013	**3.7**	4.2
15 May 2014	**3.5**	–
	10.2	7.5

The weighted average remaining contractual life of share options outstanding at 14 March 2015 was 1.2 years (2014: 1.7 years).

32 Related party transactions

Group

In the prior 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 £nil (2014: £10 million) and lease payments made to the partnership during the year were £6 million to Manor Property Scottish Partnership (2014: £3 million to Manor Property Scottish Partnership).

(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:

	2015 £m	2014 £m
Short-term employee benefits	**10**	11
Post-employment employee benefits	**1**	1
Share-based payments	**9**	10
	20	22

Nine key management personnel had credit card balances with Sainsbury's Bank (2014: nine). These arose in the normal course of business and were immaterial to the Group and the individuals. Three key management personnel held saving deposit accounts with Sainsbury's Bank (2014: nine). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

32 Related party transactions continued

(b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 14 March 2015, the Group entered into various transactions with joint ventures and associates as set out below.

	2015 £m	2014 £m
Management services (received)/provided	**(1)**	16
Remeasurement of previously held equity interest in Sainsbury's Bank	**–**	15
Revenue share received from joint ventures	**17**	4
Interest income received in respect of interest bearing loans	**–**	1
Dividend and distributions received	**70**	1
Proceeds from repayment of loan to joint venture	**17**	4
Investment in joint ventures and associates	**(12)**	(13)
Increase in loans to joint ventures	**–**	(7)
Rental expenses paid	**(65)**	(72)
Purchase of assets	**–**	(24)

Year-end balances arising from transactions with joint ventures and associates

	2015 £m	2014 £m
Receivables		
Other receivables	**37**	21
Loans due from joint ventures	**2**	18
Payables		
Loans due to joint ventures	**(5)**	(5)

(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

	2015 £m	2014 £m
Acquisition of Sainsbury's Bank	**–**	(248)
Repayment of floating rate subordinated dated/undated loan capital from Sainsbury's Bank[1]	**60**	50
Investment in Sainsbury's Bank	**(59)**	(70)
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	**229**	236
Loans and advances repaid by subsidiaries	**(45)**	(138)
Interest income received in respect of interest bearing loans and advances	**201**	183
Dividend income received	**252**	250
Loans and advances received from subsidiaries		
Loans and advances received	**(275)**	(282)
Loans and advances repaid	**21**	218
Interest expense paid in respect of interest bearing loans and advances	**(56)**	(132)

1 The £60 million dated subordinated loan capital was repaid in December 2014 (2014: £50 million undated subordinated loan capital was repaid in February 2014 following agreement in writing from the Prudential Regulation Authority).

32 Related party transactions continued

Year-end balances arising from transactions with subsidiaries

	2015 £m	2014 £m
Receivables		
Loans and advances due from subsidiaries	**2,758**	2,591
Floating rate subordinated dated loan capital	**–**	60
Payables		
Loans and advances due to subsidiaries	**(5,201)**	(5,290)

(b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 14 March 2015, the Company entered into transactions with joint ventures and associates as set out below.

	2015 £m	2014 £m
Investment in joint ventures	**(12)**	–
Interest income received in respect of interest bearing loans	**–**	1

Year-end balances arising from transactions with joint ventures and associates

	2015 £m	2014 £m
Receivables		
Loans due from joint ventures	**–**	–
Payables		
Loans due to joint ventures	**(5)**	(5)

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.

	2015 £m	2014 £m
Aggregate future minimum lease payments:		
Within one year	**585**	554
In the second to fifth years inclusive	**2,171**	2,071
After five years	**7,040**	6,402
	9,796	9,027

Further analysis of the Group's future minimum lease payments after five years is as follows:

	2015 £m	2014 £m
Aggregate future minimum lease payments:		
Greater than five years but less than ten years	**1,897**	1,811
Greater than ten years but less than 15 years	**1,319**	1,252
After 15 years	**3,824**	3,339
	7,040	6,402

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 £5,417 million (2014: £5,095 million).

The Group sublets certain leased properties:

	2015 £m	2014 £m
Aggregate future minimum lease receipts:		
Within one year	**34**	25
In the second to fifth years inclusive	**120**	86
After five years	**123**	104
	277	215

34 Capital commitments

The Group has entered into contracts totalling £164 million (2014: £230 million) for future capital expenditure in relation to property, plant and equipment and £13 million (2014: £nil) for intangible assets not provided for in the financial statements.

The Company does not have any capital commitments (2014: £nil).

35 Financial commitments

Sainsbury's Bank has off balance sheet financial instruments committing it to extend credit to customers of £79 million (2014: £58 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.

The Company has no contingent liabilities and has issued no guarantees under Companies Act 2006 Section 394A or 479C.

37 Capital resources

The following table analyses the regulatory capital resources of Sainsbury's Bank (before any Group adjustments), being the regulated entity, under both transitional and end point measures of CRD IV for which there is no difference. CRD IV regulations are being phased in over a five-year period from 2013 to 2018:

	2015 £m	2014 £m
Core Equity Tier 1 (CET 1) capital:		
Ordinary share capital	**299**	240
Allowable reserves	**184**	138
Losses recognised	**(26)**	–
Regulatory adjustments	**(104)**	(35)
Total Core Equity Tier 1 (CET 1) capital	**353**	343
Tier 1 Capital	**353**	343
Tier 2 capital:		
Qualifying subordinated debt	**–**	10
Total Tier 2 capital	**–**	10
Total capital	**353**	353

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV) as enacted in the UK. Core Equity Tier 1 (CET 1) capital includes ordinary share capital, other reserves, losses and regulatory deductions. Tier 2 capital held at 28 February 2014 represented the amortised value of dated subordinated debt which was repaid to J Sainsbury plc on maturity in December 2014. There is a regulatory requirement that Tier 2 capital must not exceed 25 per cent of total capital. The Bank meets this requirement.

The movement of CET 1 capital during the financial year is analysed as follows:

	2015 £m
At 1 March 2014	**343**
Share capital issued	**59**
Verified profit attributable to shareholders[1]	**46**
Losses recognised	**(26)**
Increase in intangible assets	**(69)**
Increase in other regulatory deductions	**–**
At 28 February 2015	**353**

1 Relates to Bank audited profits to December 2013 which were not recognised in regulatory reserves in the prior year financial statements. These were not yet verified by the Bank's auditors at the accounting date. It is now standard industry practice to include annual profits in reserves for the period to which they relate, providing these have been verified prior to the date the financial statements are signed. Losses are recognised as a deduction from CET 1 capital as they arise.

37 Capital resources continued

Leverage ratio (unaudited)

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets. The denominator represents the total non-risk weighted assets adjusted for certain off balance sheet exposures assets and regulatory deductions and provides a no-risk-weighted 'backstop' capital measure. The leverage ratio is planned to become a Pillar 1 measure from 1 January 2018. The leverage ratio is calculated below as at 28 February 2015 – this represents both transitional and end point CRD IV measures. The Bank's leverage ratio of 7.4 per cent exceeds the minimum Basel leverage ratio of three per cent. The Financial Policy committee of the Bank of England are currently consulting on additional leverage requirements for UK banks.

	2015 £m
Components of the leverage ratio	
Total assets as per published financial statements	**4,236**
Removal of accounting value of derivatives and securities financing transactions	**(1)**
Exposure value for derivatives and securities financing transactions	**5**
Off balance sheet exposures: unconditionally cancellable (10%)	**313**
Off balance sheet: other (100%)	**318**
Deduction of intangible assets	**(104)**
	4,767
Tier 1 capital	**353**
Leverage ratio	**7.4%**

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. During the period to 28 February 2015, the Bank has repaid dated subordinated liabilities of £60m (amortised to £nil within Tier 2 regulatory capital upon maturity) and has received planned injections of £59m of ordinary share capital to support the forecast costs and deductible intangible assets generated through the development of flexible banking platforms. Capital adequacy is monitored on an ongoing basis by senior management, the Asset and Liability Committee, the Executive Risk Committee and the Board Risk Committee. Our submissions to the PRA in the year have shown that the Bank has complied with all externally imposed capital requirements.

The Bank will disclose Pillar 3 information as required by the Capital Requirements Regulations and PRA prudential sourcebook on the J Sainsbury plc external website during June 2015.

38 Post balance sheet event

On 5 May 2015, the Group refinanced its unsecured £1,150 million syndicated revolving credit facility due 2019 with a new secured recourse £1,150 million syndicated revolving credit facility due 2020. The new secured corporate facility is the same size as, and has substantially similar economic terms to, the previous unsecured facility, with the structure also maintained on a dual tranche basis (a £500 million Facility (A) due April 2018 and £650 million Facility (B) due April 2020). The new facility, which is secured against 60 supermarket properties with a net book value of £1.4 billion, contains no financial covenants.

On 5 May 2015, the Group amended its £200 million unsecured bank loan due November 2019 and its €50 million unsecured bank loan due September 2016 into a secured recourse £200 million bank loan due November 2019 and a secured recourse €50 million bank loan due September 2016. The amended bank loans, which are secured against ten supermarket properties with a net book value of £0.2 billion, contain no financial covenants.

Five year financial record

	2015	2014	2013	2012	2011
Financial results (£m)					
Underlying sales (including Value Added Tax, including fuel, including Bank)	**26,122**	26,353	25,632	24,511	22,943
Underlying operating profit					
Retailing	**720**	873	831	789	738
Financial services	**62**	6	–	–	–
	782	879	831	789	738
Underlying net finance costs[1]	**(107)**	(111)	(111)	(109)	(97)
Underlying share of post-tax profit from joint ventures	**6**	30	38	32	24
Underlying profit before tax[1,2]	**681**	798	758	712	665
(Decrease)/increase on previous year (%)	**(14.7)**	5.3	6.5	7.1	9.0
Retail underlying operating margin (%)[3]	**3.07**	3.65	3.57	3.54	3.50
Earnings per share					
Underlying basic (pence)[2]	**26.4**	32.8	30.8	28.1	26.5
(Decrease)/increase on previous year (%)	**(19.5)**	6.5	9.6	6.0	10.9
Proposed dividend per share (pence)[4]	**13.2**	17.3	16.7	16.1	15.1
Retail statistics for UK food retailing					
Number of outlets at financial year-end					
over 55,000 sq ft sales area	**106**	101	94	81	64
40,001 – 55,000 sq ft sales area	**132**	127	123	123	124
25,001 – 40,000 sq ft sales area	**143**	146	147	152	155
15,000 – 25,000 sq ft sales area	**115**	116	118	115	113
under 15,000 sq ft sales area	**808**	713	624	541	478
	1,304	1,203	1,106	1,012	934
Sales area (000 sq ft)	**22,819**	22,160	21,265	20,347	19,108
Net increase on previous year (%)[5]	**3.0**	4.2	4.5	6.5	7.7
New stores[5]	**106**	104	101	92	68
Sales intensity (including Value Added Tax)[5]					
Per square foot (£ per week)	**18.24**	18.93	19.27	19.47	20.04

1 Net finance costs pre-retail financing fair value movements, IAS 19 pension financing (charge)/credit and one-off items that are material and infrequent in nature.
2 Profit/(loss) before tax from continuing operations before any gain or loss on the sale of properties, investment property fair value movements, impairment of goodwill, retail financing fair value movements, IAS 19 pension financing (charge)/credit, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature.
3 Retail operating margin based on retail sales excluding Value Added Tax, including fuel, excluding Sainsbury's Bank.
4 Total proposed dividend in relation to the financial year.
5 Includes all convenience stores and convenience acquisitions.

Additional shareholder information

Financial calendar 2015/16

Dividend payments

Ordinary dividend:

Ex-dividend date	14 May 2015
Record date	15 May 2015
Final dividend payable	10 July 2015
Ex-dividend date	19 November 2015
Record date	20 November 2015
Interim dividend payable	4 January 2016

Other dates

Annual General Meeting – London	8 July 2015
Interim results announced	11 November 2015
Interim report available at j-sainsbury.co.uk	11 November 2015
Preliminary Results announced	4 May 2016
Annual General Meeting – London	6 July 2016

Annual General Meeting ('AGM')

The AGM will be held at 11.00am on Wednesday, 8 July 2015 at QEII 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
Bridgwater 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 ten 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 2015 (the 'Annual Report') is published on our website at www.j-sainsbury.co.uk/investor-centre/reports 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 Centre' and then follow the instructions on screen. Alternatively, register by visiting www.investorcentre.co.uk.

For all methods, you will require your 11 character Shareholder Reference Number which can be found on your share certificate or latest tax voucher.

Investor relations

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

Shareholder profiles

End of year information at 14 March 2015

	2015	2014
Number of shareholders	**116,509**	117,937
Number of shares in issue	**1,919,433,342**	1,907,210,915

By size of holding

	Shareholders % 2015	Shareholders % 2014	Shares % 2015	Shares % 2014
500 and under	**62.23**	61.70	**0.43**	0.43
501 to 1,000	**12.22**	12.34	**0.56**	0.58
1,001 to 10,000	**23.46**	23.80	**4.00**	4.10
10,001 to 100,000	**1.63**	1.66	**2.35**	2.50
100,001 to 1,000,000	**0.32**	0.35	**6.66**	7.46
Over 1,000,000	**0.14**	0.15	**86.00**	84.93
	100.00	100.00	**100.00**	100.00

By category of shareholder

	Shareholders % 2015	Shareholders % 2014	Shares % 2015	Shares % 2014
Individual and other shareholders	**91.26**	90.70	**5.84**	5.80
Insurance companies	**0.06**	0.08	**0.03**	0.03
Banks and Nominees	**8.33**	8.87	**91.74**	91.02
Investment Trusts	**0.03**	0.03	**0.01**	0.01
Pension Funds	**0.01**	0.01	**0.01**	0.01
Other Corporate Bodies	**0.31**	0.31	**2.37**	3.13
	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/sharedealingcentre.

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 approximately 29,193 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	19 June 2015
DRIP shares purchased for participants	10 July 2015
DRIP share certificates issued	21 July 2015

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 depositary.

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

All enquiries relating to ADRs should be addressed to:

BNY Mellon
Shareowner Services
PO Box 30170
College Station
TX 77842-3170
Toll Free Telephone # for domestic callers: 1-888-269-2377
International callers can call: +1-201-680-6825
Website: www.mybnymdr.com
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.

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	14/15
Interim	2.15p	2.15p	2.40p	3.00p	3.60p	4.00p	4.30p	4.50p	4.80p	5.00p	**5.00p**
Final	5.65p	5.85p	7.35p	9.00p	9.60p	10.20p	10.80p	11.60p	11.90p	12.30p	**8.20p**
Total net	7.80p	8.00p	9.75p	12.00p	13.20p	14.20p	15.10p	16.10p	16.70p	17.30p	**13.20p**

The 2014/15 interim dividend was paid on 2 January 2015.

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 28 4/7 pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding 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 8 July 2015 at QEII 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 – Initiative using market-leading technology guaranteeing price match on the basket of comparable grocery branded goods with Asda. Over 12,000 branded grocery lines are included and the initiative works by offering customers who buy ten or more unique items and at least one branded product, a coupon at the till. 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 plc.

Corporate Responsibility and Sustainability (CR&S) – The need to act responsibly in managing our 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.

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/products/indices/FTSE4Good

FVTPL – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

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.

Life 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, 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, 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

Convenience Retailer of the Year

For the fifth year running, we won Convenience Retailer of the Year at the 2014 Retail Industry Awards.

Green Retailer of the Year

We received our second consecutive Green Retailer of the Year award at the 2014 Grocer Gold Awards. Amongst other environmental initiatives, our Triple Zero stores and CO_2 refrigerated vehicles were recognised.

Training Initiative of the Year

Our commitment to helping colleagues make the difference for our customers was recognised, with our Great Produce programme winning Training Initiative of the Year at the Retail Industry Awards.

Grocer 33 Availability Award

We won the Grocer 33 Availability Award, based on the mystery shopping trips The Grocer carries out every week in supermarkets across the UK.

Seafood Retailer of the Year

We won the Seafood Retailer of the Year category at the Retail Industry Awards.

Grocer 33 Customer Service Award

We won the Grocer 33 Customer Service Award, based on the mystery shopping trips The Grocer carries out every week in supermarkets across the UK.

Drinks Retailer of the Year

We were awarded Drinks Retailer of the Year for the third consecutive year at the Retail Industry Awards.

CDP Climate Performance Leadership Index 2014

We were awarded a position in the Carbon Disclosure Project's ('CDP') Climate Performance Leadership Index 2014, recognising our work to reduce carbon emissions and mitigate the business risk of climate change.

FTSE4Good

We have been part of the FTSE4Good index since its inception in 2001. The index evaluates businesses against key social, environmental and governance practices.

Dow Jones Sustainability Index

We were the only UK company to be ranked as a Sustainability Leader in the 'Food and Staples Retailing' category of the 2014 Dow Jones Sustainability Index. This year we outperformed 92 per cent of our industry and obtained the highest score for environmental performance worldwide.

MSC Fish Retailer of the Year

In recognition of selling the widest range of Marine Stewardship Council ('MSC') certified products, we received the 2014 MSC Fish Retailer of the Year award.

Freedom Food Awards

We won Best Retailer at the 2014 Freedom Food Awards for our outstanding contribution to farm animal welfare.

Recruitment Industry Disability Initiative ('RIDI') Awards

We were recognised at the inaugural RIDI Awards 2014, for excellence in candidate sourcing. Since 2008, our You Can scheme has helped over 24,000 people facing barriers to work.

Investors in People Gold

Since 2010 we have maintained Gold accreditation for our commitment to improve our business by investing in our colleagues. We are the only supermarket ever to receive this accolade.

Notes

Notes

FSC
www.fsc.org
MIX
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The FSC logo identifies products which contain wood from well managed forests certified in accordance with the rules of the Forest Stewardship Council. FSC Trademark

Our colleagues make the difference.

Our values make us different.

J Sainsbury plc