J Sainsbury plc

Annual Report and Financial Statements 2022

Helping everyone eat better

Offering delicious, great quality food at competitive prices has been at the heart of what we do since John James and Mary Ann Sainsbury opened our first store in 1869. Today, inspiring and delighting our customers with tasty food remains our priority.

Our purpose is that driven by our passion for food, together we serve and help every customer.

Our focus on great value food and convenient shopping, whether in-store or online is supported by our brands – Argos, Habitat, *Tu*, Nectar and Sainsbury's Bank. Sainsbury's has over 600 supermarkets and over 800 convenience stores. Argos is a leading digital retailer and is the third most visited retail website in the UK, with over 80 per cent of its sales starting online. Argos is conveniently available for customers to collect from hundreds of Sainsbury's stores. Digital and technology enables us to adapt as customers shop differently and our profitable, fast-growing online channels offer customers quick and convenient delivery and collection capability.

Our 171,000 colleagues are at the heart of serving and helping our customers every day and are vital to our success, now and in the future.

Performance highlights

3.4%

Retail sales growth (inc. fuel) versus the 2020/21 financial year. Excluding fuel sales declined 2.6%

£730m[1,2]

Underlying profit before tax, up 104 per cent versus the 2020/21 financial year and up 25% versus the 2019/20 financial year

£854m[2]

Statutory profit before tax versus a loss of £164 million in the 2020/21 financial year and versus £278 million in the 2019/20 financial year

36.9%

Retail operating profit growth versus the 2020/21 financial year and 6.7% versus the 2019/20 financial year

25.4p[1]

Underlying basic earnings per share, up 117% versus 11.7p underlying basic earnings per share in the 2020/21 financial year

8.4%[1]

Return on capital employed, up 280bps versus the 2020/21 financial year and up 100bps versus the 2019/20 financial year

£38.4m

Raised for good causes

20%

Reduction in absolute greenhouse gas emissions within our own operations, against our 2018/19 baseline

119%

Increase in food redistributed to people this year

2.5m+

Meals donated

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[1] Refer to Alternative Performance Measures on pages 203 to 207 for definition and reconciliation to statutory measures.
[2] The results for 2021 and 2020 have been restated – refer to note 2 of the financial statements on page 113.

ⓘ Read more about our KPIs on page 30.

+ Find out more at
www.about.sainsburys.co.uk/ar2022

Chairman's letter

Chairman Martin Scicluna reviews the business activity in the year.

This has been a year of delivering for all our stakeholders and I am immensely proud of what our business has achieved for our customers, colleagues, communities and our shareholders.

Throughout our history Sainsbury's has always tried to do the right thing and our approach to supporting people in times of need has been particularly evident throughout the pandemic. At the very beginning we gave elderly and vulnerable customers priority access to home delivery slots – the first supermarket to do so – and throughout the crisis we have paid colleagues who needed to stay at home. Together with our customers and colleagues, we continue to support charities and worthy causes around the world.

As COVID-19 continues to impact the economy and the cost of fuel, energy and raw materials continues to rise, we remain committed to doing everything we can to support our colleagues and customers through what may be challenging financial times ahead.

Despite the difficulties presented by COVID-19, our colleagues continue to do a brilliant job for our customers and I would like to thank all of them for their dedication and commitment. We are committed to paying our colleagues fairly and have invested over £100 million in retail colleague pay. All Sainsbury's and Argos retail store colleagues can now earn the Living Wage wherever they work in the UK.

Our Chief Executive Simon Roberts, and the Operating Board, have done an excellent job delivering against the key metrics we set out in November 2020. As a result of our strong profit performance and retail free cash flow generation, we are pleased to propose to shareholders the highest final and full-year dividend for seven years. We have used our strong cash generation in recent years to reduce debt and return around 50 per cent of underlying net earnings to shareholders through ordinary dividends. With debt reduction ahead of schedule, we are increasing our payout ratio to around 60 per cent.

In January we were deeply saddened by the death of our Life President, Lord Sainsbury of Preston Candover. He played a vital role in leading Sainsbury's through a period of significant change and making it the business it is today. His significant philanthropic contributions include the foundation of the Linbury Trust with his wife, Baroness Sainsbury of Preston Candover CBE, which supports a wide range of charitable causes. His contribution and retailing talent remains truly inspiring and we will continue to remember him and the immeasurable impact he made.

2021/22 highlights

9.9p
Proposed final dividend

13.1p
Proposed full-year dividend per share

25.4p[1]
Underlying basic earnings per share, up 117% versus 11.7p underlying basic earnings per share in the 2020/21 financial year

29.8p[2]
Basic earnings per share, versus 9.4p basic loss per share in the 2020/21 financial year

Strategic progress

One year into our three-year plan to transform Sainsbury's, Simon and his team are making very good progress. They are adapting our business at pace, simplifying operations and accelerating our cost savings programmes so that we can invest in food quality, choice and consistently lower prices for customers. Our portfolio brands – Nectar, Argos, Habitat, Sainsbury's Bank and *Tu* – support our core food business, delivering for both customers and shareholders. The focus on value, innovation and service is driving volume market share performance ahead of our key competitors and, at a time of inflationary pressures for customers, we are improving our price position versus our key competitors[3].

Argos is delivering stronger profitability and Sainsbury's Bank achieved an important milestone by declaring a dividend of £50 million back to the Sainsbury's Group.

You can read more about our progress to put food back at the heart of Sainsbury's on pages 10-11.

In June we launched our new sustainability strategy, Plan for Better, a core part of our strategy. Across the Group we are embedding climate considerations into our reporting and decision making, implementing bold targets and incentives in order to achieve our goal.

This year we strengthened our commitment to tackle the climate crisis, announcing the acceleration of our target to become Net Zero across our operations by five years, from 2040 to 2035. We have also committed to reducing our Scope 3 emissions by 30 per cent by 2030. As signatories of the Task Force on Climate-related Financial Disclosures (TCFD), we are committed to providing consistent information to our stakeholders and our disclosure can be found on page 17.

[1] Refer to Alternative Performance Measures on pages 203 to 207 for definition and reconciliation to statutory measures.

[2] The results for 2021 and 2020 have been restated – refer to note 2 of the financial statements on page 113.

[3] NielsenIQ Panel data (YoY and 2 year 52 weeks volume growth differential to P13 FY21/22) of the year.

Collaboration is key to tackling the climate crisis. To this end we were proud to be the Principal Supermarket Partner of the United Nation's international climate change conference, COP26, which took place in Glasgow in November. I was inspired by the encouraging steps so many businesses, including Sainsbury's, are taking to address the challenges we face. We are now well into the next phase of delivering against the commitments we have set out. We are aligned to the UN Sustainable Development Goals and, through Plan for Better, we can identify areas which matter most to our stakeholders, helping us to make real and meaningful improvements.

Our commitment to Helping everyone eat better is progressing well as we encourage customers to make food choices that are both better for them and better for the planet. As part of our commitment to measure healthy and sustainable diets, we reported against our new target to achieve at least 83 per cent of 'healthy' and 'better for you' sales by 2025, currently at 80 per cent. We also disclosed our protein sales, with 72 per cent of protein sales being plant based and meat-free products.

We report on our Plan for Better progress every six months and you can read more about what we have delivered this year on pages 13 to 17.

Delivering for our customers

We know how important value is to customers and that the cost of living crisis is putting pressure on household budgets. We are taking bold steps to enhance the value we offer to customers and we are keeping prices lower than our competitors. Through the year our Price Lock promotion fixed the price of up to 2,000 items for at least eight weeks and our Sainsbury's Quality, Aldi Price Match campaign matches the discounter's prices on 240 popular items. This year we have increased the number of entry price level lines, offering customers lower prices on the products they buy most often, including fresh produce, as well as offering choice across price points.

Offering customers new and innovative products is a key priority for us and we hit our target of tripling our levels of product innovation in the year, launching 1,950 new products. We are also working with third parties such as Boparan Restaurant Group, Coco di Mama and Starbucks to offer our customers more choice and great quality food and drink to eat-in or takeaway.

We are making our customers' lives easier through improving our digital offer. We are developing SmartShop and we continue to invest in our Groceries Online business, including rapid delivery through Chop Chop, Uber Eats and Deliveroo.

Delivering for our colleagues

We are committed to paying our 151,000 retail colleagues fairly and our wage bill is our biggest operating cost. Since 2017 we have increased the pay of Sainsbury's front line colleagues by 25 per cent and we have increased Argos colleagues' pay by 31 per cent over the last five years and have removed age-related pay.

All Sainsbury's and Argos store colleagues now receive an hourly base rate of at least £10 per hour. This represents an increase of at least 5.3 per cent. This new rate of pay is 50p above the government's National Living Wage and 10p above Living Wage Foundation's Living Wage. We also increased inner London pay from £10.10 to £11.05 in line with the London Living Wage.

We were pleased to announce in April that from 1st May 2022 the outer London rate would also be moving to £11.05 from £10.50. This means that all Sainsbury's and Argos retail store colleagues can earn the Living Wage wherever they work in the UK.

As we balance the needs of all our stakeholders we will continue to discuss colleague pay on a regular basis. We commit to paying above the National Minimum Wage and, when setting pay each year, will consider the Living Wage, the National Living Wage, competitor pay and the financial performance of the business. We are also committed to maintaining a dialogue with all key stakeholders on the issue.

> **"One year into our three-year plan to transform Sainsbury's, Simon and his team are making very good progress. They are adapting our business at pace, simplifying operations and accelerating our cost savings programmes so that we can invest in food quality, choice and consistently lower prices for customers."**

It is also important for us to be an inclusive retailer with diverse representation across all levels, so I am pleased to see progress being made in this area. Initiatives such as the adoption of the Halo Code and our admission to the Black British Network are just some of the achievements made this year and I am pleased our work has been recognised, with the I AM ME Ethnically Diverse Colleague Network featured in the Top 10 Network Groups in the UK at the Ethnicity Awards. We are also featured for the first time in the FTSE 100 Top Ten Best Performers list for Women in Leadership. We are proud to have published our Gender and Ethnicity Pay Report for a second year and have seen the pay differentials reduce during that time.

Delivering for our communities

We are committed to supporting our communities and fostering our charitable partnerships. I was delighted that this year we raised over £6 million for Comic Relief, in addition to the £2 million we donated as a business to support the humanitarian crisis in Ukraine. Through our Ukrainian Crisis Appeal, customers and colleagues have also donated over £600,000 so far and we are matching donations up to an additional £500,000.

Our partnership with Neighbourly helps to manage our back of store food donation programme, helping to connect Sainsbury's stores with local partners who will redistribute food to those in need. So far we have donated over 2.5 million meals, which is equivalent to £4.8 million in savings for charities and community groups. This partnership also supports our sustainability targets as we have pledged to reduce our food waste by 50 per cent by 2030.

Financial review

We delivered a strong performance this year. Underlying profit before tax was £730 million, up 25 per cent versus the full-year 2019/20. Last year's performance reflected significant costs associated with adapting our business to the COVID-19 pandemic.

Statutory revenue was up 2.9 per cent to £29,895 million and statutory profit before tax was £854 million versus £278 million in 2019/20, reflecting lower restructuring and impairment costs and exceptional income from settling legal disputes. We achieved strong Retail Free Cash Flow of £503 million and average Free Cash Flow delivery in the three years to March 2022 of £633 million. We are on track to deliver at least £500 million retail free cash flow per year.

We also delivered non-lease Net Debt reduction of £1,381 million over the three years to March 2022, ahead of the target of £950 million+ over the four years to March 2023. Underlying basic earnings per share was 25.4p and basic earnings per share was 29.8p. We remain committed to maintaining our strong value position, are on track to deliver our 200 basis points cost reduction target and will invest in making improvements to our customer offer.

In 2021 we completed a thorough review of the Financial Services business and concluded that it was in the best interest of shareholders to retain Sainsbury's Bank.

More information on our financial performance can be found in the Financial Review on pages 32 to 37.

Delivering for our shareholders

The Board proposes a final dividend of 9.9p per share, bringing the full-year dividend to 13.1p per share. This will be the highest dividend the business has paid for seven years. The shareholder dividend is being paid on the full underlying profit number of £730 million, an increase of 24 per cent on the dividend from last year.

Remuneration

The Committee has considered a number of factors when determining incentive outcomes for the year, including the impact of COVID-19 on performance.

The Remuneration Committee reviews the underlying performance of the business and this year determined that the COVID-19 driven elevated grocery volumes caused an estimated net financial benefit of £100 million, which is reported within our underlying profit before tax of £730 million. For incentive purposes the Committee applied downward discretion to remove this £100 million impact from both the bonus outturn and the long-term incentive plan vesting level.

Simon's remuneration for the year reflects the strong performance of the business and the progress we have made against our strategy. Under his strong leadership Sainsbury's grocery market share has increased and we have made significant strides with our value proposition against our competitors. We have also exceeded our cost savings target for the year. It should be noted that Simon waived his entitlement to a bonus for the 2020/21 financial year.

Simon has demonstrated outstanding drive and energy to do the right thing for our customers and colleagues throughout the challenges faced and on behalf of the Board I would like to thank him for all of his hard work and significant achievements.

For more information on this year's remuneration awards please see pages 84 to 95.

Board changes

In April we were pleased to announce that Jo Bertram will join the Board as a Non-Executive Director and member of the CR&S Committee following the AGM on 7 July 2022, subject to shareholder approval. Jo Bertram is currently Managing Director, Business & Wholesale, at Virgin Media O2. Prior to this, Jo held roles at Uber and McKinsey. She is a highly talented strategic business leader whose broad experience in technology-led sectors will bring fresh perspective to the Board.

We also announced that Dame Susan Rice will step down at Sainsbury's AGM on 7 July after nine years' service with us. Throughout her time she has been steadfast in doing the right thing for our customers and colleagues. As Chair of the Remuneration Committee Susan has played a vital role in ensuring our approach to pay reflects our culture and values at all levels of the organisation. On behalf of all our colleagues I would like to thank Susan for her commitment and dedication to Sainsbury's.

Finally, I would like to thank all of my colleagues for their extraordinary efforts, support and flexibility over the past year. Once again you have all risen to the challenges faced and you have been unwavering in your commitment to do the right thing for our customers.

Martin Scicluna
Chairman

Chief Executive's Q&A

One year into Sainsbury's three-year plan, Chief Executive of Sainsbury's, Simon Roberts explains how the business has been relentlessly focused on putting customers and colleagues first and doing the right thing.

1. How has your first full year as CEO of Sainsbury's been?

It has been an unprecedented year in so many ways, for our customers, our colleagues, our suppliers and the communities where we trade. Throughout, we have been relentlessly focused on putting customers and colleagues first and doing the right thing, while at the same time working across our company to deliver our plan as we put food back at the heart of Sainsbury's. We said we would invest in value, innovation and service and that is exactly what we are doing – and our results are showing that as we become more competitive, more and more customers are choosing to shop with us.

COVID-19 continued to impact our business as more people ate at home and government restrictions affected our customers' and colleagues' daily lives. With safety as our number one priority throughout the pandemic, we constantly tried to stay as close as possible to what mattered most to our customers and colleagues. We encouraged face mask wearing even when it was not mandatory and kept screens in the stores where customers wanted them. We also supported all our colleagues by paying those who were self-isolating or absent with COVID-19 related sickness, irrespective of their vaccination status.

The effects of COVID-19 and the UK's decision to leave the European Union also caused disruption to the industry's supply chains. Shortages of key workers such as HGV drivers put pressure on our ability to source and move products through the food supply chain and the pandemic caused higher absence levels, both in stores and for our suppliers. This meant that availability in our stores and online was challenged. While the backdrop was difficult, particularly as we approached Christmas, our teams worked exceptionally hard end to end across our business to make sure we had food for everyone. Our suppliers also did a great job under these challenging conditions, and I thank them for all their support for our business.

As the cost of living puts pressure on household budgets, we have made massive strides to improve our value offer. This is at the very core of our strategy to be Food First and I am encouraged by the progress we have made to become more competitive. We are delivering the best value for money in at least six years and are consistently inflating behind the market on the highest volume products by investing ahead of competitors with a clear focus on fresh food. The Sainsbury's Quality, Aldi Price Match campaign is really popular and we will continue to focus on being great value for our customers on the fresh and high-volume lines that are most important to them. Through the year our Price Lock promotion fixed the price of up to 2,000 items for at least eight weeks. Customers can be assured that prices will not rise on these products, helping them to plan and budget and through Price Lock we are holding down the prices of more products than our competitors.

This year we have seen such fantastic support and hard work from all of our colleagues right across the business and above all else, I want to thank every one of my colleagues for such an outstanding team effort in what have been challenging circumstances. Over the last 18 months we have strengthened our Operating Board to help us drive our company and our performance forward and I would like to thank all my colleagues on the Board for their leadership, commitment and support. I was delighted to promote Graham Biggart and appoint him to the newly created role of Chief Transformation Officer. Paula Nickolds joined the business last summer and, less than a year in, she is already making a significant impact on our General Merchandise & Clothing business.

2021/22 highlights

£730m[1,2]

Underlying profit before tax, up 104% versus the 2020/21 financial year and up 25% versus the 2019/20 financial year

£854m[2]

Statutory profit before tax versus a loss of £164 million in the 2020/21 financial year and versus £278 million in the 2019/20 financial year

3.4%

Retail sales growth (inc. fuel)

£141m[1]

Non-lease net debt

20%

Reduction in absolute greenhouse gas emissions within our own operations, against our 2018/19 baseline

2. What are you most proud of?

I am so proud of our colleagues and the entire Sainsbury's team. Every day across our company I see and hear about our colleagues consistently going above and beyond in showing genuine care and concern for our customers and doing their very best to help. Our colleagues have done a brilliant job, to navigate the pandemic, manage labour shortages, and more recently the impact of the devastating war in Ukraine as well as the cost of living crisis, which I know is a big concern for us all. Every one of our team has shown extraordinary resilience, determination and commitment to working as a team over the last year and I would like to say a heartfelt thank you to each and every one of them.

In recognition of the role our retail colleagues play in delivering for our customers and in all of our success, we were the first major supermarket to pay colleagues the Living Wage wherever they are in the UK.

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[1] Refer to Alternative Performance Measures on pages 203 to 207 for definition and reconciliation to statutory measures.

[2] The results for 2021 and 2020 have been restated – refer to note 2 of the financial statements on page 113.

> "By putting our customers and colleagues first and doing the right thing, I'm confident we can build on the momentum we have and continue to make good progress against our plan."

I am pleased with the momentum we have been building against our plan. By putting our customers first and doing the right thing for our colleagues, I'm confident we can build on this strong first year we have had in food, supported by our Brands that Deliver and Save to Invest.

We have learnt a lot over the last year as a business about where we can improve, move faster and work more effectively. We have become more agile in anticipating the rapidly changing environment around us and changes in how our customers are shopping. It will be so important we continue to push forward and while, of course, it is challenging to make the changes we are making, it has been really positive to see what we have been capable of across our entire business as we all learn to adapt and work smarter.

3. What have been the biggest shifts in the market?

The rapid shift to customers shopping groceries online has been particularly stark. Whilst shopping patterns are beginning to return to what we saw before the pandemic began, 17 per cent of the food and groceries we sell is bought online, up from less than 9 per cent two years' ago. More than ever, customers want to be able to choose how and when to shop, fuelling the rise of On Demand services, particularly across grocery. We have responded by investing in our online and digital channels and growing our On Demand offer. Customers are now able to receive Sainsbury's orders in as little as 30 minutes through Chop Chop, our rapid delivery service, and through our partnerships with Uber Eats and Deliveroo. This rapid move online accelerated by the pandemic has continued in General Merchandise as we have accelerated the transformation of Argos. Last year 39 per cent of all our sales across the business were completed online.

During the pandemic, cooking at home was central to the way households came together and as finances are increasingly under pressure, shoppers are looking for cost-effective ways to enjoy eating and drinking together. We are really well positioned to help customers with this, offering value across a great choice of food, at different price points. We are also innovating in response to the shift towards eating at home and cooking from scratch, developing over 200 products as part of our 'Inspired to Cook' range, which makes home cooking simple and tasty for customers. We also see customers trading up more and sales of Taste the Difference are up 15 per cent on two years ago.

The pandemic has put supplier relationships under the spotlight and those retailers like us with scale and strong networks have been able to work with suppliers to minimise the impact of rising inflation as much as possible. We have witnessed significant labour shortages and like other retailers, we increased the recruitment of online van and HGV drivers to ensure we were able to maximise delivery availability and ensure the best possible availability for our customers.

4. What is the biggest challenge ahead?

We know everyone is feeling the impact of inflation which is why we are so determined to deliver the best value for money we can for our customers. As a result of being bold in our cost saving plans, we are able to drive investment back into lower food prices and as a result, we are consistently inflating behind competitors on the products customers buy most often. We have real momentum in the business, having outperformed key competitors on both a one and two-year basis while also delivering strong underlying profit growth, improved returns and consistent retail cash flow. This gives us a strong foundation to keep building momentum in the year ahead and that is what we are focused on ensuring we do. We have a clear strategy and a clear plan and whilst the year ahead will be more challenging, I believe we are well set to navigate these conditions as we drive our strategy forward and continue to deliver the best value, innovation and service we can for our customers.

5. What did you learn at COP26?

We know that the issues of climate change and protecting biodiversity are very important to all our customers and to all our colleagues. Tackling the climate crisis requires collaboration at all levels and at COP26 it was inspiring to see what can be achieved when we all pull together at the world level. COP26 was also an opportunity to drive meaningful progress and represent and campaign for real change on behalf of our industry.

Alongside four other major UK retailers, we were really pleased to sign WWF's Retailers' Commitment for Nature, pledging to come together in force to halve the environmental impact of the UK food sector by 2030. And, we are also building on our commitments to reduce carbon emissions, deforestation, food waste and the packaging we produce.

Progress on the critical issue of climate change can only work if countries, industries and organisations work systematically to implement change across all their operations. At COP26 we announced the acceleration of our target to become Net Zero across our own operations by five years, from 2040 to 2035, in line with the UN's goal to limit global warming to 1.5 degrees. Last year we also set an absolute target to reduce our Scope 3 emissions by 30 per cent by 2030, and in delivering these targets we will also endeavour to help our customers make more sustainable choices when they shop with us.

The key will be for everyone to act on the promises they made at COP26 and to really focus on making the step change needed to confront global warming. We all need to be bold and constantly challenge ourselves to do better – I am really clear that we can only make the scale of change needed by working together with all our stakeholders to find new and innovative ways to adapt consumer habits and implement practices that are better for the planet, better for customers and better for everyone.

6. How do you feel about the next 12 months?

I feel really positive and energised by the momentum we have and the brilliant teams we have working across our business. We are fully committed to do everything we can to help our customers navigate the increasing costs of living and keep prices as low as we can. We start this year in a good position financially, with continued operating momentum supporting our strong competitive position.

Our strong focus on delivering value, innovation and service for our customers and driving through our cost savings programme puts us in a good position relative to our competitors and we expect to continue our strong grocery volume market share performance.

We have a clear focus on keeping prices low and we will remain committed in our determination to help everyone eat better as we deliver for our customers, our colleagues, and our shareholders whatever the external environment may bring.

Simon Roberts

Simon Roberts
Chief Executive Officer

Business model

Driven by our passion for food, together we serve and help every customer.

We are putting food back at the heart of Sainsbury's. We create value for stakeholders by building on the heritage and scale of our food business and our strong assets.

Everything we do is underpinned by data and technology innovation. And the single infrastructure that supports our brands enables us to drive value and efficiency.

Building on our brand and strong assets

Sainsbury's brand
and own brand heritage

Scale
Second largest food retailer

Strong
operating cash flow

Attractive
customer base

Our **stores**
Good catchments,
strength in convenience

Reputation for
service

Online scale
and capability

Nectar, investment
in digital and innovation

Underpinned by data, technology innovation and capability

Our **Plan for Better** is integrated into everything we do and is a key differentiator for us.
This year we accelerated our commitment to be Net Zero by 2035, five years ahead of our original target.

Creating value for our stakeholders

Customers **Colleagues** **Communities** **Suppliers** **Shareholders**

The Sainsbury's Difference

Sainsbury's brand

Sainsbury's is a trusted, well-loved brand that has been bringing high quality, great value food to customers for over 150 years. Argos, Habitat, *Tu*, Nectar and Sainsbury's Bank are complementary and give customers more reasons to shop with us.

Scale

We offer customers a choice of quality products. We have scale positions in both food and non-food purchasing and can profitably deliver a wide range of products and services to customers.

Strong operating cash flows

Our scale, customer proposition and operational efficiency generate strong operating cash flows to reinvest in our customer offer and adapt to rapidly changing shopping habits, while also paying dividends and strengthening the balance sheet.

Attractive customer base

Sainsbury's is a trusted brand, loved by millions of customers across the UK. We serve an attractive customer base and two thirds of the UK population have shopped with Sainsbury's over the last year[1] with a bias to a more affluent sociodemographic than key competitors.

Stores

Our stores are well-placed, with a strong presence in the South and in high footfall convenience locations. This helps us offer customers complementary products, such as *Tu*, Argos and Habitat, as well as complementary services such as financial services. Through our stores we can also present the offers of carefully selected concession partners.

Service

Customers come to Sainsbury's for our outstanding customer service. Our 171,000 colleagues are integral to our long-term success.

Online scale

Our Groceries Online business is increasingly profitable and in the 2020/21 financial year we became the second largest online grocery retailer.

Argos is the UK's third most visited online retailer and we are making good progress to reduce the number of Argos standalone stores we have and to offer more Argos stores inside Sainsbury's stores. We are improving the Argos distribution model, focusing on high volume Local Fulfilment Centres (LFCs) to improve choice and availability.

Nectar

Nectar provides a vital competitive advantage to our food business, our brands and a wide range of partners. It has strong profit growth prospects through data monetisation and growing coalitions. It enables us to offer our customers personalised rewards for their loyalty.

How we create value

For customers

We listen carefully to our customers and we invest in what matters to them. Our focus is on offering a broad range of great value, high quality products – we then focus on strong availability and excellent customer service, all delivered through our attractive stores and a range of convenient digital channels. And we reward our customers for their loyalty. We want to help everyone eat better and are helping our customers to improve diets while reducing their impact on the environment, one plate at a time.

For more information about how we engage with our stakeholders, see pages 24 to 29.

For colleagues

We invest in our colleagues and are committed to paying them fairly for their efforts. By creating an engaged workforce that is invested in the progress of the business and the role they play in our success, we will achieve high retention rates and deliver superior customer service. See page 25 for more detail.

For suppliers

We are proud of our strong supplier relationships and we work collaboratively with them to grow our business and theirs. By improving technology and simplifying processes we are making it easier for our suppliers to do business with us. See page 27 for more detail.

For shareholders

Our Chief Executive Simon Roberts, and the Operating Board, have done a very good job delivering against the key metrics we set out in November 2020. As a result of our strong profit performance and free cash flow generation, we are pleased to propose to shareholders the highest final and full-year dividend for seven years. We have used our strong cash generation in recent years to reduce debt and return around 50 per cent of underlying net earnings to shareholders through ordinary dividends. With debt reduction ahead of schedule, we are increasing our payout ratio to around 60 per cent.

For communities

We play an active role in local communities. Our customer feedback programme and customer surveys help shape our community programmes and this year we raised £38.4 million for good causes. See page 28 for more detail.

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[1] Nielsen IQ panel, Total FMCG (excl. Kiosk & Tobacco), 52 weeks ending P3 21/22.

Our strategy

We are one year into our three-year plan to transform Sainsbury's and put food back at the heart of our business.

We are simplifying operations at pace and accelerating our cost saving programmes in order to invest in improving food quality, increasing choice and innovation and consistently delivering value to customers. Our portfolio brands – Argos, Habitat, *Tu*, Nectar and Sainsbury's Bank – support our core food business, delivering for customers and shareholders in their own right. We will continue to pursue partnerships and to outsource where appropriate, benefitting from third parties that can make a positive impact for our customers.

Priorities

Food First

- Better value and innovation
- Underpinned by buying benefits and lower cost to serve

Our clear priority is to build on our strong brand heritage and reputation for quality, range and innovation while lowering prices and offering more consistent value. We will offer high quality, great value food wherever and however customers want to shop with us. This is what putting food back at the heart of Sainsbury's means. Collaborating and simplifying how we work with suppliers will create buying benefits and lower our cost to serve.

Brands that Deliver

- Customer and profit focus
- Supporting the core food business

We are refocusing the role of our portfolio brands to ensure that they contribute positively in their own right. Argos, Habitat, *Tu*, Nectar and Sainsbury's Bank are all delivering for their customers and are on track to drive sustainable, profitable growth to support our core food business.

Save to Invest

- Structurally lower operating costs to fuel investment in the core
- Cutting complexity and increasing pace of execution

We will deliver a step change in efficiency by transforming our approach to costs, simplifying our organisation and delivering a structural reduction in our operating cost base. We are on track with our plan to reduce our retail operating costs to sales ratio by at least 200 basis points, so we can reinvest in our customer offer and deliver improved financial returns.

Connected to Customers

Knowing and understanding our customers better than anyone else is fundamental to our success. Nectar unlocks our ability to connect with customers and drive that insight into our business decision making and we now have over nine million digital Nectar users. We listen to our customers and over 2.7 million respond to our customer satisfaction feedback programmes a year.

Plan for Better

As a responsible retailer, we want to help everyone eat better, offering our products in a way that helps customers reduce their impact on the environment one plate at a time. Our commitment is to invest £1 billion over 20 years to become Net Zero across our own operations by no later than 2035.

Our priorities

Food First

We are putting food back at the heart of Sainsbury's. This means we are focused on lowering prices, launching new products and improving service.

We have gained grocery volume market share from our key supermarket competitors on both a one and two-year basis[1] and sales are up 7.6 per cent on a two-year basis.

Value

We are making good progress to improve the value of our food. We know that the current cost of living situation is challenging for everyone and we are relentlessly focused on delivering consistent long-term value by offering customers great quality, tasty food at low prices. As a result of being bold in our cost savings plan, we are able to drive investment back into lower food prices and we are consistently inflating behind competitors on the products customers buy most often – including milk, eggs, potatoes, bread, vegetables, fish and meat. As a result, our relative price position has remained strong throughout the year – improving 310 basis points against Aldi, year-on-year[2], leading to more customers shopping with us. By focusing on fresh and high-volume lines we are offering customers better value, improving price perception and delivering strong volume market performance.

Through the year our Price Lock promotion fixed the price of up to 2,000 items for a minimum of at least eight weeks. Customers can be assured that prices will not rise on those products, helping them to plan and budget. Through Price Lock we are holding down the prices of more products than our competitors.

We have also increased the number of entry price point products on offer for customers, including Greengrocer fruit & vegetables, J. James meat and poultry and Stamford Street ready meals offer customers a wide choice of products.

Innovation

We have delivered our plan to triple the number of new lines we sell, launching over 1,900 products across all our food brands. We developed our 'Inspired to Cook' range in response to the shift towards eating at home and cooking from scratch, launching a range of over 200 products across Grocery and Fresh Foods which make home cooking simple and tasty for customers. In March we launched 350 new branded World Food products, our biggest investment into this category to date and in the first six weeks sales are up significantly.

Our premium Taste the Difference range continues to perform well, particularly at key seasonal and celebratory moments when people want to trade up, such as Christmas and Easter. We have grown sales by 15 per cent versus two years ago.

In March we began our food hall transformation programme. We have rolled out our successful Beauty Hall format in more stores, improved the layout of our fresh ranges to make it easier for customers to shop, increased our popular World Foods ranges and improved our in-store bakeries. We have also simplified some of our ranges and provided a greater breadth of products across others, delivering more choice for customers on the products they really want.

Service

We are committed to rewarding our colleagues and all Sainsbury's and Argos retail colleagues now receive a base rate of pay of £10 per hour, above both the National Living Wage and the Living Wage. In March we increased inner London pay from £10.10 to £11.05 in line with the London Living Wage. We have announced that from 1 May 2022 the outer London rate will also be moving to £11.05, from £10.50. This means that all Sainsbury's and Argos retail colleagues earn the Living Wage wherever they are in the UK. We were the first supermarket among the big four to make this happen.

Alongside competitive pay we also offer a comprehensive benefits package, including year-round colleague discount of 10 per cent, increased to 15 per cent for five days around every pay day, pension contributions and an improved family leave policy.

We improved customer service scores in supermarkets[3] and are adapting our Sainsbury's store estate to offer more new and innovative products. This year we opened four new supermarkets and as part of our drive to offer a broader range of distinctive food to customers in-store, on the move and at home, we announced bold new plans to transform our eat-in, takeaway and home delivery offer. Through a partnership with Boparan Restaurant Group we have developed "The Restaurant Hub" format, a food hall style offer with different brands which we will roll out across 30 stores in the next year, with more to come in the future. We will also open 30 Starbucks cafés in Sainsbury's stores in the next year, bringing the total number to 60. We took the decision to close 200 underperforming cafés in the Spring.

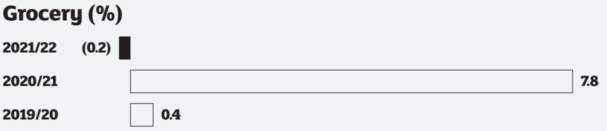
Our Convenience business grew 9 per cent driven by more people returning to the workplace, with sales now broadly back at pre-pandemic levels. We opened 19 convenience stores and closed 23. We are making progress with our plan to open more Neighbourhood Hub stores which give customers a larger, more convenient local store with a wider produce range, more choice and better services.

39 per cent of our overall business now comes through digital channels, versus 23 per cent in FY 2019/20. We are seeing a normalisation of pre-COVID-19 shopping patterns as customers are returning to shopping in stores and demand for Groceries Online, non-food home delivery and Click & Collect has stabilised, although it remains more than double pre-pandemic levels.

Groceries Online accounted for 17 per cent of grocery sales with an average of 690,000 orders per week. In FY 2021/22 we grew our Groceries Online market share to become the second largest online grocery retailer, up from fourth before the pandemic[4]. This scale gives us advantage. We have improved profitability by enhancing picking rates and van utilisation. We are exploring new ways to make our delivery services better for customers and more efficient and initiatives include one-hour saver slots and changes to our delivery pass model. Customer satisfaction in Online is improving relative to competitors[3].

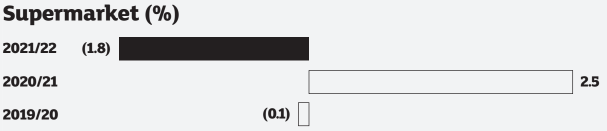
Sales growth – Food

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



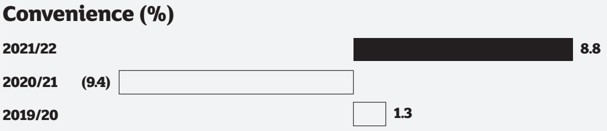
Sales growth

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



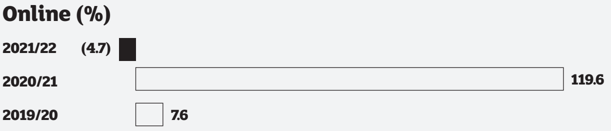
Sales growth

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



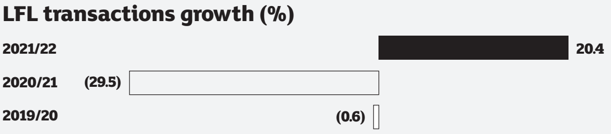
Sales growth – Food

Definition: Year-on-year growth of total online sales, including VAT and delivery income.



LFL transactions growth

Definition: Year-on-year growth in transactions, excluding fuel, excluding Financial Services, for stores that have been open for more than one year.



Brands that Deliver

Our brands that deliver – Nectar, Argos, Habitat, *Tu* and Sainsbury's Bank – are delivering for our customers and our shareholders and supporting investments in our wider customer offer.

Argos sales were down 12.5 per cent year on year against last year's high sales during the pandemic. Sales were down three per cent over two years and were impacted by availability issues caused by supply chain disruptions and the strategic decisions we made to reduce promotions and exit less profitable categories. Reflecting this focus, household and home and furniture sales grew while sales of toys, consumer electronics and technology categories declined. We have grown our furniture market share over the past two years, driven by Habitat, Sainsbury's and Argos's main home and furniture brand. Following a relaunch in September, Habitat products are now available in 600 Sainsbury's stores and online via the Argos and Habitat websites. We are growing our digital presence to ensure that we are well placed to serve customers who increasingly want to buy online. 80 per cent of Argos sales are now online, up from 63 per cent two years ago.

Nectar supports our ambitions in food by giving customers personalised rewards for their loyalty. 9.3 million digital Nectar users can benefit from personalised offers with us and with our Nectar partners. This year we launched My Nectar Prices – an innovative data-led tool which gives customers discounted prices that are personal to them, delivering even more value for loyal customers. Over one million customers are benefitting from lower prices and we will develop the proposition further. Nectar360, our marketing services business, is making good progress and we are on track to hit our 2026 plan on profit.

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[1] NielsenIQ Panel volume growth YoY and Yo2Y. Total FMCG (excluding Kiosk & Tobacco), 52 weeks to March 2022. Market Universe: Total Outlets.
[2] Edge by Ascential data, internal modelling.
[3] Competitor Benchmarking survey, supermarket and online customer satisfaction.
[4] NielsenIQ Panel online value share. Total FMCG (excluding Kiosk & Tobacco), 52 weeks to March 2022. Market Universe: Total Outlets.

Tu clothing delivered sales growth of 12.7 per cent over one year and 3.1 per cent over two years and delivers over £1 billion in sales. We are selling more clothing at full price – with full priced sales participation now at 89 per cent compared with 65 per cent two years ago – and running fewer promotions, which improves profitability and supports increased investment in our core food business.

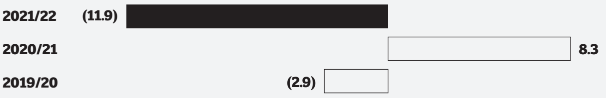
We continue to make good progress reshaping, strengthening and simplifying our Financial Services business, with profits of £38 million versus a loss of £21 million in FY 2020/21. This compares with £48 million in FY 2019/20. FY 2020/21 was impacted by COVID-19 where we saw significantly reduced demand across consumer credit, combined with increased bad debt provisions and less activity in our fee-based products, particularly Travel Money. Reflecting the Bank's progress, following the year end, it has paid dividend to the Group for the first time, of £50 million.

We have continued to improve our digital capability with the launch of the Argos Monthly Payment Plan, which allows customers to spread the cost of a purchase across fixed monthly repayments for a period of their choice. We have transformed the Sainsbury's Bank loan application journey for single and joint applicants with a fully digital onboarding experience that can transfer funds to accounts in just minutes. We have also improved the application journey for savings customers.

Sales growth

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

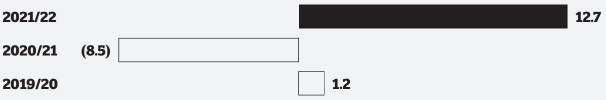
General merchandise (including Argos) (%)



Sales growth

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

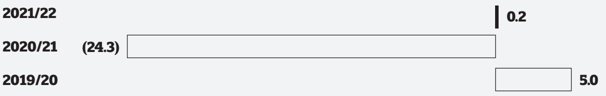
Clothing (including Argos) (%)



Bank sales growth

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

Bank (including Argos Financial Services) (%)



Save to Invest

We are making good progress with our cost saving programme, making bold decisions and prioritising what really matters to customers. By reducing our retail operating costs, we are able to invest more into our core food business, delivering better value, increasing our innovation and improving customer service.

Our retail operating costs to sales ratio has reduced by 83 basis points versus FY 2019/20 and we continue to target reducing the ratio by at least 200 basis points by the end of FY 2023/24, despite cost inflation being significantly higher than was anticipated when this target was set.

We are working at pace to integrate the Sainsbury's, Argos and Habitat supply chain and logistics networks, which will save at least £250 million over the programme, improve overall efficiency and deliver a better service to our customers. Our property rationalisation programme is on track and this year we closed four underperforming supermarkets and 23 convenience stores. We are also working to improve the efficiency of Groceries Online, moving stores to a new, more efficient routing system and improving pick rates, which will save the business around £50 million overall. In addition, we are investing to improve the checkout experience for customers and colleagues which will drive around £50 million of cost efficiencies. This includes trialling improvements to the layout of self-service areas, making it easier for colleagues to help customers, reducing queuing times and creating additional space for shoppers with trolleys, increasing participation.

We are making good progress in Argos's end-to-end transformation programme, which will save £105 million over three years. We have opened five Local Fulfilment Centres (LFCs) and as a result, our customers are benefitting from improved availability, faster delivery and more collection options; we plan to open nine more LFCs this year. In line with improving availability and convenience for customers whilst reducing costs, this year we opened 64 Argos stores inside Sainsbury's supermarkets plus 62 in-store collection points. We have closed 73 standalone Argos stores this year. As of 5 March 2022, Argos has 728 stores, of which 400 are inside Sainsbury's supermarkets.

We partner with third parties and outsource where necessary to deliver for our customers, whilst supporting our own cost saving programme and our focus on food. The changes we are making to our cafes, hot food counters and bakeries will create £125-150 million of savings over three years and we will continue to explore ways to work with partners to drive value and improve service for our customers.

We are proud of our strong relationships with suppliers and are continuing to work closely with them to drive value and simplify processes, enabling us to lower our cost to serve and buy better, as well as minimising the impact of rising inflation as much as possible for customers.

Plan for Better

Environmental and social sustainability at our core.

Our Plan for Better
The environmental and social challenges that are facing the world have never been greater. As a UK retailer with a food, general merchandise and clothing business, we source from countries all over the world, therefore the production, sourcing, packaging and disposal of these products can have major consequences. Our commitment to Helping everyone eat better means we are playing a leading role in offering delicious, affordable food that supports healthy and sustainable diets, helping customers reduce their impact on the planet, one plate at a time.

In June 2021 we launched our Plan for Better, a key pillar of our business strategy. Our Plan for Better covers our environmental and social commitments and sets out our sustainability goals across our whole business, outlining our priority areas of focus, our key commitments and our progress. The plan consists of three interlocking pillars; Better for you, Better for the planet and Better for everyone, and we have committed to reporting twice a year to transparently share our progress. Our standalone Plan for Better reports can be found at **www.about.sainsburys.co.uk**.

2.5 million

meals donated via our partnership with Neighbourly

The development of our Plan for Better was informed by identifying the areas that are most material to our stakeholders and ensuring alignment to the UN Sustainable Development Goals. This year we have undertaken another materiality exercise across our stakeholders to understand the priority areas of focus across the different groups. Using this insight we continue to evolve our strategy to ensure it's fit for purpose and addressing the areas where we can have a significant impact.

The past year has seen us host our first ESG investor event and our sponsorship of COP26. We have worked on improving transparency and increasing disclosures in our reporting with our first SASB disclosure and implementation of TCFD recommendations (see page 17 for our TCFD disclosure). We have also rolled out our food redistribution partnership with Neighbourly to all our supermarkets. In the year ahead we are looking forward to launching refreshed commitments and plans across our social agenda, including human rights and community and partnerships.

Better for everyone

We have over 171,000 colleagues who are critical to the long-term success of our business. We are committed to being an inclusive employer where everybody is treated fairly and with respect and is encouraged to develop their skills and fulfil their potential. We are passionate about playing an active role in our communities, and are committed to championing human rights.

An inclusive place to work and shop
We want our colleagues to feel connected and engaged, and measure this through our annual colleague engagement survey and our regular 'temperature check' surveys. An essential part of the survey process is sharing the results and making real and tangible actions that make a difference to our colleagues' experience. This year we introduced new metrics into the survey; overall as a company a score of 68 was achieved for colleagues stating how happy they are at work, whilst 78 per cent of colleagues told us they are able to be themselves at work. After each colleague engagement survey, line managers explore their local survey results with their teams and work together to plan and implement actions that will help make Sainsbury's a truly great place to work.

78%

of colleagues told us they are able to be themselves at work

We continue to work on representation and transparency across the business and have published our second integrated Gender and Ethnicity Pay Report this year. We have reduced our mean gender pay gap by 1.2 per cent to 8.5 per cent, while our median gender pay gap has decreased by 0.3 per cent to 4.7 per cent. Our mean ethnicity pay gap is negative at minus 0.9 per cent; this is a result of our hourly paid store colleagues receiving the same hourly rate and just under 40 per cent of our ethnically diverse colleagues work in stores that attract a location premium (i.e. inner and outer London), compared to just under 6 per cent of our white colleagues.

To ensure sustained improvement, we continue to look at focused initiatives, culture and accountability through targets. We have set stretching targets to take us to 2024 which covers more of our colleague population and also forms part of our long-term incentives for management. Progress on diverse representation at senior leadership and senior management positions can be seen in the table on page 14. Across the entire business, female representation is 52.7 per cent.

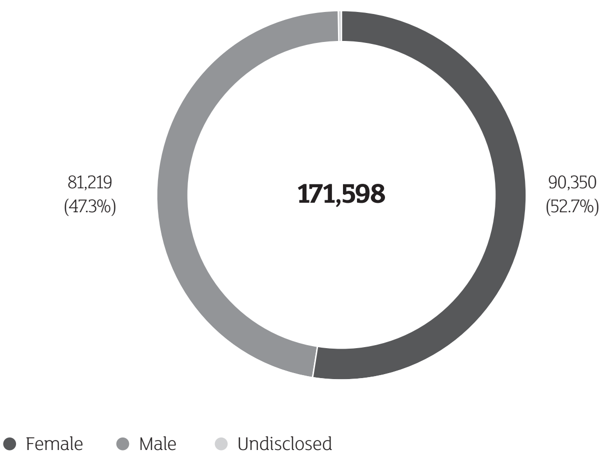
We are active in our drive for inclusivity and the progression of our diverse talent, for example:

- We've adopted The Halo Code, the UK's first Black hair code which protects colleagues who come to work with natural hair and hairstyles associated with their racial, ethnic and cultural identities. We want to ensure Black colleagues can be themselves without fear of judgement or discrimination which is why we have updated our dress code policies to embrace afro-textured hair
- We joined the Black British Network to help improve inclusivity and representation across the business
- We refreshed our LGBT+ colleague policies and guidance, to ensure we keep our colleagues educated with how language continues to evolve and continue to be an inclusive workplace
- Our Ethnically Diverse colleague network 'I AM ME' was recognised in the Top 10 Network Group in the UK at the Ethnicity Awards.
- We were recognised as one of the Top 10 in the UK as an 'Inclusive Company' at the British LGBT+ Awards
- We were recognised in the Financial Times Diversity leaders in Europe List
- We were featured in *The Times* Top 50 Employers for Women 2022: Taking Action on Gender Equality, produced in partnership with Business in the Community
- We continue to be a Disability Confident Leader – the highest tier of accreditation in the government's Disability Confident Programme
- Over 8,800 colleagues shared with us that they had a disability or long-term condition in 2021 through our confidential all colleague survey, this was a significant increase from 2020
- We have committed £1 million in donations working with Black charities and communities to support racism, education, social mobility, Black businesses and food insecurity, areas which our colleagues and customers identified as important
- We have evolved our Family Leave policy by increasing our paid leave to 26 weeks for maternity, adoption, and surrogacy and paternity from two to four weeks
- We launched our colleague and line manager menopause guide and signed the Wellbeing of Women 'Menopause Workplace Pledge'
- This year we proudly recognised Carers Week, the theme being 'Make Caring Visible and Valued', using the day to signpost colleagues to our newly launched Little Book of Carers, which shares colleague stories and gives guidance and advice
- After a successful trial we launched the colleague wellbeing app Unmind, giving every colleague free access to various personalised tools and learning series across a range of topics, enabling them to measure and manage their mental health and wellbeing
- 63 per cent of our colleagues tell us that our Mental Health and Wellbeing tools help them to live happier and healthier lives
- We invested more than £100 million to increase the base rate to £10 per hour for Sainsbury's and Argos colleagues and increased our colleague discount from 10 per cent to 15 per cent for five days around each pay day, supporting the financial wellbeing of our colleagues

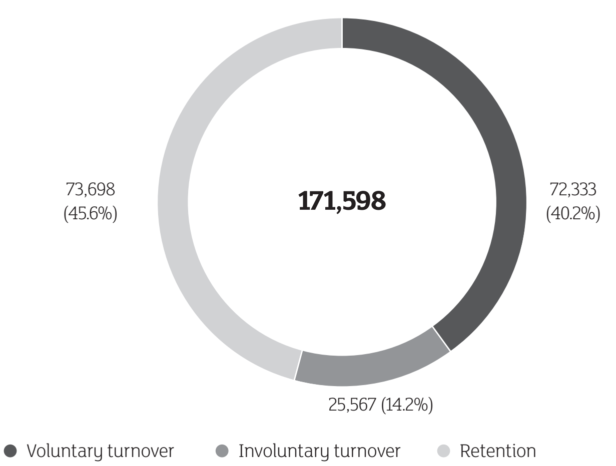
Being an inclusive organisation with diverse representation at all levels of our business is important to us. We acknowledge we still have a way to go, and we are committed to driving positive, sustainable change to improve the lived experience and opportunities for under-represented groups, be they colleagues or customers. For more information please visit the Better for everyone section of our corporate website or read our Gender and Ethnicity Pay Report at **www.about.sainsburys.co.uk**.

Diversity and Inclusion targets	**Senior leadership positions (the top 230 leaders)**			**Senior management positions (the top 1,200 leaders beneath the top 230 senior leadership positions)**		
Female	Target 2024: 50%	2021/22: 40.1%	2020/21: 37.7%	Target 2024: 43%	2021/22: 35.7%	2020/21: 35.5%
Ethnically diverse	Target 2024: 12%	2021/22: 8.2%	2020/21: 8.1%	Target 2024: 12%	2021/22: 8.7%	2020/21: 7.2%
Black	Target 2024: 3%	2021/22: 2.4%	2020/21: 1.4%	Target 2024: 3%	2021/22: 1%	2020/21: 0.7%

Total colleagues



Colleague turnover



Health and safety

The health and safety of our colleagues and customers is a key part of our strategy. We have seen a long-term decline in both colleague and customer reportable injuries over the past five years; our colleague reportable accidents have decreased by 2.8 per cent, whilst our customer reportable accidents have decreased by 39.7 per cent. An independent safety team supports our retail and logistics operations. They provide a combination of coaching, expertise and challenge to our line managers using our innovative risk mapping tool, utilising data from a wide range of sources to identify the key areas requiring support in any of our stores across the business. This helps us to ensure that we have the right level of compliance in place around key areas such as training, fire safety and adherence to procedures, as well as reviewing culture in individual stores through the lens of colleagues, regional management and safety teams.

Our governance processes ensures colleagues can feedback on issues, regular engagement with our unions and Board oversight. This includes our Great Place to Work groups, divisional level safety steering groups, our Group Safety Committee which reports into the Operating Board, as well as quarterly updates to the plc Board. We have strong and well-established Primary Authority relationships in place that cover all our risk areas across health and safety, food safety, fire safety and petroleum safety. These relationships are built on a foundation of trust and we openly share information with our Primary Authority .

Community and partnerships

We play an active role in the communities we serve and this year we have raised a total of £38.4 million for good causes. This year we have developed our new community and partnerships strategy, with a focus on food poverty. Our strategy is underpinned by two key pillars – access to food and prevention, which will be delivered through three key programmes to support Helping everyone eat better: food donation, local activation and prevention.

£38.4 million
raised for good causes this year

A key priority for the last year has been around access to food and to increase the redistribution of surplus food for human consumption. In August 2021 we began our partnership with Neighbourly, which has since been rolled out to all supermarkets. From August to March we donated a total of 2,567,803 meals, which is equivalent to a £4,878,826 million saving to charities and community groups (based on £1.90 per meal).

To support our local communities impacted by food poverty, we ran our Help Brighten a Million Christmases campaign again this year from 1-24 December, generating £2.6 million for our partners. This year we also launched our Helping everyone eat better Community Grants for stores to nominate partner organisations tackling food insecurity to apply for grants of £500. Through our partnership with FareShare, with our customers, £1.7 million was donated allowing them to support charities across the UK at the heart of our communities, supporting those individuals impacted by food poverty.

We have continued our longstanding partnership with Comic Relief and this year raised £6.2 million for the Red Nose Day campaign. In March, we also worked with Comic Relief to support the humanitarian crisis in Ukraine by launching a Ukrainian Crisis Appeal, donating £2 million and an additional £600,000 donated by our customers via Nectar Donate and donations at checkout.

Alongside our community investment, we make positive economic contributions through our responsible approach to tax. We contributed £2.3 billion in taxes borne and collected this year. For more information on how we serve our communities visit **www.about.sainsburys.co.uk** for our Plan for Better report.

Championing human rights

We want to treat people fairly throughout our business and supply chains and we remain committed to respecting human rights. We understand how intertwined environmental and social sustainability are, and how the challenges in both areas are interconnected, therefore as part of a just transition to Net Zero, we want to place the people in our supply chains at the heart of our move to a low-carbon world. This year we have undertaken an extensive review of the most salient human rights risks facing the people in our supply chain and are using this to inform the development of our new social sustainability strategy, which we will be reporting progress on later this year.

We recognise the importance of supply chain transparency. Having previously published our Tier 1 clothing sites, this year we also published our Tier 1 food sites with information such as addresses, number of workers, gender split and union membership. We also acknowledge the need for further transparency, therefore we will be publishing lists of our General Merchandise and Goods Not for Resale sites in the year ahead, as well as working to achieve greater visibility of the challenges faced further down the supply chain.

In 2017, we launched our Modern Slavery Risk Tool, giving us unique insights into slavery risks across a complex global supply chain, and we continue to embed the tool into the business by using its results for internal risk assessments. In 2020 we increased the scope of this risk to cover all human rights risks and this year have continued the tools development by updating risk data to ensure we have the most up-to-date data on the risks in our supply chain. We identify vulnerable workers and do not tolerate any form of slavery or servitude in our own operations. For more information on our approach to social sustainability and to read our Human Rights Policy and Modern Slavery Statement, please visit **www.about.sainsburys.co.uk**.

Better for you

Healthy and sustainable diets for all

We know that food that is better for us is also better for the planet. This is why we have committed to develop and deliver healthy, sustainable diets for all. This year we built on our mass colleague and customer campaign, Helping everyone eat better, to raise awareness and drive behaviour change. We want to encourage people to eat more in line with the principles of the government's Eatwell Guide and to help make healthy eating choices more affordable, easy and tasty. To support customers to incrementally improve their diets, we have developed recipes which change up well-loved recipes such as curries, lasagnes and casseroles, and offer hints such as encouraging customers to mix half pulses with half meat.

This year we reported against our target to measure healthy and sustainable diets. We aim to achieve at least 83.1 per cent of 'healthy' and 'better for you' sales by 2025, currently sitting at 80 per cent, remaining flat year-on-year.

We undertook an extensive piece of work to review the nutrition criteria used to define 'healthy' and 'better for you sales'. This approach will help us identify better choices within categories for both branded and own-brand products, along a spectrum from less healthy to most healthy. We also disclosed our protein sales, with 72 per cent of protein sales tonnage being plant based and meat-free products, of which 12 per cent is entirely plant based[1].

We continue to utilise 'test and learns' to help nudge customer behaviour by incentivising customers with value pricing or additional Nectar points with initiatives such as our discounted 60p fruit and vegetable campaign and The Great Big Fruit & Veg Challenge. We also continued to support customers by topping up the Healthy Start vouchers, provided by the government to low-income pregnant women and families with children under the age of four. The vouchers consisted of a £2 fruit and vegetable coupon, more than any other retailer, to help families in need have access to nutritious produce through the half-term and summer holidays. In the six months the programme ran, we supported over 17,000 customers to take home an additional 1.2 million portions of fruit and vegetables.

Better for the planet

Principal Supermarket Partner of COP26

This year we were Principal Supermarket Partner of COP26, the UN Climate Change Conference, which took place in Glasgow in November 2021. Our aim was to demonstrate strong industry leadership and inspire our colleagues, customers and other businesses to rally together to protect and restore our planet for the future. During the event we hosted multiple events, bringing in experts from across our business to discuss industry challenges as well as hosting an exhibition space to engage the public on how we can all eat better by making small changes to our plates.

We also announced our commitment, alongside other retailers, to work with the WWF to halve the environmental impact of UK baskets by 2030. We recognise that solutions to the grand challenges that we are facing cannot be solved in isolation, therefore we are committed to working as an industry to identify the key issues that we face and collaborate so that we can accelerate progress together.

Reducing carbon emissions

This year we announced the acceleration of our carbon emissions target to become Net Zero in our own operations by 2035, five years earlier than our original ambition. Overall, we have reduced our absolute greenhouse gas (GHG) emissions within our operations to 762,119 tCO$_2$e, a reduction of 7 per cent year-on-year and 20 per cent from our 2018/19 baseline, keeping us on course for our new 2035 target. In 2021 we hit some key milestones with the rollout of LED lighting to 100 per cent of our supermarket estate, reducing lighting energy consumption by an average of 70 per cent, with a plan to install 100 per cent LED across our entire estate by the end of 2022/23. We also transitioned to 100 per cent renewable electricity across the entire estate and have committed to the long-term purchasing of renewable energy from new wind farms and solar projects, significantly reducing reliance on fossil fuels.

We are proud to be recognised by CDP, an environmental impact disclosure system, for our environmental transparency. We were awarded an A rating for climate change for the eighth consecutive year, the only UK retailer to have achieved this. We were also recognised by CDP as a Supplier Engagement Leader for our work engaging with our suppliers to tackle climate change.

As part of our commitment to reduce our value chain emissions, this year we've written to 400 of our key suppliers, who constitute a high proportion of our value chain emissions, requesting that they disclose their carbon emissions through the CDP or Higg platform. We currently have 87 per cent of our key food suppliers disclosing via CDP. We have also set an expectation that our suppliers should commit to their own Net Zero science-based targets, aligned to the highest ambition of the Paris Climate Change Agreement. This builds on our existing science-based target, defined with the Carbon Trust, to reduce our Scope 3 emissions by 30 per cent by 2030, whereby our baseline is 26,663,081 tCO$_2$e (2018/19). This includes reducing emissions from purchased goods, upstream transport and distribution, services sold and our customers' use and consumption of the products we sell.

20%

reduction in absolute greenhouse gas emissions within our own operations, against our 2018/19 baseline

Reducing food waste

We are committed to reducing food waste by 50 per cent across the whole value chain by 2030; driven by the multi-faceted environmental and social challenges created by food loss and waste.

This year we have reduced our operational food waste tonnage by 2.4 per cent year-on-year, a reduction of 13 per cent from our 2019/20 baseline. Where we can't donate surplus food to charity, we send surplus food to UK farms, via our partners, to be used in animal feed. We've been sending surplus bread for use in animal feed since 2013 and this year we trialled diverting unsold fruit, vegetables and salad as well. We've also been working with suppliers on specifications this year in order to utilise more of the crop.

We increased our food redistribution to people by 119 per cent year-on-year, to 4,072 tonnes, an increase of 161 per cent from our 2019/20 baseline. A key driver of this increase has been our partnership with Neighbourly which we rolled out to all supermarkets this year with convenience store rollout planned for the year ahead. Neighbourly helps us manage our back of store food donation programme, connecting our stores to a network of over 17,000 charities, schools and community groups. This partnership ensures both the social and environmental investments already made in food production are not wasted and that any surplus food gets redirected to people who need it most. Please see the Community and partnerships section on page 15 for more information.

We continue to collaborate with industry on reducing food waste and support the delivery of Courtauld 2025/Champions 12.3. We've been members of UK Food Waste Reduction Roadmap since 2018 and are pleased many of our Fresh suppliers are also signed up, covering 43 per cent of our total sales. We also continue to work with WRAP to implement their guidance on upstream and downstream food waste, including increasing behavioural tips on product labelling. This year we also engaged suppliers on aligning with WRAP's best practice on redistributing own-label products within the supply chain, evolving our guidelines so that suppliers can redistribute any Sainsbury's own-label products to our chosen food donation partners.

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[1] 2020/21 data.

Reducing use of plastic packaging

We have seen an absolute reduction in plastic packaging of 2.2 per cent from our 2018 baseline and relative reduction (tonnes per million units sold) of 4.7 per cent from our 2018 baseline. Year-on-year the tonnage has decreased by 626 tonnes to 117,333 tonnes, which puts us behind our target trajectory. We recognise that we have a lot more to do to reduce our plastic packaging tonnage and meet our target to reduce this by 50 per cent by 2025. We continue to implement a number of strategies aiming to remove, reduce, replace and recycle the amount of plastic packaging, including:

- Removing plastic and replacing with paper straws in our own-brand range of lunchbox juice cartons, this equates to the removal of 18.5 million plastic straws from circulation each year to reduce plastic by 6.6 tonnes
- Removing film overwrap from own-brand tea boxes to reduce plastic by over 15 tonnes
- Reducing by light-weighting our own-brand water bottles and caps to reduce by over 300 tonnes
- Reducing by light-weighting our own-brand bleach bottle caps to reduce plastic by 24 tonnes
- Replacing plastic with card trays for own-brand sausage rolls and snacks to reduce plastic by over 65 tonnes
- Replacing plastic with pulp fibre trays for own-brand eggs, to reduce plastic by over 230 tonnes
- Recycling opportunities for customers by rolling out front of store collection points at all our large supermarket stores for customers to bring back any flexible plastic packaging such as salad bags, crisp packets and food pouches for recycling

Task Force on Climate-related Financial Disclosures (TCFD)

Introduction

With the impacts of climate change being felt around the world, we understand the important leadership role we can play to help reduce the impact of the food system on the climate. We are proud to have been chosen as the Principal Supermarket Partner of COP26.

We have committed to reduce GHG emissions within our own operations to Net Zero by 2035. This is five years earlier than our original ambition and aligns with the UN's goal to limit global warming to 1.5 degrees, the highest ambition of the Paris Climate Change Agreement. We have a strong heritage in reducing our own emissions and are collaborating closely with our suppliers to ensure we are driving positive change across our supply chain too.

Tackling the climate emergency requires collaborative and transformational thinking across industry and government, and a willingness to work together and share learnings globally, so that we can all take meaningful, immediate action. In November we signed the World Wide Fund for Nature (WWF) retailers' commitment to halve the impact of UK baskets by 2030.

Whilst we are delivering on our commitments to reduce the impact of our business on the climate, we are aware that climate change is going to have an impact on our business, presenting risks and opportunities over the short, medium and long term. We have been a signatory of the TCFD since January 2020 and have complied with the requirements of LR 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations to strengthen our climate resilience, which we discuss below.

Governance

Governance a) Board's oversight of climate-related risks and opportunities

The Board

The Board is accountable for risk management, strategy and target setting, including climate-related matters. The Board monitors how we are responding to climate-related risks and opportunities, identified through the risk management process and scenario analysis. The Board also oversees our Plan for Better strategy, which includes climate-related matters, and is one of our core strategic business priorities. Finally, the Board sets and monitors progress against our climate-related metrics, and this year approved accelerating our Scope 1 and 2 Net Zero target by five years to 2035.

The Board continues to ensure that there is appropriate climate-related expertise within the business and has undertaken training by the Cambridge Institute for Sustainability Leadership. See page 54 for biographies of our Board members.

Board Committees

The Corporate Responsibility and Sustainability (CR&S) Committee reviews the sustainability strategy and monitors the business engagement with our key stakeholders, including climate-related matters. For example, we have asked our suppliers to set their own targets to reduce GHG emissions and understand our customers are looking for more sustainable products as they seek to minimise their personal carbon footprints.

The Remuneration Committee reviews remuneration for Executive Directors against our Plan for Better strategy, including long-term targets for Scope 1, 2 and 3 GHG emissions (see page 78 for more details).

The Audit Committee reviews risks and confidence on the climate-related metrics that we disclose.

Governance b) Management's role in assessing and managing climate-related risks and opportunities

Operating Board

The Operating Board defines and monitors the business-wide strategy, including climate-related matters, adapting to new regulatory requirements and trends, and approving major investments such as our commitment to spend £1 billion to become Net Zero. The Operating Board is chaired by our CEO, who also sits on the Board and CR&S Committee.

Plan for Better Steering Committee

The Plan for Better Steering Committee supports the Operating Board and leads the operational execution of our Plan for Better, by overseeing working group activity, and monitoring performance against our climate-related metrics. The Plan for Better Steering Committee is chaired by our Chief Marketing Officer (CMO) and has cross-divisional representation at Director level.

Plan for Better working groups

The Plan for Better Steering Committee oversees three working groups: Plan for Better; Environment; and Social. Our key climate-related targets (Scope 1, 2 and 3, water and biodiversity) are managed by the Environment working group.

See page 71 for our CR&S Committee Report, providing information on our governance structure, Committee responsibilities, meeting frequency and principal activities in the year.

Strategy

Strategy a) Climate-related risks and opportunities identified over the short, medium, and long term

Climate change is anticipated to impact our business over the short, medium and long term. Physical risks may impact our operations and supply chain through extreme weather events, such as flooding or droughts. Transitional risks as a result of moving to a low-carbon future may impact us through changing consumer preferences or climate-related regulation. Climate change also presents opportunities, such as higher sales of lower GHG emission products.

The table below captures the key climate risks and opportunities impacting our business, identified through our risk management and qualitative scenario analysis, as well as potential mitigations.

Financial impact ranges

We have used the below financial impact ranges, which are the same as we use for our corporate risk management process (described further in the risk management section on page 38).

Impact	Financial range (revenue)
High	Greater than £125 million
Medium	£25 million to £125 million
Low	Less than £25 million

Time horizons

We have used the below time horizons:

Time period	Years	Reason
Short	0 to 5 years	Aligned to our financial planning cycle
Medium	5 to 15 years	Nearer term to capture transition risks and opportunities
Long	15 to 50 years	Longer term to capture physical risks and opportunities

Time horizon	Risk type	Classification	Risk/opportunity description[1]	Financial impact (assuming actions are taken to mitigate risks)	Potential mitigations that are being considered as part of our strategic planning
Short/Medium	Transitional	Reputation	Climate conscious consumers favouring lower GHG emission products	Revenue opportunity	Development & promotion of lower GHG emission products (see Meat, Fish & Poultry example below on page 20)
Short/Medium	Transitional	Policy & Legal	Introduction of a carbon price leading to an increase in the cost of higher GHG emission products	Low revenue loss	Majority of cost assumed to be passed on to customers to encourage purchase of lower GHG emission products. We are also working with our suppliers to reduce the GHG emissions of our products (see Meat, Fish & Poultry example below on page 20)
Medium	Transition	Policy & Legal	Ban on the sale of new petrol and diesel cars from 2030 leading to a reduction in fuel sales	High revenue loss	Providing electric vehicle charging for customers as they shop at our stores
Short/Medium/ Long	Physical	Acute	Increased likelihood of flooding and drought leading to a reduction in crop yields and increased sourcing costs	Medium/high revenue loss	Working with our suppliers to create climate adaption plans to secure supply of crops (see Produce example below on page 21)
Short/Medium/ Long	Physical	Acute	Increased likelihood of flooding leading to water damage and closure of stores and depots	Low revenue loss/cost	Flood warning system, flood emergency plans for at-risk stores and investments in flood defences (see Operations example below on page 19)

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[1] There are independencies between the climate risks and opportunities identified, such as the introduction of a carbon price providing further incentive for climate conscious consumers to favour lower GHG emission products.

Strategy b) Impact of climate-related risks and opportunities on business, strategy and financial planning

Climate-related risks and opportunities are considered as part of our Plan for Better, which is one of our core strategic business priorities. The below table shows how our Plan for Better strategy supports climate-related matters.

Plan for Better commitment	How our Plan for Better strategy supports climate-related matters
Reduction in carbon emissions	We have a strong track record over the last 15 years of reducing GHG emissions within our own operations, and have already achieved a 20 per cent reduction against our 2018/19 baseline. This year we completed rollout of our LED lighting to 100 per cent of our supermarket estate, reducing lighting energy consumption by an average of 70 per cent. We also transitioned to 100 per cent renewable electricity across the entire estate (sourced directly from UK wind farms as well as certificate-backed renewable electricity from the UK) and have committed to long-term purchasing of renewable energy from new wind farms and solar projects, significantly reducing reliance on fossil fuels. We are working to remove hydrofluorocarbon in our refrigeration, replacing these with natural alternatives. Our Scope 3 emissions make up 97 per cent of our overall GHG emissions, and we have committed to a reduction of 30 per cent by 2030. We are working in collaboration with our suppliers, industry and the non-governmental organisation (NGO) community to achieve this. See page 16 for more details on how we are reducing carbon emissions within our own operations and supply chain.
Reduction in water use	Climate change is expected to increase water stress in the UK. We have already reduced water usage in our own operations by 13 per cent against our 2018/19 baseline and are making significant progress in both reduction and recycling of water, having achieved 'A' rating in the CDP water security disclosure for the last two years. We are signatories of the WRAP Water Roadmap 2030, working to improve water stewardship in our key sourcing locations. We are currently mapping our total water footprint across the entirety of our operations and will be setting out our total organisation water stewardship approach in the coming year.
Healthy & sustainable diets	The type of food in our diet has a big impact on GHG emissions. We are encouraging customers to eat more in line with the principles of the government's Eatwell Guide, through marketing campaigns, pricing and Nectar points, such as our Great Big Fruit & Veg challenge. The Eatwell Guide is a healthy and balanced diet, and when compared against a standard UK diet, is lower in GHG emissions, water usage and land use. See page 15 for more details on how we are encouraging healthy and sustainable diets.
Reduction in food waste	Food waste contributes over eight per cent of total man-made GHG emissions, so actions we are taking to reduce food waste are also reducing GHG emissions. This year we rolled out our back of store food donation partnership with Neighbourly to all supermarkets, helping to connect to a network of over 17,000 charities, schools and community groups. We are following best practice disclosure on our food waste and encouraging our suppliers to sign up to the WRAP Waste Reduction Roadmap to help drive industry action on food waste prevention as well as redistribution. See page 16 for more details on how we are reducing food waste.
Biodiversity	The environmental changes driven by climate change are putting pressure on species and have the potential to alter ecosystems over time. We recognise our high dependency on nature and ecosystem services, and have committed to ensuring the impact of our operations are net positive for biodiversity. We are currently assessing our nature-related risks and opportunities across our business and supply chain. We have been working to build supply chain resilience for over 20 years, including working directly with farmers and growers on areas such as soil health and integrated pest management, whilst increasing certification of high climate risk materials such as palm oil, soy, timber and cotton. For more details on how we are protecting and enhancing biodiversity, visit **www.about.sainsburys.co.uk**.

Climate-related matters are also considered within financial planning. We have committed to spend £1 billion to become Net Zero by 2035 and this is built into our financial plan, approved by the Board. We have also considered what impact the revenue losses identified in our scenario analysis (on page 20) could have on the carrying value of the Group's store assets, by modelling the impact on cash flows (the results do not have a material impact on the Group's impairment considerations, see page 139 for more details). Finally, Sainsbury's Bank considers climate-related risks as part of its Internal Capital Adequacy Assessment process (ICAAP).

Strategy c) Resilience of strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

To help shape our understanding of the potential implications of both the physical and transition risks associated with climate change, we have conducted both qualitative and quantitative scenario analysis, with the support of an external specialist. Scenario analysis can act as a 'stress test' for our current business operations and supply chain and help to explore a range of different outcomes. This has allowed us to evaluate the potential effects on our strategic and financial position under each of the defined scenarios. We have then been able to use the results to inform strategic thinking on how to manage the identified risks and opportunities.

Our own operations – Qualitative scenario analysis

We have been actively managing flood risk across our property estate for many years through our flood warning system, flood emergency plans for at-risk stores and investments in flood defences. Climate change is expected to increase the frequency and intensity of flood events in the future, impacting directly through water damage to our property estate and indirectly by hindering access for our customers and suppliers. In 2020, we carried out some qualitative scenario analysis using the World Resources Institute Aqueduct tool to understand the impact of flood risk and water stress on our locations in a 4.3°C scenario (high emission). Improving our understanding of future water-related risks helps us assess the need for future building adaptations, for example flood defences. It is also informing our commitment to be water neutral by 2040, by identifying where water conservation will have the biggest impact.

Our products and supply chain – Qualitative scenario analysis

During 2021, we undertook qualitative scenario analysis that evaluated the impacts of a wide range of different climate change risks on the product categories we sell, to identify the product categories most exposed to climate-related risks and the most material risks for each product category.

This analysis was conducted by considering the potential impact of both physical and transitional risks. For physical risks, we considered the geographical sourcing for each of our product categories and assessed different physical risks under a high emissions scenario. To evaluate transitional risks, we considered the GHG emissions of our different product categories, as well as how changing market dynamics and increased regulations could impact both production costs and revenue.

Of the 27 climate-related risks considered through this process, the four most material climate-related risks were drought, flooding, carbon taxes and changes in consumer preferences. We identified Produce, Clothing, Meat, Fish and Poultry (MFP), Dairy and Fuel as the product categories most exposed to the climate-related risks.

Type of risk	Most material risks	Most exposed categories
Acute physical risks	— Drought — Flooding	— Produce — Clothing
Transition risks	— Carbon taxes — Changes in consumer preferences	— Meat, Fish & Poultry — Dairy — Fuel

The findings of the qualitative scenario analysis were reviewed and considered, alongside the financial materiality of each product category, by senior leadership and key stakeholders during a series of workshops. We then selected MFP and Produce to undergo further analysis through a quantitative scenario analysis approach, which we will expand to additional categories next year. This approach was approved by the Plan for Better Steering Committee with oversight from the CR&S Committee.

Our products and supply chains – Quantitative scenario analysis

To further build on these qualitative results, we adopted a quantitative approach to determine the potential financial impacts associated with the identified material climate risks for each exposed product category. The scenarios are built using data from the Intergovernmental Panel on Climate Change (IPCC) over two time horizons (2030 and 2050) and include a 2°C or lower scenario per the recommendations of the TCFD. These time horizons align with our definition of medium and long term. Greater detail is provided below:

- 1.5°C – A pathway that limits global warming to below 1.5°C (low physical risk, high transition risk)
- 2.4°C – Described by the IPCC as an intermediate scenario (medium physical and transition risk)
- 4.3°C – A high emissions worst case scenario pathway (high physical risk, low transition risk)

Through our analysis we identified transition risks to be more material leading up to 2030 as the global community strives to limit global warming to below 1.5°C, whereas physical risks are expected to manifest by 2050 if transition goals are not met. Furthermore, extending transition risk analysis beyond 2030 also introduces a significant amount of uncertainty to our analysis. Our analysis of MFP extends to 2030 as the product category is most vulnerable to transition risks, namely carbon taxes and changes in consumer preferences. Our quantitative analysis for Produce extends to 2050 to capture the potential financial impacts associated with drought, flooding and heat events.

Quantitative scenario analysis – Potential financial impact of climate-related transition risks on MFP products in a low emissions scenario in 2030

To assess the costs associated with carbon taxes and changes in consumer preferences, we evaluated the production of MFP products in the UK and the production of animal feed globally. Our analysis considered the impacts of a carbon price on the cost of MFP products by factoring in the emissions associated with production and in our supply chain. The carbon prices applied in our scenario analysis align with IPCC data. We considered how prices of MFP products could subsequently increase and assumed that additional costs would be passed on directly to the consumer, further reducing demand. The analysis assumed that products associated with the highest emissions would be most avoided by consumers.

The results illustrate a potential revenue loss when looking at the MFP category in isolation in a 1.5°C (low emissions) world in which physical risks associated with climate change are limited but high transition risks are experienced as the world attempts to meet the Paris Agreement. However, this looks at the MFP product category in isolation and assumes no actions are taken to mitigate risks, so does not capture the overall opportunity at Group level of developing and promoting lower GHG animal protein and nutritionally positive meat alternatives to capture switching calories from existing and new customers.

Most material climate risks impacting MFP[1]	Annual revenue loss to MFP category in isolation in 2030 in 1.5°C scenario, assuming no actions are taken to mitigate risks	Annual revenue loss/opportunity at Group level in 2030 in 1.5°C scenario, assuming actions are taken to mitigate risks	Potential mitigations that are being considered as part of our strategic planning
Changes in consumer preferences away from higher GHG emission animal protein	£300m to £350m revenue loss to MFP category in isolation	Overall opportunity for business	— **Differentiate:** develop lower GHG emission animal protein within existing product (see integrated beef case study below) — **Shift customer behaviour:** towards lower GHG emission meat proteins and products — **Alternatives:** promotion of nutritionally positive meat alternatives to capture switching calories from existing and new customers
Implementation of carbon taxes	£50m to £100m revenue loss to MFP category in isolation	Overall opportunity for business	— **Reduce:** work with suppliers to reduce GHG emissions in our supply chains e.g. supplier targets, animal health & welfare and feed efficiency — **Offset:** work with suppliers to sequester carbon in our supply chains e.g. planting trees, creating hedgerows, and protecting peat land and mangroves — **Innovate:** investment in innovation to further reduce GHG emissions e.g. methane reducing food additives

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[1] Risks should be considered in isolation as the complex interrelationship between multiple risks has not been considered.

Case study – Integrated beef scheme

Our market-leading integrated beef scheme uses selected Aberdeen Angus genetics, resulting in a more sustainable, highly consistent, and traceable beef product for our customers. The scheme has been running since August 2019 and we are working to fulfil our entire *Taste the Difference* tier. The genetics used to improve the sustainability of our beef, is estimated to deliver a 20 per cent reduction in overall GHG emissions and a 40 per cent reduction in methane.

Quantitative scenario analysis – Potential financial impact of climate-related physical risks on selected produce crops in high and low emissions scenarios in 2050

To assess the costs associated with the increased likelihood of flooding, drought and heat events, we evaluated the production of citrus fruits, lettuce, berries and potatoes in Spain and the UK. These food items are particularly vulnerable to climate change and likely to result in crop failure. We considered two scenarios, one where global warming reaches 4.3°C (high emission) as a result of no global action taken to reduce emissions, leading to extreme physical risks manifesting in the long term, and a 1.5°C (low emission) scenario where the Paris Agreement is met but physical risks are still experienced, albeit more mildly. Our physical risk modelling focused on Spain and the UK where a significant proportion of our produce is grown. Our scenario analysis considered the impacts of these acute physical risks and the resulting diminished or lost crop yields that would result in increased costs in our supply chain. We also assumed that these additional costs are passed on directly to the consumer, reducing demand and impacting our revenue. Revenue loss is based on 2021 produce sale figures and assumes no actions are taken to mitigate risks.

Most material climate risks impacting citrus fruit, lettuce, berries & potatoes in UK & Spain[1]	**Annual revenue loss to crops in isolation in 2050 in 4.3°C scenario, assuming no actions are taken to mitigate risks**	**Annual revenue loss to crops in isolation in 2050 in 1.5°C scenario, assuming no actions are taken to mitigate risks**	**Annual revenue loss/opportunity at Group level in 2050 in 4.3°C & 1.5°C, assuming actions are taken to mitigate risks**	**Potential mitigations that are being considered as part of our strategic planning**
Flooding	£0m to £5m revenue loss to crops	£0m to £5m revenue loss to crops	Further work required to understand revenue impact at Group level after actions are taken to mitigate risks	— **Engage:** continue to work closely with our suppliers to understand their adaption plans — **Explore supply chain adaption options:** higher altitude locations, lower flood risk areas, vertical farming, glass growing structures, reservoirs, drainage channels, drought & temperature resistant crop strains
Drought	£25m to £30m revenue loss to crops	£10m to £15m revenue loss to crops		
Heat events	£35m to £40m revenue loss to crops	£10m to £15m revenue loss to crops		

[1] Risks should be considered in isolation as the complex interrelationship between multiple risks has not been considered.

Case study – UK grown Brassicas

One of the ways we mitigate flood risk is to have multiple growing locations for a crop. For example, for UK grown Brassicas we use three distinct areas – Cornwall, East Anglia and Scotland. These areas have similar growing conditions but are far enough apart to reduce the risk of all areas suffering from a severe weather event.

Plans to expand scenario analysis in 2022/23

We understand that we must continue to expand our knowledge of our climate-related risk and opportunities. Next financial year we are going to expand our quantitative scenario analysis to look at our Clothing category. Clothing is particularly exposed to physical risks due to our sourcing and manufacturing locations in India, China, Bangladesh and Turkey.

Risk management

Risk management a) Processes for identifying and assessing climate-related risks

Climate-related risks (short, medium and long term) are identified through quarterly bottom-up divisional and governance forum risk assessments and then reviewed annually top-down in a dedicated climate risk workshop to assess completeness. This considers our ability to deliver our Plan for Better strategy, including our Scope 1, 2 and 3 targets, as well as physical and transition climate risks impacting our operations and supply chain, including existing and emerging regulatory requirements.

Climate risks are mapped against financial and reputational impact (from insignificant <£10 million to severe >£125 million) and likelihood of occurring (from remote to almost certain). To assess the effectiveness of existing climate controls, each risk has three positions: gross risk (before existing controls); net risk (after existing controls); and target risk (management's target position). Climate risks where the impact is not yet well understood are captured separately on an emerging risk map (plotted against likelihood of occurring and timeframe).

Risk management b) Processes for managing climate-related risks

Each climate risk is assigned a Director-level business owner who is responsible for monitoring and mitigating the risk. Climate risks are agreed once per year at the Plan for Better Steering Committee with Board level oversight from the CR&S Committee. Climate risks and mitigations are monitored throughout the year by the Plan for Better working groups and Steering Committee. To increase ownership of climate risks across the business, the Steering Committee has cross-divisional representation at Director level.

Risk management c) Processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management

The output from this climate risk process, in aggregate, is elevated to the corporate risk map owned by the plc Board with support from the Audit Committee, and informs the Environment and Social Sustainability principal risk, shown on page 50. For more details on our overall risk management framework and supporting processes, see page 38.

Metrics and targets

Metrics and targets a) Metrics used to assess climate-related risks and opportunities in line with its strategy and risk management process

The below table shows the key metrics and methodology used to measure climate strategy and risk management.

Plan for Better Commitment	Metric	Methodology
Reduction in carbon emissions	Absolute GHG emissions within our own operations (tCO_2e)	Absolute, market based, Scope 1 and 2 GHG emissions in the financial year for Sainsbury's Group and supported by third party CBRE and verified by the Carbon Trust. Follows the GHG protocol.
	Electricity which comes from renewable sources (%)	The amount of renewable energy used by Sainsbury's Group as a proportion of the total electricity consumption in the financial year, supported by third party CBRE. Combination of energy sourced directly from UK wind farms as well as certificate-backed renewable electricity from the UK.
	Absolute Scope 3 GHG emissions (tCO_2e)	Includes emissions from purchased goods, upstream transport and distribution, services sold and our customers' use and consumption of the products we sell as calculated by the Carbon Trust. Follows the GHG protocol.
	Key Sainsbury's food suppliers disclosing through CDP	Key food suppliers disclosing through CDP, which is an environmental impact disclosure system. Key suppliers are our 211 most material carbon footprint suppliers that we asked to disclose through CDP.
	GM&C own-brand suppliers disclosing through HIGG	GM&C own-brand suppliers disclosing through HIGG, which is an environmental impact disclosure system.
Reduction in water use	Absolute water usage within our own operations (m^3)	Absolute water usage in the financial year for both Sainsbury's and Argos as verified by third party WaterScan.
Healthy & sustainable diets	Healthy and better for you sales tonnage as a proportion of total sales tonnage (%)	Food sales tonnage of healthy, healthier choice and better for you products as a percentage of total food sales tonnage in the financial year (exclusive of beers, wines, spirits and baby food). Healthy, healthier choice and better for you defined using a nutrition criteria tool, including criteria from the Eatwell Guide which is lower in GHG emissions.
Reduction in food waste	Food waste to anaerobic digestion (tonnes)	Total food waste tonnage sent to anaerobic digestion in the financial year calculated as total operational food surplus i.e. food that is not sold to customers, less any food surplus redistributed to both humans and animals.
Biodiversity	Soy sourced to an independent sustainability standard (%)	Sustainably sourced soy tonnage as a percentage of total soy tonnage footprint, as calculated by the third party 3Keel.
	Palm sourced to an independent sustainability standard (%)	Sustainably sourced palm oil tonnage as a percentage of total palm oil tonnage footprint, as calculated by the third party 3Keel.
	Timber sourced to an independent sustainability standard (%)	Cubic metre volume of assessed sustainably sourced timber products sold as a percentage of total cubic metre volume of all assessed timber products sold during 2021 calendar year. Sustainability assessments were carried out by third party Track Record Global Ltd.
	Cotton sourced to an independent sustainability standard (%)	Cotton tonnage sustainably sourced and certified by third party Better Cotton Initiative (BCI) as a percentage of total cotton tonnage sourced during 2021 calendar year.
	Number of woodland trees planted (number)	Total number of trees planted in the financial year through partnership with the Woodland Trust.

Metrics and targets b) Scope 1, Scope 2, and Scope 3 GHG emissions, and the related risks

	Baseline	Results	
	2018/19	2020/21	2021/22
Scope 1 and 2 GHG emissions	949,744 tCO$_2$e	817,420 tCO$_2$e	762,119 tCO$_2$e
Scope 3 GHG emissions	26,663,081 tCO$_2$e	N/A	N/A

For a more detailed breakdown of our Scope 1 and 2 GHG emissions, please see our streamlined energy and carbon reporting (SECR) disclosure on page 97. We have a strong track record of delivering GHG emissions reductions and a robust plan to Net Zero, however there is some risk as our transition plan requires industry innovation, such as a commercially viable alternative fuel solution for heavy goods vehicles.

We have worked with the Carbon Trust to define our Scope 3 baseline, which uses industry average carbon factors to calculate total GHG emissions as there is currently no agreed methodology for companies to calculate their own Scope 3 emissions. There is also no consistent industry approach for requesting GHG emission data from suppliers, although we do measure the number of our suppliers disclosing through CDP and HIGG (environmental impact disclosure systems). Whilst we cannot solve these challenges ourselves, we are committed to work at industry level to find a solution, such as our commitment, alongside other retailers, to work with the WWF to halve the environmental impact of UK baskets by 2030.

Metrics and targets c) Targets used to manage climate-related risks and opportunities and performance against targets

We understand the importance of setting GHG emission reduction targets, and last year, the Science Based Targets initiative (SBTi) approved our science-based targets for Scopes 1, 2 and 3. For Scope 1 and 2, these include the reduction of GHG emissions from our own operations to Net Zero by 2035 in a bid to limit temperature increase to 1.5°C. Our Scope 3 target, defined in collaboration with the Carbon Trust, requires the reduction of GHG emissions by 30 per cent by 2030, to align to a well below 2°C scenario. We have long-term remuneration targets for Executive Directors on Scopes 1, 2 and 3 (see page 87 for more details).

We also have targets and measure performance against other climate-related metrics. See page 19 for more details on how these metrics are supporting climate-related matters.

Plan for Better commitment	Metric	Baseline	Results		Target
			2020/21	2021/22	
Reduction in carbon emissions	Absolute GHG emissions within our own operations (tCO$_2$e)	949,744 tCO$_2$e 2018/19 FY	817,420 tCO$_2$e	762,119 tCO$_2$e	Net Zero 2035/36 FY
	Electricity which comes from renewable sources (%)	17% 2019/20 FY	20%	41% (100% from January 2022)	N/A
	Absolute Scope 3 GHG emissions (tCO$_2$e)	26,663,081 tCO$_2$e 2018/19 FY	N/A	N/A	18,664,157 tCO$_2$e 2030/31 FY
	Key Sainsbury's food suppliers disclosing through CDP (number)	N/A	N/A	183 (87% of key food suppliers)	N/A
	GM&C own-brand suppliers disclosing through HIGG (number)	N/A	N/A	195 (49% of own-brand GM&C suppliers)	N/A
Reduction in water use	Absolute water usage within our own operations (m^3)	3,224,000 (m^3) 2018/19 FY	2,776,288 (m^3)	2,797,699 (m^3)	Water neutral 2040/41 FY
Healthy & sustainable diets	Healthy and better for you sales tonnage as a proportion of total sales tonnage (%)	80.3% 2019/20 FY	79.7%	79.6%	83.1% 2025/26 FY
Reduction in food waste	Food waste to anaerobic digestion (tonnes)	31,615 tonnes 2019/20 FY	26,545 tonnes	25,483 tonnes	15,808 tonnes 2030/31 FY
Biodiversity	Soy sourced to an independent sustainability standard (%)	6% 2019 CY	42%	N/A[1]	100%
	Palm sourced to an independent sustainability standard (%)	99.1% 2019 CY	99.3%	99.7%	100%
	Timber sourced to an independent sustainability standard (%)	60% 2019 CY	65%	77%	100%
	Cotton sourced to an independent sustainability standard (%)	76% 2019 CY	89%	94%	100%
	Number of woodland trees planted (number)	493,750 trees 2019/20 FY	325,000	398,333	N/A

[1] Result unavailable at date of publication. Please read our Plan for Better Report on about.sainsburys.co.uk for progress against this metric and all of our other Plan for Better metrics.

Engaging with our stakeholders and our Section 172 statement

Stakeholder considerations and our culture play an important part in the Board's discussions and decision making in promoting the long-term success of the Company, as outlined in this statement.

During the year ended 5 March 2022, the Board has acted in accordance with Section 172(1) of the Companies Act 2006. Each Director has acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, have regard to the interests of other stakeholders, whilst maintaining high standards of business conduct.

The Board considers the potential consequences of its decisions on stakeholders, recognising that decisions made will not necessarily result in a positive outcome for every stakeholder group. Processes are in place to ensure effective decision making, which balances the needs of our stakeholders with the business's strategic priorities, purpose, culture and values.

An overview of our key stakeholders and stakeholder considerations that influenced discussions and the outcomes of these discussions is outlined below. Further examples of how the stakeholder voice has been brought into the boardroom can be found in our Governance section on page 62.

> "Engagement with our stakeholders remains a key priority and we are committed to building positive relationships with all of our stakeholders."
>
> **Simon Roberts**

Customers

Two-thirds of the UK population have shopped with Sainsbury's over the last year[1] and over one million digital Nectar users regularly benefit from personalised offers with us and with our Nectar partners. Within Argos, we have 18.8 million active customers and the website is the third most visited online retailer in the UK. In Financial Services, we have 1.8 million active Sainsbury's Bank customers and 2.1 million Argos Financial Services customers. Understanding the needs of our customers allows us to provide relevant products and services. Satisfied customers are key to our long-term success.

Key customer priorities

- Competitiveness and value
- Availability and range of products
- Convenience and location
- Speed of Groceries Online delivery
- Quality of products
- Sustainability

Engaging with our customers

We heard what mattered to our customers through:

- 2.7 million responses per year across our Sainsbury's and Argos customer feedback programmes (CSAT)
- Social media listening
- Market research
- Qualitative customer focus groups and quantitative surveys
- Nectar data, which helps us understand how customers are shopping
- Brand tracking, which assesses the performance and perception of our different brands

Customer feedback and overall metrics on consumer sentiment and trends were shared regularly with the Board and Operating Board, steering our responses to the key issues impacting customers, such as COVID-19, inflation and availability of products. The Board receives regular updates from the Chief Marketing Officer, which include feedback from our customer listening sessions.

The Board's understanding of our customers continued to shape our strategy and the Board has focused on delivering for customers in line with our strategic priorities:

- Food First: putting food back at the heart of Sainsbury's by offering high quality, great value food to our customers
- Brands that Deliver: Argos, Habitat, *Tu*, Nectar and Sainsbury's Bank contributing positively to the customer experience
- Save to Invest: internal transformation enabling us to reinvest in our customer offer
- Connected to Customers: knowing and understanding our customers to enhance our thinking and decision making
- Plan for Better: supporting our customers to eat healthily and sustainably, whilst delivering on our commitment to become Net Zero by 2035

The Board also considered and supported the investment in our contactless sales channels to improve access for customers.

We know that price remains an important consideration for our customers; our Sainsbury's Quality, Aldi Price Match and Price Lock campaigns are two ways in which we have supported our customers to shop more affordably.

The evolution of our Net Zero by 2040 plan to our Plan for Better and our partnership with COP26 reflected our customers' interest in reducing their environmental impact through their everyday activities. Decision makers, including our Corporate Responsibility and Sustainability (CR&S) Committee, referred to customer insight analysis to understand how customers view our progress around sustainability and inform how related projects develop.

[1] Nielsen IQ panel, Total FMCG (excl. Kiosk & Tobacco), 52 weeks ending P3 21/22.

Colleagues

Our colleagues include everyone who is employed by the business. Colleagues are at the heart of everything we do and their commitment to our purpose and values is critical to the business's long-term success. Connected, engaged colleagues, working in safe stores and depots with better technology, lead to greater efficiency, increased availability of products and improved customer service.

Key colleague priorities

- Reward
- Career progression
- Colleague engagement
- Training and development
- Wellbeing
- Health and safety
- Inclusion

Engaging with our colleagues

The Board engaged directly with colleagues through the National Great Place to Work Group, our Workforce Advisory Panel. It received presentations on culture, colleague engagement, talent retention and progression from our Group HR Director, and regular summaries from the Chief Executive Officer on key initiatives. Colleagues were updated on decisions made following their feedback through regular internal communications from the Chief Executive Officer and Operating Board members.

Our colleague engagement activities included:

- Non-Executive Director meetings with National Great Place to Work Group members to directly understand the views of colleagues from across the business via their elected peers
- Continual feedback through internal channels, including live presentations, question and answer sessions and internal social media discussions with the Operating Board
- Honest, confidential colleague feedback on what it is like to work for the business through our annual colleague engagement survey, 'We're Listening', to inform improvements over the year
- Colleague feedback through topic-specific 'temperature check' surveys throughout the year, helping us to understand colleagues' views and sentiments, enabling the Board and Operating Board to act swiftly
- Regular updates provided to the Board, Remuneration and CR&S Committees on culture, engagement, diversity and inclusion, and colleague pay

Colleague feedback has provided the Board with insight and challenge. Through our colleague engagement activities, decision makers received timely feedback, allowing colleague interests to remain a priority when considering key concerns. Our response to COVID-19 exemplifies this. Colleague feedback on internal social networks and via 'temperature check' surveys enabled senior management to better understand the colleague experience of new safety guidance and returning to our offices.

The business has made a significant investment in colleague pay and benefits. All our Sainsbury's and Argos store colleagues now receive a base rate of least £10 per hour, above the government's National Living Wage and the Living Wage Foundation's Living Wage. We have also increased London pay to £11.05, in line with the London Living Wage. In response to feedback from colleagues, we have implemented policy and guidance changes in relation to family leave, menopause, wellbeing and carers.

It is vital that we have a diverse workforce, thriving in an inclusive culture and reflecting the communities we serve. The Board supported the additional commitments made by the Operating Board in support of our Black colleagues, including joining the Black British Network, to improve representation across the business and agreeing stretching diversity targets. It also supported the introduction of Inclusion Training for all line managers and improving transparency by publishing our Gender and Ethnicity Pay Report for a second year.

More information on our colleague engagement activities can be found on pages 13 to 14 and our colleague engagement KPI can be found on page 30.

Shareholders

We have over 103,000 shareholders, including large institutional investors and smaller individual shareholders.

Access to capital is vital to the long-term performance of our business. We ensure that we provide fair, balanced and understandable information to shareholders and equity analysts and work to ensure they have a strong understanding of our purpose, strategy, performance and culture.

Key shareholder priorities

During the course of the year, we heard from shareholders that their main areas of focus included:

- Macro factors, such as inflation, cost pressures and availability challenges
- Progress towards our cost base improvement targets
- Grocery market share performance in a competitive environment
- The impact of normalisation of demand post-pandemic, including expectations for Groceries Online penetration
- Improving our price position versus competitors
- Improving our product innovation
- General Merchandise sales trends and the impact from disposable income pressures and supply chain challenges
- Progress of the Argos transformation programme and associated profit improvements
- Driving returns in the Financial Services business
- Providing confidence in profit, cash flow and dividend prospects
- How we will address capital allocation once our leverage targets are achieved
- Progress against our Environmental, Social and Governance (ESG) targets

Engaging with our shareholders

The Board regularly received reports and updates on shareholder relations, summarising key feedback from our principal shareholders derived from a programme that consisted of:

- One-on-one investor meetings with the Chairman, Chief Executive Officer, Chief Financial Officer and Director of Investor Relations
- Investor events, including our ESG event and Nectar Deep Dive
- Real-time feedback from investors after meetings and presentations
- The Annual General Meeting
- Attendance at key investor conferences and tours
- Regular email and telephone contact with investors and analysts
- A shareholder event for retail investors, resulting in positive feedback in relation to investing in the Company from attendee retail investors
- Dialogue with shareholder groups
- Regular engagement with investors on ESG

The Board continually takes shareholders' feedback into account when reviewing levels of disclosure. To help shareholders understand the on-going impacts of COVID-19 on the business and the normalisation trends post-pandemic, the Board has consistently disclosed key customer behaviour trends and provided greater visibility of trading patterns.

The Board hosted our first ESG event in June 2021, launching our Plan for Better strategy and enabling shareholders to gain a stronger understanding of our ESG priorities. It also participated in a University of Cambridge Institute for Sustainability Leadership event on ESG, providing it with additional investor insights to help shape our on-going engagement with investors in this area. The Board supported our compliance with the Task Force on Climate-related Financial Disclosures for this financial year, enabling greater clarity for shareholders on this key topic.

Shareholders were keen to understand our remuneration decisions and, through voting at the Annual General Meeting, were given an opportunity to indicate their opinion on the 2021 Remuneration Report. The Board and Remuneration Committee continued to consult with shareholders, to understand their views on key decisions, and we will continue this dialogue in future years. For more information, please see the Remuneration Report on page 78.

Suppliers

We have over 4,900 Goods For Resale (GFR) suppliers that supply products for food, general merchandise and clothing, and over 1,800 Goods Not For Resale (GNFR) suppliers across the Group that support all functions, including Logistics, Marketing, Technology and Retail. Our suppliers range from large multi-national companies to small independently-run businesses.

Our GFR suppliers are fundamental to the quality and variety of products we sell and enable us to meet the high standards that we set ourselves.

Our GNFR suppliers provide operational excellence and access to the new technology and innovation that ensures we keep pace with the evolving and changing needs of our customers.

Key supplier priorities

- Long-term relationships
- Cost-efficiency
- Responsible procurement, trust and ethics
- Technological advances
- Payment practices

Engaging with our suppliers

The Board is cognisant of the impact its decisions have on suppliers and receives regular updates on supplier relationships. Working collaboratively with our suppliers helps us deliver innovation in food and we continue to build stronger relationships with exclusive brands.

In order to maintain consistent communication with our suppliers, they have access to online supplier portals, enabling the sharing of news and development of new ways to work together.

Management actively engage with both the GFR and GNFR supply chains to manage key risks, including the impacts of COVID-19, global supply chain issues and inflation on stock levels and logistics. This enabled us to manage our supply chain and continuity of supply to customers. Additionally, key supplier meetings with the Board are held to further enhance communication with these stakeholders.

We take part in annual, independent surveys which benchmark us against other retailers and highlight areas for improvement; these include the Supplier Advantage survey and Groceries Supply Code of Practice supplier survey. The CR&S Committee received updates during the year on the outcomes of these surveys, which helped shape supplier-related initiatives.

Our suppliers have been, and continue to be, a key element of achieving our sustainability targets under Plan for Better. Through our engagement with our suppliers, we have encouraged them to disclose their Net Zero ambitions to us and to set their own targets. We have also encouraged our GFR suppliers to report carbon emissions through the CDP or Higg platform. Working with these stakeholders has contributed to our accelerated Net Zero by 2035 target.

Suppliers are key to protecting human rights throughout our business activities and the CR&S Committee regularly discussed relevant matters. We have clear modern slavery policies for both GFR and GNFR suppliers, actively engaged with our suppliers to prevent modern slavery and human trafficking in our business operations and supply chains, and have reported this through our Modern Slavery Statement. For more information, see page 15.

Communities

We play an active role in our communities, supporting them through charitable endeavours and generating a positive impact on our communities worldwide.

Our business relies on resilient communities; we have a long history of building strong partnerships and making a difference in the communities we serve, both locally and internationally. The Board supported the on-going pandemic priorities of keeping our customers and colleagues safe, helping to feed the nation, and supporting our communities and the most vulnerable in society, but expanded the application of these beyond COVID-19. This embedded focus enabled us to make decisions at pace and allocate resources and investment for maximum impact on our communities.

Key community priorities

- Local operational impact
- Tackling food poverty
- Supporting the most vulnerable

Engaging with our communities

Customer and colleague feedback provided the Board with valuable information on how we can best support our customers and local communities, particularly in relation to the pandemic and household financial challenges. Partnering with Neighbourly, an award-winning giving platform that helps businesses make a positive impact in their communities by redistributing supermarket store-level surplus food to people in need, is an example of one of many initiatives we have put in place to support our communities.

Other examples of community activities undertaken during the year include:

- Approval of our new community and partnerships strategy to focus on food poverty
- Partnering with Neighbourly, resulting in the donation of 2.6 million meals
- The launch of the Helping everyone eat better local grants
- Our on-going partnership with FareShare in-store and online
- Continuation of our Help Brighten a Million Christmases campaign
- Topping up the government's Healthy Start vouchers
- Community and charity partnerships, which generated over £38 million for good causes

Regular updates on our community strategy are provided to the CR&S Committee and the Board.

For more information on our communities, please see page 15.

Government and regulators

The UK Government and devolved administrations in Scotland, Wales and Northern Ireland set the regulatory environment in which our business operates.

As a UK-based business and a major employer of over 171,000 colleagues, it is appropriate and responsible for a business of our scale to engage in a transparent way with government and regulators.

Key government/regulator priorities

- Openness and transparency
- Compliance with regulation, including Groceries Supply Code of Practice (GSCOP)
- Impact on environment
- Diversity and inclusion

Engaging with government and regulators

The Board and CR&S Committee received updates in relation to our work with government and regulators through summaries on activities including:

- Engagement with government through Parliamentary and party events
- Public responses to government consultations
- Direct meetings
- Trade association meetings
- Government organised roundtables
- Participation in government organised forums, such as the Food and Drink Sector Council
- Liaison with regulators, including the Grocery Code Adjudicator and HMRC

The business has continued to work closely with government this year to support vulnerable customers and communities across the UK. The Board and senior management have been in regular dialogue with Ministers and officials, primarily to ensure the on-going supply of and access to essential groceries, and to manage the safety of customers and colleagues throughout the on-going pandemic.

New KPIs

In FY21 we announced eight key metrics to ensure we deliver for customers and drive stronger financial results. These are the Group's key performance indicators (KPIs) as we deliver the new plan.

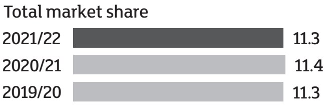
Operational

Grocery market share performance (%)

Definition: Sainsbury's grocery market share of total market and of Big 4 Grocers measured by Nielson Volume Market share as at 5 March 2022

11.3%

in 2021/22



Colleague engagement (score)[1]

Definition: Percentage of our colleagues who feel that we are a great place to work. Colleague engagement score out of 100 from the internal, annual 'We're Listening' survey. Target to maintain strong engagement score

+2%

Diversity and inclusion

Definition: We have three internal measures for diversity and inclusion, which come together to form a colleague representation target for 2024.

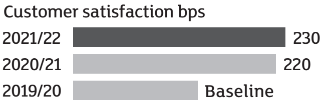
Slightly behind target

Customer satisfaction (score)

Definition: The % of 'highly satisfied' answers out of the total sample in response to the following question: Based on your most recent visit or online order to this Sainsbury's, how satisfied were you with your overall experience?

+230bps

since 2019/20



Plan for Better commitment

Definition: Our Plan for Better sets out our sustainability goals across our whole business, outlining our priority areas of focus, our key commitments and our progress. See below for status against targets in the priority areas

Carbon Scope 1 & 2
Ahead of target

Food waste
Ahead of target

Carbon Scope 3
Industry reporting challenge

Healthy & sustainable diets
Slightly behind target

Plastic
Behind target

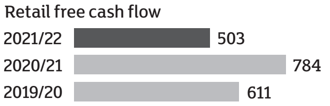
Financial

Retail free cash flow (£m)

Definition: Net cash generated from retail operations, after cash capital expenditure and after investments in joint ventures and associates. Target at least £500 million per annum on average to 2024

£503m

in 2021/22

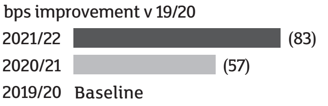


Retail operating cost to sales (bps)

Definition: Retail operating costs as a percentage of retail sales including VAT. Target to reduce by at least 200bps by 2024 year-end

83bps

improvement since 2019/20

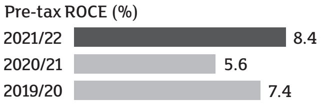


Pre-tax return on capital employed (%)[3]

Definition: Underlying profit before interest and tax, divided by average net assets excluding pension deficit/surplus, less net debt, calculated on a 14 point basis. Target to increase

+1.0%

since 2019/20

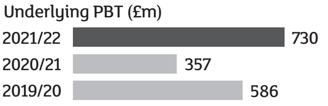


Underlying profit before tax (£m)

Definition: Profit before tax adjusted for certain items in note 5 which, by virtue of their size and/or nature, do not reflect the Group's underlying performance. Target to maintain growth

£730m

in 2021/22

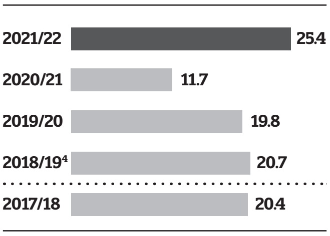


Legacy KPIs

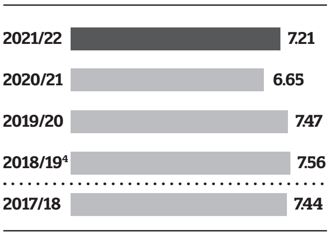
Last year we announced that we were moving to new metrics to track ourselves against. Those have been outlined on the previous page with the legacy measures listed for transparency here.

Group measures

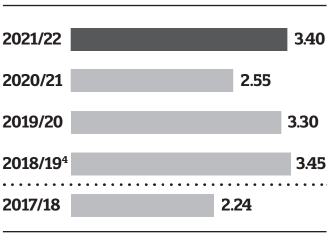
Underlying basic earnings per share (pence)[3]
Definition: Earnings per share using underlying profit



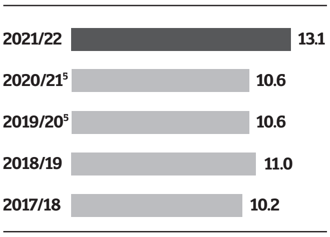
Retail underlying EBITDAR margin (%)[3]
Definition: Underlying profit before tax before underlying net finance costs, underlying share of post-tax results from joint ventures, depreciation, amortisation and rent, divided by sales excluding VAT, including fuel, excluding Financial Services



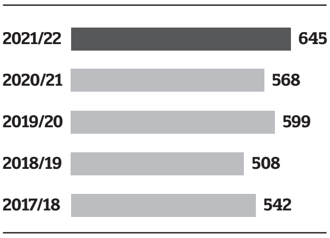
Retail underlying operating margin (%)[3]
Definition: Underlying profit before tax before underlying net finance costs and underlying share of post-tax results from joint ventures, divided by retail sales excluding VAT, including fuel, excluding Financial Services



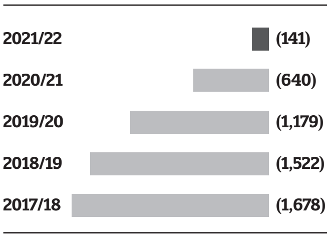
Dividend per share (pence)
Definition: Total proposed dividend per share in relation to the financial year



Core retail capital expenditure (£m)
Definition: Capital expenditure excluding Financial Services, before proceeds from disposal of property, plant and equipment and before strategic capital expenditure

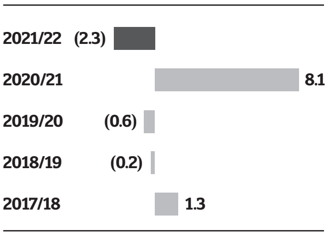


Net debt excluding lease liabilities
Definition: Group net debt excluding Financial Services net debt balances. Financial Services balances excluded because they are part of the daily operating cycle of the Bank rather than for financing purposes. Excludes lease liabilities under IFRS 16

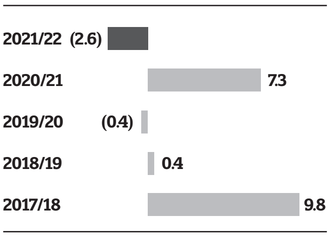


Retail

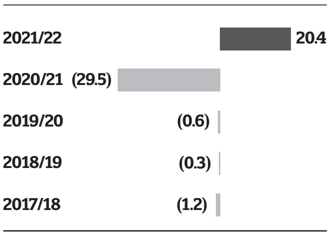
Like-for-like sales (%)[3]
Definition: Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year



Retail sales growth (%)
Definition: Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services

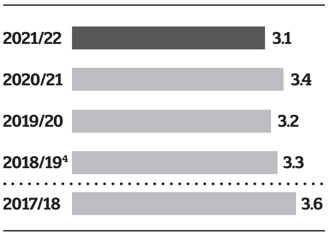


Like-for-like transactions growth (%)
Definition: Year-on-year growth in transactions, excluding fuel, excluding Financial Services, for stores that have been open for more than one year



Maintaining balance sheet strength

Net debt/underlying EBITDAR (%)[3]
Definition: Net debt divided by Group underlying EBITDAR



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1 In the course of this financial year we have moved to a new metric in our colleague survey. The above improvement is based on interim surveys through the course of the year.

2 Big 4 Grocers consists of Sainsbury's, Tesco, Asda and Morrisons.

3 Refer to APMs on page 203.

4 2018/19 restated for IFRS 16.

5 Special dividend paid in lieu of final dividend for 2019/20 following the deferral of dividend decision.

··· IFRS 16 cut-off.

Financial Review

2021/22 was the first full year of delivering our Food First strategy, as we put Food back at the heart of Sainsbury's, increasing product innovation and using the benefits of our Save to Invest programme to become more price competitive for customers and drive a strong volume share performance. It was a year in which our brands delivered, with the Argos transformation continuing at pace, Nectar 360 launching a new Sainsbury's Insight Platform and the Bank returning to profit and declaring its first dividend. Given the significant COVID-19 impacts in 2020/21, comparisons and commentary compared to 2019/20 have been used where this helps highlight trends.

COVID-19 costs were much lower than the previous year. However, sales remained strong with a sustained shift of food consumption in home, helping to support strong profit and cash flow delivery. We've declared our highest dividend since 2015, up 24 per cent on last year, and have committed to increasing the proportion of profits distributed to shareholders through the ordinary dividend.

Strong sales performance

Group sales (including VAT) were up 3.3 per cent year on year. Grocery sales were down slightly but strong compared to pre-pandemic levels, supported by continued elevated in-home consumption and our investments in value such as Sainsbury's Quality, Aldi Price Match. General Merchandise sales fell by 11.9 per cent, reflecting availability constraints and tough comparators. However, Clothing recovered well from suppressed demand over the pandemic with growth led by full price sales. Fuel sales grew strongly but remained below 2019/20. As expected, Groceries Online sales decreased 4.7 per cent as demand moderated after 119.6 per cent growth in the previous year. This was partially offset by a recovery in convenience sales of 8.8 per cent as the nation returned more to workplaces and other urban locations.

Delivering profit growth

This year we returned to profit, generating a statutory profit before tax of £854 million (2020/21: loss before tax of £164 million) with non-underlying profits of £124 million supported by significant legal settlements. Our underlying profit before tax of £730 million was a strong improvement from the £586 million in 2019/20.

Both the Retail and Financial Services businesses contributed to the improvement, with Retail underlying operating profit up 37 per cent and Financial Services returning to profit, with a £38 million underlying operating profit. The Retail performance was driven by our Save to Invest programme which generated an 83 basis points reduction in operating costs as a percentage of sales compared to 2019/20, led by the continuing Argos transformation programme as we closed 73 standalone Argos stores and opened 64 Argos stores within Sainsbury's, reducing operational and occupancy costs. Savings from our Logistics Transformation programme helped us to mitigate the impact of significant cost pressures through the year. Changes to our food service, counters and bakeries will save £125-150 million annually and enable us to improve our eat-in and takeaway customer offer.

Financial Services benefitted from a reduced bad debt charge after posting COVID-19 provisions in the prior year, and an improved unemployment outlook. Net interest margin improved as a result of management action to reduce interest payable through savings rates. In line with our Brands that Deliver strategy and enabled by a strong capital position, the Bank has paid a £50 million dividend.

Non-underlying items benefitted from £167 million of income in relation to two legal settlements made regarding overcharging of payment card processing fees. We continued with our restructuring programme announced in November 2020, incurring £92 million (2020/21: £548 million) of costs. We expect to incur £900 million to £1 billion of one off costs, with most in the period to March 2024. Of this, £640 million has been charged to date. Group statutory profit after tax was £677 million (2020/21: loss after tax of £201 million).

Basic earnings per share was 29.8 pence compared to a loss per share of 9.4 pence in 2020/21. Underlying basic earnings per share increased to 25.4 pence (2020/21: 11.7 pence) due to the strong profit delivery and a lower tax rate.

Strong free cash flow; capital allocation framework

2021/22 was another year of strong cash generation and net debt reduction. We reduced non-lease net debt by £499 million, taking our cumulative reduction to £1,381 million since 2018/19. This includes £240 million of net debt reduction resulting from the conversion of our perpetual convertible bond in July 2021. This exceeds our four-year target to reduce non-lease net debt by £950 million one year early, and contributes to our falling interest cost expense. Lease net debt increased by £789 million, primarily reflecting the impact of serving notice to purchase 21 stores from two investment vehicles in which we hold a 49 per cent interest.

As guided, working capital grew this year following a significant working capital reduction in the prior year due to COVID-19. This resulted in strong retail free cash flow of £503 million (2020/21: £784 million). This is significantly ahead of expectations, supported by the strong profit result, legal settlements income and lower than expected capital expenditure at £645 million (2020/21: £568 million). Dividends of £238 million were paid in the year, which were covered 2.1 times by free cash flow (2020/21: 3.3 times). We have laid out an updated capital allocation framework, signalling that we will prioritise the right level of investment to support our strategy and an investment grade balance sheet but that we expect to pay a higher proportion of underlying net earnings to shareholders, in the first instance through an increase in the dividend pay-out ratio to around 60 per cent from around 53 per cent.

Our balance sheet remains strong, and we delivered a pre-tax return on capital employed of 8.4 per cent, up from 5.6 per cent in 2020/21. The business had non lease net debt of £141 million and £1.4 billion of undrawn facilities at the end of the year.

As at 5 March 2022 the net defined benefit pension surplus under IAS 19 for the Group was £2,283 million (excluding deferred tax). The £1,539 million increase from 6 March 2021 was driven by both changes in financial and demographic assumptions which lowered liabilities, as well as gains on plan assets.

Delivering through times of change

This was a year of strong delivery, making considerable progress on our strategy, and we enter the year with good operating momentum and a strong financial position. The year ahead presents considerable external pressures and uncertainties with higher operating cost inflation and cost of living pressures on customers. However, we will continue to focus on delivering consistent improvements in grocery value, innovation and customer service, funded by our Save to Invest programme. With the ongoing drive of our colleagues to deliver for our customers and our track record of successfully responding to the changes of recent years, we are well placed to maintain a strong competitive position.

Kevin O'Byrne
Chief Financial Officer

Financial Review of the year results for the 52 weeks to 5 March 2022

In the 52 weeks to 5 March 2022, the Group generated profit before tax of £854 million (2020/21: loss before tax of £164 million; 2019/20: profit before tax of £278 million) and an underlying profit before tax of £730 million (2020/21: £357 million; 2019/20: £586 million). COVID-19 caused significant distortions to trading, operating costs and timing of business rates costs in 2020/21. Therefore in some cases commentary has been provided versus the pre-COVID-19 2019/20 financial year.

A number of Alternative Performance Measures ('APMs') have been adopted by the Directors to provide additional information on the underlying performance of the Group. These measures are intended to supplement, rather than replace the measures provided under IFRS. Please see pages 203 to 207 for further information.

Summary income statement	**52 weeks to 5 March 2022 £m**	52 weeks to 6 March 2021[1] £m	Change %
Group sales (including VAT)	**33,355**	32,285	3.3
Retail sales (including VAT)	**32,924**	31,854	3.4
Retail sales (excluding fuel, including VAT)	**28,095**	28,837	(2.6)
Group sales (excluding VAT)	**29,895**	29,048	2.9
Retail sales (excluding VAT)	**29,463**	28,617	3.0
Underlying operating profit/(loss)			
Retail	**1,001**	731	37
Financial Services	**38**	(21)	N/A
Total underlying operating profit	**1,039**	710	46
Underlying net finance costs	**(309)**	(353)	12
Underlying profit before tax	**730**	357	104
Items excluded from underlying results	**124**	(521)	N/A
Profit/(Loss) before tax	**854**	(164)	N/A
Income tax expense	**(177)**	(37)	378
Profit/(Loss) for the financial period	**677**	(201)	N/A
Underlying basic earnings per share	**25.4p**	11.7p	117
Basic earnings/(loss) per share	**29.8p**	(9.4)p	N/A
Interim Dividend per share	**3.2p**	3.2p	–
Final Dividend per share	**9.9p**	7.4p	34
Total Dividend per share	**13.1p**	10.6p	24

[1] The prior year results have been restated to reflect the removal of business rates from onerous property contract provisions. Refer to note 2 of the accounts for further information.

Underlying profit before tax is up £373 million, and up £144 million compared to 2019/20, driven by continued elevated sales despite much lower COVID-19 costs, falling finance costs, and the delivery of the Argos Transformation programme, offset by increased variable pay. We have made strong progress on our Save to Invest plans, with an 83 basis points reduction in operating costs allowing for considerable investments to improve value for customers.

Group sales

Group sales (including VAT, including fuel) increased by 3.3 per cent year-on-year. Retail sales (including VAT, excluding fuel) decreased by 2.6 per cent, as General Merchandise sales moderated, but remained ahead of 2019/20. Fuel sales increased by 60.0 per cent and Financial Services sales increased by 0.2 per cent.

Total sales performance by category	**52 weeks to 5 March 2022 £bn**	52 weeks to 6 March 2021 £bn	52 weeks to 7 March 2020 £bn	YoY Change %	Yo2Y Change %
Grocery	21.0	21.1	19.5	(0.2)%	7.6%
General Merchandise	6.1	6.9	6.4	(11.9)%	(4.6)%
Clothing	1.0	0.9	1.0	12.7%	3.1%
Retail (exc. fuel)	**28.1**	**28.8**	**26.9**	**(2.6)%**	**4.6%**
Fuel sales	4.8	3.0	4.9	60.0%	(2.6)%
Retail (inc. fuel)	**32.9**	**31.9**	**31.8**	**3.4%**	**3.5%**

Grocery sales remained significantly above pre-pandemic levels reflecting a sustained shift of consumption in-home. In line with the reduction of government restrictions during the period, sales were stronger in the first half, and moderated in the second half, albeit at a level still higher than 2019/20. We delivered a strong volume market share performance, supported by our value investments for customers. We inflated prices behind the market and key competitors on high volume lines supported by our Sainsbury's Quality, Aldi Price Match programme and other value initiatives.

General Merchandise sales declined, reflecting tough comparators and availability challenges driven by both product supply and freight availability. Clothing recovered strongly from a year of suppressed demand with growth driven by full price sales and increased in-store sales.

Fuel sales increased by 60.0 per cent, driven by both increased demand as traffic volumes recovered and inflation in the market driven by higher oil prices, but remained below pre COVID-19 levels.

Total sales performance by channel	**52 weeks to 5 March 2022**	52 weeks to 6 March 2021
Total Sales fulfilled by Supermarket stores	**(2.0)%**	11.4%
Supermarkets (inc Argos stores in Sainsbury's)	**(1.8)%**	2.5%
Groceries Online	**(4.7)%**	119.6%
Convenience	**8.8%**	(9.4)%

Overall sales served from our Supermarkets fell by 2.0 per cent after rising 11.4 per cent in the prior year. Within this, Supermarket sales including Argos stores in Sainsbury's fell by 1.8 per cent. Groceries Online sales decreased by 4.7 per cent, as COVID-19 restrictions ended and demand moderated through the year after rapid growth of almost 120 per cent in the previous year. Convenience sales grew by 8.8 per cent, driven by the recovery of sales in urban sites most impacted by reduced footfall in the previous year.

Retail like-for-like sales performance	**52 weeks to 5 March 2022**	52 weeks to 6 March 2021
Like-for-like sales (exc. fuel)	**(2.3)%**	8.1%
Like-for-like sales (inc. fuel)	**3.6%**	0.7%

Retail like-for-like ('LFL') sales, excluding fuel, decreased by 2.3 per cent (2020/21: 8.1 per cent increase), reflecting lower General Merchandise sales, but showed strong growth versus 2019/20 led by Grocery sales. The impact of stores temporarily closed due to COVID-19 have been included within LFL sales, with only permanently closed sites treated as not LFL.

Space

In 2021/22, Sainsbury's opened four new supermarkets and closed four (2020/21: opened one new supermarket and closed 11). There were 19 new Convenience stores opened in the year and 23 were closed (2020/21: 15 opened and nine stores closed).

During the period 64 new Argos stores in Sainsbury's were opened and 73 standalone Argos stores were closed, in line with our Argos Transformation plan. The number of Argos collection points in Sainsbury's stores increased from 306 to 335. As at 5 March 2022, Argos had 728 stores including 400 stores in Sainsbury's.

Store numbers and retailing space	As at 6 March 2021	New stores	Disposals/ closures	Extensions/ refurbishments/ downsizes	**As at 5 March 2022**
Supermarkets	598	4	(4)	65	**598**
Supermarkets area '000 sq ft	20,822	134	(78)	(75)	**20,803**
Convenience	813	19	(23)	1	**809**
Convenience area '000 sq ft	1,929	42	(54)	1	**1,918**
Sainsbury's total store numbers	1,411	23	(27)	66	**1,407**
Argos stores	401	–	(73)	–	**328**
Argos stores in Sainsbury's	336	64	–	–	**400**
Argos in Homebase	–	–	–	–	**–**
Argos total store numbers	737	64	(73)	–	**728**
Argos collection points	306	62	(33)	–	**335**
Habitat	3	–	–	–	**3**

In 2022/23, we expect to open one supermarket and around 20 new convenience stores, and to close around two supermarkets and five convenience stores. In addition, we expect to open around 25 Argos stores inside Sainsbury's, and close around 60 Argos standalone stores.

In the UK, the standalone Argos store estate will reduce to around 100 stores by March 2024, while we expect to have 430-460 Argos stores inside Sainsbury's supermarkets as well as 450-500 collection points.

Retail underlying operating profit

Retail underlying operating profit	**52 weeks to 5 March 2022**	52 weeks to 6 March 2021[1]	52 weeks to 7 March 2020[1]	YoY Change	Yo2Y Change
Retail underlying operating profit (£m)[2]	**1,001**	731	938	36.9%	6.7%
Retail underlying operating margin (%)[3]	**3.40**	2.55	3.30	85bps	10bps
Retail underlying EBITDA (£m)[4]	**2,145**	1,910	2,135	12.3%	0.5%
Retail underlying EBITDA margin (%)[5]	**7.28**	6.67	7.51	61bps	(23)bps

1 The prior year results have been restated to reflect the removal of business rates from onerous property contract provisions. Refer to note 2 of the accounts for further information
2 Retail underlying earnings before interest, tax and Sainsbury's underlying share of post-tax profit from joint ventures
3 Retail underlying operating profit divided by retail sales excluding VAT.
4 Retail underlying operating profit before underlying depreciation and amortisation of £1,144 million.
5 Retail underlying EBITDA divided by retail sales excluding VAT.

Retail underlying operating profit increased by 36.9 per cent to £1,001 million (2020/21: £731 million) and retail underlying operating margin increased by 85 basis points year-on-year to 3.40 per cent (2020/21: 2.55 per cent). COVID-19 costs reduced materially year on year to £82 million (2020/21: £485 million).

Retail underlying operating profit was up 6.7 per cent versus two years ago (2019/20: £938 million), reflecting sales growth and a retail underlying operating margin improvement of 10 basis points. Our Save to Invest programme delivered an 83 basis points reduction in operating costs as a percentage of sales versus 2019/20. We have invested much of this benefit, as well as benefits from fuel and more profitable clothing and general merchandise sales into lower grocery prices, targeted at key products for customers, driving strong volume growth.

Savings were delivered across the business, with significant contributions from our retail operating model work, both for in Store and Online where annualisation of rapid growth in the prior year allowed material efficiencies. Argos transformation continued to deliver savings as we integrate the two businesses and reduce occupancy and store operational costs. Savings from our Logistics Transformation programme helped to mitigate the significant cost pressures felt.

In 2022/23, Sainsbury's expects a retail underlying depreciation and amortisation charge of around £1.2 billion, including around £500 million right of use asset depreciation.

Financial Services

Financial Services results 12 months to 28 February 2022	**2022**	2021	Change
Underlying revenue (£m)	**432**	431	0%
Interest and fees payable (£m)	**(57)**	(90)	(37)%
Total income (£m)	**375**	341	10%
Underlying operating profit/(loss) (£m)	**38**	(21)	N/A
Net interest margin (%)[1]	**4.5**	3.5	100bps
Cost:income ratio (%)	**74**	74	–
Bad debt as a percentage of lending (%)[2]	**1.2**	1.8	60bps
Active customers (m) – Bank	**1.8**	1.8	–
Active customers (m) – AFS	**2.1**	2.2	(4)%
Tier 1 capital ratio (%)[3]	**15.6**	17.6	(200)bps
Total capital ratio (%)[4]	**18.1**	20.2	(210)bps
Unsecured lending (£bn)	**4.3**	4.1	5%
Secured lending (£bn)	**0.8**	1.3	(38)%
Customer deposits (£bn)	**(4.2)**	(5.1)	(18)%

1 Net interest receivable divided by average interest-bearing assets.
2 Bad debt expense divided by average net lending.
3 Common equity Tier 1 capital divided by risk-weighted assets. Reflects impact of dividend declared.
4 Total capital divided by risk-weighted assets.

Financial Services returned to profit with underlying operating profit of £38 million (2020/21: loss of £21 million). This reflects both a reduction in credit provisioning as the unemployment outlook improved, a release of some COVID-19 related bad debt provisions made in 2020/21 and improvements in net interest margin. Unsecured lending balances were lower on average through the year, but recovered well in the second half and ended the year up 5 per cent.

Financial Services total income of £375 million increased by 10 per cent year-on-year (FY 2020/21: £341 million). Net interest margin recovery is reflective of management action to reduce interest payable through savings rates alongside improvements in unsecured asset margins and a lower mix of secured lending (following our decision to cease new mortgage lending in 2019). Fee income has risen as activity post lockdown increased, with ATMs and Card fees both recovering, whilst Travel Money remains subdued but is higher than last year.

The Financial Services cost:income ratio is flat at 74.0 per cent (FY 2020/21: 74.0 per cent). Of the £27 million increase in costs, £17 million reflects higher royalty payments to Argos, therefore the ratio is down on a group contribution basis.

Bad debt expense as a percentage of lending decreased 60 basis points year-on-year to 1.2 per cent (FY 2020/21: 1.8 per cent), driven by stable arrears and the improving economic outlook. We released £12 million of our COVID provision, reflecting the more positive economic outlook, particularly in relation to forecast unemployment.

In line with the group strategic priority Brands that Deliver, and reflecting the Bank's strong capital position, a £50 million dividend has been paid. This is a key milestone as we start to deliver on our commitment that Financial Services will be cash generative for the Group. The Bank remains well capitalised with a CET1 ratio of 15.6 per cent, a decrease from 17.6 per cent last year driven by this dividend payment.

We expect a further improvement in Financial Services underlying operating profit in the year ahead.

Underlying net finance costs

Underlying net finance costs reduced by 12 per cent to £309 million (2020/21: £353 million). These costs include £40 million of net non-lease interest (2020/21: £60 million). The reduction of net non-lease interest is driven by the repayment of the £200 million Green loan in August 2021 and redemption of the perpetual convertible bonds in July 2021. The net interest costs on lease liabilities have reduced to £269 million (202/21: £293 million), mainly due to lower interest rates on new leases.

Sainsbury's expects underlying net finance costs in 2022/23 of between £315-325 million, including around £270-280 million lease interest.

Items excluded from underlying results

In order to provide shareholders with insight into the underlying performance of the business, items recognised in reported profit or loss before tax which, by virtue of their size and or nature, do not reflect the Group's underlying performance are excluded from the Group's underlying results and shown in the table below.

Items excluded from underlying results	**52 weeks to 5 March 2022 £m**	52 weeks to 6 March 2021[1] £m
Restructuring and integration programmes	**(103)**	(345)
Impairment charges	**–**	(220)
Restructuring, impairment and integration	**(103)**	(565)
Income recognised in relation to legal disputes	**182**	42
Software as a service accounting adjustment	**(21)**	–
IAS 19 pension income	**11**	6
Property, finance and acquisition adjustments	**55**	(4)
Items excluded from underlying results	**124**	(521)

1 The prior year results have been restated to reflect the removal of business rates from onerous property contract provisions. Refer to note 2 of the accounts for further information.

- Restructuring, impairment and integration costs of £103 million (2020/21: £565 million) include £92 million (2020/21: £548 million) relating to the programme announced in November 2020 for the structural integration of Sainsbury's and Argos. We expect that we will incur one off costs from these infrastructure, operating model and structure changes of £900 million to £1 billion, with cash costs of around £300 million, with the majority in the period to March 2024. In line with IFRIC 21 "Levies", business rates are now recognised as a periodic cost as incurred and as such we expect approximately £40 million of business rates associated with leased properties in the restructuring programme to be recognised after the year ended March 2024. Refer to note 2 for further details. Cash costs in the year were £114 million (2020/21: £39 million). To date we have incurred costs of £640 million and cash costs of £153 million. In 2022/23 we expect to incur cash costs of around £100 million in relation to this programme.

- Income recognised in relation to legal disputes of £182 million (2020/21: £42 million) primarily relates to two settlements for overcharges from payment card processing fees. £75 million of cash was received in prior financial years and held as deferred income, with £93 million of cash received in the year net of legal fees. The prior year relates to ATM business rates reimbursement, and £14 million of cash was received in the year in relation to these.
- Software as a service accounting policy change resulted in a non-cash cost of £21 million (2020/21: Nil) following the IFRS interpretations committee clarification of how these costs should be treated. These costs represent the prior year impacts of this change.
- IAS 19 Pension income of £11 million (2020/21: £6 million) comprises pension finance income of £15 million and scheme expenses of £4 million.
- Other movements of £55 million income (2020/21: cost of £4 million) relate to property profits, acquisition adjustments and non-underlying financing costs. The positive movement year on year is driven by a gain on energy derivatives of £76 million driven by higher energy prices. The energy derivatives relate to long-term, fixed price power purchase arrangements (PPAs) with independent producers. These are accounted for as derivative financial instruments, however are not designated in hedging relationships, therefore gains and losses are recognised in the income statement. Increases in electricity forward prices in the year have led to gains on the related derivative financial instruments. During the year, the Group entered into an additional PPA, however have designated this in a formal hedging relationship, with gains and losses being recognised within other comprehensive income.

Taxation

The tax charge was £177 million (2020/21: £37 million). The underlying tax rate (UTR) was 21.1 per cent (2020/21: 29.4 per cent) and the effective tax rate (ETR) was 20.7 per cent (2020/21: (22.6) per cent).

The UTR is lower than the prior year, with the higher underlying profit resulting in a smaller percentage impact from non-qualifying deprecation and the impact of accounting for the rate change on the recognition of deferred tax. Unlike previous periods, there is a positive impact on the UTR of prior year adjustments for corporation tax, reflecting the release of historic provisions held in respect of now agreed tax returns.

The ETR is significantly higher than the prior year, primarily due to the accounting loss in FY21. The major impact on the ETR in the current year relates to the non-deductibility of non-underlying costs and the impact of prior year adjustments to non-underlying items.

Sainsbury's expects an underlying tax rate in 2022/23 of around 25 per cent.

Earnings per share

Underlying basic earnings per share increased to 25.4 pence (2020/21: 11.7 pence) driven by the increase in underlying earnings, partially offset by a higher share count. Basic earnings per share was 29.8 pence (2020/21: (9.4) pence loss per share).

Dividends

The Board has recommended a final dividend of 9.9 pence per share (2020/21: 7.4 pence). This will be paid on 15th July 2022 to shareholders on the Register of Members at the close of business on 10th June 2022. In line with the Group's policy to keep the dividend covered 1.9 times by underlying earnings, this will result in an increased full-year dividend of 13.1 pence (2020/21: 10.6 pence), an increase of 24 per cent.

Sainsbury's has a Dividend Reinvestment Plan (DRIP), which allows shareholders to reinvest their cash dividends in our shares. The last date that shareholders can elect for the DRIP is 24th June 2022.

We have laid out a capital allocation framework, signalling that we will prioritise the right level of investment to support our strategy and an investment grade balance sheet but that we expect to pay a higher proportion of underlying net earnings to shareholders, in the first instance through an increase in the dividend pay-out ratio to around 60 per cent from around 53 per cent.

Net debt and retail cash flows

As at 5 March 2022, net debt was £6,759 million (6 March 2021: £6,469 million), an increase of £290 million (2020/21: £478 million reduction). Excluding the impact of lease liabilities on net debt, Sainsbury's reduced net debt by £499 million in the year of which £240 million results from the conversion of the perpetual convertible bond in July 2021. Non lease net debt is now £1,381 million lower than at 2018/19 year end, exceeding the four-year £950 million non lease net debt reduction target we had communicated with a year to spare, even excluding the impact of the perpetual convertible bond. Sainsbury's expects to generate retail free cashflow of at least £500 million per annum on average for the next three years.

Group net debt includes the impact of capital injections into Sainsbury's Bank, less dividends received, but excludes Financial Services' own net debt balances. Financial Services balances are excluded because they are part of the daily operating cycle of the Bank rather than for financing purposes.

Net debt includes lease liabilities under IFRS 16 of £6,618 million (2020/21: £5,829 million). Lease liabilities increased by £789 million, primarily reflecting the impact of exercising purchase options on 21 leased supermarkets held by property investment pools in which the Group holds an interest. Following the exercise of the options, the lease liabilities have been remeasured based on the estimated purchase price of the stores.

Summary cash flow statement[1]	**Retail** **52 weeks to 5 March 2022** **£m**	Retail 52 weeks to 6 March 2021 £m
Retail underlying operating profit	**1,001**	731
Adjustments for:		
Retail underlying depreciation and amortisation	**1,144**	1,179
Share based payments and other	**54**	26
Retail non underlying operating cash flows (excluding pensions)	**(3)**	(12)
Adjusted retail operating cash flow before changes in working capital[2]	**2,196**	1,924
(Increase)/decrease in working capital[3]	**(185)**	452
Net interest paid[3]	**(323)**	(372)
Pension cash contributions	**(71)**	(101)
Corporation tax paid	**(23)**	(94)
Net cash generated from operating activities[3]	**1,594**	1,809
Cash capital expenditure[3]	**(645)**	(568)
Repayments of obligations under leases[3]	**(491)**	(499)
Initial direct costs on right-of-use assets	**(3)**	(7)
Proceeds from disposal of property, plant and equipment	**46**	27
Dividends and distributions received[3]	**2**	22
Retail free cash flow[3]	**503**	784
Dividends paid on ordinary shares	**(238)**	(232)
Repayment of borrowings[3]	**(256)**	(539)
Other[3]	**(27)**	(13)
Net (decrease)/increase in cash and cash equivalents	**(18)**	0
Decrease in Debt	**747**	1,038
Conversion of perpetual convertible bond[4]	**240**	–
Other non-cash and net interest movements[5]	**(1,259)**	(560)
Movement in net debt	**(290)**	478
Opening net debt	**(6,469)**	(6,947)
Closing net debt	**(6,759)**	(6,469)
of which:		
Lease Liabilities	**(6,618)**	(5,829)
Net Debt Excluding Lease Liabilities	**(141)**	(640)

1 See note 7 for a reconciliation between Retail and Group cash flow.] The prior year results have been restated to reflect the removal of business rates from onerous property contract provisions. Refer to note 2 of the accounts for further information.

2 Excludes working capital and pension contributions.

3 Refer to the Alternative Performance Measures on pages 203 to 207 for reconciliation.

4 £242 million of the £250 million perpetual convertible bond converted. Given a carrying value of £248 million this resulted in a £240 million reduction in net debt.

5 Other non-cash includes new leases and lease modifications and fair value movements on derivatives used for hedging long term borrowings.

Adjusted retail operating cash flow before changes in working capital increased by £272 million year-on-year to £2,196 million (2020/21: £1,924 million). Retail non-underlying operating cashflows of £3 million cost (2020/21: £12 million cost) reflected legal disputes income offsetting restructuring costs. Working capital increased by £185 million (2020/21: £452 million decrease), in line with expectations as our working capital position normalised compared to a prior year where both our stock and payables positions were heavily impacted by COVID-19 trading patterns.

Corporation tax paid decreased to £23 million (2020/21: £94 million) reflecting payments made in the prior year before the decision to forego business rates relief which subsequently impacted taxable profits. Proceeds from disposals of £46 million (2020/21: £27 million) resulted from disposals of non-trading sites.

Retail free cash flow decreased by £281 million year-on-year to £503 million (2020/21: £784 million), driven by the working capital reduction in the prior year with some of this reversing in the current year. Retail free cash flow was used to fund dividends and reduce borrowings.

Dividends of £238 million were paid in the year, which were covered 2.1 times by free cash flow (2020/21: 3.3 times).

The Group held undrawn committed credit facilities of £1,394 million and undrawn uncommitted facilities of £245 million as at 5 March 2022.

Capital expenditure

Core retail cash capital expenditure was £645 million (2020/21: £568 million). This was lower than expected due to a number of projects being delayed due to COVID-19.

Sainsbury's expects core retail cash capital expenditure (excluding Financial Services) to be around £700-£750 million per annum over the next three years, reflecting investment in high-returning supply chain, logistics and infrastructure projects including the Argos transformation.

Financial Ratios

Key financial ratios	52 weeks to 5 March 2022	52 weeks to 6 March 2021[1]
Return on capital employed (%)[2]	**8.4**	5.6
Net debt to EBITDA[3]	**3.1 times**	3.4 times
Fixed charge cover[4]	**2.8 times**	2.2 times

[1] The prior year results have been restated to reflect the removal of business rates from onerous property contract provisions. Refer to note 2 of the accounts for further information.

[2] ROCE: Return is defined as a 52 week rolling underlying profit before interest and tax. Capital employed is defined as group net assets excluding the pension deficit/surplus less net debt (excluding perpetual securities). This is calculated using the average of 14 datapoints – the prior year closing capital employed, the current year closing capital employed and 12 intra-year periods as this more closely aligns to the recognition of profit / loss.

[3] Net debt of £6,759 million includes lease obligations under IFRS 16 and perpetual securities treated as debt, divided by Group underlying EBITDA of £2,206 million.

[4] Group underlying EBITDA divided by rent (both capital and interest) and net underlying finance costs, where interest on perpetual securities is treated as an underlying finance cost.

All three metrics saw significant improvements due to the recovery of profit and EBITDA following a prior year heavily impacted by COVID-19. Our net debt to EBITDA metric showed a smaller improvement as net debt increased, with the increase in lease liabilities more than offsetting significant non lease net debt reduction.

Property value

As at 5 March 2022, Sainsbury's estimated market value of properties, with values based on a 25 year lease with RPI increases, including our share of properties held within property joint ventures or investment vehicles, was £10.9 billion (6 March 2021: £10.1 billion), with the increase primarily driven by a reduction in property yields.

Defined benefit pensions

The Pension Scheme is valued on different bases for different purposes. For the corporate annual accounts, the value of the retirement benefit is calculated under IAS19 while the funding of the Scheme is determined by the Trustee's triennial valuation. The last triennial valuation, as at 30 September 2018, showed a deficit of £538 million. The Trustee is currently carrying out the latest triennial valuation as at 30 September 2021.

At 5 March 2022, the net defined benefit surplus under IAS19 for the Group was £2,283 million (excluding deferred tax). The £1,539 million increase from 6 March 2021 was driven by both changes in financial assumptions which resulted in a net gain, an adjustment to mortality assumptions and updated experience which lowered liabilities, in addition to gains on plan assets.

During the year, the Sainsbury's section of the Scheme reached full funding on the stronger, secondary funding target agreed as part of the 2018 triennial valuation. This has resulted in one of the three streams of contributions payable to the Scheme under the Asset Backed Contributions funding framework switching off and another stream switching to the Argos section, until that section is also fully funded. Total contributions to the Scheme will therefore reduce by £15 million a year.

For 2022/23, total pension scheme cash contributions are expected to be £62 million.

Retirement benefit obligations	Sainsbury's as at 5 March 2022 £m	Argos as at 5 March 2022 £m	Group as at 5 March 2022 £m	Group as at 6 March 2021 £m
Present value of funded obligations	**(8,060)**	**(1,313)**	**(9,373)**	(10,218)
Fair value of plan assets	**10,158**	**1,535**	**11,693**	11,000
Pension surplus	**2,098**	**222**	**2,320**	782
Present value of unfunded obligations	**(20)**	**(17)**	**(37)**	(38)
Retirement benefit surplus	**2,078**	**205**	**2,283**	744
Deferred income tax liability	**(562)**	**(78)**	**(640)**	(192)
Net retirement benefit surplus	**1,516**	**127**	**1,643**	552

Kevin O'Byrne
Chief Financial Officer

Principal Risks and Uncertainties

Risk management is an inherent part of doing business; it balances risk and reward, determined through a careful assessment of both the potential outcomes and impact, as well as risk appetite.

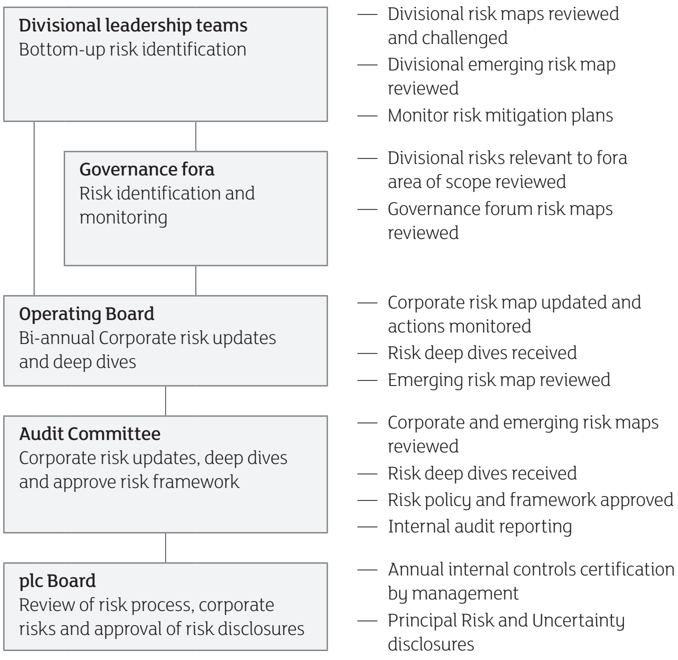
Below and on the following pages, we set out an overview of our risk management framework, the principal risks at year end, ongoing mitigations and how these align to our strategy. The Operating Board monitors these principal risks on an ongoing basis and flexes mitigations where appropriate.

Our approach to risk management

Our risk management framework is designed to:

- *identify* key risks that are aligned to our strategy but that could prevent us from achieving our strategic objectives
- *assess* the likelihood of these risks occurring, in combination with both the reputational and financial impact they may introduce
- *manage* the risks through implementing appropriate mitigation plans and controls, in line with our risk appetite
- *monitor and report* on our risks, associated mitigation plans and changes to the internal/external environment to the relevant governance fora

The following diagram provides an overview of the key risk management activities undertaken by leadership that support this risk framework and allow the Board to fulfil its obligations under the UK Corporate Governance Code 2018. Please refer to page 61 for the role and remit of these governance bodies.



Divisional leadership teams Bottom-up risk identification	— Divisional risk maps reviewed and challenged — Divisional emerging risk map reviewed — Monitor risk mitigation plans
Governance fora Risk identification and monitoring	— Divisional risks relevant to fora area of scope reviewed — Governance forum risk maps reviewed
Operating Board Bi-annual Corporate risk updates and deep dives	— Corporate risk map updated and actions monitored — Risk deep dives received — Emerging risk map reviewed
Audit Committee Corporate risk updates, deep dives and approve risk framework	— Corporate and emerging risk maps reviewed — Risk deep dives received — Risk policy and framework approved — Internal audit reporting
plc Board Review of risk process, corporate risks and approval of risk disclosures	— Annual internal controls certification by management — Principal Risk and Uncertainty disclosures

The plc Board has overall responsibility for risk management, the system of internal control, and for reviewing the effectiveness of these at least annually. As such, they have approved our principal risks disclosure, as set out on pages 40 to 50. Certain responsibilities have been delegated to the Audit Committee, as outlined on page 73.

COVID-19

The COVID-19 pandemic demonstrated that active risk and issue management is an inherent part of doing business. Disruptions to our business as a result of COVID-19 were actively managed either through day-to-day ways of working or if needed, through the Incident Response Team. Reflecting this, we do not have a specific principal risk related to COVID-19, although its impact on our principal risks continues to be assessed by the Board and is set out where relevant, in individual risk disclosures.

Our risk management process

The Risk and Internal Audit team facilitate “bottom up” risk workshops with divisional leadership teams to identify the key risks which may prevent the achievement of their objectives. A risk map is maintained for each division, setting out key risks and their gross, net and target positions. A consolidated view of relevant risks – and the effectiveness of mitigating activities – are also discussed at relevant governance fora, covering safety, data governance and operational resilience.

The Operating Board maintains the overall corporate risk map, which captures the key risks to achieving our strategic objectives.

The Operating Board formally reviews the corporate risk map from a “top down” perspective twice a year, to discuss and agree the level of risk that the business is prepared to accept for each key risk. They also review and challenge the output of the bottom up risk process, considering new risks, movements in the position of risks and key themes.

The target risk position for the corporate risks is also captured to reflect management’s risk appetite, where this differs to the current net position. This enables the Operating Board to agree and monitor appropriate actions as required. A risk dashboard is maintained for each corporate risk, setting out the risk, causes of the risk, key mitigations and any actions to reach the target risk position.

Operating Board members also confirm annually that the corporate risk map accurately reflects their view of key risk across the organisation, that they are responsible for managing risks relevant to their division and that internal controls exist to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed; this is also reported to the Board.

The Risk and Internal Audit team provide the Audit Committee with a risk management update at each meeting, which includes an overview of changes to the corporate risk map and risk disclosures agreed by the Operating Board for their review and comment.

Risk and Internal Audit also provide independent assurance to management and the Audit Committee over specific risk areas as part of their annual audit plan; risk deep dives were also undertaken with the Operating Board and/or Audit Committee for a selection of principal risks, as set out over the following pages.

The Audit Committee Chair provides updates to the plc Board.

Emerging risks and opportunities

Emerging risks and opportunities are also formally reviewed in the year as part of the bottom up divisional risk management process. This allows emerging risks to be considered and discussed by each division and then collated to perform a business-wide assessment of how emerging risks and opportunities may impact our business, considering their potential timeframe and degree of certainty. The outcomes are reported to the Operating Board and Audit Committee and relevant actions are agreed.

Independent review of our risk management framework

During the year, an independent review of our risk management framework was carried out by a Big 4 firm; this review confirmed that we are compliant with the Risk Management requirements of the UK Corporate Governance Code. Actions to further enhance risk management activities were agreed in line with management's appetite. In particular, work continues to define the risk appetite for each corporate risk.

Changes to principal risk disclosures

As described above, the principal and emerging risks are discussed and monitored throughout the year to identify and respond to changes in the risk landscape.

The key change to the risks during the year relates to our previous "Environment and sustainability" principal risk. The risk has been expanded and broadened in line with the launch of our Plan for Better strategic priority (see page 13), which includes our previous Net Zero commitments, but has been broadened to include our responsibilities towards putting our planet and people at the core of our business. There are two key changes.

Firstly, the principal risk now also considers our social objectives, for example, to leave a measurable positive impact on the communities we serve and source from and to make Sainsbury's an inclusive place to work and shop.

Secondly, we consolidated all climate resilience risks – the impact of changes to the environment on our business model – under this principal risk, where previously climate resilience risks were assessed within each of the relevant principal risks. This change also reflects the related governance and oversight processes.

As a result, we are reporting this as a new risk, have renamed it "Environment and social sustainability" and given its increased scope, have reset the associated gross, net and target risk positions. Further information on our ongoing implementation of the TCFD recommendations can also be found on page 17.

The net position of all other corporate risks remain unchanged from last year.

Our Principal Risks

The most significant principal risks identified by the Board and the associated mitigations are set out below. This year, we have ordered them to first show those that have been included in the risk modelling undertaken as part of the preparation of the viability statement (see page 51). This reflects that these have the potential to have the largest impact on the business and is indicated with the following symbol: V

The other principal risks are then set out in no priority order.

We have also more clearly drawn out the link between each principal risk and the group's key performance indicators (see page 30) and continue to highlight the link with the strategy of the business, as follows:

- Food First
- Brands that Deliver
- Save to Invest
- Connected to Customers
- Plan for Better

The net risk movement from the prior year for each principal risk and uncertainty has been assessed and is presented as follows:

→ No change ↑ Increased net risk exposure ↓ Reduced net risk exposure NEW New risk

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

Ukraine

We continue to monitor the situation in Ukraine and the associated impacts this may cause across our principal risks, with regard to our customers, our colleagues and our supply chain.

Business continuity, operational resilience and major incident response ⓥ

Risk	*Mitigations*
A major incident or catastrophic event could affect the business or its individual brands' ability to trade. Sainsbury's exposure to operational resilience and major incident risks may be greater because of operational complexities and some ageing systems. COVID-19 continued to impact the business throughout the year. For example, increased costs of global supply chains, the availability of colleagues both within Sainsbury's and our suppliers and differing responses across the devolved nations. These disruptions are actively managed either through day-to-day ways of working or if needed, through the Incident Response Team. *Direct oversight:* Group Operational Resilience Committee *Link to strategy:* *Link to key performance indicators:* N/A *Movement:* →	— The Group Operational Resilience Committee (GORC) meets quarterly, chaired by the CFO, with support from the Company Secretary and Chief Information Officer. The GORC sets the operational resilience strategy for the business and monitors progress against this — The Operational Resilience Committee, which includes representatives from functions across Sainsbury's, including the Bank, meets regularly to implement the operational resilience policy and strategy — Business-wide resilience exercises are undertaken to imitate real life business continuity scenarios and test our ability to respond effectively. This includes testing our emergency call cascade. Actions in response to lessons learnt are agreed — Key business processes are assessed for operational resilience against a set of minimum standards and contingency measures regularly tested. Remote working solutions have reduced the risk of loss of a key site **Crisis management** — In the event of any unplanned or unforeseen events, the Incident Response Team (IRT) is convened to manage the response and any associated risk to the business — The IRT Chair reports to the Operating Board, which provides strategic direction and decision making across financial, operational and regulatory matters, considering all stakeholders — The IRT was convened at various times through the year including to respond to the high demand for fuel, the impact of the Omicron variant on business operations, Storm Eunice and to co-ordinate contingency measures with supplier challenges

Business strategy and change ⓥ

RISK DEEP DIVE

Risk

The strategy requires significant, concurrent change activities to be delivered in the right sequence and at pace to drive business value. Key risks associated with this include an inability to prioritise resources to deliver competing change activities and/or not having the right skills, capabilities and culture in place to deliver and embed the required changes/within required timescales.

Direct oversight: Business Performance Review, Operating Board

Link to strategy:

Link to key performance indicators: All metrics, associated with our objective of delivering for customers and driving stronger financial results

Movement: →

Mitigations

- Our business strategy, as set out in this Strategic Report, is focussed on the following priorities:
  - Food First
  - Brands that Deliver
  - Save to Invest
  - Connected to Customers
  - Plan for Better
- We have created the new role of Chief Transformation Officer to drive end to end transformation. This will mean we can bring together all of the key elements of transformation across the business and ensure that we deliver on our Save to Invest priority, making the business simpler and more efficient, while reducing costs to support our plans to Win in Food and create Brands that Deliver
- The Operating Board has regular sessions to discuss strategy, supported by a dedicated Strategy team. The Operating Board engages with a wide range of stakeholders – including shareholders, colleagues, customers and suppliers – to ensure our strategy remains relevant. Reflecting this, one of our strategic priorities, Net Zero 2040, was broadened this year to set out our sustainability goals across three critical areas. See page 13 for more detail on Plan for Better.
- To ensure focus is maintained on delivering the strategic priorities of the business, new transformational change projects are approved by the Business Performance Review (BPR) forum, once they have been through robust challenge on expected costs and benefits, proposed timeframes for achieving the benefits and risks associated with their delivery. The BPR also monitors and reviews the "in year" implementation of the plans to meet budget targets
- This year, to further develop the culture required to deliver our strategy, we launched our Valued Behaviours – Own It, Make It Better and Be Human. These Valued Behaviours were communicated widely across our business and they have been embedded in all our development materials, performance management and recruitment processes

Customer ⓥ

Risk

Our business includes Sainsbury's, Argos, Habitat, *Tu* clothing, Nectar and Sainsbury's Bank. The business, across all brands, must continue to evolve to meet customer needs and maintain customer loyalty.

A failure to align with, and respond to changes in customer sentiment, behaviours, expectations and circumstances, exacerbated by changes in customer behaviours as the COVID-19 pandemic continues to evolve, will impact our ability to retain existing and attract new customers.

Direct oversight: Operating Board and Sainsbury's Bank Management Board; Customer, Commercial and Channels Forum

Link to strategy:

Link to key performance indicators: Customer satisfaction

Movement: →

Mitigations

- The Customer, Commercial and Channels Forum, chaired by the Chief Marketing Officer, is responsible for ensuring the customer is at the heart of our decision making
- Customer trends, attitudes and behaviours are continually monitored over time through their response to our propositions and feedback, as well as reviewing future customer and macro trends on a quarterly basis, to help set our future direction
- We continue to invest in digitising the Nectar Loyalty scheme which provides us with a rich source of customer data and insight that is reviewed and embedded right across our business
- We continued to focus on value, quality, and convenience, reflecting both what our existing customers want and what will attract new customers
- In terms of value and quality, we delivered the Sainsbury's Quality, Aldi Price Match campaign throughout the year, refreshing it regularly to respond to customer feedback, launched 1,950 new products and introduced Nectar Prices, providing personalised pricing for customers
- In terms of convenience, we continue to monitor and flex our ways of working to meet customer demand for how they want to shop, particularly as the COVID-19 pandemic continues to evolve. As well as our traditional channels, we have invested in our contactless channels such as SmartShop, Click & Collect and Groceries Online. In particular, SmartShop Mobile Pay has now also been rolled out to nearly all convenience stores
- We continue to innovate and trialled our first SmartShop Pick & Go store during the year to gain customer feedback

Data security ⓥ

RISK DEEP DIVE

Risk

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

Direct oversight: Data Governance Committee

Link to strategy:

Link to key performance indicators: N/A

Movement: →

Mitigations

- A Data Governance Committee (DGC) is in place to oversee the management of colleague, customer and commercial data, information security and associated awareness and training. Metrics to measure alignment to risk appetite are discussed in each meeting of the DGC
- The Data Governance and Information Security function, with the support of colleagues in the Technology division, continue to develop information security strategies and to build the necessary capability to respond to the increasing number and sophistication of attacks, alongside focusing on improving how we handle data and protect systems across the organisation
- A suite of information security policies are in place, which focus on encryption, network security, access controls, system security, data protection and information handling
- All colleagues are required to complete mandatory training on how to keep our information safe. This is supplemented by regular colleague awareness campaigns, focusing on specific aspects of data and information security, for example e-mail phishing exercises, with results reported to the DGC
- Reviews of key third parties who hold sensitive customer or colleague data continue to take place and progress is monitored by the DGC
- A risk based security testing approach across IT infrastructure and systems is in place to identify and address vulnerabilities and allow us to adapt and improve our defences

Financial and treasury ⓥ

RISK DEEP DIVE

Risk	*Mitigations*
The main financial risk relates to availability of short and long-term funding to meet business needs and fluctuations in interest, commodity and foreign currency rates. *Direct oversight:* The Board of J Sainsbury plc *Link to strategy:* *Link to key performance indicators:* Retail free cashflow: £500m+ pa average *Movement:* →	— Treasury policies, approved by the plc Board, are in place to address liquidity, refinancing, financial markets and counterparty credit risks. In addition, the business funding strategy is approved annually by the plc Board — The Treasury function is responsible for managing liquid resources, funding requirements, commodity, interest rate and currency exposures as set out in line with the Treasury policy and overseen by the Treasury Committee — The Audit Committee reviews and approves the viability and going concern statements on an annual and half-yearly basis respectively — The Treasury function has clear operating procedures and adherence to these is regularly reviewed and audited — A long-term funding plan is developed as part of the annual corporate plan process, which includes an assessment of short and long-term core funding requirements and contingent funding requirements — A short-term funding plan is formalised as part of the annual budget process, which includes an assessment of the core and contingent funding requirements for the following year and the market conditions for each of the debt markets accessible to the business — There is a long-term funding framework in place for the pension deficit and there is ongoing communication and engagement with the Pension Trustees — Detailed cashflow forecasts are produced by the Finance and Treasury functions. Finance commercial reviews are also held each period, chaired by the CFO, with relevant actions and mitigations agreed — Financial and Treasury risks in respect of Sainsbury's Bank are detailed separately

Health and safety ⓥ

RISK DEEP DIVE

Risk

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

In the last year, the impact of COVID-19 has continued to affect the health and safety of our customers and colleagues. This was and continues to be actively managed, although many of our mitigations are now part of day-to-day ways of working.

Direct oversight: Group Safety Committee

Link to strategy: ♡

Link to key performance indicators: N/A

Movement: →

Mitigations

- The Group Safety Committee (GSC) met four times during the year, receiving detailed reports on a wide range of topics including COVID management and control, growth of online operations, building fabric review and safety training. The GSC were also supported by additional working groups to manage the ever-changing risks associated with COVID-19
- In particular, the Customer Journey Team ensured COVID-19 mitigations throughout Sainsbury's were proportionate and aligned with legislation
- The Operating Board receives quarterly reports on safety, including an annual deep dive facilitated by the Head of Group Safety, who also provided an annual safety update to the plc Board
- Clear policies and procedures are in place detailing the controls required to manage health and safety across the business, aligned to Assured Primary Authority advice, to comply with all applicable regulations. These cover the end-to-end operations, including the auditing and vetting of construction contractors and the health and safety processes in place in our depots, stores, offices and for home working colleagues
- Process compliance is supported through oversight from our Primary Authority, internal training programmes and management monitoring, all which align to both health and safety laws and our internal policies. We invested in technology solutions to direct and monitor process completion, with oversight provided by field teams in both Safety and Internal Audit
- The new Group Head of Health, Safety and Insurance was appointed in June 2021 and completed a full review of the Safety team and processes. As a result, new measures of success were defined. Key areas include a renewed focus on reducing harm and its associated costs by removing unnecessary complexity and enhancing the use of data to prioritise the team's work

Political and regulatory environment ⓥ

Risk	*Mitigations*
There is a trend of increasing regulation, together with enforcement action, across all areas of our business. This increases the risk of non-compliance, adds additional cost as we respond to the regulations and drives complexity into our business processes. *Direct oversight:* Operating Board *Link to strategy:* *Link to key performance indicators:* N/A *Movement:* →	— We complete a bi-annual risk assessment to review key regulatory risks, which functions are impacted and at a high level, how they are managed — Accountability and responsibilities for key regulatory risks are confirmed as part of this. Our key regulatory risks include Competition Law, GDPR, GSCOP and Anti-Bribery and Corruption. A high-level of assessment of the key elements of a compliance framework for each of these key risks is completed and the results are shared with the Operating Board — Mandatory training is in place for the key regulatory areas, including data governance, anti-bribery and corruption, competition law and GSCOP — In terms of emerging regulatory risk, we liaise with external parties and our internal stakeholders to monitor changes to existing regulations that would impact the business, so that we can respond appropriately. Areas of focus remain the same as the previous year and include: — the impact of complying with the post-Brexit regulatory and enforcement regime, including what it means to be trading under both UK and EU regulations in Ireland and the implications of any changes to the NI Protocol — responding to proposed new rules associated with high fat, sugar and salt products, plastic, packaging and food waste — anticipating and responding to emerging areas of regulatory focus on environment and climate change, and associated reporting requirements — As a responsible business, we proactively engage with Government, devolved administrations, regulators and industry bodies in the areas in which we operate, on public policy issues impacting our customers and colleagues. Our engagement is transparent, and we allow our responses to government consultations to be made public

Product safety and sourcing ⓥ

Risk

Failure to manage safety and sourcing risks for both food and non-food products leads to injury or loss of life, breach of regulation and/or reputational damage.

Direct oversight: Group Safety Committee

Link to strategy:

Link to key performance indicators: N/A

Movement: →

Mitigations

- Clear policies and procedures are in place detailing the controls required to manage product safety, product fraud and ethical risks across the business and to comply with all applicable regulations
- These cover the end-to-end operations, including safety processes in place in our depots and stores and the quality management controls in place to ensure product safety and integrity
- During the year, Food Safety policies were refreshed and simplified to ensure they were clear to colleagues and suppliers
- In addition, established supplier audit and product testing programmes are in place to support rigorous monitoring of supplier sites, product safety, traceability, integrity and ethical issues, including modern slavery. Where on-site visits are not allowed due to COVID-19 restrictions, remote audit and assurance programmes are in place
- Product recall escalation procedures are in place to quickly resolve issues for food and non-food product incidents
- Supplier terms, conditions and product specifications set clear standards for product/raw material safety and quality with which suppliers are expected to comply
- The Group Safety Committee receive regular reports on product safety from the Director of Technical, Food, Head of Technical & Ethical, GM&C and from the Group Head of Health, Safety and Insurance on operational food safety risks. In addition, the Corporate Responsibility & Sustainability Committee discussed matters related to product sourcing risk, including supply chain transparency, modern slavery and human trafficking

Sainsbury's Bank (v)

Risk	*Mitigations*
Sainsbury's Bank is exposed to a number of risks, including those related to operational, regulatory, credit, capital, funding, liquidity and market risks. The COVID-19 pandemic means uncertainty around the economic outlook will continue, particularly with regard to how the path of inflation, interest rates and levels of unemployment will evolve. This is actively managed through our normal economic scenario modelling analyses and corresponding playbooks. *Direct oversight:* The Boards of J Sainsbury plc and Sainsbury's Bank plc *Link to strategy:* *Link to key performance indicators:* N/A *Movement:* →	— The Bank is managed through defined governance structures that include the Board of Sainsbury's Bank plc, its Risk Committee and Audit Committee. The Board of Sainsbury's Bank plc is comprised of Executive Directors, independent Non-Executive Directors and a J Sainsbury plc Executive Director — The Bank has a defined risk appetite aligned to delivery of strategic objectives and has implemented a risk management framework that is overseen by its Risk Committee. This Committee monitors the effectiveness of risk management activities against strategic, operational, compliance and financial risks, and is updated on, and discusses, emerging risk areas. In particular, the Risk Committee reviews the results of stress testing including the internal Liquidity and Capital Adequacy Assessments — The actual management of risks is through an executive governance structure, which manages the day-to-day operations of the business. This includes the Sainsbury's Bank Management Board, an Executive Risk Committee and an Asset and Liability Committee — Oversight by J Sainsbury plc is provided through: — Membership of the Board of Sainsbury's Bank plc – one J Sainsbury plc Operating Board member is on the Board of Sainsbury's Bank plc and provides updates to the Board of J Sainsbury plc on Bank matters — Updates on key matters arising from meetings of the Risk Committee and Audit Committee are reported to the J Sainsbury plc Audit Committee — There are a number of reserved matters that require Sainsbury's Bank plc to obtain permission from J Sainsbury plc

Trading environment and competitive landscape ⓥ

Risk

We operate in a highly competitive market during a time of economic uncertainty, primarily driven by the COVID-19 pandemic. Whilst the UK has now left the European Union, uncertainties around the final trading relationship with Northern Ireland and UK border checks create additional complexities for our business and our suppliers.

With the outlook set to remain broadly the same for the immediate future, we need to respond appropriately to external market conditions while maintaining clear focus on delivering our strategic objectives.

We also need to be mindful of the ongoing risk of supplier failure, either through insolvency or through an inability to deliver products due to global supply chain challenges.

Direct oversight: Customer, Commercial and Channels Forum; Operating Board

Link to strategy:

Link to key performance indicators: Grocery market share performance

Movement: →

Mitigations

- We have a wide, differentiated portfolio of brands, including Sainsbury's, Argos, Habitat, *Tu* clothing, Nectar and Sainsbury's Bank, which provides some inherent resilience to unforeseen changes
- We continually monitor current market trends and price points across competitors, and respond through actively managing price positions, developing sales propositions and adjusting promotional and marketing activity
- We put the customer at the heart of our decision making to ensure we retain existing and attract new customers – see the "Customer" principal risk for further details
- We are in regular contact with the government and other external bodies to understand decision making in relation to Northern Ireland so we, and our suppliers, can adapt our ways of working as needed
- In terms of supplier continuity specifically, we maintain regular, open dialogue with key suppliers concerning their ability to trade and collaborate with them on solutions where appropriate. This year, we subsumed the operations of one key supplier into our business, to ensure continuity of supply
- Reflecting the impact of COVID-19 on global supply chains, we have continued to work collaboratively with all our suppliers this year to maintain availability of products for the customer. Actions taken include onboarding alternate suppliers, rationalising products and providing logistics support

Colleague engagement, retention and capability

Risk

The business employs over 171,000 colleagues who are critical to the success of our business. Attracting talented colleagues, investing in training and development and rewarding colleagues fairly are all essential to the sustainability of our operations. An inability to attract, motivate and retain talent, specific skillsets and capability impacts our ability to deliver our strategic objectives. The availability of skills in specific areas is a key area of focus.

COVID-19 continues to affect our store, depot and office-based colleagues. Many of our mitigations are now part of day-to-day ways of working.

The challenging trading environment requires a focus on efficient operations, which may include change initiatives that affect colleagues, impacting trust or engagement.

Direct oversight: Operating Board

Link to strategy:

Link to key performance indicators: Colleague engagement

Movement: →

Mitigations

- Employment policies and remuneration and benefits packages are regularly reviewed and are designed to be fair, consistent and competitive. Our base rate of pay for Sainsbury's and Argos store colleagues is £10 an hour nationally, ahead of the Living Wage, and £11.05 an hour in London, in line with the London Living Wage. Over the course of the year, we also made exceptional payments for areas with specific skills shortages, for example drivers
- We have processes in place to nurture talent and provide fulfilling career opportunities. Formal processes are in place to discuss performance and development, identify talent, actively manage succession planning and enable colleagues to progress into management roles
- We have invested in leadership immersion sessions focused on our new valued behaviours, as well as ongoing behavioural and leadership development, to build capability and support a positive working culture
- We continue to take action to be an inclusive place to work. We've set stretching gender, ethnically diverse and Black representation targets for 2024, which form part of our leaders' long-term incentives
- We continue to listen closely to colleagues to inform and adapt our future plans and actions. Our annual colleague survey was updated this year to ensure we are measuring the things that matter most to our people and that support the culture we seek to have
- In September 2021, we went live with our new hybrid ways of working, giving colleagues greater flexibility to come together in our offices, stores and depots for collaboration, coaching or community purposes and work remotely the rest of the time
- We design and run specific programmes to target hard to recruit areas, presenting a wide range of opportunities for colleagues from across our business, as well as attracting new talent. We have introduced a new HGV driver apprenticeship as well as an HGV driver academy
- We have upweighted our recruitment teams, to support hiring in difficult and competitive markets, and embraced new ways of attracting talent

Environment and social sustainability

RISK DEEP DIVE

Risk

Understanding and mitigating the impact of the climate on our business operations, reducing our environmental impact as well as using our size and scale as a business to have a positive impact on society and our communities is a core part of our strategy.

During the year, the Plan for Better strategic priority was launched, putting our responsibilities towards our planet and people at the core of our business.

Reflecting this, this risk was broadened from focussing on our Net Zero commitments, to include consideration of environmental and social sustainability risks and the impact of climate change on our business operations; the latter was previously considered within each relevant Principal Risk. As a result, the gross, net and target positions of this risk were reset.

Direct oversight: CR&S Committee, Plan for Better Steering Committee

Link to strategy: 🌍

Link to key performance indicators: Plan for Better commitment

Movement: NEW

Mitigations

- The Corporate Responsibility & Sustainability (CR&S) Committee provides oversight of the Plan for Better strategy. The CR&S Committee, Plan for Better Steering Committee and Audit Committee review and approve our external reporting and provide oversight of programme risks
- Our Plan for Better strategy, explained on page 13 of this report, was launched this year and sets out our environmental and social sustainability goals across our whole business, outlining our priority areas of focus, our key commitments and our progress against these. We have identified areas which matter most to our stakeholders, have the greatest impact on our business and which are aligned to the UN Sustainable Development Goals, so that we can make the biggest difference
- Our Plan for Better strategy has three interlocking pillars: Better for you, Better for the planet and Better for everyone
- The Plan for Better Steering Committee (Steering Committee) met six times during the year and provided regular updates to the CR&S Committee and to the Operating Board as required. This Steering Committee oversees delivery of the Plan for Better programme, supported by three working groups responsible for driving and executing the strategy
- One of our key metrics to measure and report on Plan for Better performance is our progress towards becoming Net Zero across our own operations by 2035 and supply chain by 2050. We will continue to monitor our progress in achieving our targets, flexing our approach as needed. We also publicly report on progress towards achieving our Net Zero targets, as well as our other targets within Plan for Better twice a year, to ensure transparency
- See page 17 for more information on our ongoing implementation of the TCFD recommendations

Statement of Viability

1 How Sainsbury's assesses its prospects

The Group's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 53. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 32 to 37.

The Group manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of committed funding via the Revolving Credit Facility. Maintaining a suitable level of undrawn additional funding capacity minimises liquidity risk.

The Group's prospects are assessed primarily through its corporate planning process. This includes an annual review which considers profitability, the Group's cash flows, committed funding and forecasted future funding requirements over three years, with a further two years of indicative movements. As part of the strategic planning process, the Directors make a number of assumptions about business performance and the availability and effectiveness of mitigating actions available to the Group. In particular, cashflow forecasting gives visibility of the Group's headroom, comparing net debt to the level of committed facilities over the planning period.

The most recent corporate plan was signed off in October 2021, and refreshed in March 2022, as part of the normal budgeting process. This is reviewed by the Operating Board and ultimately by the PLC Board with involvement throughout from both the CFO and CEO. Part of the Board's role is to consider the appropriateness of any key assumptions, taking into account the external environment, business strategy and model.

In its assessment of the Group's prospects, the Board has taken into account:

- **The Group's Food First strategy.** This strategy is putting food back at the heart of Sainsbury's and offering customers great value and high quality products. The strategy aims to deliver profitable volume growth while reshaping our business.
- **Inflationary pressures.** As we emerge out of the COVID-19 pandemic, the Group is now seeing high levels of inflation with external forecasts indicating this could continue and limit discretionary spend.
- **Climate change considerations.** The Group's most recent corporate planning and budgeting processes includes assumed cashflows to address climate change risks, including costs associated with initiatives in place as part of the Plan for Better commitment which include reducing environmental impacts and meeting customer expectations in this area, notably through reducing packaging and reducing energy usage across the estate.
- **The Group's financial position**. The Group has materially reduced net debt and improved its net asset position over the past year. Furthermore, the Revolving Credit Facility, which enables the Group to maintain sufficient levels of contingent funding, has two Facilities; a £300 million Facility (A) and a £1,094 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024. As at 5 March 2022, the Revolving Credit Facility was undrawn.

2 The assessment period

The Directors have determined that the three years to March 2025 is an appropriate period over which to provide its viability statement. This was considered the appropriate timeframe by the Directors because:

- This period is consistent to that used for the Group's corporate planning process as detailed above, and reflects the Directors' best estimate of the future prospects of the business.
- The Group does not earn revenue through long-term contracts. Therefore, changes to the Group's Corporate Plan are predominantly impacted by sales and cost assumptions. These are more difficult to predict beyond a three-year time-horizon. Both have been stress-tested as part of the viability assessment.

3 Assessment of viability

To make the assessment of viability the following has been performed:

- Scenarios have been modelled over and above those in the corporate plan, based upon a number of the Group's principal risks and uncertainties (as documented on pages 38 – 50). The scenarios were overlaid into the corporate plan to assess the potential impact on net debt of one or more of these crystallising over the assessment period, and have been tested in isolation and in combination with one another. The impact of the movements in net debt on the Group's funding headroom were then assessed. Where required, available mitigating actions to maintain funding headroom were considered as part of the assessment. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses and dividend payments.
- Reverse stress-testing was performed to determine the extent to which cash flows would need to deteriorate before fully-utilising the Group's funding headroom, and after taking into account any mitigating actions as detailed above.

Whilst each of the risks on pages 38 – 50 has a potential impact and have been considered as part of the assessment, only those that represent severe but plausible scenarios were selected for modelling through the corporate plan.

All scenarios modelled and their link to the Group's Principal Risks and Uncertainties are detailed below:

Scenario modelled	Link to Principal Risk
Scenario 1 – Cost of Living scenario Despite the Group's positive performance in the past 2 years in light of the COVID-19 pandemic, the Group is now seeing high levels of inflation with external forecasts indicating this could continue and limit discretionary spend, particularly impacting General Merchandise & Clothing (GM&C). Assumptions: — Sales – volume losses in Argos, Sainsbury's GM&C and Fuel sales in line with the 2008 recession phasing have been applied to forecast sales	Failure to align with and respond to changes in customer sentiment, expectations and circumstances exacerbated by uncertainties around post COVID-19 customer behaviour Inability to recover from catastrophic incidents and respond effectively to major incidents
Scenario 2 – Food inflation impacts on margin Whilst Food inflation is unlikely to lead to lower sales given large elements are an essential purchase, it may cause increased competitive pressure and so lower margins generated on those sales. Assumptions: — Margin – this scenario models the competing away of margins in grocery sales to attract customers during this inflationary period	Trading environment and competitive landscape
Scenario 3 – Data and legal breaches The impact of any regulatory fines has been considered. The largest considered are the General Data Protection Regulation ("GDPR") fine for data breaches, and fines levied by the Groceries Supply Code of Practice ("GSCOP"). Assumptions: — Costs – amount paid for regulatory fines	Data security Health and safety, people and product Political and regulatory environment
Scenario 4 – Sainsbury's Bank capital and liquidity requirements We have considered the strength of the Bank's capital and liquidity positions to withstand extreme-but plausible stress scenarios such as a pandemic, or political instability leading to high unemployment and very low interest rates. Assumptions: — Sales – reflecting another severe COVID-19 stress as per the Annual Concurrent Stress testing release by the Bank of England	Sainsbury's Bank
Scenario 5 –Failure to deliver sustainable cost savings Delays in delivering the Save to Invest programme, which would have an impact of circa. £150 million in each year of the assessment period, were considered. Assumptions: — Costs – additional costs of c. £150m per annum as result of failure to deliver cost savings	Business strategy & change
Reverse stress test In addition to modelling regulatory fines and price investments as above, the level of forecast sales decline required before the Group fully utilises its available funding and mitigations was considered. The required reduction was considered extreme and implausible.	

In performing the above analysis, the Directors have made certain assumptions around the availability and effectiveness of the mitigating actions available to the Group.

The scenarios above are hypothetical and severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group; however, multiple control measures are in place to prevent and mitigate any such occurrences from taking place.

In year one, the modelling has shown that the business is able to withstand a combination of all of the scenarios and still maintain funding headroom. For years two and three, none of the scenarios modelled individually fully utilised the funding headroom. However, all of the scenarios modelled together would fully utilise the funding headroom at three individual and isolated periods. Management does, however, have controllable mitigating actions available as detailed above with which to respond that ensure the Group remains viable.

Taking into account the Group's current prospects and principal risks and uncertainties, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three years to March 2025.

Consideration was also given to the conflict in Ukraine which has continued to develop subsequent to the Group's balance sheet date. Inflationary pressures which may be caused by the conflict have already been embedded in Scenarios 1 and 2 documented above. Thus it was concluded that the impact of the conflict in Ukraine does not impact the conclusions reached over going concern and viability.

4 Going concern

As a consequence of the work performed to support the viability statement above, the Directors also considered it appropriate to adopt the going concern basis in preparing the financial statements which are shown on pages 99 to 199.

Non-financial information statement

The following aligns to the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 and reflects our commitment to and management of the environment, colleagues, social matters, human rights and anti-bribery and anti-corruption.

Environment

The food we eat and how that food is produced, sourced, packaged, and disposed of has major consequences on the environment. We want to help everyone eat better and, through our sustainability agenda, we are helping to drive lasting, positive change in the UK and internationally. We are committed to playing a leading role in offering affordable food that supports healthy and sustainable diets and helps customers reduce their impact on the planet, one plate at a time. This year we launched Plan for Better, our new sustainability plan covering our environmental and social commitments, which is integrated into our business strategy. Our Plan for Better sets out our sustainability goals across the whole business, priority areas of focus, key commitments and our progress. We have identified areas which matter most to our stakeholders and are aligned to the UN Sustainable Development Goals, so that we can make the biggest difference.

We announced the acceleration of our carbon emissions target to become Net Zero in our own operations by 2035, five years earlier than our original ambition. You can read more on our Net Zero plan on page 16. We also announced our commitment, alongside other retailers, to work with the WWF to halve the environmental impact of UK supermarket baskets by 2030.

This year we were the Principal Supermarket Partner of COP26, the UN Climate Change Conference, which took place in Glasgow in November 2021. You can read more about our Plan for Better, which includes our participation at COP26, on pages 13 to 17, in our Non-financial KPIs on page 30, in our Principal risks and uncertainties on page 50 and in our CR&S Committee Report on pages 71 to 72.

Our policies support our approach to the environment and help our suppliers meet our sustainability goals. They include our Sustainable Sourcing Policy Goods for Resale, which helps support suppliers to effectively carry out their ethical trading responsibilities and meet Sainsbury's ethical commitments. It also outlines how suppliers should implement our Code of Conduct for Ethical Trade, including protection of the environment. The policy can be found on our website **https://www.about.sainsburys.co.uk/sustainability**.

Colleagues

We want to be a place where people love to work and shop. This means being an inclusive employer where colleagues are treated fairly and with respect, where they are encouraged to develop their skills and fulfil their potential. Rewarding our colleagues has been a real focus for the business over the last two years. Read more on our colleagues in our Plan for Better section on pages 13 to 14, Engaging with our stakeholders and our Section 172 statement on page 25, our Non-financial KPIs on page 30, and in the Board diversity policy in our Nomination Committee Report on page 69.

Social matters

We have a long history of building partnerships and delivering great impact in our communities, locally and internationally. We are committed to supporting social cohesion, economic prosperity and inclusive growth and we aim to positively impact those in need through fundraising, volunteering, donations and by raising awareness.

Read more about our communities in our Plan for Better section on pages 13 to 17, and the CR&S Committee Report on pages 71 to 72.

Human rights

Our customers want to be confident that the people who make, grow or sell our products are not being exploited or exposed to infringements on their human rights. Although the primary duty to protect human rights sits with national governments, we fully recognise our responsibility as a company to respect human rights throughout all our operations. Our commitment covers all aspects of our business, our colleagues, customers and suppliers and is supported by our Human Rights Policy. We do not tolerate any form of human rights abuse within our business or supply chains.

Through our due diligence processes, we seek to identify, prevent and mitigate adverse human rights risks that are linked to our operations, products or services and deal with any adverse impacts caused.

You can read more about human rights in our Plan for Better section on pages 13 to 17. Our Modern Slavery Statement can be found at **www.about.sainsburys.co.uk**.

Anti-corruption and anti-bribery

Our values form the framework which guides the behaviours of all colleagues across the business. We expect all our colleagues and contractors to act with honesty and integrity and never to engage in any activity which could be considered as accepting a bribe or giving a bribe. Our Anti-Bribery and Corruption Policy provides guidance and expectations on our colleagues' responsibilities and behaviour, and our expectations to prevent bribery and fraud. We have a Disciplinary and Appeals Policy to help encourage everyone to achieve and maintain our rules and standard of conduct, attendance, capability and performance. Our Whistleblowing Policy covers how to report wrongdoing when honesty and integrity are compromised. More information on whistleblowing can be found on page 75.

Other information

Other information to support this statement can be found as follows:

- Description of our business model on page 7
- Task Force on Climate-related Financial Disclosures (TCFD) on pages 17 to 23
- Non-financial KPIs on page 30
- Principal risks and uncertainties on pages 38 to 50
- Statement of Viability on page 51
- Audit Committee Report on pages 73 to 77
- All of our public policies, reports, codes and standards are available at **www.about.sainsburys.co.uk**

The Strategic Report was approved by the Board of Directors and signed on its behalf by:

Kevin O'Byrne
27 April 2022

J Sainsbury plc Board of Directors

Martin Scicluna
Chairman
C Ⓝ

Appointment to the Board: 1 November 2018. Martin joined the Board as Chairman Designate and Non-Executive Director on 1 November 2018. He was appointed Chairman of the Board on 10 March 2019.

Skills and experience: Martin brings a wealth of experience from over 25 years' service as an executive and non-executive board director at a wide range of companies.

Career experience: Previous roles include Chairman of RSA Insurance Group plc, Chairman of Great Portland Estates plc, Senior Independent Director and Chair of the Audit Committee of Worldpay Inc., and Non-Executive Director and Chair of the Audit Committee of Lloyds Banking Group plc. He was a partner at Deloitte LLP for 26 years, serving as Chairman from 1995 to 2007, where his clients included Dixons, WH Smith, Alliance Unichem and Cadbury.

External appointments: None.

Specific contributions to the Company: Martin has extensive experience as a Chair. He brings valuable knowledge and skills in developing strategy and evaluating business opportunities, along with understanding of the financial services sector and how it operates. Martin also led a robust selection process, culminating in the appointment of Simon Roberts as Sainsbury's Chief Executive Officer.

Independent: Upon appointment.

Key to Committee members

A Audit Committee
C Corporate Responsibility and Sustainability Committee
N Nomination Committee
R Remuneration Committee
Ⓐ Ⓒ Ⓝ Ⓡ Denotes Chair of Committee

Retirements in 2021/22
David Keens retired from the Board on 9 July 2021.

Simon Roberts
Chief Executive Officer
C

Appointment to the Board: 1 June 2020. Simon was appointed as Chief Executive Officer on 1 June 2020, having joined Sainsbury's and the Operating Board in July 2017 as Retail & Operations Director, with responsibility for Stores, Central Operations and Logistics.

Skills and experience: Simon brings a wide range of experience and leadership skills to the Board from previous executive and non-executive roles. He has over 30 years' experience leading major UK retail brands, having spent 15 years at Marks and Spencer and 13 years at Boots.

Career experience: Prior to joining Sainsbury's, Simon was Executive Vice President of Walgreens Boots Alliance and President of Boots UK and Ireland. During his tenure, Simon led Boots to achieve growth in sales and transactions, increased retail gross margin and doubled sales online. Before Boots, Simon was at Marks and Spencer Group plc, where he started his career in stores.

External appointments: Non-Executive Chairman of the Institute of Customer Service.

Specific contributions to the Company: Simon is leading Sainsbury's new plan to put food back at the heart of the business and making good progress. One year into the plan we offer improved value, have achieved our target to triple the number of new products on our shelves and our colleagues are delivering great service in our stores and online. In recognition of their extraordinary efforts, in January this year we announced an investment of over £100 million in colleague pay and all Sainsbury's and Argos store colleagues are paid at least £10 per hour.

Our plan is underpinned by our portfolio of Brands that Deliver – Argos, Habitat, *Tu*, Nectar and Sainsbury's Bank and our Save to Invest priority. Under Simon's stewardship, Sainsbury's has also launched our sustainability Plan for Better, which is integrated into our strategy and includes a bold commitment to become Net Zero across our own operations by 2035. Simon is a dedicated, determined and enthusiastic champion of customers and colleagues. He is the Operating Board Sponsor of diversity and inclusion within Sainsbury's.

Independent: No.

Kevin O'Byrne
Chief Financial Officer

Appointment to the Board: 9 January 2017.

Skills and experience: Kevin brings a wealth of international retail and finance experience to the Board from his previous Chief Executive and Chief Financial Officer roles. His skills and experience in leading finance and driving performance improvement provide the business with valuable expertise in pursuing its strategy.

Career experience: Kevin was previously Chief Executive Officer of Poundland Group PLC until December 2016 and held executive roles at Kingfisher plc from 2008 to 2015, including Divisional Director UK, China and Turkey, Chief Executive Officer of B&Q UK & Ireland and Group Finance Director. Prior to this, he was Group Finance Director of Dixons Retail plc and European Finance Director of Quaker Oats. He was a Non-Executive Director of Land Securities Group PLC from 2008 to September 2017, where he was Chairman of the Audit Committee and Senior Independent Director.

External appointments: Non-Executive Director and Chairman of the Audit Committee of Centrica plc. Kevin will be appointed as Senior Independent Director of Centrica plc with effect from 1 June 2022.

Specific contributions to the Company: Kevin is a skilled Chief Financial Officer, with extensive international retail and finance experience gained during previous and current executive and non-executive positions. He has applied this knowledge to the Finance, Internal Audit, Investor Relations, Property, Procurement and Strategy functions at Sainsbury's, driving the performance of the business. Kevin is the Operating Board Sponsor for the LGBT+ inclusion stream within Sainsbury's.

Independent: No.

Brian Cassin

Non-Executive Director

A N

Appointment to the Board: 1 April 2016.

Skills and experience: Brian brings relevant experience of running a FTSE 100 group with knowledge of big data and analytics, both areas of key importance to Sainsbury's. As Chief Executive Officer of Experian plc, Brian brings strong leadership experience and a substantial background in operating within a regulated environment.

Career experience: Brian joined Experian plc as Chief Financial Officer in April 2012, a post he held until his appointment as Chief Executive Officer in July 2014. Prior to this, Brian spent his career in investment banking at Greenhill & Co, where he was Managing Director and Partner. Brian has also held various roles at Baring Brothers International and at the London Stock Exchange.

External appointments: Chief Executive Officer of Experian plc.

Specific contributions to the Company: Brian's experience as a current chief executive and his work in the financial and technology sectors provide valuable industry insight.

Independent: Yes.

Key to Committee members

A	Audit Committee
C	Corporate Responsibility and Sustainability Committee
N	Nomination Committee
R	Remuneration Committee
Ⓐ Ⓒ Ⓝ Ⓡ	Denotes Chair of Committee

Jo Harlow

Non-Executive Director

Ⓒ N R

Appointment to the Board: 11 September 2017.

Skills and experience: Jo brings a wealth of experience in consumer-facing businesses and the telecoms and technology industries, both in the UK and internationally.

Career experience: Jo was Corporate Vice President of the Phones Business Unit at Microsoft Corporation and before that was Executive Vice President of Smart Devices at Nokia Corporation, following a number of senior management roles at Nokia from 2003. Prior to that, she held marketing, sales and management roles at Reebok International Limited from 1992 to 2003 and at Procter & Gamble Company from 1984 to 1992.

External appointments: Non-Executive Director and Chair of the Remuneration Committee of InterContinental Hotels Group plc, Non-Executive Director and Chair of the Remuneration Committee of Halma plc and Director of Chapter Zero.

Specific contributions to the Company: Jo has broad experience from executive and non-executive roles and as Chair of the Corporate Responsibility and Sustainability Committee, she has helped the business deliver and evolve its sustainability strategy. She also brings current external Remuneration Committee experience.

Independent: Yes.

Adrian Hennah

Non-Executive Director

Ⓐ N

Appointment to the Board: 1 April 2021.

Skills and experience: Adrian has significant financial and strategic expertise leading the performance and strategy of many large companies.

Career experience: Adrian started his career working in audit and consultancy with PwC and Stadtsparkasse Köln, the German regional bank. Adrian spent 18 years in Chief Financial Officer roles at three FTSE 100 companies. He was Chief Financial Officer at Reckitt Benckiser (RB) for seven years and held the same position at Smith & Nephew and Invensys. Prior to this he spent 18 years at GlaxoSmithKline working in both finance and operations. He was also previously Non-Executive Director and Chair of the Audit Committee at RELX.

External appointments: Non-Executive Director of Oxford Nanopore Technologies plc, a Non-Executive Director of Unilever plc, an external member (NED) of the Finance Committee (Board) of Oxford University Press and a Trustee of Our Future Health.

Specific contributions to the Company: Adrian brings extensive financial and leadership experience to Sainsbury's gained from Chief Financial Officer positions held in some of the UK's largest companies, notably at RB, which produces leading hygiene, health and nutritional brands.

Independent: Yes.

J Sainsbury plc Board of Directors continued

Tanuj Kapilashrami

Non-Executive Director

N R

Appointment to the Board: 1 July 2020.

Skills and experience: Tanuj is a highly experienced HR professional with significant experience in talent and change management both in the UK and internationally.

Career experience: Tanuj joined Standard Chartered Bank in 2017 and is currently the Group Head of HR. Prior to this, she spent 17 years in key global and regional HR leadership roles within HSBC.

External appointments: Group Head of HR at Standard Chartered Bank, Trustee of Asia House and a Director of Financial Services Skills Commission Limited.

Specific contributions to the Company: Tanuj is a valuable member of the Board as the business continues to adapt and support its colleagues in a rapidly changing marketplace.

Independent: Yes.

Dame Susan Rice

Non-Executive Director

N Ⓡ

Appointment to the Board: 1 June 2013. Susan has been the Senior Independent Director since 6 July 2016. Susan will step down from the Board after the AGM on 7 July 2022.

Skills and experience: Susan has extensive experience as a non-executive director, as well as in retail banking, financial services, leadership and sustainability.

Career experience: Susan has been a member of the Scottish First Minister's Council of Economic Advisors, a Managing Director of Lloyds Banking Group Scotland and Chief Executive, then Chairman, of Lloyds TSB Scotland plc. She has also held a range of non-executive directorships, including at the Bank of England and SSE plc.

External appointments: Chair of Scottish Water and Scottish Water Business Stream Limited, Chair of the Financial Services Culture Board, Chair of the Scottish Fiscal Commission and Senior Independent Director of The North American Income Trust plc.

Specific contributions to the Company: Susan provides insight to the Board from her extensive experience gained as chair, senior independent director and non-executive director of various businesses. As Chair of the Remuneration Committee, she has played a key role in revising the current Remuneration Policy and strategy. Her expertise in financial services is invaluable to the Board as part of its oversight of Sainsbury's Bank and Argos Financial Services.

Independent: Yes.

Key to Committee members

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Keith Weed CBE

Non-Executive Director

A C N

Appointment to the Board: 1 July 2020.

Skills and experience: Keith is an exceptionally capable marketing and digital leader. He has championed new ways of integrating sustainability into business and building brands with purpose.

Career experience: Keith has a strong business background, having spent 36 years at Unilever, most recently as Chief Marketing and Communications Officer, which included leading the company's ground-breaking sustainability programme globally. Whilst at Unilever, Keith led different parts of the business, during which time he worked closely with Sainsbury's and other retailers. He has strong international experience and knowledge, having run international businesses both in the UK and overseas.

External appointments: Non-Executive Director of WPP PLC, Trustee Director of Business in the Community, Trustee Director of Leverhulme Trust and President of the Royal Horticultural Society. He is also a trustee of Grange Park Opera. Keith was awarded a CBE for services to the advertising and marketing industry in the 2021 New Year Honours List.

Specific contributions to the Company: Keith plays an important role in Sainsbury's strategic focus on putting food back at the heart of the business and delivering the Plan for Better. He has an excellent understanding of both sustainability and digital, and the ways that technology is transforming businesses.

Independent: Yes.

Key to Committee members

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Jo Bertram

Non-Executive Director

N C

Appointment to the Board: To be appointed on 7 July 2022.

Skills and experience: Jo is a highly talented strategic business leader with significant experience leading transformation and change.

Career experience: Prior to becoming Managing Director, Business & Wholesale, Virgin Media O2, Jo held senior Director and Strategy roles at O2. Between 2013 and 2017 she held the position of Regional General Manager, Northern Europe at Uber. Jo has previously worked at McKinsey and Accenture and holds an MBA from INSEAD.

External appointments: Managing Director, Business & Wholesale, at Virgin Media O2.

Specific contributions to the Company: Jo has worked in growing hi-tech sectors which will benefit our customers as we explore new ways to use digital solutions to make shopping easy and convenient.

Independent: Yes.

Board changes

Subject to shareholder approval, Jo Bertram will be appointed as a Non-Executive Director with effect from 7 July 2022.

After nine years' service as a Non-Executive Director, Dame Susan Rice will step down from the Board at the conclusion of the AGM on 7 July 2022.

Following Susan's retirement from the Board, Brian Cassin will be appointed as Senior Independent Director, Jo Harlow will become Chair of the Remuneration Committee and Keith Weed will be appointed as Chair of the CR&S Committee.

J Sainsbury plc Operating Board

Simon Roberts
Chief Executive Officer

See page 54.

Kevin O'Byrne
Chief Financial Officer

See page 54.

Rhian Bartlett
Food Commercial Director

Date of appointment: November 2020.

Skills and experience: Rhian joined the Operating Board in November 2020, having returned to Sainsbury's in 2019 as Director of Fresh Food. Rhian is responsible for delivering the commercial performance of Sainsbury's food business and brands. She has over 20 years' experience in the retail industry and has held a variety of senior commercial roles, including Customer and Digital Director at Screwfix and Director of UK Trading at eBay. Rhian's previous roles at Sainsbury's include Business Unit Director Non-Food Grocery and Head of Online Merchandising. Rhian is a Non-Executive Director at Speedy Hire Plc and is a Trustee of GroceryAid.

Graham Biggart
Chief Transformation Officer

Date of appointment: March 2022.

Skills and experience: As Chief Transformation Officer, Graham is responsible for our end-to-end change programmes across Sainsbury's, Argos, Habitat and *Tu*, to deliver our strategy and future operating model; he is also accountable for our Supply Chain, Logistics & Transport Operations, and Central Business Services. Graham joined Sainsbury's in 2015 and has led a number of different areas of the business in that time, across commercial, operations and channels, including Fresh Food & Foodservices, Sainsbury's Local, and Argos Republic of Ireland. Prior to Sainsbury's, Graham worked at McKinsey & Company, primarily on strategy and transformation topics, and before that at Brunswick Group, focused on media, investor and government communications.

Graham is a Non-Executive Director and member of the Risk & Audit Committee of GS1 UK.

Jim Brown
Chief Executive Officer, Sainsbury's Bank

Date of appointment: June 2019.

Skills and experience: Jim joined Sainsbury's Bank in June 2019. He has held several senior international financial services roles, most recently at RBS in the UK as Chief Executive Officer of Williams & Glyn. Prior to that, Jim was Chief Executive Officer of Ulster Bank in Northern Ireland and the Republic of Ireland. Before moving to Ireland, Jim was based in Hong Kong and was Chief Executive Officer of Retail and Commercial Banking, Asia and the Middle East for RBS and ABN AMRO. He has also been a member of the RBS Group Management Committee, ABN AMRO Top Executive Group, ABN AMRO Global Consumer Leadership Team and the RBS/Bank of China Joint Steering Committee. Earlier in his career, he held senior executive roles for Citibank in Asia, Australia and New Zealand. Jim has also held board positions at Ulster Bank, Saudi Hollandi Bank, The Royal Bank of Scotland (China) Co. Ltd and RBS (Pakistan) Ltd. He is also a past President of the Institute of Banking in Ireland. He is currently an advisor to Circit Limited and a Certified Bank Director.

Tim Fallowfield OBE
Company Secretary and Corporate Services Director

Date of appointment: September 2004.

Skills and experience: Tim joined Sainsbury's in 2001 as Company Secretary, having previously held the position of Company Secretary and General Counsel at Exel plc, the global logistics company, now part of DHL. Tim is a qualified solicitor and began his career at the international law firm, Clifford Chance. He joined Sainsbury's Operating Board in September 2004 and in addition to his role as Company Secretary and Corporate Services Director, he is responsible for the Corporate Services Division, comprising Legal Services, Data Governance and Information Security, Safety and Insurance, and Shareholder Services. He also chairs the Group Safety Committee and the Data Governance Committee.

Tim is Chairman of the Disability Confident Business Leaders Group, which works with government in shaping the disability employment agenda and in raising awareness of the benefits of employing disabled people. He was awarded an OBE for services to disability awareness in the 2020 New Year Honours List.

Mark Given

Chief Marketing Officer

Date of appointment: June 2020.

Skills and experience: Mark joined the Operating Board in June 2020. He has significant experience in customer insight, brand communication and digital marketing. Mark joined Sainsbury's in 2012, becoming Marketing Director in 2017. He was appointed Chief Marketing Officer in August 2019 and has responsibility for marketing across the Sainsbury's, Argos, *Tu* clothing and Habitat brands. Mark has also been responsible for the Nectar Loyalty coalition and Nectar360 since the business was acquired by Sainsbury's in 2018. Prior to joining Sainsbury's, Mark built his digital skills leading the Priority programme at O2 where he was Head of Sponsorship. Before this, Mark worked with key brands at Heineken UK where he was Brand Director. He began his career at Procter & Gamble UK and worked across Europe on a variety of brands. Mark is currently a Council Member of the Incorporated Society of British Advertisers (ISBA) and a Fellow of the Marketing Society.

Phil Jordan

Chief Information Officer

Date of appointment: January 2018.

Skills and experience: Phil joined the Board in January 2018 and has brought a fresh, global perspective on technology to the Operating Board, in addition to a wealth of experience in digital, data and business transformation. Prior to joining Sainsbury's, Phil had a long and successful track record in telecommunications. Most recently, he was Global Chief Information Officer at Telefónica, overseeing Digital Transformation and Information Technology and prior to that, was Chief Information Officer for Vodafone UK/ Ireland. Phil has worked as a Non-Executive Director and Advisor on Technology in the Telecommunications, Investment & Retail Banking sector. He is Chair-Elect at Digital 9 Infrastructure PLC.

Clodagh Moriarty

Retail and Digital Director

Date of appointment: June 2018.

Skills and experience: Clodagh was appointed Retail and Digital Director in June 2020, having served as Chief Digital Officer since June 2018, when she joined the Operating Board. Clodagh is responsible for all stores and their operations, as well as Sainsbury's digital offer and strategy, ensuring customers experience an integrated and seamless shopping experience across Sainsbury's, Argos, *Tu*, Sainsbury's Bank and Nectar. She is also a member of the Sainsbury's Bank Board and sits on its Nomination and Remuneration Committees. Clodagh has previously been Director of Online, Head of Online Trading, Merchandising & Content and Category Manager for Meal Solutions at Sainsbury's. She joined Sainsbury's as Head of Strategy, following nine years at Bain & Company.

Paula Nickolds

General Merchandise & Clothing Commercial Director

Date of appointment: June 2021.

Skills and experience: Paula joined Sainsbury's and the Operating Board in June 2021. She is responsible for delivering performance across general merchandise and clothing brands at Sainsbury's. Paula has 25 years' experience in retail, gained at the John Lewis Partnership, which she joined as a graduate trainee before holding a variety of senior roles in product, buying and marketing. Most recently, she was Buying and Brand Director and then Commercial Director, before becoming Managing Director in 2017. Paula is an Ambassador for the UK charity Smart Works and Chair of the Advisory Board of Near Street.

Angie Risley

Group HR Director

Date of appointment: January 2013.

Skills and experience: Angie was appointed Group HR Director and became a member of the Operating Board with responsibility for human resources in January 2013. Before joining Sainsbury's, Angie was the Group HR Director for Lloyds Banking Group and an Executive Director of Whitbread PLC with responsibility for HR and Corporate Social Responsibility. She was previously a Non-Executive Director and Chair of the Remuneration Committee of Serco plc. Angie is currently a Non-Executive Director, member of the Compliance & Culture Committee and Chair of the Remuneration Committee at Smith & Nephew plc.

Governance Report

Dear Shareholder

In what has been another exceptional year for retail, the Board has maintained its focus on the implementation of the strategy we outlined in November 2020 and we are pleased with the progress made in the first year of our three-year plan. Our strong performance has enabled us to balance returns to all stakeholders with an improved value proposition for customers, enhanced reward for our outstanding colleagues and increased dividends for shareholders.

The Board has ensured that our strategy remains aligned with our purpose, culture and values. We receive regular reports on key performance measures across each of our five strategic pillars at Board meetings. The engagement between the Board and Operating Board is strong.

Colleague wellbeing and engagement remains a key item on the Board's agenda, with particular focus on colleague pay and benefits. We have invested over £100 million investment in retail colleague pay, which increased the base rate of pay to at least £10 per hour, and the other aspects of our improved colleague offer, is a recognition of the extraordinary work they do for our customers.

Our sustainability strategy is a key priority for the Board and the CR&S Committee, whose report is set out on pages 71 to 72. The evolution of our Net Zero by 2040 plan, to our Plan for Better, underpins our progress in this area, including the acceleration of our Net Zero target to no later than 2035. Plan for Better is a central part of our strategy and Board agenda and we recognise that, whilst we have made good progress over the last year, we have more ambitious targets in the year ahead as we embed the key initiatives into business as usual. We increased our focus on Environmental, Social and Governance (ESG) and the Board participated in a University of Cambridge Institute for Sustainability Leadership event and we hosted our first ESG event in June 2021, launching our Plan for Better strategy and enabling shareholders to gain a stronger understanding of our ESG priorities. Our sponsorship of COP26, an event attended by several members of the Board, underlines our commitment in this area and we look forward to working with the WWF to develop industry-wide practice in relation to Scope 3 emissions.

The business has continued to make progress against its diversity and inclusion strategy and I am pleased to report that Sainsbury's has featured for the first time in the FTSE 100 Top Ten Best Performers list for Women in Leadership, demonstrating our commitment to be the most inclusive retailer. Actions to support the progression and representation of our ethnically diverse colleagues are an important part of our strategy and we supported the additional commitments made, including joining the Black British Network. We have published our integrated Gender and Ethnicity Pay Report for a second year and are pleased to have seen the pay differentials reduce during that time.

The Board was deeply saddened by the news that Lord Sainsbury of Preston Candover passed away earlier this year and fully supports the tribute made on page 2. We will continue to build on his unique legacy and challenge ourselves to demonstrate the pioneering leadership that he showed in building the business. Our clear vision and strategy for the business builds on this ambition.

We are proud of the leadership shown by Simon during the year and the outstanding contribution of the management team. Our most recent evaluation of the Board's effectiveness showed significant progress against previous actions as well as areas of future focus.

I would like to thank all of my Board colleagues for their commitment, support and flexibility over the past year. Whilst we welcome a return to face-to-face meetings, a number of our Board meetings were conducted in a virtual environment by necessity. This new hybrid way of working has enabled us to maintain strong governance and robust decision-making, delivering against our strategy. I will again express my thanks to Susan Rice for her many years of service and her significant contribution to the Board, particularly as Senior Independent Director and Chair of our Remuneration Committee. Following a robust recruitment process, we welcome Jo Bertram to the Board and look forward to the part that she will play in Sainsbury's future. Following Susan's retirement from the Board, I am delighted to announce that Brian Cassin will be appointed as Senior Independent Director, Jo Harlow will become Chair of the Remuneration Committee and Keith Weed will be appointed as Chair of the CR&S Committee.

Martin Scicluna
Chairman

UK Corporate Governance Code

The Board considers that the Company has complied in full with the Principles and Provisions of the UK Corporate Governance Code 2018 (Code) with the exception of the provision below. Further details on how we comply with the Code are available in the Strategic and Governance Reports, as outlined below.

Provision 38 of the Code requires that pension contribution rates, or payments in lieu, for executive directors are aligned with those available to the workforce. As disclosed in our 2020 Annual Report and Accounts, Kevin O'Byrne's contractual cash pension supplement is not yet aligned with the pension contribution rates available to the workforce, but a clear incremental reduction plan to address this has been in place since 2019/20. The original plan, resulting in alignment in 2024, was approved by 98.87 per cent when put to shareholders as part of the Directors' Remuneration Report within the 2020 Annual Report. Subsequently, the alignment has been accelerated and full compliance will be achieved by the end of the 2022 calendar year. Further detail can be found in the 2021 Annual Report/2022 Directors' Remuneration Report on page 71.

Compliance with the Code

Board leadership and Company purpose
ⓘ More information can be found on pages 61 to 63.

Division of responsibilities
ⓘ More information can be found on page 64.

Composition, succession and evaluation
ⓘ More information can be found on pages 65 to 67.

Audit, risk and internal control
ⓘ More information can be found on pages 73 to 77.

Remuneration
ⓘ More information can be found on pages 78 to 95.

Board leadership and Company purpose

Role of the Board

The Board is the principal decision-making body in the Company. It is collectively responsible for promoting the long-term success of the business for the benefit of its members, achieving this through the creation and delivery of sustainable shareholder value. The Board also carefully considers its wider stakeholders, including customers, colleagues and suppliers, when making decisions and more information can be found on pages 24 to 29.

The Board is responsible for setting the strategy of the business and overseeing its implementation by management. The Board is committed to delivering on each of our strategic priorities across Food First, Brands that Deliver, Save to Invest, Connected to Customers and Plan for Better. It ensures effective corporate governance, succession planning and stakeholder engagement. The Board is also responsible for ensuring that effective internal controls and risk management systems are in place; further information can be found on pages 73 and 77. The Matters Reserved for the Board can be found on our website at **www.about.sainsburys.co.uk**.

The Board has formally delegated certain governance responsibilities to its Board Committees and the Operating Board, as outlined below.

Operating Board

Matters not specifically reserved for the Board have been delegated to the Operating Board, chaired by Simon Roberts. The Operating Board is responsible for the day-to-day operation of the business and the execution of our strategy, ensuring this is done in an ethical and sustainable manner. During the year, the Operating Board delivered progress against our strategic, cultural and sustainability objectives, including the implementation of our diversity and inclusion agenda. Each Operating Board Director has a range of responsibilities, as detailed in their biographies on pages 58 and 59.

Sainsbury's Bank Board

Sainsbury's Bank plc Board membership comprises an independent Chair, five Non-Executive Directors, four of whom are independent, together with the Bank's Chief Executive Officer and Chief Financial Officer. The Bank's Chief Executive Officer is supported by the Sainsbury's Bank Executive Committee and is responsible for the day-to-day management of the business and executing its strategy. The Bank's Chief Executive Officer is a member of the Operating Board, bringing the Bank's priorities and perspective to the wider business.

Board Committees

The Board Committees support the Board in specific areas of its responsibilities, as outlined below. The Committee Chairs provide regular updates to the Board on Committee meetings and activities.

Audit Committee

— Reviews and monitors integrity of financial information prior to publication, ensuring that the Annual Report as a whole is fair, balanced and understandable

— Oversees systems of internal control and risk management

— Approves internal and external audit processes

— Maintains relationship with auditors

— Carries out in-depth reviews of specific risks, ensuring that risks are appropriately identified, managed and mitigated

ⓘ More information on page 73.

Corporate Responsibility and Sustainability Committee

— Reviews the sustainability strategy, ensuring it is aligned with the Company's purpose, strategy, culture, vision and values

— Monitors business engagement on sustainability and corporate responsibility matters with colleagues, customers, suppliers, the community and shareholders

ⓘ More information on page 71.

Nomination Committee

— Reviews the Board's size, structure and composition, including the recommendation of new appointments to the Board

— Monitors balance of skills, knowledge, experience, independence and diversity of the Board and its Committees to ensure that they remain appropriate

— Oversight of succession planning and development plans of the Board and senior management

ⓘ More information on page 68.

Remuneration Committee

— Recommends and reviews the Remuneration Policy, ensuring that it promotes the delivery of our strategy and the long-term sustainable success of the business

— Approves remuneration and benefits for the Chairman, Executive Directors and Operating Board Directors

— Approves remuneration principles throughout the business

ⓘ More information on page 79.

The Terms of Reference for these Committees can be found on our website at **www.about.sainsburys.co.uk**.

Operating Board Committees

The Operating Board Committees support the work of the Operating Board through delegated powers, as outlined below. Members of senior management provide regular updates from these Committee meetings to the Operating Board.

Business Performance Review

— Monitors and reviews implementation of the Group's plans to meet budget targets, as set out by the Operating Board

— Approves 'in-year' capital expenditure

— Monitors business performance with regards to customers, the market, product proposition and perceptions of our brand

— Monitors and reviews colleague engagement

Group Data Governance Committee

— Oversees programmes that deliver compliance with Data Protection, Data Security and Payment Card Industry data security standards

— Oversees effective information security throughout the business

Group Safety Committee

— Reviews the safety culture and the robustness of safety management systems through audit and safety teams, and the action plan in light of any issues

— Oversees standards for management and monitoring of colleague and customer safety

— Provides assurance, with the Head of Safety and Insurance, to the Operating Board, Audit Committee and Board

Group Operational Resilience Committee

— Sets operational resilience strategy

— Monitors implementation of business continuity and disaster recovery arrangements

Plan for Better Steering Committee

— Leads operational execution of our Plan for Better strategy

— Oversees Plan for Better working groups' activities in relation to this strategy to ensure delivery

Customer, Commercial and Channels Forum

— Governs the development and execution of our customer, commercial and channel plans against our strategy

— Manages the in-year operating performance of the retail business

Each of these Committees has approved Terms of Reference setting out its areas of responsibility.

Key areas of focus for the Board

Our Board and Committee meetings were held both in person and remotely during the year, in line with on-going COVID-19 safety guidance. Members of the Operating Board, management teams and other colleagues attended meetings to enable improved Board dialogue, review performance, discuss progress and agree key priorities for the short and medium term.

The key areas of focus for the Board during the year are shown below.

Strategy

- Increased focus on strategic priorities at each Board meeting through a revised meeting agenda structure
- Ensured that the Food First and Plan for Better strategies were key to discussions and decision-making via regular updates from management
- Completed deep-dives into specific areas of our strategy and upcoming strategic challenges to review proposals made by management, providing constructive feedback and direction
- Monitored the impact of COVID-19 on our customers and colleagues
- Reviewed the Operating Board's plans to simplify the operating model and progress sustainable cost saving programmes
- Discussed and created relevant actions plan for long-term strategic challenges, responding to key trends in grocery to 2030
- Considered feedback from customers, colleagues, investors, suppliers and other stakeholders on our strategy
- Involved in decision-making in relation to the expressions of interest received for Sainsbury's Bank, ultimately deciding that retaining the Bank and continuing the focus on strengthening and simplifying the Financial Services business would be in the best interests of stakeholders
- Reviewed plans to enhance our brand through our Helping everyone eat better campaign

ⓘ More information on pages 9 to 23.

Purpose

- Ensured that our renewed focus on strategy remained aligned with our purpose throughout discussions and decision-making
- Ensured that business decisions were aligned with our purpose, establishing a clear and cohesive approach for colleagues in all areas

ⓘ More information on page 7.

Colleagues, values and culture

- Committed to over £100 million investment in pay for our retail colleagues and other enhancements to colleague benefits
- Maintained focus on culture as a critical enabler of our success
- Encouraged an improved performance management culture across the business, emphasising communication and regular feedback for colleagues
- Supported the Operating Board in the development of our new Valued Behaviours to further embed a positive, forward-thinking culture aligned to our purpose and priorities
- Discussed COVID-19 measures for in-store colleagues, with a safety-first approach taken and reflected on feedback received from both customers and colleagues on our approach
- Received regular updates on colleague engagement, reviewing colleague feedback from listening groups and the We're Listening survey

ⓘ More information on pages 13 to 14, and 25.

Plan for Better

- Launched our Plan for Better strategy including revised targets
- Approved the plan to accelerate our commitment to be Net Zero no later than 2035, five years earlier than previously stated
- Hosted Sainsbury's first Environmental, Social and Governance (ESG) event, launching our Plan for Better strategy and allowing stakeholders to gain a deeper understanding of our ESG priorities
- Supported our partnership with and attendance at COP26, furthering our commitment to protecting the planet
- Attended an event hosted by the University of Cambridge Institute for Sustainability Leadership, which enhanced understanding of ESG matters and highlighted the role that our leadership will play in tackling the social, environmental and climate challenges facing the business

ⓘ More information on pages 13 to 23.

Governance and risk

- Maintained responsibility for the identification and management of risks to ensure the successful operation of the business
- Identified and monitored principal and emerging risks, including COVID-19, supply chain security, talent availability and inflationary pressures
- Reviewed Audit Committee discussions and decisions to monitor internal controls, stress testing and risk mitigation across the business
- Considered the key aspects of safety, including those in relation to COVID-19, in order to keep colleagues and customers safe in rapidly-changing circumstances
- Ensured continued compliance with the UK Corporate Governance Code 2018, as outlined on page 60
- Approved governance improvements including the move to a hybrid-format Annual General Meeting and climate-related governance initiatives
- Undertook an internal Board evaluation to review the effectiveness of the Board and its Committees, which included discussing the progress made from the previous year's evaluation and agreeing actions for the next financial year
- Established a forward agenda and deep dives programme to ensure regular reviews of key areas of focus

ⓘ More information on pages 38 to 50, and 60 to 77.

Succession and leadership

- Focused on succession planning across pivotal roles within the business
- Managed the retirement of David Keens and appointment of Non-Executive Director Adrian Hennah and his transition as Chair of the Audit Committee
- Led the appointment of Jo Bertram as Non-Executive Director with effect from 7 July 2022

ⓘ More information on pages 65 to 70.

Finance

- Reviewed business performance, including underlying profit forecasts, cash and net debt positions, trading updates and market response to announcements
- Discussed the impact of COVID-19 on the financial position of the Company and discontinuation of LIBOR on financial facilities
- Scrutinised and approved the Company's Preliminary results, Interim results and Annual Report and Accounts

ⓘ More information on pages 32 to 37.

Stakeholders

- Ensured stakeholder considerations were embedded in discussions and decision-making, as outlined in our Section 172 statement on pages 24 to 29
- Met key suppliers to enhance communication and understand their views of our supplier relationships
- Shared responsibility for workforce engagement amongst Non-Executive Directors, attending our Great Place to Work National Group, our Workforce Advisory Panel, on a rolling schedule
- Benefited from open and honest colleague feedback on topics including communication around product availability, colleague morale, job security, colleague reward and Executive pay, which helped decision-making in these areas

ⓘ More information on pages 24 to 29.

Effective decision-making

Having an effective and diverse Board with a culture of engagement and openness has enabled high quality discussions ahead of executing several critical decisions during the year.

Net Zero by 2035

In a critical year for tackling the climate crisis, the business took the decision to accelerate its commitment to Net Zero by no later than 2035, five years earlier than previously stated. The Board was fully supportive of this decision having carefully reviewed the plans and actions required to effectively deliver this level of commitment.

Sainsbury's Bank

During the year, Sainsbury's had received expressions of interest in Sainsbury's Bank. The Board was provided with regular updates from management and advisers during the process. Whilst the Board believed that it was in the best interests of shareholders to explore these expressions of interest, it ultimately concluded that these did not offer better value for shareholders than would be realised through retaining Sainsbury's Bank. The Board took the decision to remain focused on strengthening and simplifying our Financial Services business in line with our strategy.

Colleagues

The rapidly-changing nature of COVID-19 also highlighted an opportunity for the business to implement frameworks and encourage a culture of demonstrating pace and agility when making decisions at all levels. The Board played a key role in this and led by example during the year with several important decisions in relation to our colleagues.

The Board reviewed the proposal to close our stores on Boxing Day in 2021, taking into consideration the impact on our customers and the response from colleagues. The Board supported this action, recognising the contribution of our colleagues throughout the year. Following the announcement, Martin Scicluna and Tanuj Kapilashrami discussed this matter with colleagues, enabling them to receive first-hand feedback that will inform future decisions.

The Board also reviewed the proposal to increase store colleague base pay above the Living Wage. The impact on various stakeholders was taken into consideration, including colleagues and investors.

Division of responsibilities

How the Board operates

The Board and its Committees have a forward programme of meetings to ensure that sufficient time is allocated to each key area and the Board's time is used effectively. There is sufficient flexibility for items to be added to the agenda, which enables the Board to focus on key matters relating to the business at the right time.

Our Board comprises the Chairman, two Executive Directors and six independent Non-Executive Directors. Adrian Hennah joined the Board as Non-Executive Director on 1 April 2021 and became Audit Committee Chair in July 2021, succeeding David Keens who retired from the Board on 9 July 2021. Susan Rice has confirmed her intention to step down from the Board at the conclusion of the AGM in July 2022 and Jo Bertram will join the Board as a Non-Executive Director on 7 July 2022. Each of their responsibilities is listed below and more information on their specific contributions can be found in their biographies on pages 54 to 57.

Chairman Martin Scicluna	— Leading the Board and ensuring its effectiveness in all aspects of its role — Promoting high standards of corporate governance — Ensuring that the Board is aware of the views of shareholders and other stakeholders — Promoting a culture of openness and debate in the boardroom and constructive relations between Executive and Non-Executive Directors
Chief Executive Officer Simon Roberts	— Leading the day-to-day management of the business and executing the strategy agreed by the Board — Proposing strategies, business plans and policies to the Board — Ensuring effective implementation of the Board's decisions — Leading, motivating and monitoring performance of the Company's senior management — Creating a framework of strategy, values, culture, performance management and objectives to ensure the successful delivery of results for the business — Maintaining an effective framework of internal controls and risk management
Chief Financial Officer Kevin O'Byrne	— Supporting the Chief Executive Officer in developing and implementing strategy — Overseeing the day-to-day financial activities and the financial performance of the business — Together with the Chief Executive Officer, ensuring that financial policies and practices set by the Board are adopted at all levels of the business
Senior Independent Director Susan Rice (stepping down from the Board on 7 July 2022) Brian Cassin (with effect from 7 July 2022)	— Acting as a sounding board for the Chairman and as a trusted intermediary for the other Directors when necessary — Meeting with shareholders and representative bodies when requested, discussing matters with them where it would be inappropriate for those discussions to take place with either the Chairman or the Chief Executive Officer — Leading the annual appraisal and review of the performance of the Chairman
Independent Non-Executive Directors Brian Cassin Jo Harlow Adrian Hennah Tanuj Kapilashrami Keith Weed Jo Bertram (with effect from 7 July 2022)	— Bringing an external perspective, independent judgement and objectivity to the Board's deliberations and decision-making — Supporting and constructively challenging the Executive Directors and senior management, holding them to account and offering specialist advice using their wide and varied experience — Monitoring delivery of the agreed strategy within the risk management framework set by the Board
Company Secretary and Corporate Services Director Tim Fallowfield	— Advising and assisting the Board and the Chairman, particularly in relation to governance, Board evaluations, induction, training and formulating the agenda for Board meetings — Ensuring that Board procedures and the governance framework are effective — Ensuring the Board receives accurate, timely and clear information and is consulted on all matters important to it

During the year, the Chairman and Non-Executive Directors met without the Executive Directors being present. The Chairman holds regular and informal calls between Board meetings with the Non-Executive Directors, to consider their views and to enable thorough preparation for Board discussions. In addition, the Senior Independent Director held discussions with the Non-Executive Directors without the Executive Directors or the Chairman being present.

Directors were kept informed of the key discussions and decisions made at each of the four principal Committees – Audit, Nomination, Remuneration, and Corporate Responsibility and Sustainability. The Chair of each Committee provided a detailed summary at the Board meeting following the relevant Committee meeting.

In the rare event that a Director is unable to attend a Board meeting, the Chairman will meet with the relevant Director in advance, so that their comments and inputs can be considered. Following the meeting, the Chairman will provide an update to them on the outcomes of the discussions.

The following table shows the attendance of Directors at scheduled Board meetings. The Board held eight scheduled meetings during the year, together with several unscheduled meetings which were well attended by all Directors.

Martin Scicluna	8(8)	David Keens[2]	3(3)
Brian Cassin	8(8)	Kevin O'Byrne	8(8)
Jo Harlow	8(8)	Susan Rice	8(8)
Adrian Hennah[1]	8(8)	Simon Roberts	8(8)
Tanuj Kapilashrami	8(8)	Keith Weed	8(8)

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

[1] Adrian Hennah joined the Board on 1 April 2021.

[2] David Keens stepped down from the Board on 9 July 2021.

Time commitment and conflicts of interest

Prior to appointment, each prospective Non-Executive Director confirms that they will have sufficient time available to be able to discharge their responsibilities effectively and that they have no conflicts of interest. This is discussed by the Board before any appointment is made. In addition, the Board reviews and approves in advance requests by Directors wishing to undertake new external responsibilities or directorships and considers both the time commitments involved and any potential conflicts. The conflicts of interest register is reviewed annually to ensure it is up to date and that there are no new conflicts to consider. No changes were recorded during the year that would impact the independence of any of the Directors.

The Board supports Executive Directors having a non-executive directorship role as part of their continuing development, provided that they have sufficient time to balance their commitments to the business with any external role. Subject to Board approval, each Executive Director may hold one non-executive director position. Whilst recognising the benefits of Non-Executive Directors having varied and broad experiences, the Board keeps in mind investor guidance and reviews the commitments of each Director annually.

Throughout the year, all Directors have demonstrated high levels of availability and responsiveness for additional meetings and discussions where these have been required. The Board remains confident that individual members continue to devote sufficient time to undertake their responsibilities effectively.

Composition, succession and evaluation

Director development

Induction

We have a comprehensive and tailored induction programme in place for Directors when they join the Board to ensure their smooth transition and enable them to gain an understanding of all major aspects of the business, including our purpose, vision, strategy, culture, values, governance framework, sustainability strategy and the opportunities and challenges facing the sector.

When joining the Board, a new Non-Executive Director typically meets individually with each Board and Operating Board member, and also with senior management from key areas of the business to gain an insight into their respective areas of responsibility. The Company Secretary and Corporate Services Director briefs them on policies, Board and Committee procedures, and core governance practice, which includes Directors' duties and Market Abuse Regulations. They also receive induction materials including recent Board and Committee papers and minutes, strategy papers, investor presentations, Matters Reserved for the Board and the Board Committees' Terms of Reference. They visit stores, depots and other business locations and meet key advisers. Director inductions are ongoing processes over a number of years during which they will cover the areas in the table below.

Adrian Hennah joined the Board as a Non-Executive Director on 1 April 2021 and succeeded David Keens as Audit Committee Chair following David's retirement from the Board at the Annual General Meeting on 9 July 2021.

Adrian received a tailored induction on joining the Audit Committee. This followed the usual programme for Directors' induction as outlined below but was specifically designed to support his transition to Audit Committee Chair. This included attending the April Audit Committee meeting as an observer and working closely with David Keens to ensure an orderly transfer of responsibilities.

Adrian also met a number of colleagues and stakeholders pertinent to his role on the Audit Committee. This included introductory meetings with EY, the external auditors and Mark White, the Groceries Supplier Code Adjudicator. He also met individually with each of the Chief Financial Officer's direct reports and their respective teams which included Internal Audit, Treasury, Property, Pensions, IT and various finance teams. In addition to this, Adrian visited Sainsbury's Bank's offices in Edinburgh and met with the Sainsbury's Bank's Chair, the Chief Financial Officer and the Chairs of the Bank's Risk and Audit Committees.

Adrian also visited the Sainsbury's Newbury store with Simon Roberts and the Waltham Point depot with the Director of Logistics and Supply Chain. This gave Adrian the opportunity to see first-hand the operations of a store and depot, and to meet colleagues working within these locations. He has also participated in Board sessions with employee representatives to hear their views and experiences.

The Directors' induction process

Understanding the business	Understanding the sector and environment	Meet the Sainsbury's internal team and advisers	Visit Group operations
— Business strategy, purpose and vision — Overview of each business area and its opportunities — Operating plans, current KPIs and targets — Key business relationships — Board and governance procedures — Board effectiveness reviews and actions — Matters relevant to the Board Committees they join — Recent Board and Committee papers and minutes — Key people and succession plans — Remuneration and reward across the business — Finance, treasury and tax overviews — Risk profile and approach — Internal audit, risk and internal controls	— The market and competitors — Customer trends — Consumer and regulatory environment — Brand perception and reputation — Analyst and investor perspectives — Key stakeholders' views	— Directors — Committee Chairs — Company Secretary and Corporate Services Director — Members of the Operating Board — Senior management across the business — Members of the external audit team — Remuneration consultants — Brokers	— Store visits — Distribution centres — Store support centres

Continuing development

Non-Executive Directors continue to learn about the business by meeting with management, colleagues, suppliers and other stakeholders as described on the previous page. All of the Non-Executive Directors continue to engage with different aspects of the business to support their ongoing development. Further information on the continuing development of two of our Non-Executive Directors, Jo Harlow and Tanuj Kapilashrami, is described below.

During the year, Jo Harlow, in her capacity as Chair of the Corporate Responsibility and Sustainability Committee, hosted regular Climate Dialogues for Sustainability Chairs with support from Chapter Zero. These covered areas such as external resources, employment engagement, biodiversity issues, COP26, and linking sustainability goals and remuneration. She also became a Board member of Chapter Zero, a network of company Chairs, Committee Chairs and Non-Executive Directors who are committed to developing their knowledge of the implications of climate change for UK businesses. Jo met with several Sainsbury's store managers and had discussions with the Chairman, Audit Committee Chair and Company Secretary and Corporate Services Director on sustainability governance. Jo participated in COP26 and attended a number of Sainsbury's events including the inaugural Environmental, Social and Governance (ESG) day, the Farming Conference and a leadership event. In addition to this, Jo has regularly attended and spoken at professional webinars, such as those hosted by Legal & General Investment Management, Willis Towers Watson, Deloitte, Fidelio and the Local Authority Pension Fund Forum. Jo's engagement with colleagues and regular development activities have enabled her to make an effective contribution as a Non-Executive Director, particularly in relation to sustainability and climate change issues.

In addition to regular discussions with members of the Operating Board, Tanuj Kapilashrami regularly attends Sainsbury's Great Place to Work colleague listening sessions with the Group HR Director, the Chairman and other Non-Executive Directors. Tanuj's participation in these sessions provided her with the opportunity to engage directly with colleagues and hear their views on various topics during the year including our strategy, values and culture, product availability, colleague pay and the decision to close our stores on Boxing Day. These sessions enabled Tanuj to develop a greater understanding of the business and bring employee insights into Board discussions. As part of her external executive role, Tanuj is engaged with professional bodies, industry forums and global peers and her external perspective is valuable particularly in discussions involving colleagues and culture at Sainsbury's.

Professional development and training

To ensure the Board updates and refreshes its skills and knowledge, we have a programme to support Directors' training and development requirements in relation to governance, investor expectations and regulatory impacts. This includes regular presentations from management on relevant governance matters.

The Board was upskilled on social, environment and climate change issues and developments in a sustainability event led by the Cambridge Institute for Sustainability Leadership in June 2021. The Board also received external strategic updates from leading industry analysts in the food retail sector at a Board dinner in September and at the Strategy Conference in October. Suppliers also attended a Board dinner in March to enable the Board to hear feedback directly from suppliers.

Both the Audit and Remuneration Committees received updates on relevant accounting and remuneration developments, trends and changing disclosure requirements from external advisers and management. The CR&S Committee received stakeholder and regulatory updates on ESG matters from management. More information can be found on pages 71, 73 and 78.

The Board and Committees were updated on compliance with the Modern Slavery Act, Task Force on Climate-related Financial Disclosures, the 2018 UK Corporate Governance Code and Directors' responsibilities under Section 172 of the Companies Act. The Board was also provided with MAR training from the Company Secretariat this year. The Directors have access to advice from the Company Secretary and independent professional advice is available at the Company's expense, if necessary, in fulfilling their duties and responsibilities.

Board evaluation

In line with best practice, we review the Board's effectiveness on an annual basis through a formal performance evaluation, including an assessment of the Board and its Committees. An external evaluator conducts the review every third year, and in the two intervening years this is carried out by the Company Secretary and Corporate Services Director, to ensure continuity over the three-year cycle. The last external evaluation was carried out by Clare Chalmers, an experienced independent provider of board effectiveness reviews, from November 2019 to February 2020.

This year's internal evaluation was conducted from December 2021 to March 2022 and led by the Company Secretary and Corporate Services Director. The review explored the key areas of focus set out below and themes that arose for action in the 2020/21 internal evaluation. Board members completed an online questionnaire, based on previous years to maintain continuity, which also incorporated last year's key feedback topics and recent developments in the business, its strategy and governance.

The key areas of focus included: the effectiveness, role and priorities of the Board and its Committees; the Board's composition, skills, succession and culture; the alignment of purpose, strategy and values; leadership of the Board and the business; ways of working and broader risk management; and engagement with stakeholders. Each Director was given the opportunity to raise their own additional points. The results of the internal questionnaire were discussed with each of the Directors in individual discussions with the Company Secretary and Corporate Services Director.

Following the individual discussions, the Company Secretary and Corporate Services Director discussed the conclusions (including any feedback with individual Directors) with the Chairman and then presented a written report to the Board. A separate meeting with the Board was held to discuss the findings and the Board agreed the key actions. The Company Secretary and Corporate Services Director also met with the Senior Independent Director to discuss feedback for the Chairman, which was subsequently shared with him as part of his review meeting. Each of the Committee Chairs received specific feedback on the effectiveness of the relevant Committee for their consideration.

Findings of the 2021/22 review

The report identified a number of strengths of the Board including:

- The Board continues to operate effectively, with enhanced focus on performance and the key strategic issues facing the business this year
- The Board has open discussions before major decisions are taken, and the pace and progress of decision-making has been appropriate with robust iteration between meetings to maintain momentum
- The Board has responded well to issues in an uncertain trading environment
- The external strategic input received at the sustainability event, Board dinners and the Strategy Conference during the year were well received by the Board
- The Chairman is a highly effective leader and has developed strong relationships and trust with the NEDs
- The Executive Directors keep the Board well informed of key issues arising, provide strong leadership and management's handling of the pandemic was outstanding
- The recent NED appointees are making strong contributions to the Board
- The NEDs are highly engaged and provide a good level of challenge and support to management

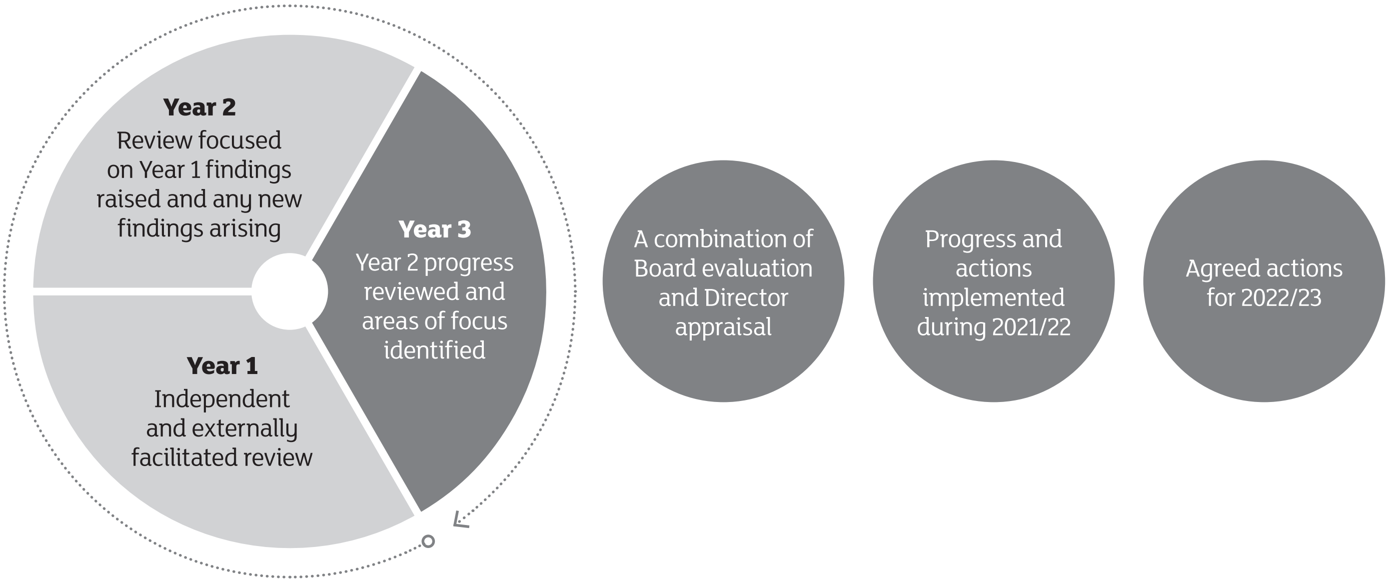
The report also identified development areas for the Board in the year ahead which are detailed on page 67.

Board Committees

As described above, the evaluation process also assessed the effectiveness of the Board Committees. A theme identified from the process was a desire for further cross functionality between the Committees where there was an overlap of discussions, which is being implemented. The findings ultimately concluded that each of the Committees continued to operate effectively, was well led and was efficient in dealing with current issues.

Any specific findings and action points are overseen by each Committee Chair, with consideration of the overall Board findings which are deemed relevant to the Committee's work.

Board evaluation cycle



Key areas of focus from 2020/21 review	Progress and actions implemented during 2021/22
Board development Ensuring the Board continues to evolve in key strategic areas such as digital and technology change, sustainability and climate change issues	A sustainability event held by the Cambridge Institute for Sustainability Leadership was arranged for the Board in June. Leading retail industry analysts attended a Board dinner in September and the Strategy Conference in October to provide external strategic perspectives
Customer insights Continued focus on meaningful customer insight and behaviour data to further drive our strategy	During the year, the Chief Marketing Officer provided updates on customer insight data at several Board meetings. This will continue to be an area of focus for the Board and a plan is being developed to further strengthen the Board's understanding of customers
Supplier engagement Supporting further engagement with Sainsbury's key suppliers	The Board received supplier-facing, strategic-related updates from the Food Commercial Director at Board meetings during the year. This focused on our relationship with suppliers and the activities that the business has undertaken to support them, particularly in challenging trading environments. In addition to this, suppliers attended a Board dinner in March, enabling the Board to hear directly from suppliers
Wider stakeholder engagement Additional consideration to wider societal issues, including community, government, non-governmental organisations and key society topics	Regular feedback and updates were provided at Board meetings following discussions with our stakeholders on key regulatory, societal and operational issues
Ways of working Effective and appropriate transitioning plan, including face-to-face meetings of the Board, management and key stakeholders, once the COVID-19 restrictions have eased	A clear plan was developed which enabled the Board to transition safely and effectively to face-to-face meetings of the Board and to meet with Operating Board members and other key stakeholders within the business

Agreed actions and areas for development for 2022/23

- Allocate additional time at Board meetings for certain strategic topics to enable fuller discussions and reflection by the Board
- Incorporate a broader perspective into the planned customer insight sessions for the Board to strengthen its understanding of customers and support strategic decision-making across the business
- Review colleague engagement activities planned for the Board and identify additional opportunities for the Board to build on the level of engagement with colleagues
- Continue to build appropriate relationships with the Bank Board and monitor the Board's progress in delivering its strategy
- Invite non-Audit Committee members to attend all or part of future Audit Committee meetings when key risks are being discussed to enhance their understanding of the Company's significant risks and progress on their mitigation

Nomination Committee Report

Dear Shareholder

We continue to strengthen our Board and ensure it is well balanced with the right skills and experience to effectively deliver our strategy.

The Nomination Committee plays a key role in supporting the Board within the governance framework in reviewing the composition of the Board and its Committees. This includes an assessment of whether the balance of skills, experience, knowledge and independence is appropriate to enable it to operate in a highly effective manner and to promote the long-term success of the Company. The Committee also assists the Board in its consideration of conflicts of interest and independence issues throughout the year. No conflicts of interest or independence issues were identified as a result of this activity.

The Committee also reviewed the Board's short, medium and long-term succession planning at the executive and non-executive level and is satisfied that the Company is well positioned to move forward with continuity and is led by a strong leadership team.

The Board supports the recommendations of the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity. The Board has made good progress against its diversity and inclusion strategy, and the Company will feature for the first time in the FTSE 100 Top Ten Best Performers list for women in leadership. Three of the Board of Directors are women (33 per cent) and 47.8 per cent of our Operating Board members and their direct reports are women. One member of the Board of Directors identifies as ethnically diverse.

Inclusivity throughout the business is highly important to us and we continue to focus on this and the development of our diverse talent pipeline. We are highly supportive of the diversity and inclusion initiatives in place which are detailed on pages 69 to 70.

Following a robust recruitment process, Jo Bertram will join the Board on 7 July 2022 and I look forward to the part that she will play in Sainsbury's future. After nine years of outstanding contribution and commitment, Susan Rice will step down from the Board after the AGM in July 2022. Following Susan's retirement from the Board, I am delighted to announce that Brian Cassin will be appointed as Senior Independent Director, Jo Harlow will become Chair of the Remuneration Committee and Keith Weed will be appointed as Chair of the CR&S Committee. During the year, David Keens stepped down from the Board in July 2021, and Adrian Hennah joined the Board in April 2021, succeeding David as Audit Committee Chair in July 2021. The Committee recommended the appointment of Adrian Hennah and Jo Bertram to the Board following rigorous search processes. The search processes incorporated the extensive work completed last year to identify the skills and experience required to deliver our strategy.

Martin Scicluna
Chairman

Principal role and responsibilities

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and its Committees; taking into account skills, knowledge, experience and diversity, and making recommendations to the Board for any changes. It is responsible for formulating plans for succession at Board and senior management levels, taking into account the challenges and opportunities facing the business, and the skills and expertise needed to ensure the long-term success of the Company.

The Committee's Terms of Reference are available on the Company's website **www.about.sainsburys.co.uk**.

The Committee held three scheduled meetings in the year, together with several unscheduled meetings relating to recruitment and succession planning.

Attendance at the scheduled Nomination Committee meetings:

Martin Scicluna	3(3)	Tanuj Kapilashrami	3(3)
Brian Cassin	3(3)	David Keens[1]	1(1)
Jo Harlow	3(3)	Susan Rice	3(3)
Adrian Hennah	2(2)	Keith Weed	3(3)

The number of meetings held during the year is shown in brackets.

[1] David Keens stepped down from the Board on 9 July 2021.

Committee membership

The Committee consists of the Chairman of the Board and six Non-Executive Directors, all of whom are independent. The Chairman of the Board is also the Chair of the Committee, and the Company Secretary and Corporate Services Director or his nominee acts as the Secretary of the Committee. The Chief Executive Officer and Chief Financial Officer attend meetings by invitation.

Succession planning

Talent development

We recognise the importance of developing our people and, as such, the talent pipeline within our business remains a key focus for the Committee. Our senior leadership population is a source of future Operating Board talent, with five members of our Operating Board, Rhian Bartlett, Graham Biggart, Tim Fallowfield, Mark Given and Clodagh Moriarty, progressing through this route. Our Leading Together and Leading Steps Up programmes are key investments we are making into developing senior leadership over the next two to three years.

Appointments to the Board

The Nomination Committee has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. When the need to appoint a Director is identified, for instance when a Director is approaching the end of their ninth year on the Board, the Committee reviews the experience, skills and knowledge required, taking into account the Board's skills matrix, existing composition and the relevant experience and understanding of our stakeholder groups. We engage executive search consultants and consider the gender, nationality, educational and professional background of candidates, as well as individual characteristics to see if they will be a good fit against the desired specification. Suitable candidates are then interviewed by Committee members. The process is led by the Chairman who receives support from the Company Secretary and Corporate Services Director as appropriate.

Careful consideration is given to ensure that proposed appointees have enough time available to devote to the role and that the balance of skills, knowledge and experience on the Board with regard to experience and understanding of our stakeholder groups is maintained.

When the Nomination Committee has identified a suitable candidate, it then makes a recommendation to the Board with the Board making the final decision. During the year, the Committee followed the above procedure during the search for the new Non-Executive Directors, Adrian Hennah and Jo Bertram. MWM Consulting were engaged by the Committee as external executive search consultants. MWM Consulting are one of the small number of firms accredited by the Hampton-Alexander Committee for their leading work in promoting gender diversity. They had no connection with the Company prior to appointment as recruitment consultants and had no relevant connections with individual Directors. The Committee briefed the search consultant on our specification, and we considered and interviewed a wide and diverse range of candidates for each role. The Board was unanimous in its decision to appoint Adrian Hennah and Jo Bertram as Non-Executive Directors.

Identify	The Committee discussed the overall skill sets of the Board and agreed a detailed job specification, skill sets and preferred attributes for the appointees. A thorough review of potential candidates was undertaken. MWM Consulting presented a diverse long list of external candidates from a broad range of backgrounds. The Committee shortlisted a number of candidates.
Interview	The Chairman and several of the Directors met with the shortlisted candidates who confirmed their interest in the role. Following the interviews, the Nomination Committee members met to discuss feedback.
Select	The Committee was unanimous in its final selection of candidates. It recommended to the Board that Adrian Hennah and Jo Bertram be appointed as Non-Executive Directors. Their specific contribution to the Company can be found in their biographies on pages 55 and 57.
Appoint	Adrian Hennah's appointment as Non-Executive Director was announced on 12 March 2021 and took effect on 1 April 2021. Jo Bertram's appointment as Non-Executive Director was announced on 14 April 2022 and she will join the Board on 7 July 2022.

Diversity and inclusion

The Board and Committee continue to drive the agenda of diversity and inclusion across the business and are proud of the progress we have made so far. We are committed to being a truly inclusive retailer where every single one of our colleagues can fulfil their potential and where all our customers feel welcome when they shop with us. We embrace and actively promote diversity, inclusion and equity and aim to reflect the diverse communities we serve. Simon Roberts and the Operating Board provide clear and committed leadership and accountability of our inclusion agenda, with members of the Operating Board acting as sponsors across wellbeing, diversity and inclusion, and our Colleague Networks. To ensure continued progress in this space, the governance of diversity and inclusion is a regular part of the Operating Board agenda.

To ensure sustained improvement, we continue to look at focused initiatives, culture and accountability through aspirational targets. In 2021, we set new, stretching targets to take us to 2024 which covers more of our talent pipeline and covers Black representation specifically. We have set a target of 50 per cent female, 12 per cent ethnically diverse and 3 per cent Black representation at senior management level[1]. Importantly, these targets will form part of our long-term incentives for management. We are publicly reporting on our progress against these targets twice a year with further information available on our website **https://www.about.sainsburys.co.uk/sustainability/better-for-everyone/diversity-and-inclusion**.

Actions to support the progression and representation of our ethnically diverse colleagues are an important part of our strategy. We continue to build on our commitments in support of our Black colleagues, all of whom are part of our focus on changing the conversation around race. Further information on the strategies we have in place to support our drive for inclusivity and the progression of our diverse talent can be found on page 14.

The Board receives regular updates on our inclusion initiatives and the Board, CR&S Committee and Nomination Committee receive detailed presentations throughout the year on our inclusion priorities and the progress we are making. The Remuneration Committee also reviewed and approved the Ethnicity and Gender Pay Report which can be found on our website **https://www.about.sainsburys.co.uk/making-a-difference/gender-pay-gap**.

Board diversity policy

We promote diversity on our Board and we believe there is good balance amongst our Non-Executive Directors, with extensive and wide-ranging experience of retail and other consumer-facing businesses and varying length of service. Our Non-Executive Directors have other highly relevant skills derived from serving in a range of major executive and non-executive positions throughout their careers and a blend of cognitive, personal strengths and backgrounds.

We are keen to ensure that Board membership reflects diversity in its broadest sense, our colleague base and the communities in which we serve. The Board's approach to its own diversity is as follows:

Aim to maintain a level of at least 33 per cent female Directors and at least one Director who identifies as ethnically diverse on the Board.
Three of our nine Board Directors are women (33 per cent) and one identifies as ethnically diverse. In making its recommendations to the Board, the Committee has due regard to the UK Corporate Governance Code 2018 and other best practice and will consider the balance of skills, experience, independence and knowledge of the Board, its diversity in the broadest sense, including gender and ethnicity, how the Board works together as a team and other factors relevant to its effectiveness.

The Board continues to review the development of the pipeline of both ethnically diverse and female senior management within the business. Of the ten members of our Operating Board during the year, four were women (40 per cent). More information on diversity and inclusion can be found on pages 13 to 14.

Consider candidates for appointment as Non-Executive Directors from a wide pool.
During the year, the Nomination Committee discussed Non-Executive Director appointments and succession. It worked closely with MWM Consulting in compiling long and short lists of diverse candidates from various backgrounds and sectors. Candidates were identified, interviewed and measured against a detailed job specification, skill sets and preferred attributes.

Assist the development of a pipeline of high-potential colleagues by encouraging key members of senior management within the business to take on additional roles to gain valuable Board experience.
The Board supports and encourages initiatives that strengthen the pipeline of talent in the Company including:

- A comprehensive talent management review is presented and discussed by the Board
- Highly personalised plans and initiatives for high-potential colleagues to broaden their skill sets and experience to prepare them for future senior roles; for example, through boardroom exposure, and non-executive and trustee roles outside the business
- Senior management mentoring schemes sponsored by Board and Operating Board members

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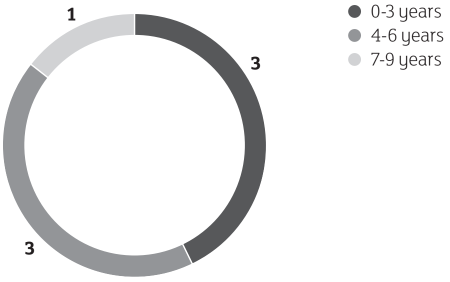
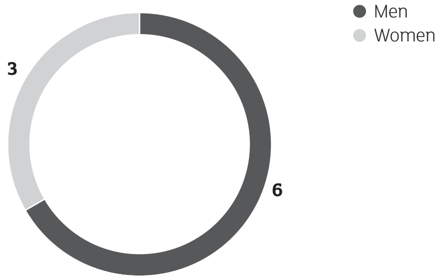
[1] The definition of 'senior management' in the UK Corporate Governance Code should be the Executive Committee or the first layer of management below Board level, including the Company Secretary. However, with such a large workforce, we believe including our top 230 senior management in the scope of our targets ensures that we are focused on improving diversity in all of our most significant leadership positions and developing our pipeline of talent. Our top 230 lead large teams and are critical role models in the organisation, playing a vital role in shaping the inclusive culture that we are working hard to create. We want all of our colleagues to see visible and diverse leaders in every part of the business.

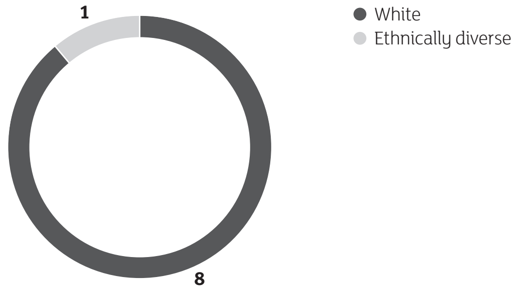
Board tenure (Non-Executive Directors and Chairman)



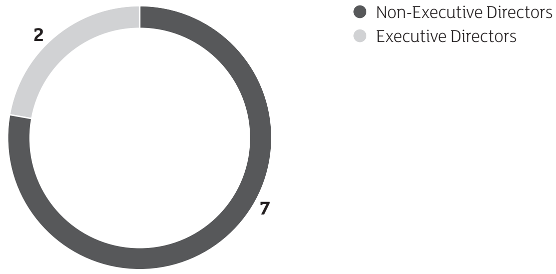
Board gender diversity



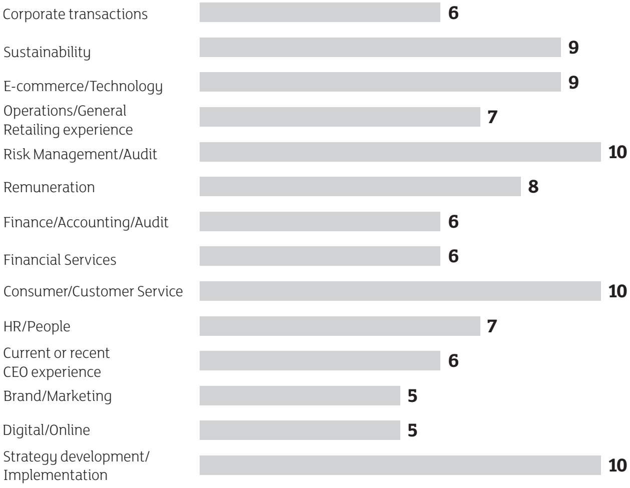
Board ethnic diversity



Board balance



Board skills matrix



Jo Bertram will join the Board on 7 July 2022, after year end, and therefore is not included in the above charts.

Corporate Responsibility and Sustainability Committee Report

Dear Shareholder

This year we launched our Plan for Better, putting environmental and social sustainability at the core of the business.

The Committee oversees the governance of Sainsbury's being a sustainable business. We continue to focus on stakeholder engagement including our customers, colleagues, suppliers and the community. We continue to listen and to engage with our stakeholders and more information about this can be found on page 24.

In my fourth year as Chair of the Committee, we continue to see great developments in our sustainability agenda, particularly with the evolution of our Net Zero by 2040 plan to our Plan for Better, a key pillar in our broader business strategy. Launching in June 2021, our Plan for Better encompasses a range of sustainability commitments across our environmental and social agenda. We were also hugely proud to be chosen as the Principal Supermarket Partner of COP26, the United Nations Climate Change Conference, giving us the opportunity to demonstrate strong industry leadership and inspire our colleagues, customers and other businesses to rally together to protect and restore our planet for the future.

COP26 took place in Glasgow for two weeks in November 2021, and as part of our involvement we hosted multiple events. These included chairing panels on a consistent approach to data and labelling and how we are helping everyone eat better in order to protect our planet and our health. We also engaged the public with our exhibition stand which focused on how we can all make small changes to our plates to reduce the impact on the planet. During COP26, we announced a number of new commitments, including accelerating our target to become Net Zero in our own operations by 2035 and becoming signatories to WWF's Retailers' Commitment for Nature, working with other retailers to halve the impact of UK shopping baskets by 2030. As part of our commitment to reduce our value chain emissions, we wrote to 400 of our key suppliers, who constitute a high proportion of our value chain emissions, requesting that they disclose their carbon emissions through the CDP or Higg platform, as well as setting their own Net Zero science-based targets. We're pleased that 87 per cent of our key food suppliers are reporting via CDP.

This year we were pleased to arrange an upskilling session for the whole Board, delivered by the Cambridge Institute for Sustainability Leadership and in June 2021 we held an Environmental, Social and Corporate Governance (ESG) event with investors. We talked with investors about our new sustainability strategy, how we're progressing against our commitments and how our plan aligns with our brand commitment: Helping everyone eat better. We have been a signatory of the Task Force on Climate-related Financial Disclosures (TCFD) since 2020 and this year have implemented its recommendations in full to strengthen our climate resilience; more information on this can be found on page 17.

The Committee is very pleased with many of the Plan for Better outcomes achieved this year – rolling out LED lighting to 100 per cent of our supermarket estate and transitioning to 100 per cent renewable electricity across the entire estate. We also implemented our partnership with Neighbourly on our food donation programme across all supermarkets, which has supported a 119 per cent increase in food redistribution for human consumption year-on-year. For more information on progress on our Plan for Better, see page 13 and visit **www.about.sainsburys.co.uk** for our standalone bi-annual Plan for Better Reports.

COVID-19 has continued to impact the business over the past year, with ongoing periods of change for our colleagues. We continue to focus on engagement with colleagues and clear communication and this year have introduced a new metric on colleague happiness, currently at 68 this year. The Committee was also highly supportive of the initiatives put in place to support the communities we serve, including our campaign to Help Brighten a Million Christmases and the launch of our Helping everyone eat better Community Grants to help tackle food insecurity. In total £38.4 million was raised for good causes this year; more information can be found on page 15.

The launch and progress of Plan for Better during the last year has occurred during a time of unprecedented challenges for the industry. Sainsbury's ambitions as reflected in its Plan for Better commitments are strategic and stretching and the Committee and I look forward to reporting on further progress in the future!

Jo Harlow
Chair, Corporate Responsibility and Sustainability Committee

Principal role and responsibilities

The Committee's principal role is to review the sustainability strategy, ensuring it is aligned with the Company's purpose, strategy, culture, vision and values. The Committee also plays a part in monitoring the business's engagement with stakeholders including customers, suppliers, the community, colleagues, shareholders and government on sustainability and corporate responsibility matters.

Attendance at scheduled Committee meetings:

Jo Harlow	3(3)	Martin Scicluna	3(3)
Simon Roberts	3(3)	Keith Weed	3(3)

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

Principal activities in the year

The Committee met three times during the year for scheduled meetings with additional meetings arranged to discuss our ESG event for investors and a session to upskill the Board, carried out by the Cambridge Institute for Sustainability Leadership. The meetings focused on our Plan for Better and stakeholder engagement – customers, colleagues, the community, suppliers and shareholders. Updates and progress against our Plan for Better were a key focus of the Committee this year as well as our Committee members' involvement in our ESG event and our role in COP26.

The Committee discussed the evolution of our sustainability strategy, building on our Net Zero by 2040 plan to provide feedback and approve our Plan for Better. As part of the new strategy, the Committee reviewed the development of the social part of our sustainability strategy, including our evolved approach to community and partnerships to focus on food insecurity and our refreshed commitments and targets on human rights. More information can be found on page 15.

At each Committee meeting, members discussed our engagement across our stakeholder groups, with deep dives of particular groups at each meeting. The Committee reviewed our engagement with suppliers and the feedback we received from suppliers via the Advantage Suppliers Survey and Groceries Code Adjudicator report. The Committee was also updated on the progress of the Supplier Relationship Management programme and how we supported suppliers during exceptional times as a result of Brexit and COVID-19. More information on suppliers can be found on page 27. The Committee also considered culture and colleague engagement, reviewing insights from colleague engagement surveys. More information can be found on page 13.

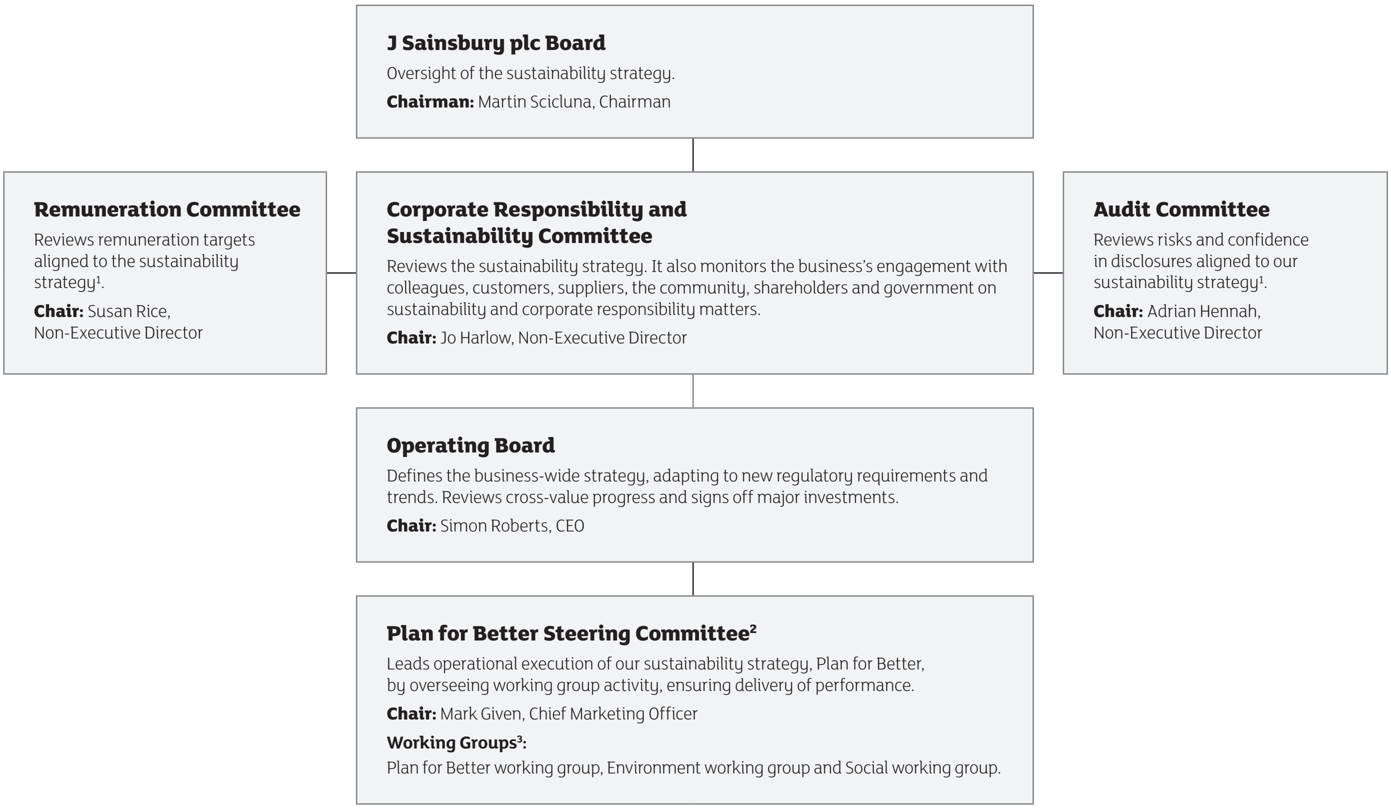
Reporting and assurance were discussed at both the CR&S Committee and the Audit Committee this year, reviewing our approach to ESG reporting and disclosures, and the level of assurance we have across our metrics. The Committee discussed our approach to the TCFD recommendations and the implementation of responsibility for climate risk and opportunities at the Board level, as well as building Board competency. The integration of climate risk analysis findings within strategic and financial decision-making were also reviewed. More information on TCFD can be found on page 17.

The Committee reviewed the steps being taken to prevent modern slavery and human trafficking in our business operations and supply chains and recommended that the Board approve our Modern Slavery Statement. Further details can be found on page 15.

For further information on our Corporate Responsibility and Sustainability agenda, please see:

- Page 13 for progress on our Plan for Better commitments
- Page 17 for our TCFD disclosure
- Page 78 for information on sustainability-linked remuneration targets
- Visit **www.about.sainsburys.co.uk** to read our Plan for Better Report

Governance



J Sainsbury plc Board
Oversight of the sustainability strategy.
Chairman: Martin Scicluna, Chairman

Remuneration Committee
Reviews remuneration targets aligned to the sustainability strategy[1].
Chair: Susan Rice, Non-Executive Director

Corporate Responsibility and Sustainability Committee
Reviews the sustainability strategy. It also monitors the business's engagement with colleagues, customers, suppliers, the community, shareholders and government on sustainability and corporate responsibility matters.
Chair: Jo Harlow, Non-Executive Director

Audit Committee
Reviews risks and confidence in disclosures aligned to our sustainability strategy[1].
Chair: Adrian Hennah, Non-Executive Director

Operating Board
Defines the business-wide strategy, adapting to new regulatory requirements and trends. Reviews cross-value progress and signs off major investments.
Chair: Simon Roberts, CEO

Plan for Better Steering Committee[2]
Leads operational execution of our sustainability strategy, Plan for Better, by overseeing working group activity, ensuring delivery of performance.
Chair: Mark Given, Chief Marketing Officer
Working Groups[3]:
Plan for Better working group, Environment working group and Social working group.

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[1] Remit of Committee in relation to the sustainability strategy. For full details on the Committees please read the Remuneration Committee Report on page 78 and the Audit Committee Report on page 73.

[2] Replaced the Net Zero Steering Committee as of June 2021. Steering Committee meets five times per year. Membership consists of Directors from across the business, with additional Director representation from Audit, Finance and Strategy attending the Committee twice a year to review Corporate Risk Updates including TCFD recommendations.

[3] Current working group structure replaced individual pillar working group structure in September 2021. Working groups meet five times per year. Our Diversity & inclusion and Skills & opportunities pillars are managed via the Human Resources Leadership Team and the Community & Partnerships pillar is managed via the Marketing and Loyalty Division.

Audit Committee Report

Dear Shareholder

I am pleased to present the Committee's report for the year ended 5 March 2022, in my first year as Chair of the Audit Committee.

I was pleased to be appointed as Chair of the Committee during the year, succeeding David Keens who retired at our 2021 Annual General Meeting. I would like to thank David for his significant contribution and leadership of the Committee over the last six years, and for the helpful support and advice he gave to me in our handover period. Brian Cassin and Keith Weed have both provided important contributions over the year. The different and complementary skills we each bring to the Committee have helped ensure robust and productive discussions with management and the external auditor. We are also well supported by our Director of Internal Audit, Risk and Resilience and the Internal Audit team; they play an important role and their work is respected throughout the business.

Key areas of focus for the Committee during the year included:

- Reviewing financial reporting, including the processes in place to ensure the Annual Report and Financial Statements are fair, balanced and understandable
- Considering the impact of COVID-19 on key accounting judgements
- Reviewing the effectiveness of external and internal audit processes and the effectiveness and appropriateness of our systems of internal controls
- Reviewing of Environmental, Social and Governance (ESG) metrics and assurance
- Reviewing the Group's data governance and information security strategy
- Reviewing audit and non-audit fees

The UK's regulatory landscape continues to evolve and, during the year, the government consulted on proposals for the extensive reform of audit and corporate reporting. While, at the time of writing, it is not yet clear what changes in regulation will materialise, the Committee and management are challenging ourselves and our external auditor on areas for potential development, as well as how we might respond to changes in regulation.

Through the annual Board evaluation process (pages 66 to 67), the Board has again confirmed the effectiveness of this Committee in its role of supporting the J Sainsbury plc Board in compliance with its duties.

Adrian Hennah
Chair, Audit Committee

Principal role and responsibilities

The primary role of the Committee is to ensure the integrity of the financial reporting and auditing processes and monitor the effectiveness of the Group's internal control and risk management systems. This includes:

- Monitoring the effectiveness of the financial statements of the Company, discussing formal announcements relating to the Company's financial performance and any significant issues and any significant judgements contained in them
- Reviewing the Group's financial statements and the material financial reporting judgements contained in them
- Advising the Board on whether the Committee believes that this Annual Report and the financial statements contained within it, when taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy
- Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional regulatory requirements
- Developing and implementing a policy on the level, amount and pre-approval of non-audit services provided by the external auditor
- Advising the Board on the appointment, reappointment and removal of the external auditor and the remuneration and terms of engagement of the external auditor
- Monitoring the effectiveness of the Group's internal control and risk management systems, including whistleblowing and fraud controls
- Reviewing the scope, activities and results of the Internal Audit function
- Reviewing the Committee's Terms of Reference, carrying out an annual performance evaluation exercise and noting the satisfactory operation of the Committee
- Reporting to the Board on how it has discharged its operations

The Committee's Terms of Reference are available on the Company's website **www.about.sainsburys.co.uk**

The Committee held four scheduled meetings in the year.

Attendance at scheduled Audit Committee meetings:

Adrian Hennah[1]	3(3)	Keith Weed	4(4)
Brian Cassin	4(4)	David Keens[2]	1(1)

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

[1] Adrian joined the Board on 1 April 2021.

[2] David Keens retired from the Board on 9 July 2021.

Committee membership

The members of the Committee are all independent Non-Executive Directors who, together, have experience and skills relevant to the retail sector. They also have extensive general business and management experience. Their biographies are on pages 54 to 57. The Board has determined that Adrian Hennah has recent and relevant financial experience.

Regular attendees at Committee meetings include the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Director of Internal Audit, Risk and Resilience, Director of Group Finance, Company Secretary and Corporate Services Director, Deputy Company Secretary, the Chief Information Officer, the Chief Information Security Officer, representatives of Sainsbury's Bank and the external auditor.

Committee activities

Financial reporting

The integrity of the financial statements and formal announcements relating to financial performance
The Committee reviewed the Annual Report, the Preliminary and Interim results, and supporting information to assist in these reviews.

Significant financial and reporting matters
The Committee reviewed items relating to pensions, going concern and viability and COVID-19-related disclosures. More information can be found in Significant financial and reporting matters on pages 76 to 77.

Treasury funding and liquidity
The Committee assessed the business's secured and unsecured borrowing facilities and their appropriateness in tenor and amount to Group requirements.

Assumptions and qualifications in support of the viability and going concern statements
The Committee assessed the financial projections over three years, which continues to be an appropriate timeframe for the Statement of Viability as approved by the Board. The key factors underpinning the projections beyond three years were reviewed. More information can be found in the Statement of Viability on page 51 and the Significant financial and reporting matters on page 76.

Assessment of whether the Annual Report is fair, balanced and understandable
One of the Committee's key roles is to advise the Board that it is satisfied that the Annual Report and Financial Statements are fair, balanced and understandable (see page 100) and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In doing so, the Committee ensures that management disclosures reflect the supporting detail, and/or challenges management to explain and justify their interpretation and, if necessary, re-present their position. The external auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. In addition, the Committee:

- Reviewed the processes and controls that underpin the Annual Report preparation including confirmation that the reporting team and senior management were fully aware of the requirements and their responsibilities
- Received a draft of the Report and provided feedback on it, highlighting any areas that required further clarity. The draft Report was amended to incorporate any feedback ahead of final approval
- Was provided with a list of the key matters included in the Annual Report, highlighting both positive and negative influences
- Reviewed and discussed the key factors considered in determining whether the Report is fair, balanced and understandable

The Committee advised the Board that the Annual Report and Financial Statements are fair, balanced and understandable, and that the Directors have provided the necessary information for our shareholders to assess the Company's prospects, business model and strategy.

Risk management and internal controls, and principal risks and uncertainties

Risk management reviews of principal risks and uncertainties, and emerging risks and opportunities, compared to corporate plans
See pages 38 to 50.

Reports from the Audit and Risk Committees of Sainsbury's Bank, including risk and compliance reporting processes
Sainsbury's Bank plc is a subsidiary of the Company, with an independent Board responsible for setting the Bank's strategy, risk appetite and annual business plan. It has an independent Chairman and five Non-Executive Directors, four of which are independent. The Bank's Chief Executive Officer and Chief Financial Officer also sit on the Bank's Board. The Bank's Chief Executive Officer, supported by the Executive Committee, is responsible for day-to-day management of the business.

The Chairs of the Bank's Audit and Risk Committees, the Chief Executive Officer and the Chief Financial Officer attended meetings of the Committee and provided updates on critical accounting judgements and estimates, important operating and regulatory matters, the impact of COVID-19, the control framework and environment, and key risks. There is communication between Sainsbury's Internal Audit function and its equivalent within the Bank. See Significant financial and reporting matters on page 76.

External audit

Scope of the external audit plan and fee proposal
The Committee reviewed EY's overall work plan and, through regular communication, advised EY of any specific matters which the Committee was considering from previous audits and current operations. The Committee approved EY's remuneration and terms of engagement.

Independence and objectivity
The independence and objectivity of the external audit function is a fundamental safeguard to the interests of the Company's shareholders. In line with regulation, the previous EY audit partner rotated off the audit at the end of the 2020/21 audit. The Committee approved the appointment of Colin Brown as the new EY partner for 2021/22 in April 2021.

Non-audit services and fees
The Committee has overseen the Company's policy which restricts the engagement of EY in relation to non-audit services. The intention is to ensure that the provision of such services does not impact on the external auditor's independence and objectivity. It identifies certain types of engagement that the external auditor shall not undertake, including internal audit and actuarial services relating to the preparation of accounting estimates for the financial statements. It requires that individual engagements above a certain fee level may only be undertaken with pre-approval from the Committee or, if urgent, from the Chair of the Committee and ratified at the subsequent meeting of the Committee. It recognises that there are some types of work where a detailed knowledge 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 that service.

The Committee received a report on the non-audit services provided. The annual aggregate of non-audit fees is capped at 70 per cent of the annual average of the audit fees for the business for the preceding three-year period.

The majority of the non-audit work undertaken by EY during 2021/22 related to services provided by EY in the capacity of reporting accountant. The total non-audit fees were £1.0 million. The audit fees for the year in respect of the Group and subsidiaries were £3.5 million. A breakdown of the fees is provided in note 9 of the consolidated financial statements on page 127.

Effectiveness of external audit
The Committee considers the effectiveness of the external auditor on an ongoing basis during the year, including its independence, objectivity, appropriate mindset and professional scepticism. The Committee has regards to the:

- Experience and expertise of the external auditor
- Quality of their direct communication with, and support to, the Committee
- Content, insights and value of their reports
- Fulfilment of the agreed external audit plan
- Robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements
- Interaction between management and the external auditor, including ensuring that management dedicates sufficient time to the audit process
- Provision of non-audit services
- Evaluation of the effectiveness of the external auditor
- Other relevant UK professional and regulatory requirements

The Committee conducted an audit effectiveness review. The review included the distribution of questionnaires to those Directors and managers in the business directly involved in the audit. The questionnaires sought feedback on their experience with the external auditor, considering areas such as the knowledge and experience of the audit team, audit strategy and planning, and the quality of communication. Management collated the responses and reported back to the Board.

As a result of the review, it was determined that EY maintained good working relationships and had demonstrated strong technical understanding, including within the Tax and Bank component teams. Opportunities for improvements in the planning process were positively discussed between EY and Sainsbury's management during the audit debrief, with steps being taken on both sides to drive further improvements to the process going forward. EY were robust in their questioning and provided good support whilst challenging management effectively. The Committee concluded that EY remained effective, objective and independent in their role as external auditor.

The Committee has confirmed compliance with the provisions of the Statutory Audit Services Order 2014.

Recommendation of the reappointment of EY as auditor
The Committee has recommended to the Board the reappointment of EY as auditor for the 2022/23 financial year. A resolution to this effect will be tabled at the 2022 AGM.

Tender of external auditor
EY was appointed as the Company's external auditor in July 2015, following a tender process. We are next required to undertake a tender in 2024 or we may do so at an earlier time as determined or required by the Company.

Internal Audit

Director of Internal Audit, Risk and Resilience
The Director of Internal Audit, Risk and Resilience reports to the Committee Chair and has direct access to all members of the Committee. The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter, which the Committee reviews annually.

Internal controls framework
Information on our internal controls framework is on page 77.

Management's responsiveness to Internal Audit's findings and recommendations
The Committee was provided with updates on Internal Audit's findings, key agreed actions and the status of all actions at each meeting.

Internal Audit Plan
The scope of the Internal Audit Plan and subsequent amendments were reviewed by the Committee.

Effectiveness of the Internal Audit function
The Committee reviewed Internal Audit resources, work programme and results. The Director of Internal Audit provides an annual overview of Internal Audit's performance to the Audit Committee, including key performance indicators and stakeholder feedback. Improvement and actions required are highlighted and used to assist in reviewing the effectiveness of Internal Audit. The Committee concluded that Internal Audit continued to be effective.

Other

Audit Committee's effectiveness
The review of the Committee's effectiveness formed part of the Board evaluation. See pages 66 and 67.

Significant issues raised through the whistleblowing process
The Committee received updates at each meeting on any significant whistleblowing matters. The Committee Chair receives earlier notification of matters that may develop into a significant incident. No issues arose that required the Committee to be updated ahead of a scheduled meeting.

All issues were escalated to the relevant manager for investigation. The availability of the Rightline whistleblowing facility was communicated across the business during the year.

Data governance and information security
Updates on the data governance and information security programme were provided during the year, including updates on strategic risks, third-party assurance, cyber security, the plan for legacy assets, access controls and security.

Ongoing material litigation
The Committee is appraised on all material litigation and potential impacts on financial reporting disclosures. These are also provided to the Board.

Compliance with the Groceries Supply Code of Practice (GSCOP)
GSCOP sets out how large retailers should manage certain aspects of their relationship with grocery suppliers. Each retailer to which it applies has to appoint a Code Compliance Officer (CCO) whose duties include hearing disputes between suppliers and the retailer. Sainsbury's has appointed the Director of Internal Audit, Risk and Resilience as its CCO.

GSCOP requires that the business delivers an annual compliance report to the Groceries Code Adjudicator (GCA), as approved by the Chairman of the Audit Committee, and a summary must be included in the Annual Report and Financial Statements. This is set out below.

Summary Annual Compliance Report
Sainsbury's GSCOP compliance framework is based on a collaborative relationship with the GCA, clear policies and procedures, mandatory training and regular monitoring and reporting of compliance. Sainsbury's also has specific internal resource who provide all relevant colleagues with day-to-day advice and guidance.

We continue to engage positively with the GCA on GSCOP matters and work collaboratively to address any concerns and improve our processes through our regular catch ups. We also proactively contact the GCA for clarification and guidance. We were pleased to be recognised by suppliers, through the GCA's 2021 annual survey, as the retailer with the highest overall compliance with GSCOP.

This year, as part of our Food First strategy, we conducted structured planning with some of our branded suppliers. To support these discussions, additional training and guidance was developed in conjunction with the Legal team to help ensure compliance with GSCOP throughout the process. Feedback from suppliers on the programme was provided by the GCA and changes were implemented to strengthen processes, communication and oversight mechanisms.

In March 2021, Sainsbury's agreed to adhere to the GCA's voluntary code on forensic auditing from 6 March 2021, alongside all other in-scope retailers. This limits the auditing of suppliers' trading accounts for monies owed to no more than the current and previous two financial years. Suppliers were notified of this change during the financial year; the commitment is reciprocal, and suppliers must agree to limit their own audit activity in return.

The challenges on global supply chains, including those for Groceries, have been widely reported during the year. Sainsbury's Buying and Supply Chain teams worked closely with suppliers to maintain supply and to minimise the impact on customers. Senior legal representatives continue to be involved in providing support and advice to the business, as well as regular communications to suppliers reminding them of their obligations and our ways of working.

Relevant policies are reviewed and updated on at least an annual basis and are made available to colleagues. This is supported by Sainsbury's GSCOP training, which is compulsory for colleagues who are part of the Buying team and for colleagues who are directly or indirectly involved in decisions that impact GSCOP. As a result, over 1,800 colleagues completed appropriate training during the year. GSCOP training is reviewed and refreshed annually. We also established clear consequences for training non-compliance.

Regular meetings are held between the CCO, Legal, Internal Audit and the Commercial Planning team to identify and assess emerging risk areas and an established compliance monitoring programme is embedded within the business. The Operating Board and Audit Committee are updated four times a year on GSCOP matters.

31 potential breaches were reported in 2021/22 (eight in 2020/21). Of the 31 potential breaches of GSCOP, three were deemed to be outside the Code and three were still in progress at the end of the financial year, although two were subsequently resolved. The increase in potential breaches was primarily driven by the supplier planning process, referenced earlier.

Of the 27 complaints that were in scope of the Code the majority were resolved within our Trading Division using standard escalation procedures with the remainder being resolved through discussions between the CCO and the supplier. None were pursued as formal disputes with the CCO or referred to the GCA for arbitration. Causes of potential breaches are reviewed to identify areas for improvement.

Significant financial reporting matters and judgements

The areas of focus and actions taken by the Committee in relation to the 2022 Annual Report are outlined below. The Committee was satisfied in each case with the accounting and disclosure in the financial statements.

Area of focus	Actions taken
Presentation of financial statements The Group uses Alternative Performance Measures (APMs) and includes additional disclosures, including reconciliations to statutory measures, see pages 203 to 207. See note 5, Profit before non-underlying items, on page 118.	The Committee considers it important to take account of both the statutory measures and the APMs when reviewing these financial statements. In particular, items excluded from underlying results were reviewed by the Committee and it is satisfied that the presentation of these items is clear, applied consistently across years and that the level of disclosure is appropriate. The net non-underlying profit this year was £124 million (2021 restated: net charge of £521 million). Excluded items are detailed on pages 118 to 121. The most significant items relate to income recognised in relation to legal disputes, and charges recognised in relation to the continuation of restructuring programmes announced during the prior year. The Committee gave particular attention to the FRC Thematic Review of APMs published during the year to ensure the Group's APMs are not presented in ways that give them greater prominence than amounts stemming from the financial statements; that specific, tailored explanations for the inclusion of individual APMs are provided; and that APMs are reconciled to the most directly reconcilable line items.
Pensions accounting The Group's balance sheet shows a pension surplus of £2,283 million, which comprises £11,693 million of assets, and £(9,410) million of liabilities. This compares to a net surplus in the prior year of £744 million. See note 37, Retirement benefit obligations, on page 178.	The Committee reviewed a summary of the actuarial assumptions used in arriving at the valuation for the defined benefit pension scheme and was satisfied that they are reasonable.
Going concern and viability Going concern and viability projections are produced bi-annually and monitored regularly, especially given the ongoing uncertainties surrounding COVID-19. See Statement of Viability on page 51.	The Committee undertook a detailed review of the financial liquidity of the business over the viability assessment period of three years, taking into account cash flows, current levels of debt and the availability of future finance. The viability assessment was discussed by the Committee in March 2022 and scenarios to be stress-tested through the business's corporate plan were agreed. The outcomes were discussed in April 2022 which included specific scenarios in relation to COVID-19.
Sainsbury's Bank reporting The Bank's impairment provisioning for customer loans is a significant risk and is subject to complex IFRS 9 accounting requirements.	The Committee receives updates on the key agenda items discussed at the Bank's Audit Committees. These include accounting judgements and estimates and important operating and regulatory matters such as liquidity, cash flows, capital adequacy and risk management processes. The accounting judgements and estimates reviewed by the Committee included impairment of loans to Bank customers. Sensitivities for impairment provisions, including potential impacts from COVID-19, are in note 30 of the accounts on page 152.
COVID-19-related disclosures The pandemic continued to affect the Group's operations throughout the year and remained an area of uncertainty at the start of the new year.	The Group's core businesses include essential retailing and financial services, sectors which have remained operational throughout the year. However, it is important to consider the impact of COVID-19 on the annual financial statements, in particular, the measurement of assets and liabilities and the ability of the business to continue as a going concern. The Committee has continued its work, debate and challenge as usual. The impact of COVID-19 on the Group, so far as it can be disaggregated, is detailed throughout the Annual Report.
Prior year restatements The prior year financial statements have been restated this year in relation to two areas: 1 Removal of business rates from onerous property contracts in line with IFRIC 21 "Levies"; 2 Notional cash pooling arrangements, for which it was concluded that presenting the cash and overdrafts on a net basis was inappropriate.	The Committee reviewed the accounting for, and disclosure of, prior year restatements in relation to business rates and notional cash pooling arrangements. See note 2 of the accounts on page 113 for further information on prior year restatements.
Impairment of non-financial assets Impairment of assets is a source of estimation uncertainty. A review for impairment triggers is performed at each reporting date by questioning if changes in the circumstances suggest the recoverable value of certain assets may be less than their carrying value. See note 17, Impairment of non-financial assets, on page 139.	The Committee review summary reports produced by management detailing the outcomes of the impairment assessment. No Group impairment triggers were identified in the year. Equally, goodwill was separately tested for impairment at the year-end as required under IAS 36, which includes goodwill recognised in relation to the acquisitions of Sainsbury's Bank, Home Retail Group and Nectar. The Committee challenged the key assumptions used in the impairment review, and whether the outputs were in line with management's overall understanding of the relevant business areas. No impairments were identified.

Internal controls framework

The internal controls framework encompasses controls relating to financial reporting, preparation of consolidated Group accounts, operations and compliance, risk management and Sainsbury's interests in joint ventures.

The Audit Committee reviews the effectiveness of internal controls on an ongoing basis and monitors any remedial action required. An overview of key elements of the control framework is set out below.

Our control environment

- The Board discusses and approves the Company's strategy, plans, objectives, budget and the risks to achieving them
- Group-wide policies covering delegations of authority, anti-bribery and corruption and key compliance requirements such as keeping information safe and HR policies set clear parameters for colleagues
- Management regularly reviews risks to achieving objectives, with mitigating controls identified and actions taken

Controls embedded in the business

- Policies, procedures and controls are embedded within business processes
- Specific teams, such as Central Retail and Technical Operations, support the design and implementation of specific controls across the business
- Training programmes are provided to support implementation and compliance with key policies, processes and controls

Monitoring and oversight

- Compliance with policies, standards and controls is monitored and evaluated in finance, accounting, treasury, information security and safety management
- The Business Performance Review forum provides oversight and approval of capital spend
- The Capital Returns forum monitors the outcome of capital spend
- Quarterly commercial reviews by Executive Directors of financial and operational performance cover all business areas
- Oversight and governance committees have delegated responsibility for monitoring key risk areas such as the Data Governance, Group Safety, Operational Resilience and Treasury Committees

Our assurance framework

- Operating Board members certify annually that the corporate risk map accurately reflects their view of key risks across the business, that they are responsible for managing risks relevant to their division and that internal controls exist to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed
- The Board and the Committee review any significant fraudulent activity and whistleblowing by colleagues, suppliers or other parties, including alleged incidents of bribery, and actions being taken to remedy any control weaknesses
- Reports from management are presented to the Operating Board and Audit Committee on how we manage material risks
- Management and the Audit Committee review the scope and results of the work of Internal Audit across the Company and of the implementation of their recommendations
- The Committee reviews the scope and results of the work of the external auditor and any significant issues arising

Annual Statement from the Remuneration Committee Chair

Dear Shareholder

This has been a year of unprecedented change. Throughout, we remained focused on delivering enhanced value for all our stakeholders: our customers, our colleagues, the communities in which we operate, and our shareholders.

You will read in this Annual Report about the issues we faced due to the ongoing COVID-19 pandemic and the fresh challenges that arose during the year as a result of the changing marketplace. I would like to thank our colleagues for their hard work and commitment that enabled us to deliver for our customers day in, day out, which has significantly contributed to our strong performance over the year.

We are one year into our three-year plan to put food back at the heart of Sainsbury's and as the economic climate changes and the cost of living keeps on rising, we are committed to supporting our customers and colleagues every way we can. It's against this backdrop that we made reward decisions during the year. As always, the Remuneration Committee seeks to take a measured and responsible approach to executive pay, considering decisions from the perspective of all our stakeholders as well as the external environment. And as a business, we are particularly focused on ensuring that colleagues throughout the organisation are recognised and fairly rewarded for the important roles that they play in our success.

Remuneration highlights

Executive pay

- Executive pay is directly linked to the Company strategy and 2021/22 outcomes are aligned to the performance delivered
- The proposed full-year dividend of 13.1 pence is the highest dividend the business has paid for five years
- The Remuneration Committee has applied downward discretion to remove £100 million of net COVID-19 benefit from both the annual bonus and the LTIP outturn
- Executive pay changes – 2022 salary increase of 3.5 per cent for both Executive Directors is below that of the broader workforce. On appointment, Simon Roberts' salary was over 10 per cent lower than the previous Chief Executive's salary, and total fixed pay 25 per cent lower. Simon waived his 2020/21 annual bonus. Kevin O'Byrne's pension will be aligned to the wider workforce by the end of this year

Colleague pay

- We are the first major supermarket to pay colleagues the Living Wage, wherever they work in the UK
- Our base rate is now £10 per hour nationally – ahead of the Living Wage of £9.90 – and our London base rate is £11.05, in line with the London Living Wage
- Sainsbury's hourly-paid retail colleague pay has increased by 25 per cent and Argos by 31 per cent over the past five years – with over £200 million invested over the last two years
- Continued enhancement of benefits including changes to colleague discount and pay while on Family Leave

Strong year of delivery for our stakeholders

Customers and community

As COVID-19 continued to impact our daily lives, we remained focused on keeping our customers and colleagues safe. We have continued to invest in price, supporting customers as the cost of living has accelerated. Last year we launched Sainsbury's Quality, Aldi Price Match which matches Aldi on popular products and we continue to run regular Price Lock campaigns to give customers certainty on the price of a broad range of everyday and essential items for at least eight weeks.

It is also important to us that we continue to support our charitable partnerships and the communities in which we operate. Over the 2021/22 financial year, we raised over £38 million for good causes across all our programmes. This year we have also worked with Comic Relief to support the humanitarian crisis in Ukraine, donating £2 million.

Colleagues

I'm really proud to be able to say that all Sainsbury's and Argos retail store colleagues can earn at least the Living Wage, regardless of where they work in the UK. As a retail business with over 171,000 colleagues, our wage bill of £3.6 billion is our largest operating cost and is 11.9 per cent of our sales, so any change to the base rate is a material investment decision, but we know that paying our colleagues fairly is not only the right thing to do but also drives business performance.

In recent years, we have invested significantly in retail colleague pay – Sainsbury's base rates have increased by 25 per cent over the last five years and Argos by 31 per cent and we have removed age-related pay. Last year we invested over £100 million improving the base rate and making three Thank You payments to recognise the efforts of our colleagues during the pandemic. And this year we will make another over £100 million investment in hourly-paid retail colleagues. Our base rate is now £10 per hour nationally – ahead of the Living Wage of £9.90 – and our London base rate is £11.05, in line with the London Living Wage.

Over the year we made some other changes to further support our colleagues, including improving pay under our Family Leave policy and enhancing our colleague discount benefit – the year-round discount of 10 per cent now increases to 15 per cent for five days around every pay day. This certainty regarding periods of higher discount enables colleagues to plan and budget and has been warmly welcomed by colleagues. These are just part of the comprehensive benefits package offered to all colleagues.

Shareholders

The Remuneration Committee, as always, has made its remuneration decisions with reference to the experience of shareholders.

We delivered a strong set of results for the year, with underlying profit before tax rising by 24.6 per cent to £730 million against 2019/20 and retail free cash flow rising to £503 million. The proposed full-year dividend of 13.1 pence adds to the robust total dividends delivered to shareholders over the course of the pandemic and is the highest dividend the business has paid for five years. However, for the reasons outlined below, the Committee decided to make a downward adjustment to financial metrics for remuneration purposes.

Continued focus on sustainability

2021/22 was another important year in our long-term objective to be Net Zero by 2035. Our Plan for Better sets out our sustainability goals across our whole business, outlining our priority areas of focus, our key commitments and our progress.

In recognition of the importance of these objectives, last year we included a number of Plan for Better measures in the senior executive long-term incentive plan, and similar measures are included this year. As a Committee, we recognise that this is an area of evolving practice and we will continue to monitor how these metrics influence behaviours and outcomes to ensure that they are operating as intended and delivering results in line with our strategy.

Executive remuneration in 2021/22

As in prior years the Remuneration Committee has sought to take a measured and rounded approach to performance assessment when determining incentive outcomes to ensure that they are fair and proportionate.

For the bonus in respect of 2020/21, the Committee exercised discretion to adjust the outcome under the profit element of the bonus to partially exclude certain exceptional, non revenue-generating COVID-19 costs. This adjustment was made to better reflect the underlying performance of the business and the shareholder experience.

For the 2021/22 bonus the Committee once again reviewed both actual performance and the context for delivery. The underlying profit reflects an extremely strong result, especially when considered alongside the strategic progress made in the year. However, there was also a recognition that, in contrast to last year, the pandemic had resulted in an unbudgeted net-positive impact on performance, primarily due to sustained higher food consumption in the home. This net benefit was estimated to be £100 million after adjusting for COVID-19 costs.

After a detailed review, the Committee determined that it would use its discretion to adjust both the short and long-term incentive outcomes to reflect this £100 million benefit. This approach has been adopted notwithstanding the fact that the proposed shareholder dividend is based on the full, non-adjusted profit outcome of £730 million.

The Committee is satisfied that the total remuneration received by Executive Directors in respect of 2021/22 is a reasonable reflection of performance over the period, taking into account both the current unusual market conditions and the positive progress that has already been made against our strategic plan.

Annual bonus

Profit accounts for 50 per cent of the overall bonus, with 20 per cent based on retail free cash flow and 30 per cent based on a strategic scorecard. On a formulaic basis, the profit element and the retail free cash flow element would both have paid out at 100 per cent. As a result of the £100 million adjustment noted above, the outcome under the profit element is reduced to 80 per cent whilst the retail free cash flow element remains at 100 per cent, reflecting the strong cash generation over the period.

The 30 per cent of the bonus based on a strategic scorecard is made up of customer metrics, colleague metrics and individual strategic objectives. The Committee considered a number of data points when reviewing performance, including the growth in customer satisfaction scores in Sainsbury's and Argos, our colleague engagement score and improvements in gender and ethnicity representation. The Committee has determined that both the customer element and the colleague element should pay out at 9 per cent each (out of a possible 10 per cent).

Under Simon Roberts' leadership, the Company has made sound progress against the Win in Food strategy and, one year into our three-year plan, we are on track to meet all eight of our financial and operational targets. The Committee reviewed Simon's and Kevin's performance against their individual strategic objectives and determined they had both delivered their objectives and exceeded expectations. Therefore, the Committee agreed a pay out of 9 per cent (out of a possible 10 per cent) for both Executive Directors.

This results in an overall bonus of 87 per cent of the maximum for both Simon and Kevin. As Simon waived his entitlement to a bonus for 2020/21, it is difficult to make year-on-year comparisons.

2019 Future Builder

As with the 2018 Future Builder scheme, the impact of COVID-19 could not be anticipated at the point that the 2019 Future Builder targets were set. On a formulaic basis, the vesting multiplier would have been 3.3 (out of a maximum of 4.0) or 82.5 per cent of maximum, reflecting strong EPS, retail free cash flow and ROCE and outperformance of cost savings targets. Consistent with the approach taken for the bonus, the results under the EPS, ROCE and retail free cash flow elements were adjusted downwards by £100 million, to reflect the pandemic-related benefit described above.

This resulted in a significant reduction in the EPS element as well as a reduced ROCE outturn. Maximum vesting was achieved on retail free cash flow and cost savings. Overall the result is a reduced performance multiplier of 2.8 (out of a maximum of 4.0), meaning this award vests at 70 per cent of the maximum.

2022/23 Remuneration

Both Executive Directors will receive a 3.5 per cent salary increase in 2022. This is below the increase of at least 5.3 per cent that hourly-paid retail colleagues received and in line with the increase for other senior management roles. Kevin O'Byrne's pension will reduce again this year and it will be fully aligned to the colleague rate of 7.5 per cent of salary by the end of the 2022 calendar year. Simon Roberts' pension was set at 7.5 per cent on his appointment. As previously disclosed, on appointment Simon Roberts' salary was over 10 per cent lower than previous Chief Executive's salary, and total fixed pay 25 per cent lower. He also waived his 2020/21 annual bonus.

Last year, we introduced the 2021 Win in Food incentive plan which linked long-term remuneration to the eight metrics used to track the successful execution of the strategy communicated in November 2020. For Executive Directors, 80 per cent is based on the four key financial measures (retail free cash flow, ROCE, EPS and cost savings) and the remaining 20 per cent is subject to key strategic indicators (market share, customer, colleague and Plan for Better). These metrics will once again be utilised for long-term share awards in 2022. The Committee reviewed the performance targets and made some changes to ensure the targets remain appropriately stretching.

For 2022/23, the Chief Executive Officer will be granted a long-term share award of 250 per cent of salary and the Chief Financial Officer 225 per cent, in line with the current shareholder-approved Remuneration Policy.

Pay across Sainsbury's

The Remuneration Committee considers wider colleague reward when determining pay arrangements for the Executive Directors and this remains a fundamental part of our approach to pay.

During the year, the Committee reviewed the Group's Ethnicity and Gender Pay Gap Report and were pleased to see an improvement in the gaps. To ensure sustained improvement, the Company has set stretching representation targets and these form part of our long-term incentives for senior executives. Further details can be found on page 83 of this report and also on our website.

AGM and Remuneration Policy

While the resolution on the Directors' Remuneration Report received the support of the significant majority of our shareholders at the 2021 AGM, the Remuneration Committee noted that a minority were unsupportive. Investor concerns primarily related to the bonus outcomes for 2020/21. The Committee did consult with major investors last year prior to determining the 2020/21 incentive outcomes, and the decisions were only taken once there was sufficient comfort that the majority of those consulted were supportive of the approach.

Shareholder views were again carefully considered when the Committee determined the incentive outcomes for the 2021/22 financial year, in particular the adjustment made for the net COVID-19 benefit. Over many years, the Committee has been keen to understand and take on board the views of our shareholders before making significant decisions on pay. The Committee intends to continue its dialogue with shareholders now and in the future years.

Our Remuneration Policy was approved at the 2020 AGM and will be due for renewal at the 2023 AGM. We will be reviewing our policy during the coming year and appropriately consulting with shareholders on any changes.

Susan Rice

Dame Susan Rice
Chair, Remuneration Committee

The Committee held four scheduled meetings within the year, together with a number of unscheduled meetings. Attendance of Directors at scheduled Remuneration Committee meetings:

Susan Rice	4(4)	Jo Harlow	4(4)
Tanuj Kapilashrami	4(4)		

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

Principal role and responsibilities

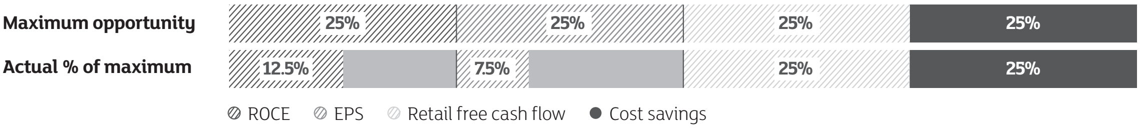
- Determining and agreeing with the Board the Remuneration Policy for the Chairman, Executive Directors and the Operating Board Directors
- Setting individual remuneration arrangements for the Chairman, Executive Directors and Operating Board Directors
- Reviewing and noting the pay and benefits applying to colleagues across the Company and taking these into account when determining executive pay
- Approving the service agreements of each Executive Director, including termination arrangements
- Considering the achievement of the performance conditions under annual and long-term incentive arrangements

The Committee's Terms of Reference are available on the Company's website **www.about.sainsburys.co.uk**.

Summary of 2021/22 remuneration decisions

Pay element	2021/22 decisions
Salary No salary increases for Executive Directors	— Simon Roberts – £875,000 and Kevin O'Byrne – £657,403 — No salary increase was awarded to Executive Directors in March 2021 in line with other management and central colleagues
Annual bonus Award of 87 per cent of maximum	— The 2021/22 bonus outturn was 87 per cent of the maximum for Simon Roberts and Kevin O'Byrne — The Committee exercised negative discretion to adjust the financial results to exclude the unbudgeted net-positive impact of COVID-19, which was estimated to be £100 million. The profit element paid out at 40 per cent (out of 50 per cent). Without this adjustment, the profit element would have paid out at 50 per cent (out of 50 per cent) — As a result of excellent cash management during the year, the retail free cash flow element paid out at the maximum, 20 per cent (out of 20 per cent), despite the downward adjustment — The Committee determined an outturn of 9 percent for each of the customer metrics and colleague metrics (each out of 10 per cent). Simon Roberts' and Kevin O'Byrne's individual annual objectives paid out at 9 per cent (out of 10 per cent), resulting in an overall strategic scorecard outturn of 27 per cent (out of 30 per cent) — Further details of the bonus measures and outturn can be found on pages 84 and 85

Pay element	2021/22 decisions
LTIP/Future Builder Vesting at 70 per cent of maximum	— Consistent with the approach for the annual bonus, the Committee exercised negative discretion which reduced the EPS, ROCE and retail free cash flow elements by £100 million to reflect the pandemic related benefit described above — The overall impact of the adjustment was to reduce the formulaic vesting from 82.5% to 70% of maximum — Further detail on the outcomes is set out on page 85



Total remuneration for 2021/22

When considering year-on-year comparisons for Simon Roberts, it should be noted that the 2020/21 figures do not represent full-year remuneration (as he was appointed during the year) and he waived his bonus. On a full-time equivalent basis, had he not waived his bonus, his single figure for 2020/21 would have been £2,898k – see page 84 for further details

		Simon Roberts[1] £000		Kevin O'Byrne[2] £000	
		2021/22	2020/21	**2021/22**	2020/21
Fixed pay	Salary	**875**	673	**657**	657
	Benefits	**24**	13	**23**	17
	Pension	**66**	50	**131**	148
Performance-related pay	Annual bonus	**1,675**	0	**1,029**	828
	LTIP/Future Builder	**1,147**	589	**1,327**	682
Total pay		**3,787**	1,325	**3,167**	2,332

[1] Simon Roberts was appointed to the Board on 1 June 2020.

[2] Kevin O'Byrne volunteered to take the whole of his 2020/21 annual bonus in deferred shares which vest after two years to further align his interests with those of shareholders.

Summary of remuneration for 2022/23

Pay element	Approach for 2022/23
Salary 3.5 per cent increase for Executive Directors (below that of colleagues)	— Executive Directors received a 3.5 per cent salary increase for 2022/23, below the at least 5.3 per cent for hourly-paid retail colleagues but in line with the pay review for senior management — As a result of a change to the pay review and bonus payment dates for all management colleagues, the salary effective date for Executive Directors has moved from the start of the financial year to 29 May 2022. Executive Director salaries effective from this date: — Simon Roberts – £905,625 — Kevin O'Byrne – £680,412
Benefits No changes	— No changes to current arrangements
Retirement benefits Chief Executive Officer aligned with wider workforce. Chief Financial Officer aligned by end of 2022	— Salary supplement in lieu of pension for new hires, including Simon Roberts, is aligned with the rate available to the majority of colleagues. This is currently 7.5 per cent of salary — As disclosed previously, the rate for Kevin O'Byrne will be reduced from 25 per cent to 7.5 per cent of salary over time. For 2022/23 it has reduced from 20 per cent to 17.5 per cent of salary until the end of the 2022 calendar year, when it will reduce to 7.5 per cent
Annual bonus No changes	— Performance is based on profit (50 per cent), retail free cash flow (20 per cent) and strategic scorecard (30 per cent) — Bonus paid 50 per cent in cash after the year-end and 50 per cent deferred into shares for two years — Maximum opportunity of up to 250 per cent of salary per annum — The maximum award for 2022/23 is: — Simon Roberts – 220 per cent of salary — Kevin O'Byrne – 180 per cent of salary
LTIP: 2022 Leaders Share Award No changes	— Awards are subject to a three-year performance period followed by a two-year retention period — Maximum award of up to 250 per cent of salary per annum — Awards are structured as core awards, with a performance multiplier of up to four times. The 2022 maximum awards are: — Simon Roberts – core award of 62.5 per cent of salary (max 250 per cent) — Kevin O'Byrne – core award of 56.25 per cent of salary (max 225 per cent) — The performance metrics and weightings remain unchanged from 2021 and are fully aligned to our Win in Food strategy — The Committee has increased the cumulative retail free cash flow targets for 2022 compared to 2021

Measure	Weighting	Threshold target 1.0 x award	Maximum target 4.0 x award
Cumulative retail free cash flow[1]	20%	£1,250m	£1,650m
ROCE[1]	20%	6.75%	9.75%
Underlying basic EPS[1]	20%	19.8p	26.5p
Cost reduction[2]	20%	80bps improvement	280bps improvement
Strategic indicators	20%	Based on market share, customer, colleague and Plan for Better. Further details set out on pages 87 and 88	

[1] These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 203 to 207.
[2] Improvement on 2019/20 results, due to COVID-19 impact on 2020/21 and 2021/22.

Shareholding guidelines No changes	— The Executive Directors are required to build a significant shareholding in the Company. For the Chief Executive Officer this is three times salary, and for the Chief Financial Officer this is two times salary — Post-employment shareholding guidelines were introduced following the 2020 AGM. Executives are required to hold shares equivalent to their in-employment shareholding guideline for two years post departure. This requirement applies only to shares acquired from Company incentive plans
Recovery provisions No changes	— The Executive Directors' incentive arrangements are subject to malus and clawback

Remuneration in context

Our reward objectives

Our objective is to have a fair, equitable and competitive total reward package that encourages colleagues to serve and help every customer, drives profitable sales and provides opportunities for colleagues to share in Sainsbury's success.

Executive remuneration principles

The above reward objective applies to our senior executive population as well. In addition, the Committee believes it is important that a significant portion of the Executive Directors' package is performance-related, delivered in shares and that the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and long-term shareholder value.

The Remuneration Policy for our senior executives is therefore based on the following principles:

Linked to our business strategy

Aligned to our values and culture

Encourages the right behaviours to deliver long-term growth

Secures high calibre leaders

Enables share ownership

Linking executive pay to our business strategy

The Committee carefully considers the performance metrics incorporated into the annual bonus and long-term incentive plan to ensure they support our strategic priorities. The annual bonus is linked to key financial and individual strategic objectives, while the long-term incentive plan rewards for delivery against our key strategic objectives and therefore includes all eight of the key performance metrics that we use to track our success. The achievement of these metrics supports long-term sustainable performance and value creation for our shareholders.

Key considerations

When reviewing the Remuneration Policy for Executive Directors and determining the approach to pay, in line with the Code, the Committee gives consideration to the following:

- **Simplicity and transparency:** The Remuneration Policy has been designed to incentivise senior executives to achieve clearly defined financial, operational and strategic objectives. The Committee reviews performance metrics and targets each year to ensure that they continue to be clear and aligned to the delivery of the strategy. The changes we introduced for the 2021 Win in Food incentive plan demonstrate this
- **Alignment to our purpose, values and culture:** Sainsbury's has a clear purpose and strong value set resulting in a unique culture which plays an essential role in achieving our strategy. Our culture is underpinned by our Purpose (our core reason for being); our Valued Behaviours (what we want from our people); and being a Great Place to Work (encouraging colleagues to want to be their best). The Committee ensures our pay practices drive the right behaviours in line with our values and culture
- **Risk mitigation:** The Committee reviews and sets performance targets each year to ensure that they drive the right behaviours and are appropriately stretching without encouraging unnecessary risks. Under the annual bonus and LTIP the Committee has the ability to adjust incentive outcomes to ensure that they are reflective of the underlying financial and non-financial performance of the participants and the Company. The Committee believes that this discretion is an important feature and mitigates the risk of unwarranted vesting outcomes. In addition, in the event that certain risk events come to light the Committee may operate recovery provisions on all incentive awards. This has been demonstrated by the Committee over the last two years
- **Potential outcomes:** When setting, and subsequently implementing, the policy for senior executives, the Committee considers our business goals, the retail market and competitors, the potential and actual outcome and cost to the Company, stakeholder views and best practice. The Committee believes it is important to exercise sound judgement at all stages during the process to ensure that executive pay levels appropriately reflect performance and are aligned with the interests of shareholders

Fair pay for colleagues

When considering remuneration arrangements for Executive Directors, the Committee reviews the pay and conditions of colleagues at all levels throughout the Company and takes these into account. The Committee receives regular updates regarding any major changes to the pay and benefits of colleagues and has been kept informed of all pay decisions relating to treatment of colleagues during the COVID-19 pandemic, along with the incentives that were introduced for drivers in both supermarkets and distribution centres. The Committee also reviews information on internal measures, including details of our ethnicity and gender pay gap and the ratio of Chief Executive Officer remuneration to the remuneration of our colleagues, and considers how these compare externally.

Sainsbury's employs over 171,000 colleagues who work hard to deliver for our customers. The Committee recognises that our colleagues are the cornerstone of our business and essential to the overall success of our plans. The remuneration objectives for our colleagues follow the same principles as the policy for the Executive Directors. Pay and benefits reflect the nature and contribution of the role and take into account levels of pay in comparable roles in the market.

Reward and benefits

- All colleagues are entitled to base salary, pension and a range of benefits
- Managers participate in annual bonus plans which are aligned under a common set of principles
- Senior executives also participate in our Long-Term Incentive Plan
- We offer colleague discount in Sainsbury's, Argos and Habitat and during 2021/22 colleagues saved over £55 million – around £300 on average. In 2021/22, we improved colleague discount, increasing the year-round discount of 10 per cent to 15 per cent for five days around pay day
- During the year, we improved our Family Leave policies to provide enhanced support to our colleagues

Recognition, development and wellbeing

- Throughout the pandemic, we have protected, supported and recognised our colleagues
- Being a place where colleagues love to work is really important to us and we recognise colleagues who go the extra mile and bring our values to life through LOVE, our colleague recognition scheme. During 2021/22 we issued over 342,000 instant rewards and 11,000 exceptional performance awards to colleagues, along with appreciation gifts. This equates to a cash value of over £6 million
- The Company provides support for mental and physical wellbeing through a variety of mechanisms and we have an Employee Assistance Programme. During the year we also launched guidance on dealing with the menopause for both line managers and colleagues
- We want to support colleagues in their career goals and operate a number of development programmes including one designed to support retail colleagues looking to move into front line management and leadership roles

Pensions and life assurance

- Participation in a pension plan is offered to all colleagues on a contributory basis, with the Company contribution varying by grade
- Hourly-paid store colleagues are offered a matching scheme up to 7.5 per cent of salary
- We have c. 115,000 colleagues in our pension plans
- Colleagues in our pension plan also receive six times life assurance (one times if not in a pension or in an auto-enrolled scheme)

Share ownership

- All colleagues have the opportunity to become shareholders in the Company through our all-employee share plans
- Around 26,000 colleagues participate in our Sharesave plans, representing an uptake rate of 17 per cent
- Colleagues can also participate in Sainsbury's Share Purchase Plan (SSPP), which is our name for the partnership element of the Share Incentive Plan

Ethnicity and gender pay

- Our colleagues are paid according to their role not their gender or ethnicity
- The ethnicity pay gap shows the difference in the average hourly rate of pay of ethnically diverse colleagues compared to that of white colleagues. Our 2021 mean ethnicity pay gap is -0.9 per cent (down from 0.4 per cent) and our median ethnicity pay gap is -2.8 per cent (up from -3.1 per cent). Location plays a key part in explaining the gap, as nearly 40 per cent of our ethnically diverse colleagues work in our London stores earning a location premium
- Our 2021 mean gender pay gap continued to improve year-on-year to 8.5 per cent (down from 9.7 per cent), as female representation at higher grades has improved. Our median gender pay gap has also reduced to 4.7 per cent (down from 5 per cent). Like a lot of companies our gap is caused by the fact that we have more men than women in our most senior roles, more women than men in our hourly-paid roles, and more men in hourly-paid specialist roles that attract premiums, such as online delivery drivers
- The Board is committed to improving gender and ethnically diverse representation. Our aim is to have 50 per cent of our Operating Board and 50 per cent of our Directors and Senior Managers to be women. At the year-end, these figures were both 40 per cent. Ethnically diverse colleagues make up only 8.2 per cent of our senior leadership population and we have much more work to do to reach our target of 12 per cent by 2024

CEO pay ratios

- Our CEO pay ratio of 183:1 reflects the size and make up of our colleague base. The ratio has increased compared to the 2020/21 ratio, primarily due to the fact that our CEO, Simon Roberts, waived his entitlement to an annual bonus for 2020/21 and the 2019 Future Builder has vested at a higher level than the previous year
- The 25th, 50th and 75th percentiles ranked by total remuneration are all store-based hourly-paid colleagues

Colleague engagement

- The Board recognises the important role our colleagues play in the success of Sainsbury's. It takes colleague engagement and the views of colleagues seriously. We communicate regularly with colleagues to provide information about our strategy, our performance and on operational matters as well as asking for feedback on how colleagues are feeling. Further details are set out on pages 13 and 25 of the Annual Report
- Our Great Place to Work groups operate at store level rolling up to a national group (which is our Workforce Advisory Panel), which meets with Board members on a regular basis to discuss current issues. Whilst we do not formally consult with colleagues on the setting of the Executive Director Remuneration Policy, we have used these discussion groups for Non-Executive Directors to engage with colleagues directly on executive remuneration to give them the opportunity to share their views and opinions. The last listening session covering executive pay was held in May 2021 and the next one is in July 2022
- Colleagues are able to become shareholders in the Company and can comment on the policy in the same way as other shareholders

Annual Report on Remuneration

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

When considering year-on-year comparisons for Simon Roberts, it should be noted that the 2020/21 figures do not represent full-year remuneration (as he was appointed during the year) and he waived his bonus. On a more consistent like-for-like basis his 2020/21 remuneration would have been £2,898k (assuming full-year salary, benefits, pension and full-year 2020/21 bonus; we have still included his actual LTIP vesting even though the grant value relates to being an Operating Board Director and not Chief Executive Officer).

The 2021/22 total pay figure includes share price appreciation within the LTIP value. Over the relevant period the share price has increased by 27 per cent, aligning remuneration with the shareholder experience.

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 5 March 2022, together with comparative figures for the 52 weeks to 6 March 2021.

		Simon Roberts[4] £000		Kevin O'Byrne £000	
	Notes	**2021/22**	2020/21	**2021/22**	2020/21
Base salary		**875**	673	**657**	657
Benefits	1	**24**	13	**23**	17
Pension		**66**	50	**131**	148
Total fixed pay		**965**	736	**811**	822
Annual bonus	2	**1,675**	0	**1,029**	828
LTIP/Future Builder	3	**1,147**	589	**1,327**	682
Total variable pay		**2,822**	589	**2,356**	1,510
Total		**3,787**	1,325	**3,167**	2,332

1 Benefits include a combination of cash and non-cash benefits, valued at the taxable value. For all Executive Directors, this includes a cash car allowance (£15,250) and private medical cover. In 2021/22, on a one-off basis in line with the approach taken for all colleagues in that year, both Simon Roberts and Kevin O'Byrne received a payment for two days of holiday which could not be taken in the previous year due to the demands of COVID-19.

2 Annual bonus relates to performance during the financial year, paid in June following the relevant year-end. Normally 50% is paid in cash and 50% in bonus shares which vest after two years. Kevin O'Byrne volunteered to take the whole of his 2020/21 annual bonus in bonus shares which vest after two years to further align his interests with those of shareholders.

3 The Long-Term Incentive Plan value relates to the Future Builder award vesting in April/May following the end of the relevant financial year, which is the third year of the performance period. The awards are then subject to an additional two-year retention period for Executive Directors. This two-year retention period will not apply to Simon Roberts' 2018 or 2019 award as he was an Operating Board Director at the time of grant. The figures include accrued dividend equivalent shares over the performance period. The 2020/21 LTIP figure has also been updated from the fourth quarter average share price to the actual share price on the vesting date of 29 April 2021 (£2.354). The 2021/22 values are based on the average share price over the fourth quarter for 2021/22 of £2.790. The values shown above reflect the share price growth since grant of: +£214k for Simon Roberts and +£247k for Kevin O'Byrne.

4 Simon Roberts' total remuneration for 2020/21 was based on the period since his appointment as Chief Executive Officer on 1 June 2020. Simon waived his full-year bonus for 2020/21. The 2020/21 Future Builder value shown relates to an award granted in May 2018 in respect of Simon's previous role when he was an Operating Board Director. For transparency the full value of the award is shown. The 2021/22 Future Builder value shown relates to an award granted in May 2019 in respect of his previous role when he was an Operating Board Director.

Base salary (audited information)

	Salary effective from 7 March 2021
Simon Roberts	£875,000
Kevin O'Byrne	£657,403

Pension

Since his appointment as Chief Executive Officer, in lieu of pension plan participation, Simon Roberts has received 7.5 per cent of salary, which is in line with the majority of the wider workforce. For 2021/22, Kevin O'Byrne received 20 per cent of salary in lieu of pension plan participation. As detailed elsewhere in this report, his pension will reduce during 2022/23 to align with the workforce.

Benefits

For 2021/22, benefits for Executive Directors included the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount.

Annual bonus for 2021/22 (audited information)

For 2021/22 the maximum annual bonus award opportunity for the Chief Executive Officer was 220 per cent of base salary and for the Chief Financial Officer the maximum opportunity was 180 per cent of base salary. Normally 50 per cent of any bonus is paid in cash and 50 per cent is paid in shares which are deferred for two years.

The performance measures for 2021/22 were profit (50 per cent), retail free cash flow (20 per cent) strategic scorecard (30 per cent comprising colleague, customer and individual each being 10 per cent).

After the end of the financial year the Remuneration Committee undertook a review of performance to determine annual bonus outcomes for Simon Roberts and Kevin O'Byrne. As detailed below, the Committee identified that a bonus was payable to the Executive Directors. As in prior years the Remuneration Committee has sought to take a measured and rounded approach to performance assessment when determining incentive outcomes to ensure that they are fair and proportionate.

For 2021/22 the Committee identified that the COVID-19 pandemic had resulted in an unbudgeted net-positive impact on performance, primarily due to sustained higher food consumption in the home. The net benefit was estimated to be £100 million. After a detailed review the Committee determined to reduce the financial results to remove the positive impact. The following table summarises the final outcomes for the Executive Directors after this application of discretion.

	Outcome (% of overall max)	Simon Roberts £000	Kevin O'Byrne £000
Profit	40%	770	473
Retail free cash flow	20%	385	237
Strategic scorecard	27%	520	319
Total	**87%**	**1,675**	**1,029**

Profit performance

The table below sets out the threshold and stretch profit targets and the actual profit outcome after the adjustment explained in the Remuneration Committee Chair's letter.

	Threshold £m	Stretch £m	Adjusted Outcome £m
Profit[1]	550	650	630

1 Underlying profit before tax reduced from £730m to £630m for bonus purposes. This measure is defined in the Alternative Performance Measures section of the Annual Report on pages 203 to 207.

Retail free cash flow

The table below sets out the threshold and stretch retail free cash flow targets and the actual outcome, after the adjustment explained in the Remuneration Committee Chair's letter.

	Threshold £m	Stretch £m	Adjusted Outcome £m
Retail free cash flow[1]	130	190	403

[1] Reduced from £503m to £403m for bonus purposes. These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 203 to 207.

Strategic scorecard

The strategic scorecard (30 per cent of the overall bonus) consists of customer, colleague and individual objectives, equally weighted.

The table below sets out a summary of the achievements of the Executive Directors in relation to these objectives as assessed by the Remuneration Committee. The Committee has determined an award of 27 per cent out of a possible 30 per cent for both Executive Directors.

Shared objectives			Outturn
Customer	Championed customer service in Sainsbury's and Argos. The customer satisfaction score for Sainsbury's improved by more than the target of 200bps vs 2019/20 baseline and the score for Argos improved by more than the target of 100 bps vs 2020/21 baseline		9% (out of 10%)
Colleague	Increased overall colleague engagement score by 200bps and made positive progress in inclusion scores in the three We're Listening surveys that colleagues participated in during the year Improved gender and ethnically diverse representation at senior levels. See page 14 for further details		9% (out of 10%)
	Simon Roberts	Kevin O'Byrne	
Director-specific	Sainsbury's grew market share ahead of the other Big 4 grocers Year-on-year improvement in value compared to competitors Exceeded cost savings target	Delivered strong results through the Finance Transformation programme Achieved significant cost savings, exceeding target, despite delays due to COVID-19 related supply chain and retail challenges Good control of capital expenditure in line with plan	Simon Roberts: 9% (out of 10%) Kevin O'Byrne: 9% (out of 10%)
	Completed a thorough review of the Financial Services business and concluded that it was in the best interests of shareholders to retain Sainsbury's Bank		

2019 Future Builder (2019/20 to 2021/22 performance period) (audited information)

The 2019 Long-Term Incentive Plan is known as Future Builder. Around 230 senior managers across the business participated in this arrangement. Awards are granted under the Long-Term Incentive Plan approved by shareholders in 2016. 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 on performance against specific targets tested at the end of a three-year performance period. The core awards can grow up to four times at stretch levels of performance. For Executive Directors, any vested award is subject to a two-year retention period.

The 2019 Future Builder award was subject to ROCE, EPS, retail free cash flow and cost savings targets. In addition, a performance gateway had to be achieved before any element could vest. Consistent with the approach adopted for the 2018 Future Builder and as disclosed in last year's Directors' Remuneration Report, the ROCE and EPS targets have been re-stated on a like-for-like basis to reflect the adoption of the new accounting standard, IFRS 16. The Committee is comfortable that the re-stated target ranges are comparable to the original target ranges set on the basis of the previous accounting rules.

As outlined in the Remuneration Committee Chair's letter, a number of factors were considered when determining the vesting outturn. The Committee determined that it was appropriate to adjust the outturns downwards to reflect the estimated £100 million net-positive impact of COVID-19, in line with the approach taken for bonus. Without this downward adjustment, the vesting outturn would have been a multiplier of 3.3 out of 4.0 (82.5 per cent of maximum). As a result of this negative adjustment the ROCE and EPS outturns decrease, while the retail free cash flow and cost savings targets are met in full resulting in a performance multiplier of 2.8 out of 4.0 (70 per cent of the maximum). The Committee reviewed the outcome of the awards in the context of the Company's performance this year and determined that this was an appropriate outcome.

The table below sets out the extent to which each performance measure was achieved.

	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)	Formulaic outcome	Adjusted outcome	Multiplier achieved (out of a maximum 4.0x)
ROCE[1]	25%	6.75%	9.75%	8.4%	7.6%	0.5x
Underlying basic EPS[1]	25%	21.5p	28.5p	25.4p	21.9p	0.3x
Cumulative retail free cash flow[1]	25%	£900m	£1,400m	£1,759m	£1,659m	1.0x
Cumulative strategic cost savings	25%	£600m	£750m	£1,188m	£1,188m	1.0x
Performance gateway	The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting				Achieved	
				Total	**2.8x out of a maximum of 4.0x**	

[1] These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 203 to 207.

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.

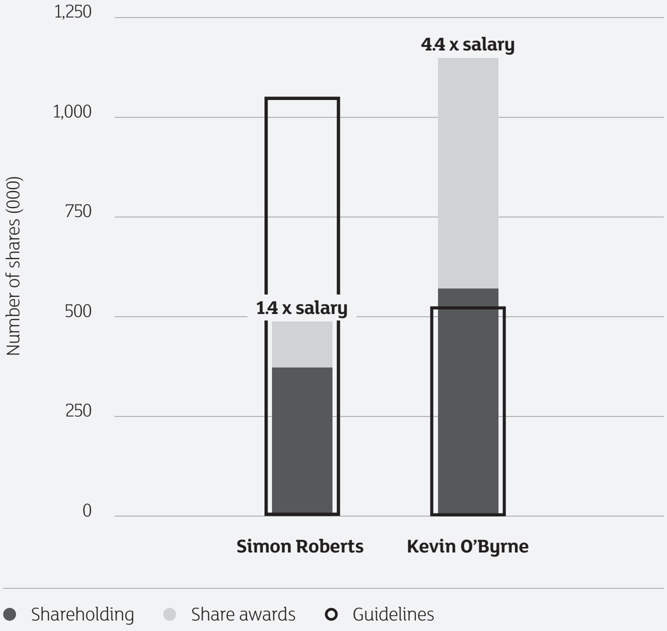
The guidelines in the 2020 Directors' Remuneration Policy require the Chief Executive Officer to have a holding of three times salary and other Executive Directors to hold shares with a value of two times salary.

Executive Directors are required to hold all vested share awards (net of tax) until the guideline has been met. In addition to shares held, Bonus Share Awards (and previously granted Deferred Share Award) and LTIP awards where the performance period has ended count towards the guideline (on a net of tax basis).

Simon Roberts currently holds 1.4x salary following his appointment as Chief Executive Officer in 2020. Kevin O'Byrne was appointed to the Board in January 2017 and has now met the shareholding requirement.

Post-departure, Executive Directors will be expected to maintain a shareholding equal to their guideline (or actual shareholding if lower) for two years post-employment irrespective of the reason for leaving. This requirement will apply to shares acquired from Company incentive plans.

Shareholding guidelines



Remuneration in 2022/23

Base salary

When considering salaries the Committee takes account of a number of factors, with particular focus on the general level of salary increases awarded throughout the Company. Where relevant, the Committee also considers external market data on salary and total remuneration but the Committee applies judgement when considering such data.

For 2022/23 Simon Roberts and Kevin O'Byrne will receive a 3.5 per cent salary increase. This is below the at least 5.3 per cent award to retail hourly-paid colleagues and in line with senior management. The pay review date for all management colleagues, including Executive Directors, has changed from the start of the financial year to 29 May 2022 to align pay review and bonus timings.

	Salary effective from 29 May 2022
Simon Roberts	£905,625
Kevin O'Byrne	£680,412

Pension

Under the 2020 Remuneration Policy, the pension supplement for any future appointments is capped at 7.5 per cent of salary, in line with the opportunity offered to the majority of the workforce. This is the rate that Simon Roberts receives as Chief Executive Officer.

As disclosed previously, on appointment Kevin O'Byrne received a contractual cash supplement of 25 per cent of salary, in line with the policy in place at the time. In recognition of the new policy, Kevin has agreed to a reduction in his pension supplement over a period of time to the rate offered to the majority of the workforce (7.5 per cent of salary). From March 2022 Kevin's supplement reduced to 17.5 per cent until the end of the calendar year, when it will reduce further to 7.5 per cent.

Benefits

Benefits for Executive Directors in 2022/23 are unchanged and will include the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount.

Annual bonus

The annual bonus for 2022/23 will operate on the same basis as 2021/22. It will be based 50 per cent on profit, 20 per cent on retail free cash flow and 30 per cent on strategic objectives (equally weighted between customer, colleague and individual objectives).

The maximum annual bonus award opportunity for the Chief Executive Officer is 220 per cent of base salary and for the Chief Financial Officer is 180 per cent of base salary. 50 per cent will be paid in cash and 50 per cent in shares deferred for two years.

The profit and retail free cash flow 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. The targets are set such that considerably stretching performance in excess of internal and external forecasts is required for maximum payout. The strategic objectives ensure that management continues to focus on operational priorities which contribute to the achievement of Group performance over the short and long term.

The Board is of the opinion that any performance targets for the current year annual bonus are commercially sensitive as the Company operates in a highly competitive, consumer-facing sector. The disclosure of targets would provide competitors with insights into the Company's strategic aims, budgeting and growth projections. However, in line with previous years, the Company will retrospectively disclose the targets in next year's Annual Report.

2022 Leaders' Share Award

Last year's Long-Term Incentive Plan (LTIP) was known as the 2021 Win in Food incentive plan which was aligned to our new strategy and it included all eight key metrics that we use as a measure of our success in delivering against our updated strategy. As a one-off, we enhanced core award levels and increased participation in the plan, extending eligibility to a further 1,200 senior leaders.

For 2022, we will retain the same plan structure and metrics and going forward it will be known as the Leaders' Share Award. In 2022, circa 230 colleagues will participate in the plan. For Executive Directors 80 per cent of the plan will be based on the four key financial measures (retail free cash flow, ROCE, EPS and cost savings). The remaining 20 per cent of the plan will be subject to key strategic indicators (market share, customer, colleague and Plan for Better).

The award level for the Chief Executive Officer will be unchanged for 2022. Simon Roberts will receive a core award of 62.5 per cent of salary (maximum 250 per cent of salary). As disclosed last year, Kevin O'Byrne's core award level was increased in 2021 to 62.5 per cent of salary and for 2022 will change to 56.25 per cent of salary (maximum 225 per cent of salary).

The Leaders' Share Award is subject to a two-year retention period following the end of the three-year performance period. This will result in awards to Executive Directors being released after a five-year period.

The Committee has set stretching targets against these measures for the 2022 awards as shown below. The cumulative retail free cash flow target for 2022 has been increased compared to 2021.

	Weighting	Threshold 25% of element vests	Maximum 100% of element vests
Cumulative retail free cash flow[1]	20%	£1,250m	£1,650m
ROCE[1]	20%	6.75%	9.75%
Underlying basic EPS[1]	20%	19.8p	26.5p
Cost reduction[2]	20%	80bps improvement	280bps improvement
Strategic indicators	20% (equally weighted)	— **Market share** – targets are commercially sensitive but we intend to provide full disclosure of targets at the end of the performance period — **Customer satisfaction** – improvement of 0 to 200 bps in Sainsbury's score and 300 to 500 bps in Argos score — **Colleague** – progress against our existing 2024 representation targets (see below) and assessment of further representation improvements in 2025. Maintain colleague engagement scores — **Plan for Better** – progress against our Scope 1 and Scope 3 and plastic reduction targets (see below)	

[1] These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 203 to 207.
[2] Improvement on 2019/20 results, due to COVID-19 impact on 2020/21 and 2021/22.

In line with previous grants, 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 this is not the case. When making this judgement the Committee has scope to consider such factors as it deems relevant. The Committee believes that this discretion is an important feature of the Long-Term Incentive Plan arrangement and mitigates the risk of unwarranted vesting outcomes. This performance gateway assessment applies to all outstanding LTIP awards.

Colleague representation targets	Target – senior leadership positions (top 230 leaders)	Target – senior management positions (1,200 leaders beneath senior leadership)
Female	50%	43%
Ethnically diverse	12%	12%
Black	3%	3%

Plan for Better	Baseline	Threshold	Stretch
Scope 1 – GHG emissions	554,936 (tCO_2e) 18/19 FY	382,403	345,258
Scope 3 – GHG emissions	26,663,081 (tCO_2e) 18/19 FY	23,783,081	23,108,004
Plastic – Own Brand Food & General Merchandise & Clothing – tonnes of plastic packaging	69,839 Own Brand Food 2018 CY/ GM&C 2020 CY	55,871	41,903

2022 Leaders’ Share Award performance measures (definitions for other awards can be found in the relevant Annual Report)

Cumulative retail free cash flow

- Retail free cash flow measures the total flow of cash in and out of the business as well as providing an assessment of underlying profitability
- Retail free cash flow for these purposes is net cash generated from retail operations, after perpetual security coupons and cash capital expenditure but before strategic capital expenditure. It includes payments of lease obligations, cash flows from joint ventures and associates and Sainsbury’s Bank capital injections. It is measured on a cumulative basis over the three-year performance period

Return on capital employed (ROCE)

- ROCE reflects the returns generated for shareholders and measures the efficiency of capital use
- It is defined as return divided by average capital employed where:
    - Return is defined as 52-week underlying profit before interest and tax
    - Capital employed is defined as Group net assets excluding the pension deficit/surplus, less net debt (excluding the perpetual securities). The average is calculated on a 14-point basis
    - More information can be found in the Alternative Performance Measures section of the Annual Report on pages 203 to 207

EPS

- EPS directly reflects returns generated for shareholders
- Underlying basic EPS is underlying profit after tax attributable to the equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the year

Cost reduction

- Cost reduction will be measured as an improvement in Retail selling, general and administrative (SG&A) costs as a percentage of retail sales (including VAT, excluding fuel). Costs also exclude fuel, bonus and share-based payments expenses, non-underlying items and Group support functions. Given the abnormal nature of 2020/21 and 2021/22, improvement will be assessed against 2019/20 results

Market share

- Sainsbury’s market share (volume) based on Nielsen panel data

Customer

- Based on an annual weighted average of Sainsbury’s CSAT and Argos CSAT (excluding Bank and *Tu*)

Colleague

- Internally we measure representation at senior and middle management grades for gender, ethnically diverse and Black colleagues. Colleague engagement is measured using our annual We’re Listening survey

Plan for Better

- Further details on the measures can be found in the Plan for Better section of the Annual Report

Non-Executive Director remuneration

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 5 March 2022 for each Non-Executive Director, together with comparative figures for the 52 weeks to 6 March 2021.

	2021/22			2020/21		
	Fees[1] £000	Benefits[2] £000	Total £000	Fees[1] £000	Benefits[2] £000	Total £000
Martin Scicluna	480	0	480	480	0	480
Brian Cassin	68	0	68	68	0	68
Jo Harlow	83	0	83	83	0	83
Adrian Hennah[3]	76	1	77	–	–	–
Tanuj Kapilashrami[4]	68	0	68	47	0	47
David Keens[5]	30	2	32	88	2	90
Susan Rice	107	4	111	107	3	110
Keith Weed[4]	68	0	68	47	0	47

1 Paid in relation to the year.
2 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.
3 Adrian Hennah was appointed to the Board on 1 April 2021.
4 Tanuj Kapilashrami and Keith Weed were appointed to the Board on 1 July 2020 and the figures quoted for 2020/21 relate to the period from their appointment to 6 March 2021.
5 David Keens stepped down from his role on 9 July 2021 and the figures quoted for 2021/22 relate to the period up to his departure.

In March 2021, the Chairman's and Non-Executive Directors' fees were reviewed but no increase was applied, in line with management.

Non-Executive Directors receive a base annual cash fee; additional fees are paid to the Senior Independent Director and to the Chairs of the Audit, Remuneration and Corporate Responsibility and Sustainability Committees.

The Chairman and Non-Executive Directors receive no benefits other than a colleague discount card and reasonable business travel expenses.

Chairman and Non-Executive Director fees for 2022/23

In early 2022 the Chairman's and Non-Executive Directors' fees were reviewed. An increase of 3.5 per cent was approved for the Chairman and the base fee for the Non-Executive Directors in line with senior management colleagues. Reflecting the growing importance of the role to our business, the additional fee for the Chair of the Corporate Responsibility and Sustainability Committee increased from £15,000 to £19,500, bringing it in line with the Audit and Remuneration Committee Chair fees. The new fee levels are effective from 29 May 2022 (changed from the start of the financial year).

The following table sets out the fee levels which are effective from 29 May 2022.

	Fees effective from 29 May 2022
Chairman	£497,033
Base fee	£70,640
Senior Independent Director fee (additional)	£19,500
Chair of Remuneration Committee fee (additional)	£19,500
Chair of Audit Committee fee (additional)	£19,500
Chair of Corporate Responsibility and Sustainability Committee fee (additional)	£19,500

Non-Executive Directors' shareholdings and share interests

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

	Ordinary shares[1]		
	6 March 2021	5 March 2022	27 April 2022
Martin Scicluna	15,000	15,000	15,000
Brian Cassin	25,000	25,000	25,000
Jo Harlow	8,000	8,000	8,000
Adrian Hennah[2]	–	15,000	15,000
Tanuj Kapilashrami	5,000	10,500	10,500
David Keens[3]	100,000	100,000	N/A
Susan Rice	4,000	4,000	4,000
Keith Weed	2,446	2,446	2,446

1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.
2 Adrian Hennah was appointed to the Board on 1 April 2021.
3 David Keens stepped down from his role on 9 July 2021 and the figures in the March 2022 column show his share interests on his leave date.

Pay in the wider organisation

Chief Executive pay ratio

The following table provides pay ratio data in respect of the Chief Executive Officer's total remuneration (as shown in the single figure table on page 84 compared to the remuneration of the 25th, 50th and 75th percentile of UK colleagues. All three of these colleagues are store-based hourly-paid colleagues, with the 50th percentile and the 75th percentile colleague earning additional premiums such as unsociable hours premium and driver premium.

The year-on-year increase in the ratio for 2021/22 reflects that the Chief Executive Officer's single figure for 2020/21 was suppressed following his decision to waive his annual bonus. In addition, the figures include exceptional payments made during the year, including in 2020/21 hourly-paid colleagues received three Thank You payments relating to COVID-19.

Financial year	Method	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
2019/20	Option B[1]	173:1	173:1	153:1
2020/21[2]	Option B[1]	122:1	122:1	107:1
2021/22	Option B[1]	202:1	183:1	178:1

[1] Option B as defined in the regulations.

[2] The Chief Executive Officer's single figure for 2020/21 used for the purposes of the pay ratio calculations was determined as Mike Coupe's salary, pension and benefits in respect of the period he served as Chief Executive Officer (to 31 May 2020) plus Simon Roberts' salary, pension and benefits in respect of the period he served as Chief Executive Officer (1 June 2020 to 6 March 2021). In order to provide a suitably representative figure the LTIP portion was based on Mike Coupe's LTIP award vesting in 2021 removing the effect of pro-rating in order to provide a full-year value. If the full-time equivalent 2020/21 single figure quoted for Simon Roberts on page 84 had been used, the median pay ratio would have been 152:1.

The colleagues used to calculate the pay ratios were identified using our 2021 gender pay gap data. In line with the regulations, our 2021 gender pay gap data identifies employees using a snapshot date of 5 April 2021. This method has been chosen as it makes use of our gender pay data which provided a readily available and robust dataset.

A full-time equivalent total pay figure was calculated for each of these colleagues using the single figure methodology. The approach includes base salaries, pension contributions and any relevant pay premiums. To ensure these three colleagues were a suitable representative of their quartile, the total pay figures calculated were compared against a sample of colleagues either side of the three identified colleagues.

The following table provides base salary and total remuneration information in respect of the 25th, 50th and 75th percentile colleagues, on a full-time equivalent basis.

Financial year	Remuneration	Chief Executive[1]	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
2021/22	Base salary	£875,000	£18,155	£19,588	£20,703
	Total remuneration	£3,787,000	£18,780	£20,680	£21,306

The Remuneration Committee considers pay ratios as one of many reference points when reviewing executive remuneration and considers that the median pay ratio for 2021/22 is consistent with the pay, reward and progression policies for the Company. Due to the nature of the role of the Chief Executive Officer, the Committee believes that it is important for a significant portion of the Chief Executive Officer's remuneration package to be performance-related and aligned to the long-term, sustainable success of the Company. As a result, the Chief Executive Officer's single figure fluctuates each year depending on the Company's performance and the outturns of the incentive plans and this will impact the pay ratio reported in any single year.

Percentage change in Executive and Non-Executive Director remuneration

The table below shows the percentage change in the salary, benefits and bonus of Executive and Non-Executive Directors between (i) 2019/20 and 2020/21 and (ii) 2020/21 and 2021/22 compared with the percentage change in the average of each of those components of pay for all our colleagues.

	Percentage change in remuneration from 2019/20 – 2020/21			Percentage change in remuneration from 2020/21 – 2021/22		
	Salary % change	Benefits % change[4]	Bonus % change	Salary % change	Benefits % change[4]	Bonus % change
Simon Roberts[1]	N/A	N/A	N/A	0.0%	42.7%	N/A
Kevin O'Byrne	1.1%	0.0%	222.2%	0.0%	29.3%	24.3%
Martin Scicluna	1.1%	0.0%	N/A	0.0%	0.0%	N/A
Brian Cassin	1.1%	0.0%	N/A	0.0%	0.0%	N/A
Jo Harlow	2.8%	-100%	N/A	0.0%	0.0%	N/A
Adrian Hennah[2]	–	–	–	N/A	N/A	N/A
Tanuj Kapilashrami[1]	N/A	N/A	N/A	0.0%	0.0%	N/A
David Keens	0.9%	-88.2%	N/A	0.0%	-15.2%	N/A
Susan Rice	0.7%	-72.7%	N/A	0.0%	61.7%	N/A
Keith Weed[1]	N/A	N/A	N/A	0.0%	0.0%	N/A
All colleagues[3]	4.0%	-15.3%	308.1%	-1.2%	-21.9%	5.2%

[1] Simon Roberts, Tanuj Kapilashrami and Keith Weed were all appointed during 2020/21 and therefore no annual change is shown for 2020/21. For the purpose of meaningful comparison between 2021/22 and 2020/21, the 2020/21 figures have been pro-rated up to reflect the full year.

[2] Adrian Hennah was appointed to the Board on 1 April 2021 and therefore no annual change is shown for 2021/22.

[3] All colleague figures relate to averages based on number of full-time equivalent colleagues. These comparisons will be materially impacted by the grade mix of colleagues. While the 2020/21 to 2021/22 salary change shows a decrease, hourly paid colleagues received an increase of 2.2 per cent in March 2021 and there was no annual pay review for management. In both comparison years, the benefits change figure shows a decrease but there was no change to the benefits offered. Note, any one-off payments made have been excluded from these figures.

[4] Non-Executive Directors receive no benefits other than a colleague discount card and reasonable business travel expenses. The percentage change figures are in respect of the Non-Executive Directors' taxable business travel expenses only. The significant reductions reported for 2020/21 reflect the reduction in business travel during the year.

Relative importance of spend on pay

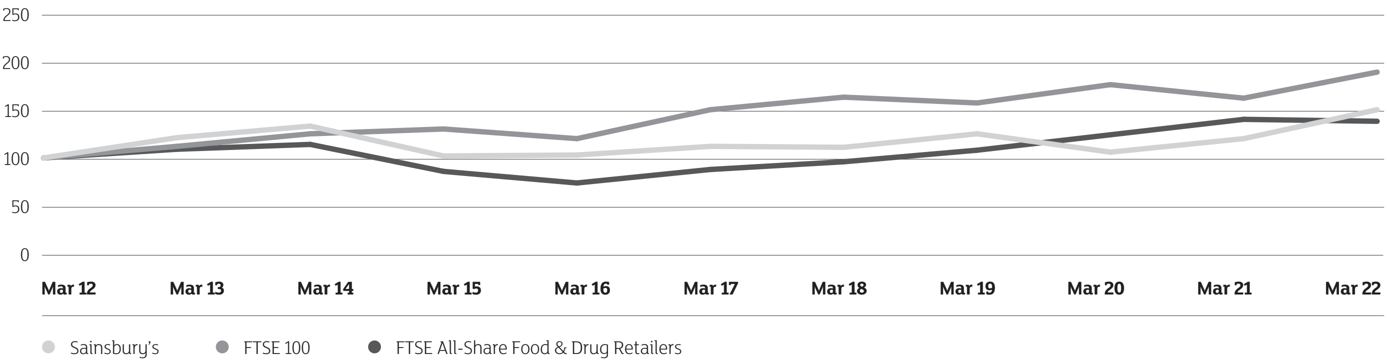
The table below illustrates the year-on-year change in total colleague pay (being the aggregate staff costs as set out in note 36 to the financial statements) and distributions to shareholders (being declared dividends).

Colleague pay			Distribution to shareholders		
2020/21 £m	**2021/22 £m**	% change	2020/21 £m	**2021/22 £m**	% change
3,752	**3,600**	-4.1%	232	**238**	2.6%

Performance and Chief Executive remuneration

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

TSR performance since March 2012



	CEO	2012/13	2013/14	2014/15[1]	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21[2]	**2021/22**
Single figure remuneration (£000)	S Roberts	–	–	–	–	–	–	–	–	1,325	3,787
	M Coupe	–	–	1,507	2,802	2,354	3,630	3,569	2,999	1,447	–
	J King	4,366	3,906	405	–	–	–	–	–	–	–
Bonus/Bonus Shares/DSA award as a percentage of maximum	S Roberts	–	–	–	–	–	–	–	–	0%	87%
	M Coupe	–	–	26%	78%	35%	57%	56%	22%	0%	–
	J King	84%	73%	0%	–	–	–	–	–	–	–
LTIP vesting percentage of maximum	S Roberts	–	–	–	–	–	–	–	–	60%	70%
	M Coupe	–	–	0%	0%	22.5%	42.5%	55%	65%	60%	–
	J King	44%	40%	0%	–	–	–	–	–	–	–

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

[2] For 2020/21, Simon Robert's figures relate to the time he was Chief Executive Officer during 2020/21 and, consistent with the single figure table, the figures for Mike Coupe relate to the time up until his departure on 2 July 2020.

Governance – the Remuneration Committee

Committee membership

The Remuneration Committee during the year comprised Susan Rice (Chair), Jo Harlow and Tanuj Kapilashrami. All members of the Committee are independent Non-Executive Directors.

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. Martin Scicluna, Simon Roberts, Angie Risley (Group HR Director), the Director of Reward and the Director of Group Finance are invited to attend Committee meetings either fully or partially. 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.

The Committee typically meets four times each year, or more often as required. 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. In 2021/22 there were a number of unscheduled meetings regarding changes to the Operating Board as well as discussions on performance outturns for annual bonus and the Long-Term Incentive Plan. The Committee complies with relevant regulations and considers the Code and best practice when determining pay and policy.

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.

Deloitte 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 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.

During the year they provided advice to the Committee on a range of topics including remuneration trends, corporate governance, incentive plan design and incentive plan rules. Their consultants attended all of the Committee meetings. In relation to their advice, Deloitte received fees of circa £65,000 (fees are based on hours spent). During the year, Deloitte provided the Company with unrelated advice and consultancy in respect of information technology, operating models, data analytics and taxation.

Statement of voting at general meeting

The table below sets out the votes on the Annual Report on Remuneration at the 2021 AGM and on the Directors' Remuneration Policy at the 2020 AGM. The Committee is keen to hear the views of all shareholders and continually reviews the Remuneration Policy and its implementation.

	Votes for	Votes against	Votes abstained
Remuneration Report (2021 vote)	80.61% 1,452 million	19.39% 349 million	– 0.7 million
Remuneration Policy (2020 vote)	97.00% 1,636 million	3.00% 51 million	– 6.0 million

Directors' contracts

Executive Directors have rolling contracts which are terminable on 12 months' notice by either party. Non-Executive Directors are appointed for an initial three-year period, which may be extended for a further term by mutual consent. The initial appointments and any subsequent reappointments are subject to annual election or re-election by shareholders. Non-Executive Directors' appointments may be terminated at any time by giving three months' written notice by either party; six months' in the case of the Non-Executive Chairman.

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 2021/22 financial year. Further details of the movements of the Executive Directors’ share awards during the year are set out on page 95.

	Ordinary shares[1]			Scheme interests[2]				
	6 March 2021	5 March 2022	27 April 2022	Bonus Share Awards[3]	Deferred Share Awards[4]	LTIP awards with performance period completed[5]	LTIP awards with performance period outstanding[6]	SAYE
Simon Roberts	153,858	373,520	373,520	–	110,362	109,932	2,356,636	4,873
Kevin O’Byrne	489,256	573,312	573,312	343,334	129,331	621,887	1,868,720	3,461

[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] Deferred Share Awards and Long Term Incentive awards are structured as nil-cost options.

[3] Relates to 2020/21 Bonus Share Awards.

[4] Relates to 2019/20 Deferred Share Awards.

[5] Relates to 2018 Future Builder awards (and 2017 in the case of Kevin O’Byrne).

[6] Relates to 2019 and 2020 Future Builder awards (maximum) and 2021 Win in Food award where the performance period has not ended. As noted above, following the year-end, the 2019 award will vest at 70 per cent of maximum.

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 26.6 million shares (2021: 17.2 million) held by the Trustees.

Share awards made during the financial year (audited information)

The following share awards were made to Executive Directors during the year.

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Number of shares	Performance period end date
Simon Roberts	2021 Win in Food[1]	250% of salary	£2,187,500	25% of each element	819,288	2 March 2024
Kevin O’Byrne	2021 Win in Food[1]	250% of salary	£1,643,508	25% of each element	615,544	2 March 2024
	Bonus Share Award[2]	126% of salary	£828,328	N/A	343,334	N/A

[1] The performance conditions applying to 2021 Win in Food awards are set out later in this section. The basis of award shows the maximum value being four times the core award. The award was made on 4 June 2021 and the number of shares has been calculated using the average share price between 27 May and 3 June 2021 of £2.670. Subject to performance, the award will vest in May/June 2024 and will be released after a further two-year retention period. The award is structured as a nil-cost option with an exercise period of up to six years from grant.

[2] The Bonus Share Award was made on 7 May 2021 based on performance over the 2020/21 financial year. Simon Roberts waived his entitlement to a bonus for 2020/21. Kevin O’Byrne’s bonus was paid out 100 per cent in shares rather than 50 per cent cash and 50 per cent shares. The award was made at 70 per cent of the maximum level (maximum of 180 per cent of salary for Kevin O’Byrne). The number of shares has been calculated using the average share price between 30 April and 6 May 2021, £2.413. No further performance conditions apply. The Bonus Share Award will be released in April 2023.

Unvested Long-Term Incentive Plan awards

The targets for Long-Term Incentive Plan awards granted in 2020 and 2021 are set out in the tables below.

2020 Future Builder (2020/21 to 2022/23 performance period)	Weighting	Threshold target core (1.0x award)	Maximum target (4.0x core award)
Cumulative retail free cash flow[1]	50%	£900m	£1,400m
ROCE[1]	25%	6.75%	9.75%
Underlying basic EPS[1]	25%	19.8p	26.5p

2021 Win in Food incentive plan (2021/22 to 2023/24 performance period)	Weighting	Threshold target core (1.0x award)	Maximum target (4.0x core award)
Cumulative retail free cash flow[1]	20%	£1,000m	£1,500m
ROCE[1]	20%	6.75%	9.75%
Underlying basic EPS[1]	20%	19.8p	26.5p
Cost reduction[2]	20%	80bps improvement	280bps improvement
Strategic indicators	20%	— **Market share** – targets are commercially sensitive but we intend to provide full disclosure of targets at the end of the performance period — **Customer satisfaction** – improvement in Sainsbury's score between 300bps to 900bps and Argos score between 210bps to 510bps — **Colleague** – progress against our representation targets (see below) and maintain colleague engagement scores — **Plan for Better** – progress against our Plan for Better Scope 1 & 2, Scope 3 and plastic reduction targets (see below)	

[1] These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 203 to 207.

[2] Improvement assessed against 2019/20 results due to the COVID-19 impact on 2020/21.

Colleague representation targets	Target – senior leadership positions (top 230 leaders)	Target – senior management positions (1,200 leaders beneath senior leadership)
Female	50%	43%
Ethnically diverse	12%	12%
Black	3%	3%

Plan for Better targets	Baseline	Threshold	Stretch
Scope 1 & 2 – GHG emissions	949,744 ($tC0_2e$) 18/19 FY	761,991	705,870
Scope 3 – GHG emissions	26,663,081 ($tC0_2e$) 18/19 FY	24,503,081	23,996,773
Plastic – Food – tonnes of plastic packaging	120,000 tonnes 2018 CY	91,200	80,400
Plastic – GM&C – tonnes of plastic packaging	9,836 tonnes 2018 CY	7,180	6,590

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.

Name	Award	Date of award	Share price at date of award (pence)	Option price (pence)	Number of options held at 6 March 2021	Number of options granted/ dividend shares allocated during the year	Number of options exercised during the year	Number of options lapsed during the year	Share price on exercise (pence)	Date of exercise	Notional gain on exercise (£000)[5]	Number of options held at 5 March 2022
Simon Roberts	Long-Term Incentive Plan[1]	11/05/2017	265	Nil	131,422	23,128	154,550	–	247	06/05/2021	382	0
		11/05/2018	307	Nil	366,440	15,141	125,073	146,576	247	06/05/2021	309	109,932
		09/05/2019	211	Nil	512,184	–	–	–	–	–	–	512,184
		07/05/2020	193	Nil	1,025,164	–	–	–	–	–	–	1,025,164
		04/06/2021	265	Nil	0	819,288	–	–	–	–	–	819,288
	Deferred Share Award[2]	09/05/2019	211	Nil	122,745	12,829	135,574	–	247	06/05/2021	335	0
		07/05/2020	193	Nil	110,362	–	–	–	–	–	–	110,362
	Sharesave[4]	10/12/2019	220	161	3,040	–	–	–	–	–	–	3,040
		14/12/2020	226	161	1,833	–	–	–	–	–	–	1,833
	Total				**2,273,190**	**870,386**	**415,197**	**146,576**	**–**	**–**	**1,026**	**2,581,803**
Kevin O'Byrne	Long-Term Incentive Plan[1]	11/05/2017	265	Nil	323,123	26,768	–	–	–	–	–	349,891
		11/05/2018	307	Nil	424,120	17,524	–	169,648	–	–	–	271,996
		09/05/2019	211	Nil	592,804	–	–	–	–	–	–	592,804
		07/05/2020	193	Nil	660,372	–	–	–	–	–	–	660,372
		04/06/2021	265	Nil	0	615,544	–	–	–	–	–	615,544
	Deferred Share Award[2]	09/05/2019	211	Nil	143,843	15,037	158,880	–	247	06/05/2021	392	0
		07/05/2020	193	Nil	129,331	–	–	–	–	–	–	129,331
	Bonus Share Award[3]	07/05/2021	251	–	0	343,334	–	–	–	–	–	343,334
	Sharesave[4]	07/12/2018	300	260	3,461	–	–	–	–	–	–	3,461
	Total				**2,277,054**	**1,018,207**	**158,880**	**169,648**	**–**	**–**	**392**	**2,966,733**

1 The LTIP share figures relate to the maximum that could be achieved.
2 The Deferred Share Award figures are after the application of performance conditions.
3 Simon Roberts waived his 2020/21 bonus and therefore no Bonus Shares were awarded. Kevin O'Byrne took 100 per cent of his 2020/21 bonus in Bonus Shares.
4 Sharesave is an all-employee share option plan and has no performance conditions as per HMRC Regulations.
5 This is the notional gain on the date of exercise had all shares been sold.

Additional statutory information

Additional statutory information required by the Accounts Regulations can be found below:

Directors' interests	The beneficial interests of the Directors and their connected persons in the shares of the Company are shown on pages 89 and 93. During the year, no Director had any material interest in any contract of significance to the Group's business.
Directors' indemnities	The Company maintains a Directors' and Officers' liability insurance policy which provides appropriate cover for legal action brought against its Directors. The Company has also executed deeds of indemnity for each of its Directors, to the extent permitted by law and the Company's Articles of Association. These indemnities were in force throughout the financial year and as at the date of this report. Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are in force, to the extent permitted by law, for the benefit of the Directors in relation to certain losses and liabilities incurred in connection with the execution of their powers, duties and responsibilities.
Research and development	In the ordinary course of business the Company regularly develops new products and services. See page 10 for more information.
Employment policies	The Company values the different perspectives, experiences and abilities of all our colleagues. We ensure that those living with a disability or long-term health condition are fully and fairly considered for employment with the Company through well-developed policies for the equal treatment of all. We have a workplace adjustments process in place for our colleagues who find themselves with a disability or long-term health condition; workplace adjustments can be made at any point during a colleague's employment with us. We are committed to providing equal opportunities for all colleagues and applicants through recruitment, training, development and promotion. Further information can be found on pages 13 to 14.
Health and safety	The health and safety of our colleagues and customers is a key part of our strategy. See page 15 for more information.
Colleague engagement	Details on how we engage with our colleagues can be found on page 25.
Political donations	The Company made no political donations in 2021/22 (2020/21: £nil).
Post balance sheet events	In light of the events in Russia and Ukraine, which continued to evolve subsequent to the Group's balance sheet date, it has been concluded that the conflict has no material impacts on the Group's financial statements.
Financial risk management and financial instruments	Notes 30 and 31 on pages 149 to 166 disclose details relating to financial risk management and financial instruments.
Disclosure of information to the auditor	Each Director has confirmed that, so far as each Director is aware, there is no relevant audit information of which the auditor is unaware. Each Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. For further information, please see the Statement of Directors' responsibilities on page 100.
Dividends	Details of the payment of the final dividend can be found on page 132.
Ordinary shares	Details of the changes to the ordinary issued share capital during the year are shown on page 147. As at 25 April 2022, 2,336,774,734 ordinary shares of $28\frac{4}{7}$ pence have been issued, are fully paid up and are listed on the London Stock Exchange.
Share capital	Except as described below in relation to the Company's employee share plans, 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 for the Company's employee share plans by the Trustee 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. All shares held by the J Sainsbury Employee Benefit Trust are held on an unallocated basis. As such, the Trustees waive their rights to vote and to receive dividends on these shares. Total dividends waived by the Trustees during the financial year amounted to £1,600,009.31. A number of shares were purchased into the J Sainsbury Employee Benefit Trust for the purposes of satisfying share awards under the Company's share plans. These would ordinarily have been subject to a dividend waiver mandate but were not settled before the Company's dividend record date on 12 November 2021. As such, a sum of £57,405.52 (equal to the dividends received) was returned to the Company by the Trustee. Some of the Company's employee share plans include restrictions on the transfer of shares while the shares are held within the plan. At the Annual General Meeting held in July 2021, 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 financial year. The Company undertook a share forfeiture programme during the year to trace and notify shareholders who had not had contact with the Company over the past 12 years, in accordance with the provisions set out within the Articles of Association. Under the programme, the shares and dividends of untraced shareholders were forfeited with the resulting proceeds transferred to the Company to use for charitable causes. Late claims will be honoured, and shareholders should contact our Registrars for further information. Contact details can be found on page 200.
Change of control	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. A number of the Company's financing 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.

Major interests in shares

As at 5 March 2022, the Company had been notified by the following investors of their interests in 3 per cent or more of the Company's shares. These interests were notified to the Company pursuant to DTR5 of the Disclosure Guidance and Transparency Rules:

	Date notified	Number of ordinary shares	% of voting rights[1]
Qatar Holdings LLC	4 May 2021	335,446,132	14.99
VESA Equity Investment S.à r.l.	4 March 2022	234,887,363	10.07
BlackRock, Inc.	27 August 2021	149,416,535	6.40
Schroders plc	31 March 2021	116,161,658	5.22
Pzena Investment Management, Inc	29 January 2021	104,292,488	4.69

[1] Percentages shown are as a percentage of the Company's issued share capital when the Company was notified of the change in holding.

As at 25 April 2022, no further changes had been notified.

Directors' Report

The Directors' Report comprises pages 1 to 97 of this Annual Report and Financial Statements. The following information required by Rule 9.8.4R of the UK Listing Rules (LR) is also incorporated into the Directors' Report:

Information requirement	Location within Annual Report
Interest capitalised	See note 14 of the consolidated financial statements
Publication of unaudited financial information	See note 30
Details of any long-term incentive plans	See Remuneration Report, Remuneration Policy and note 38
Shareholder waiver of dividends	See note 29
Shareholder waiver of future dividends	See note 29

Other information requirements set out in LR 9.8.4R are not applicable to the Company.

Streamlined energy and carbon (SECR) reporting

J Sainsbury plc has calculated and publicly reported its carbon dioxide emissions and other greenhouse gases (GHG) for several years. We have measured our emissions since 2005 and set challenging targets throughout the years. In 2021, we announced our new 'Plan for Better' strategy. As part of this, we accelerated our target to become Net Zero across our own operations by 2035, aligning the business with the goal to limit global warming to 1.5°C, the highest ambition of the Paris Agreement. For Scope 3, our target is the reduction of absolute GHG emissions by 30 per cent by 2030, to align to a well below 2°C scenario. We're also working with suppliers to set their own ambitious Net Zero commitments.

Methodology

In line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), we will be reflecting the performance of Sainsbury's, and Argos and Habitat emissions separately, as well as the combined Group performance. We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2021, and IEA 2020 for those overseas. The reporting period is the financial year 2021/22, the same as that covered by the Annual Report and Financial Statements. The boundaries of the GHG inventory are defined using the operational control approach. In general, the emissions reported are the same as those which would be reported based on a financial control boundary. Emissions for previous years are retrospectively adjusted as and when more accurate data is provided.

The following report compares Scope 1 and 2 greenhouse gas emissions for 2021/22 and 2020/21.

UK and global annual energy and carbon

Sainsbury's Group total carbon figures and intensities

GHG emissions (tCO_2e) – location-based Emission source	2020/21	**2021/22**
Scope 1	527,311.76	516,239.46
Scope 2	327,876.81	274,637.32
Total (tCO_2e)	**855,188.57**	**790,876.78**
Intensity measurement (tCO_2e/'000 sq ft)	35.06	32.45

GHG emissions (tCO_2e) – market-based Emission source	2020/21	**2021/22**
Scope 1	527,311.76	516,239.46
Scope 2	290,108.15	245,879.55
Total (tCO_2e)	**817,419.91**	**762,119.02**
Intensity measurement (tCO_2e/'000 sq ft)	33.51	31.27

Sainsbury's breakdown
UK locations

	Energy consumption (kWh)		Location-based (tCO_2e)		Market-based (tCO_2e)	
Emission source	2020/21	**2021/22**	2020/21	**2021/22**	2021/22	**2021/22**
Combustion of fuel and operation of facilities (Scope 1)	1,571,955,881.57	1,529,627,384.74	448,374.01	447,947.23	448,374.01	447,947.23
Electricity, heat, steam and cooling purchased for own use (Scope 2)	1,309,493,449.32	1,176,622,051.97	302,984.12	253,601.16	265,843.65	226,601.12
Total	**2,881,449,330.90**	**2,706,249,436.71**	**751,358.13**	**701,548.39**	**714,217.66**	**674,548.35**

Global locations (excludes UK)

	Energy consumption (kWh)		Location-based (tCO_2e)		Market-based (tCO_2e)	
Emission source	2020/21	**2021/22**	2020/21	**2021/22**	2021/22	**2021/22**
Combustion of fuel and operation of facilities (Scope 1)	–	–	–	–	–	–
Electricity, heat, steam and cooling purchased for own use (Scope 2)	314,061.66	266,481.33	213.46	187.37	213.46	187.37
Total	**314,061.66**	**266,481.33**	**213.46**	**187.37**	**213.46**	**187.37**

Argos and Habitat breakdown
UK locations

	Energy consumption (kWh)		Location-based (tCO_2e)		Market-based (tCO_2e)	
Emission source	2020/21	**2021/22**	2020/21	**2021/22**	2021/22	**2021/22**
Combustion of fuel and operation of facilities (Scope 1)	345,643,670.03	298,504,465.07	78,639.04	68,040.08	78,639.04	68,040.08
Electricity, heat, steam and cooling purchased for own use (Scope 2)	96,700,255.42	83,130,666.49	22,526.49	17,627.98	24,002.07	19,030.55
Total	**442,343,925.45**	**381,635,131.56**	**101,165.53**	**85,668.06**	**102,641.11**	**87,070.63**

Global locations (excludes UK)

	Energy consumption (kWh)		Location-based (tCO_2e)		Market-based (tCO_2e)	
Emission source	2020/21	**2021/22**	2020/21	**2021/22**	2021/22	**2021/22**
Combustion of fuel and operation of facilities (Scope 1)	1,624,552.04	1,242,329.16	298.71	252.16	298.71	252.16
Electricity, heat, steam and cooling purchased for own use (Scope 2)	5,614,349.16	6,491,519.05	2,152.75	3,220.80	2,152.75	3,220.80
Total	**7,238,901.20**	**7,733,848.21**	**2,451.45**	**3,472.96**	**2,451.45**	**3,472.96**

Dual emissions reporting
Overall emissions have been presented to reflect both location and market-based methodologies, affecting both Scope 1 and Scope 2 emissions.

Scope 1: All Scope 1 market-based emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2021 for all sources.

Scope 2: 41 per cent of electricity usage is covered by either a Power Purchase Agreement (PPA), a certified green tariff, or falls within onsite renewable generation from solar energy. The remaining electricity has been reported at supplier-specific emissions rate, and non-UK electricity has been reported at local grid average, unless supplied by a certified green tariff. From 1 January 2022, Sainsbury's will source 100 per cent renewable electricity.

Energy efficiency actions
To grow our business sustainably, we are continuously working to cut greenhouse gas emissions, ensuring that we maximise energy efficiency. A few of the projects we have implemented this year include:

- LED lighting upgrades at 226 stores equating to approximately 23,626,922 kWh annual savings. This has fulfilled the commitment to be fully LED across 100% of our supermarkets by the end of 2021, with the remainder of the estate complete by the end of 2022
- Ensuring the existing solar estate is monitored in detail and the operation of this is optimised through timely replacement of components
- The replacement of refrigeration systems with more efficient technology, whilst also removing HFC refrigerant gases
- The use of an innovative single system to provide store refrigeration, cooling, and heating requirements. This reduces energy consumption in a store by up to 30 per cent whilst maintaining a high-quality environment, which is warm in winter and cool in summer, by reusing any 'heating' or 'cooling' throughout the year. We call it 'RIHC', Refrigeration Integrated Heating and Cooling
- Delivering Net Zero new stores through the installation of highly efficient Zero Carbon technology
- Exploring how uncontrolled air infiltration in stores can be reduced to improve thermal comfort and reduce heating and refrigeration energy consumption
- Testing out the latest water saving technology in toilets and ensuring water saving taps are fully rolled out to all stores
- Optimising the existing biomass boiler fleet, introducing thermal stores, reducing boiler down-time, and increasing fuel consumption efficiency

By order of the Board

Tim Fallowfield OBE
Company Secretary and Corporate Services Director
27 April 2022

Financial Statements

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 that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards. The Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law). 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 UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; 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 in this Annual Report provide the information necessary for shareholders to assess the Group'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 pages 54 to 57, confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with the relevant financial reporting framework give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; 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 emerging and principal risks and uncertainties that it faces; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Tim Fallowfield OBE
Company Secretary and Corporate Services Director
27 April 2022

Independent auditor's report to the members of J Sainsbury plc

Opinion

In our opinion:

- J Sainsbury plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 5 March 2022 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted International accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of J Sainsbury plc (the 'parent company') and its subsidiaries (the 'Group') for the period ended 5 March 2022 which comprise:

Group	Parent company
Consolidated balance sheet as at 5 March 2022	Company balance sheet as at 5 March 2022
Consolidated income statement for the period then ended	Company statement of changes in equity for the period then ended
Consolidated statement of comprehensive income for the period then ended	Related notes 1 to 9 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the period then ended	
Consolidated statement of cash flows for the period then ended	
Related notes 1 to 43 to the financial statements, (except for the sections marked as "unaudited" in Note 30) including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted International accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and parent in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of the directors' going concern assessment process.
- Assessing the adequacy of the going concern assessment to 27 April 2023 and considering the existence of any significant events or conditions beyond this period.
- Verifying inputs against board-approved forecasts and debt facility terms.
- Reviewing borrowing facility documentation to confirm availability to the Group through the going concern period, noting no associated financial covenants.
- Assessing management's forecasting process and the consistency of the assessment with information obtained from other areas of the audit, such as accounting estimates.
- Testing the assessment, including forecast liquidity under base and downside scenarios, for clerical accuracy.
- Assessing whether assumptions made (such as future costs including the impact of inflation and forecast margin) were reasonable with reference to information obtained elsewhere in the audit and, in the case of downside scenarios, appropriately severe in light of the Group's relevant principal risks and uncertainties.
- Challenging the amount and timing of identified mitigating actions available to respond to a 'severe but plausible' downside scenario, and whether those actions are feasible and within the Group's control.
- Performing independent sensitivity analyses on assumptions to assess the impact on headroom.
- Performing reverse stress testing in order to identify and understand which factors and how severe the downside scenarios would have to be to result in the Group utilising all liquidity during the going concern period.
- Assessing the appropriateness of going concern disclosures.

Our key observations

In management's base case and downside scenarios, there is significant headroom without taking the benefit of any identified mitigations.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for the period to 27 April 2023.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope

- We performed an audit of the complete financial information of 14 components. We performed audit procedures on specific balances for 55 components.
- The components where we performed full or specific audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.

Key audit matters

- Supplier arrangements
- Aspects of revenue recognition
- Measurement of provision for impairment of loans and advances to financial services customers
- Valuation of defined benefit pension scheme
- Aspects of property provisions
- IT environment

Materiality

- Group materiality of £38 million which represents 4.6% of Profit before tax, adjusted for non-recurring items.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 116 reporting components of the Group, we selected 69 components covering entities within the UK and the Isle of Man, which represent the principal business units within the Group.

Of the 69 components selected, we performed an audit of the complete financial information of 14 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 55 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The table below shows the coverage obtained from the work performed by our audit teams. Scoping changes from the prior year are not significant.

		% Group Profit before tax		% Group Revenue		% Total assets	
	Number	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Full scope	14	62%	52%	99%	99%	77%	84%
Specific scope	55	38%	48%	1%	1%	23%	16%
Full and specific scope coverage	**69**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Remaining components	47	0%	0%	0%	0%	0%	0%
Total reporting components	**116**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

For components not in scope for full or specified audit procedures, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 14 full scope components, audit procedures were performed on 12 of these directly by the primary audit team and on 2 by EY component audit teams in Edinburgh and Luton. For the 55 specific scope components, work was performed by the primary audit team on 43 components and on 12 by EY component audit teams in Edinburgh, Luton and Isle of Man. For the full and specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, the Senior Statutory Auditor performed virtual visits to Edinburgh and Luton to hold discussions with the component teams. The virtual visits used video technology and our global audit software to meet with component teams to discuss and direct their audit approach, meeting with members of local management, attending planning and closing meetings, reviewing relevant working papers including in response to the risk areas for which component teams perform procedures, including supplier arrangements, aspects of revenue recognition and the measurement of the provision for impairment of loans and advances to customers. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant working papers, retaining those that were considered key, and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact J Sainsbury plc. The Group has determined that the most significant future impacts from climate change on its operations will be from extreme weather events, such as flooding or droughts and from the move towards a low-carbon future which may impact the business, as a result of changing consumer preferences and climate-related regulations. These are explained on pages 17 to 23 in the required Task Force for Climate-Related Financial Disclosures and on page 50 in the principal risks and uncertainties, which form part of the 'Other information,' rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the consolidated financial statements, policy, technology and market changes in response to climate change are still developing, and these are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted International accounting standards. In Notes 14, 17, 25 and 37 to the financial statements, narrative explanations of the impact of reasonably possible changes in key assumptions have been provided and significant judgements and estimates relating to climate change have been described in Note 4.

Our audit effort in considering the impact of climate-related risks on the financial statements was focused on assessing the Company's conclusion that the current known impacts of the Group's climate related plans and pledges have been reflected in the valuation of assets and liabilities, the useful economic lives of Property, Plant & Equipment and the cashflow forecast used in the assessment of impairment of non-financial assets, assessment of the going concern basis and viability statement.

The Group has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2035. Within the "Other information", the Group discloses its "Plan for Better"; the strategy which sets out how they are working to transition to a lower carbon future and become a net-zero business by 2035. The Group has disclosed that this is an evolving area and the work undertaken by the Group will inform their response to the risks and opportunities identified. This currently reflects the known impacts of climate change and will continue to be reflected in their financial models and plans to reflect the future economic impact on their business model, operational plans and customers. Therefore, as set out above, the potential impacts of future plans are not fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk

Supplier arrangements

Refer to the Accounting policy and Note 8 of the Consolidated Financial Statements (page 126)

The Group, through its Retail divisions, receives material discounts and incentives, fixed amounts (including promotions and utilisation of specific space), volume-based rebates and marketing and advertising income from suppliers, collectively referred to as supplier arrangements. The terms of agreements with suppliers can be complex and varied. In addition, there can be performance conditions or promotional periods that span the Group's reporting date.

Amounts recognised as deductions to Cost of sales for the period ended 5 March 2022 were £381 million (2020/2021: £360 million), with related balance sheet entries recognised in inventory, current trade receivables and current trade payables.

Accounting for rebate arrangements with suppliers requires judgement and estimation in determining the extent to which deal terms have been met, especially those spanning the Group's reporting date, impacting cut-off. High deal volumes are recorded just prior to the Group's reporting date which raises the risk that fixed amounts may be misstated. High levels of manual intervention within the marketing and advertising and discounts and incentives categories raise the risk of an error occurring in the calculation of income, either accidentally or purposefully through management override of controls.

The risk has remained the same in the current year as the complexity around the arrangements is similar year on year.

Our response to the risk

We performed procedures over supplier arrangements at both the Sainsbury's Supermarkets Limited and Argos Limited components.

- We walked through and assessed the design effectiveness of the controls in place within the supplier arrangements process.
- We selected a sample of suppliers across the categories of supplier arrangements, to whom we sent confirmations across certain "deal" types to confirm key deal input terms. Where we did not receive a response from the supplier, we performed alternative procedures, including obtaining evidence of initiation (such as supplier invoices) and if settled, settlement of the arrangement.
- We tested the existence and valuation of balance sheet amounts recognised in accounts receivable or as a contra-asset in accounts payable by reviewing post-period end settlement. We also performed a 'look-back' analysis of prior period balance sheet amounts to check that these amounts were appropriately recovered.
- We tested the settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by off-set to accounts payable.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments, meeting a pre-defined criteria, to corroborating evidence such as third party invoices.
- We tested cut-off for deals recorded pre and post period end by obtaining the supplier agreement to validate that the deal was recorded in the correct period.
- We assessed the adequacy of the financial statements disclosures in respect of supplier arrangements and their compliance with accounting standards including the completeness and accuracy of amounts disclosed.

Key observations communicated to the Audit Committee

Supplier arrangement amounts are appropriately recognised in the income statement and balance sheet and the disclosures in the financial statements are appropriate.

Risk

Aspects of revenue recognition

Refer to the Accounting policy and Note 6 of the Consolidated Financial Statements (page 121)

There are a number of areas within revenue which require management to exercise accounting judgement in recording manual adjustments where the recognition of revenue does not directly correspond to cash receipts. Such adjustments primarily include commission-based arrangements, deferral of revenue relating to Nectar points and accounting for coupons and vouchers.

There is a risk that these adjustments are not complete and accurate for the period ended 5 March 2022 and that accounting judgements taken are inappropriate, particularly in respect of deferral of revenue. The opportunity exists through management override of controls, such as the posting of manual journals, to misstate revenue in the period.

Revenue recognised, including the effects of manual adjustments, for the period ended 5 March 2022 totalled £29,895 million (2020/2021: £29,048 million).

The risk has remained the same in the current year as there continues to be a focus on business performance.

Our response to the risk

We performed procedures over adjustments to revenue at the Sainsbury's Supermarkets Limited, Nectar 360 Limited and Argos Limited components.

- We gained an understanding of and documented the key processes used to record revenue transactions by performing walkthroughs and assessing the design effectiveness of key controls.
- We tested the appropriateness of the Group's revenue recognition policy by comparing to the criteria set out in IFRS 15 *Revenue from Contracts with Customers*.
- We performed journal analysis to identify manual sales journals that did not result in cash receipts (including coupons and vouchers), obtaining supporting evidence of collection and settlement to verify revenue was recognised correctly.
- In relation to the calculation of deferred revenue for Nectar points, we examined and critically assessed input data which included:
  - Obtaining details of points balances earned and redeemed for the period ended 5 March 2022 and agreeing a sample of points in issue to Nectar partner confirmations;
  - Challenging and analysing management's accounting judgements in respect of breakage (the proportion of points which are unlikely to ever be redeemed); and
  - Recalculating the fair value per point, applied to the number of points in circulation to determine the amount of deferred revenue to recognise at 5 March 2022.
- Using data extracted from the accounting system, we tested the appropriateness of manual journal entries, meeting pre-defined criteria and impacting revenue, as well as other adjustments (consolidation journals) made in the preparation of the financial statements. We considered the validity of unusual journals such as those posted outside of expected hours, or by unexpected individuals and for large or unusual amounts.
- We completed detailed analytical reviews to understand if there had been significant or unusual activity in the period, including assessing changes in the number of and nature of manual adjustments to verify completeness.

Key observations communicated to the Audit Committee

Revenue has been correctly recognised in accordance with IFRS 15. The manual adjustments to revenue in the current year primarily related to commission and deferred revenue for Nectar. We did not identify any exceptions in our testing of these manual entries.

Risk

Measurement of provision for impairment of loans and advances to financial services customers
Refer to the Audit Committee Report (page 76); Accounting policies (page 152); and Notes 21 and 30 of the Consolidated Financial Statements (page 143 and page 149)

Non-current loans and advances to customers (2021/2022: £2,069 million; 2020/2021: £2,332 million)

Impairment of non-current loans and advances (2021/2022: £43 million; 2020/2021: £52 million)

Current loans and advances to customers (2021/2022: £3,202 million; 2020/2021: £3,301 million)

Impairment of current loans and advances (2021/2022: £160 million; 2020/2021: £211 million)

Customer receivables comprise unsecured personal loans, credit cards, mortgages (Sainsbury's Bank) and store cards (Argos Financial Services).

Credit provisions represent management's best estimate of impairment and significant judgements and estimates are made in determining the timing and measurement of expected credit loss ('ECL'). The key judgements and estimates in respect of the timing and measurement of ECL include:

a) Completeness and accuracy of data;
b) The accounting interpretations and modelling assumptions used to build the models that calculate ECL;
c) Inputs and assumptions used to estimate the impact of multiple economic scenarios;
d) Allocation of assets to stage 1, 2 or 3 using criteria in accordance with the accounting standard;
e) Completeness and valuation of post model adjustments; and
f) Accuracy and adequacy of the financial statement disclosures.

We consider the risk related to the ECL provisions continues to be heightened as a result of ongoing economic uncertainty from COVID-19 and the uncertain effects of the invasion of Ukraine.

Our response to the risk
We performed procedures over ECL for Sainsbury's Bank plc and Argos Financial Services entities.

- We assessed the design effectiveness of key controls and tested these across the processes relevant to the impairment provision calculation, involving EY specialists to assist us in performing our procedures where appropriate.
- We reviewed the minutes of the Model and Risk Committees where inputs, assumptions and adjustments to the ECL were discussed and approved.
- We verified the data used in the ECL calculation on a sample basis and considered the assumptions, inputs and formulas used across the entire population of ECL models. We assessed the model design and considered alternative modelling techniques, recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of the models.
- We tested the assumptions and inputs as stated above with the assistance of EY modelling and economic specialists. We assessed management's base and alternative economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts.
- Benchmarking analysis was performed against the Bank's peers for forecasted macroeconomic variables used within the models, such as GDP and unemployment.
- We assessed the criteria used to allocate an asset to stage 1, 2 and 3 in accordance with IFRS 9 *Financial instruments* to verify they were allocated to the appropriate stage and reperformed this allocation in full.
- We challenged post model adjustments for appropriateness using our knowledge and experience across the industry, performing testing over material adjustments together with EY credit modelling specialists. We assessed the appropriateness of the scenarios and calculations used in determining the adjustment to be applied in response to the economic uncertainty due to COVID-19 and the invasion of Ukraine.
- We assessed the adequacy and appropriateness of disclosures for compliance with accounting standards.

Key observations communicated to the Audit Committee
We are satisfied that provisions for the impairment of loans and advances to customers were reasonable and recognised in accordance with the applicable reporting framework based on our procedures performed.

Risk

Valuation of the defined benefit pension scheme
Refer to the Audit Committee Report (page 76); Accounting policies (page 178); and Note 37 of the Consolidated Financial Statements (page 178)

Retirement benefit surplus (2021/2022: £2,283 million; 2020/2021: £744 million

Present value of funded obligations (2021/2022: £9,410 million; 2020/2021: £10,256 million)

Fair value of plan assets (2021/2022: £11,693 million; 2020/2021: £11,000 million)

The valuation of the liabilities of the pension scheme is subject to the following significant assumptions which are determined by an external firm of pension actuaries:

a) Discount rate;
b) Inflation;
c) Future pension increases; and
d) Mortality.

Given the quantum of the defined benefit pension obligation, a movement in the actuarial assumptions could result in a material difference in its value.

In addition, the unquoted asset pools (2021/2022: £3,900 million; 2020/2021: £3,126 million) of the defined benefit pension scheme contain an element of Level 3 illiquid investments. Certain of these assets are harder to value, which increases the risk of incorrect valuation.

The risks associated with the pension scheme remain elevated as a result of the economic environment, which has led to greater volatility in the liability assumptions and additional uncertainty over the valuation of pension assets, which drives the surplus calculation.

Our response to the risk
Our audit procedures covered the Sainsbury's Pension Scheme which has two sections: the Sainsbury's Section and the Argos Section.

- We gained an understanding of and documented the process used to record pension balances by performing a walkthrough and assessing the design effectiveness of key controls.
- With the support of EY pension actuaries we considered the appropriateness of the key assumptions supporting the valuation of the scheme liabilities, being the discount rate, inflation, future pension increases and mortality. We developed an independent range of reasonable assumptions upon which to assess those used by the Group and its external actuarial experts.
- We assessed the impact on pension liabilities of changes in financial, demographic and mortality assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based.
- With respect to certain unquoted pension assets we obtained independent confirmations of all assets held. In conjunction with EY valuation specialists we independently valued a sample of assets and compared these to management's valuations, critically assessing management's valuation methodology.
- Where valuation adjustments had been made by management for changes in relevant market indices and to reflect cash received or paid between the dates of the net asset value statements fund managers' original valuations and the end of the Group's accounting period, we, in conjunction with EY valuation specialists, tested that the relevant assumptions used were appropriate.
- We evaluated the competence, capabilities and objectivity of management's external actuaries involved in the determination of the actuarial assumptions.
- We assessed the adequacy of the financial statements disclosures in respect of the defined benefit pension schemes and their compliance with accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee
The assumptions used to value the defined benefit obligation are within an acceptable range. Our testing of the valuation of the pension assets, including certain harder to value assets, has not identified any misstatements.

Risk

Aspects of property provisions – treatment of business rates within an onerous contract

Refer to the Audit Committee Report (page 76); Accounting policy and Note 2 of the Consolidated Financial Statements (page 113)

Property provisions of £140 million (2021/2022: £164 million restated) include provisions for onerous contracts which are recognised where expected cash outflows exceed the anticipated future benefits. The amounts provided are based on the Group's best estimates of the likely committed outflows and site closure dates. These provisions do not include rent in accordance with IFRS 16, however do include unavoidable costs related to the lease such as service charges and also include provisions for dilapidations which are recognised where the Group has the obligation to make-good its leased properties. These provisions historically included business rates. There is apparent mixed practice across companies concerning the treatment of business rates in onerous contract provisions. However, following additional guidance published this year by accounting firms including EY, the Group has reassessed its policy in this area, and concluded that business rates relating to vacant property are a statutory obligation rather than a contractual one, and should be recognised as a periodic cost in line with IFRIC 21 "Levies". Prior period comparatives have therefore been restated to remove business rates from previously recognised property provisions (property provisions at 6 March 2021 reduced by £121 million).

Our response to the risk
We performed procedures over the treatment of business rates within onerous contracts at both the Argos Limited and Sainsbury's Supermarkets Limited components.

- We obtained a copy of and critically analysed management's technical accounting paper and legal advice which initially proposed no change to the historic accounting treatment.
- We compared the Group's historic accounting policy to sector peers, and identified apparent mixed accounting practice.
- Given apparent mixed accounting practice, and following recent additional guidance published this year by accounting firms, the audit engagement team discussed the issue with EY's global IFRS subject matter experts in IFRIC 21 *Levies* and IAS 37 *Provisions, Contingent liabilities and Contingent assets*. The discussion primarily focused on the Group's property lease arrangements which stipulate that Argos and Sainsbury's are required to pay business rates when they are due and whether this changes the nature of business rates as a statutory obligation for the Group.
- Following the change in accounting policy, we assessed the appropriateness of classification of business rates relating to vacant properties as a non-underlying item.
- We assessed the adequacy of the financial statement disclosures in respect of the restatement of prior period comparatives for compliance with accounting standards.

Key observations communicated to the Audit Committee
We concluded that business rates for the period when the premises are vacant fall outside the scope of the onerous contract provisions under IAS 37 and it is appropriate that no provision is recognised for the business rates. The change in accounting treatment and disclosure of the impact of the restatement of prior year comparatives is appropriate, along with the classification as a non-underlying item.

Risk

The IT environment

The IT systems across the Group are complex and there are varying levels of integration between them. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process.

During the current year we continued to report deficiencies in certain IT controls. These deficiencies related to IT systems that are part of the Group's control framework over financial reporting and required us to perform incremental procedures.

This risk remains unchanged from the prior year.

Our response to the risk

- We held discussions with management to understand the IT environment and walked through the key financial processes to understand where IT systems were integral to the Group's controls over financial reporting. From this we identified which IT systems to include in the scope for our detailed IT testing.
- We assessed the IT general controls environment for the key systems impacting the accurate recording of transactions and the presentation of the financial statements.
- We designed our IT audit procedures to assess the IT environment, including an assessment of controls over changes made to the system and controls over appropriate access to the systems.
- Where we found that adequate IT general controls were not in place, we performed incremental substantive audit procedures in response to the deficiencies identified for the systems within the scope of our audit.

Key observations communicated to the Audit Committee
We completed additional substantive testing in order to mitigate the risk of material misstatement and we reported a number of control observations and opportunities for improvement.

In the prior year, our auditor's report included key audit matters in relation to restructuring programmes and the assessment of the carrying value of non-current assets. Restructuring activity has been much reduced in the current year due to closure provisions being recognised in the prior year. Impairment charges in relation to changes in customer behaviour have not recurred during the current year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £38 million (2020/2021: £27 million), which is 4.6% (2020/2021: 5%) of Profit before tax, adjusted for non-recurring items. We believe that Profit before tax, adjusted for non-recurring items, provides us with the most relevant performance measure as it adjusts for the effect of items which do not relate to the ongoing trading of the Group. The materiality basis in the prior year used a normalised measure of adjusted profit before tax, which reflected the volatility in the Group's trading results arising from the impact of COVID-19.

Starting basis	Profit before tax	£894 million
Adjustments	Adjust for non-recurring items These items are not one-off in nature)	£77 million
Materiality	Total materiality basis Materiality of £38 million (4.7% of materiality basis)	£817 million

During the course of our audit, we reassessed materiality as the actual adjusted Profit before tax was higher than the Group's initial estimate we used at planning. However, due to the status of our procedures we did not change our materiality from £38 million to reflect this.

We determined materiality for the Parent Company to be £128 million (2020/2021: £136 million), which is 2% (2020/2021: 2%) of net assets. The materiality of the parent company is greater than the Group because the parent company is a holding company with significant net assets. For any parent company balances that are consolidated into the Group financial statements, an allocation of Group performance materiality was used.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2020/2021: 50%) of our planning materiality, namely £19 million (2020/2021: £13.5 million). We have set performance materiality at this percentage to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £3.8 million to £15.0 million (2020/2021: £2.7 million to £12.7 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.9 million (2020/2021: £1.3 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 98, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 116;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 51;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 52;
- Directors' statement on fair, balanced and understandable set out on page 100;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 38;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 38; and;
- The section describing the work of the audit committee set out on page 73.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 100, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:
  - Those that relate to the form and content of the financial statements, such as UK adopted International Accounting Standards, the UK Companies Act 2006, the UK Corporate Governance Code;
  - Those that relate to the Bank, such as the regulations, license conditions and supervisory requirements of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"); and
  - Industry-related such as compliance with the requirements of the Grocery Supply Code of Practice.
- We understood how J Sainsbury plc is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee and attendance at all meetings of the Audit Committee, as well as consideration of the results of our audit procedures across the Group.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by making an assessment of the key fraud risks to the Group and the manner in which such risks may manifest themselves in practice, based on our previous knowledge of the Group as well as an assessment of the current business environment.
- Based on the results of our risk assessment we designed our audit procedures to identify non-compliance with such laws and regulations. Where the risk was considered to be higher, we performed audit procedures to address each identified risk of material misstatement. These procedures included those referred to in the "Supplier arrangements" and "Aspects of revenue recognition" key audit matters section above. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of material fraud or error. We evaluated the design and operational effectiveness of controls put in place to address the risks identified, or that otherwise prevent, deter and detect fraud. We also considered performance targets and their influence on efforts made by management to manage earnings.
- If any instances of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams who performed sufficient and appropriate audit procedures, supplemented by audit procedures at the Group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 8 July 2015 to audit the financial statements for the period ended 12 March 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 7 years, covering the periods ending 12 March 2016 to 5 March 2022.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Colin Brown
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 April 2022

Consolidated income statement

for the 52 weeks to 5 March 2022

		52 weeks to 5 March 2022			52 weeks to 6 March 2021 (restated)		
	Note	Before non-underlying items £m	Non-underlying items (Note 5) £m	Total £m	Before non-underlying items £m	Non-underlying items (Note 5) £m	Total £m
Revenue	6	**29,895**	**–**	**29,895**	29,048	–	29,048
Cost of sales		**(27,538)**	**9**	**(27,529)**	(26,870)	(333)	(27,203)
Gross profit/(loss)		**2,357**	**9**	**2,366**	2,178	(333)	1,845
Administrative expenses		**(1,352)**	**(78)**	**(1,430)**	(1,480)	(222)	(1,702)
Other income		**34**	**186**	**220**	12	1	13
Operating profit/(loss)		**1,039**	**117**	**1,156**	710	(554)	156
Finance income	10	**3**	**17**	**20**	3	29	32
Finance costs	10	**(312)**	**(10)**	**(322)**	(356)	4	(352)
Profit/(loss) before tax		**730**	**124**	**854**	357	(521)	(164)
Income tax (expense)/credit	11	**(154)**	**(23)**	**(177)**	(105)	68	(37)
Profit/(loss) for the financial period		**576**	**101**	**677**	252	(453)	(201)

	Note	pence	pence
Earnings/(loss) per share	12		
Basic earnings/(loss)		**29.8**	(9.4)
Diluted earnings/(loss)		**28.8**	(9.4)

The notes on pages 113 to 193 form an integral part of these financial statements.

Refer to note 2 for details of prior year restatements.

Consolidated statement of comprehensive income/(loss)

for the 52 weeks to 5 March 2022

	Note	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 (restated) £m
Profit/(loss) for the financial year		**677**	(201)
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	37	**1,457**	(482)
Movements on financial assets at fair value through other comprehensive income		**76**	55
Cash flow hedges fair value movements – inventory hedges	32	**73**	(60)
Current tax relating to items not reclassified		**–**	44
Deferred tax relating to items not reclassified	11	**(461)**	9
		1,145	(434)
Items that may be reclassified subsequently to the income statement			
Currency translation differences		**(1)**	(5)
Movements on financial assets at fair value through other comprehensive income		**(5)**	2
Items reclassified from financial assets at fair value through other comprehensive income reserve		**4**	–
Cash flow hedges fair value movements – non-inventory hedges	32	**131**	(1)
Items reclassified from cash flow hedge reserve	32	**7**	13
Deferred tax on items that may be reclassified	11	**(57)**	10
		79	19
Total other comprehensive income/(loss) for the year (net of tax)		**1,224**	(415)
Total comprehensive income/(loss) for the year		**1,901**	(616)

The notes on pages 113 to 193 form an integral part of these financial statements.

Refer to note 2 for details of prior year restatements.

Consolidated balance sheet

At 5 March 2022, 6 March 2021 and 7 March 2020

	Note	**5 March 2022 £m**	6 March 2021 (restated) £m	7 March 2020 (restated) £m
Non-current assets				
Property, plant and equipment	14	**8,402**	8,587	8,949
Right-of-use assets	15	**5,560**	4,747	4,826
Intangible assets	16	**1,006**	914	974
Investments in joint ventures and associates		**3**	5	9
Financial assets at fair value through other comprehensive income	18	**604**	754	972
Trade and other receivables	20	**65**	50	43
Amounts due from Financial Services customers and other banks	21	**2,026**	2,280	3,453
Derivative financial assets	32	**213**	8	6
Net retirement benefit surplus	37	**2,283**	744	1,119
		20,162	18,089	20,351
Current assets				
Inventories	19	**1,797**	1,625	1,732
Trade and other receivables	20	**683**	725	811
Amounts due from Financial Services customers and other banks	21	**3,163**	3,127	3,951
Financial assets at fair value through other comprehensive income	18	**196**	90	82
Derivative financial assets	32	**78**	5	12
Cash and cash equivalents	33	**825**	1,575	994
		6,742	7,147	7,582
Assets held for sale	22	**8**	24	4
		6,750	7,171	7,586
Total assets		**26,912**	25,260	27,937
Current liabilities				
Trade and other payables	23	**(4,546)**	(4,488)	(4,275)
Amounts due to Financial Services customers and other deposits	24	**(4,444)**	(6,086)	(6,890)
Borrowings	35	**(54)**	(356)	(48)
Lease liabilities	15	**(526)**	(524)	(510)
Derivative financial liabilities	32	**(29)**	(93)	(53)
Taxes payable		**(169)**	(83)	(168)
Provisions	25	**(100)**	(199)	(106)
		(9,868)	(11,829)	(12,050)
Net current liabilities		**(3,118)**	(4,658)	(4,464)
Non-current liabilities				
Other payables	23	**(24)**	(20)	(11)
Amounts due to Financial Services customers and other deposits	24	**(815)**	(203)	(1,204)
Borrowings	35	**(707)**	(748)	(1,248)
Lease liabilities	15	**(6,095)**	(5,310)	(5,264)
Derivative financial liabilities	32	**(3)**	(44)	(36)
Deferred income tax liability	11	**(806)**	(255)	(265)
Provisions	25	**(171)**	(150)	(68)
		(8,621)	(6,730)	(8,096)
Total liabilities		**(18,489)**	(18,559)	(20,146)
Net assets		**8,423**	6,701	7,791
Equity				
Called up share capital	26	**668**	637	634
Share premium	26	**1,406**	1,173	1,159
Merger reserve	26	**568**	568	568
Capital redemption reserve	27	**680**	680	680
Other reserves	27	**409**	167	168
Retained earnings	29	**4,692**	3,228	4,086
Total equity before perpetual securities		**8,423**	6,453	7,295
Perpetual securities	28	**–**	248	496
Total equity		**8,423**	6,701	7,791

The notes on pages 113 to 193 form an integral part of these financial statements. Refer to note 2 for details of prior year restatements.

The financial statements on pages 108 to 193 were approved by the Board of Directors on 27 April 2022, and are signed on its behalf by:

Simon Roberts	**Kevin O’Byrne**
Chief Executive	Chief Financial Officer

Consolidated cash flow statement

for the 52 weeks to 5 March 2022

	Note	**52 weeks to 5 March 2022 £m**	52 weeks to 6 March 2021 (restated) £m
Cash flows from operating activities			
Profit/(loss) before tax		**854**	(164)
Net finance costs		**302**	320
Operating profit		**1,156**	156
Adjustments for:			
Depreciation expense	14, 15	**1,069**	1,113
Amortisation expense	16	**151**	136
Net impairment loss on property, plant and equipment, right-of-use assets, intangible assets	14, 15, 16	**9**	321
Non-cash adjustments arising from acquisitions		**–**	(1)
Financial Services movement in loss allowance for loans and advances to customers		**19**	85
Loss/(profit) on sale of non-current assets and early termination of leases	33	**(6)**	(17)
Non-underlying fair value movements	5	**(76)**	–
Share-based payments expense	38	**58**	29
Defined benefit scheme expenses	37	**4**	13
Cash contributions to benefit schemes	37	**(71)**	(101)
Operating cash flows before changes in working capital		**2,313**	1,734
Changes in working capital	33		
(Increase)/decrease in inventories		**(179)**	117
Decrease in financial assets at fair value through other comprehensive income		**115**	267
Decrease in trade and other receivables		**33**	62
Decrease in amounts due from Financial Services customers and other deposits		**161**	1,912
Increase in trade and other payables		**28**	321
(Decrease) in amounts due to Financial Services customers and other deposits		**(1,030)**	(1,805)
(Decrease)/increase in provisions and other liabilities		**(80)**	177
Cash generated from operations		**1,361**	2,785
Interest paid		**(329)**	(349)
Corporation tax paid		**(23)**	(93)
Net cash generated from operating activities		**1,009**	2,343
Cash flows from investing activities			
Purchase of property, plant and equipment	33	**(416)**	(423)
Initial direct costs on new leases		**(3)**	(7)
Purchase of intangible assets	33	**(278)**	(172)
Proceeds from disposal of property, plant and equipment		**46**	27
Dividends and distributions received		**2**	22
Net cash used in investing activities		**(649)**	(553)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	26, 29	**21**	17
Proceeds from borrowings		**–**	660
Repayment of borrowings		**(248)**	(289)
Repayment of short-term borrowings		**–**	(660)
Repayment of perpetual capital securities		**(8)**	(250)
Purchase of own shares	29	**(48)**	(30)
Repayment of capital element of lease obligations		**(493)**	(501)
Dividends paid on ordinary shares	13	**(238)**	(232)
Dividends paid on perpetual securities		**(4)**	(23)
Net cash used in financing activities		**(1,018)**	(1,308)
Net (decrease)/increase in cash and cash equivalents		**(658)**	482
Opening cash and cash equivalents		**1,476**	994
Closing cash and cash equivalents	33	**818**	1,476

The notes on pages 113 to 193 form an integral part of these financial statements.

Refer to note 2 for details of prior year restatement.

Consolidated statement of changes in equity

for the 52 weeks to 5 March 2022

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 7 March 2021 (as previously reported)		**637**	**1,173**	**568**	**847**	**3,131**	**6,356**	**–**	**248**	**6,604**
Opening balance adjustment		**–**	**–**	**–**	**–**	**97**	**97**	**–**	**–**	**97**
At 7 March 2021 (restated)		**637**	**1,173**	**568**	**847**	**3,228**	**6,453**	**–**	**248**	**6,701**
Profit for the period	29	**–**	**–**	**–**	**–**	**677**	**677**	**–**	**–**	**677**
Other comprehensive income	27, 29	**–**	**–**	**–**	**285**	**1,457**	**1,742**	**–**	**–**	**1,742**
Tax relating to other comprehensive income	29	**–**	**–**	**–**	**(87)**	**(431)**	**(518)**	**–**	**–**	**(518)**
Total comprehensive income for the period ended 5 March 2022		**–**	**–**	**–**	**198**	**1,703**	**1,901**	**–**	**–**	**1,901**
Cash flow hedges gains and losses transferred to inventory	27, 32	**–**	**–**	**–**	**28**	**–**	**28**	**–**	**–**	**28**
Transactions with owners:										
Dividends	13, 29	**–**	**–**	**–**	**–**	**(238)**	**(238)**	**–**	**–**	**(238)**
Share-based payment	38	**–**	**–**	**–**	**–**	**60**	**60**	**–**	**–**	**60**
Purchase of own shares	29	**–**	**–**	**–**	**–**	**(48)**	**(48)**	**–**	**–**	**(48)**
Allotted in respect of share option schemes	26, 29	**5**	**17**	**–**	**–**	**(1)**	**21**	**–**	**–**	**21**
Conversion of perpetual convertible bonds	28	**26**	**216**	**–**	**–**	**(2)**	**240**	**–**	**(240)**	**–**
Repayment of perpetual convertible bonds		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
Other adjustments		**–**	**–**	**–**	**16**	**(13)**	**3**	**–**	**–**	**3**
Tax on items charged to equity		**–**	**–**	**–**	**–**	**3**	**3**	**–**	**–**	**3**
At 5 March 2022		**668**	**1,406**	**568**	**1,089**	**4,692**	**8,423**	**–**	**–**	**8,423**
At 8 March 2020 (as previously reported)		634	1,159	568	848	4,068	7,277	248	248	7,773
Opening balance adjustment		–	–	–	–	18	18	–	–	18
At 8 March 2020 (restated)		634	1,159	568	848	4,086	7,295	248	248	7,791
(Loss)/profit for the period		–	–	–	–	(208)	(208)	–	7	(201)
Other comprehensive income/(loss)		–	–	–	4	(482)	(478)	–	–	(478)
Tax relating to other comprehensive income/(loss)		–	–	–	(4)	67	63	–	–	63
Total comprehensive (loss)/profit for the period ended 6 March 2021		–	–	–	–	(623)	(623)	–	7	(616)
Cash flow hedges gains and losses transferred to inventory		–	–	–	(1)	–	(1)	–	–	(1)
Transactions with owners:										
Dividends		–	–	–	–	(232)	(232)	–	–	(232)
Distribution to holders of perpetual securities		–	–	–	–	–	–	–	(7)	(7)
Share-based payment		–	–	–	–	29	29	–	–	29
Purchase of own shares		–	–	–	–	(30)	(30)	–	–	(30)
Allotted in respect of share option schemes		3	14	–	–	–	17	–	–	17
Redemption of perpetual capital securities		–	–	–	–	(2)	(2)	(248)	–	(250)
At 6 March 2021		637	1,173	568	847	3,228	6,453	–	248	6,701

The notes on pages 113 to 193 form an integral part of these financial statements.

Refer to note 2 for details of prior year restatements.

Notes to the consolidated 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 5 March 2022 (prior financial year: 52 weeks to 6 March 2021). The consolidated financial statements for the 52 weeks to 5 March 2022 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 Food, General Merchandise and Clothing retailing and Financial Services.

2 Significant accounting policies

2.1 Basis of preparation

The Group's financial statements have been prepared in accordance with UK-adopted international accounting standards.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared under the historical cost convention, except for derivative financial instruments, defined benefit pension scheme assets and financial assets at fair value through other comprehensive income that have been measured at fair value.

Sainsbury's Bank plc and its subsidiaries have been consolidated for the twelve months to 28 February 2022 being the Bank's year-end date (prior financial year: 28 February 2021). There have been no significant transactions or events that occurred between this date and the Group's balance sheet date, and therefore no adjustments have been made to reflect the difference in year-end dates.

Significant accounting policies have been included in the relevant notes to which the policies relate, and those relating to the financial statements as a whole can be read further below. Unless otherwise stated, significant accounting policies have been applied consistently to all periods presented in the financial statements.

Prior period restatements

Business rates within property provisions

The consolidated financial statements include a prior year restatement in relation to the treatment of business rates within property provisions. Where the Group no longer operates from a leased property, onerous property contract provisions are recognised for the least net cost of exiting from the contract. Unless a separate exit agreement with a landlord has already been agreed, the Group's policy is that this onerous contract provision includes all unavoidable costs of meeting the obligations of the contract – these include service charges and insurance, and have also historically included business rates.

There is apparent mixed practice across companies concerning the treatment of business rates in onerous contract provisions. However following additional guidance published this year by accounting advisory firms, the Group has reassessed its policy in this area, and concluded that business rates are a statutory obligation rather than a contractual one, and should be recognised as a periodic cost in line with IFRIC 21 "Levies". Prior period comparatives have therefore been restated to remove business rates from previously recognised property provisions.

Notional cash pooling

The consolidated financial statements include a prior year restatement in relation to notional cash pooling arrangements where the intention to net settle cannot be clearly demonstrated, and therefore do not meet the requirements for offsetting in accordance with IAS 32: 'Financial Instruments: Presentation'. Prior period comparatives have been restated by grossing up cash and overdrafts (reported within current borrowings). There is no impact on the income statement, cash flow statement nor earnings and diluted earnings per share.

Prior period comparatives

The prior period comparatives have been restated in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Policies and Errors' and have impacted the primary financial statements as follows:

Income statement

	Before non-underlying items			Non-underlying items			Total		
For the 52 weeks to 6 March 2021	As previously reported £m	Business rates adjustment £m	As restated £m	As previously reported £m	Business rates adjustment £m	As restated £m	As previously reported £m	Business rates adjustment £m	As restated £m
Revenue	**29,048**	**–**	**29,048**	**–**	**–**	**–**	**29,048**	**–**	**29,048**
Cost of sales	(26,871)	1	(26,870)	(412)	79	(333)	(27,283)	80	(27,203)
Gross profit/(loss)	**2,177**	**1**	**2,178**	**(412)**	**79**	**(333)**	**1,765**	**80**	**1,845**
Administrative expenses	(1,480)	–	(1,480)	(238)	16	(222)	(1,718)	16	(1,702)
Other income	12	–	12	1	–	1	13	–	13
Operating profit/(loss)	**709**	**1**	**710**	**(649)**	**95**	**(554)**	**60**	**96**	**156**
Finance income	3	–	3	29	–	29	32	–	32
Finance costs	(356)	–	(356)	3	1	4	(353)	1	(352)
Profit/(loss) before tax	**356**	**1**	**357**	**(617)**	**96**	**(521)**	**(261)**	**97**	**(164)**
Income tax (expense)/credit	(105)	–	(105)	86	(18)	68	(19)	(18)	(37)
Profit/(loss) for the financial period	**251**	**1**	**252**	**(531)**	**78**	**(453)**	**(280)**	**79**	**(201)**
Earnings per share	**11.7**	**–**	**11.7**				**(13.0)**	**3.6**	**(9.4)**
Diluted EPS	**11.4**	**–**	**11.4**				**(13.0)**	**3.6**	**(9.4)**

2 Significant accounting policies continued

Balance sheets

As at 6 March 2021	As previously reported £m	Notional cash pooling adjustment £m	Business rates adjustment £m	As restated £m
Cash and cash equivalents	1,477	98	–	1,575
Total assets	25,162	98	–	25,260
Current liabilities				
Borrowings	(258)	(98)	–	(356)
Taxes payable	(59)	–	(24)	(83)
Provisions	(209)	–	10	(199)
Total current liabilities	(11,717)	(98)	(14)	(11,829)
Net current liabilities	(4,644)	–	(14)	(4,658)
Non-current liabilities				
Provisions	(261)	–	111	(150)
Total liabilities	(18,558)	(98)	97	(18,559)
Net assets	6,604	–	97	6,701
Equity				
Retained earnings	3,131	–	97	3,228
Total equity before perpetual securities	6,356	–	97	6,453
Total equity	6,604	–	97	6,701

As at 7 March 2020	As previously reported £m	Business rates adjustment £m	As restated £m
Current liabilities			
Taxes payable	(163)	(5)	(168)
Provisions	(108)	2	(106)
Total current liabilities	(12,047)	(3)	(12,050)
Net current liabilities	(4,461)	(3)	(4,464)
Non-current liabilities			
Provisions	(89)	21	(68)
Total liabilities	(20,164)	18	(20,146)
Net assets	7,773	18	7,791
Equity			
Retained earnings	4,068	18	4,086
Total equity before perpetual securities	7,277	18	7,295
Total equity	7,773	18	7,791

2 Significant accounting policies continued

Cash flow statement

For the 52 weeks to 6 March 2021	As previously reported £m	Business rates adjustment £m	As restated £m
Cash flows from operating activities			
Profit/(loss) before tax	(261)	97	(164)
Net finance costs	321	(1)	320
Operating profit	60	96	156
Operating cash flows before changes in working capital	1,638	96	1,734
Changes in working capital			
(Decrease)/increase in provisions and other liabilities	273	(96)	177
Cash generated from operations	2,785	–	2,785
Net cash generated from operating activities	2,343	–	2,343
Net cash used in investing activities	(553)	–	(553)
Net cash used in financing activities	(1,308)	–	(1,308)
Net (decrease)/increase in cash and cash equivalents	482	–	482

Change in accounting policy – Software as a Service (SaaS) arrangements

During the year, the Group revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing software as a service (SaaS) arrangements. This is in response to the IFRS Interpretations Committee (IFRIC) agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements during the current financial year. The new accounting policy is presented within note 16. Adjustments in relation to costs capitalised in prior years have therefore been recognised as follows:

	£m
Intangible assets	(30)
Prepayments	9
Total assets/net assets	**(21)**
Administrative expenses	(21)
Profit before tax	**(21)**

The impact is not considered to have a material impact on the prior year balance sheet nor income statement, therefore the prior year results have not been restated. Given this is an out of period cost and could distort comparability between reporting periods, this has been included within non-underlying profit before tax. Intangible asset write-offs have been included within disposals.

In addition to the above, £14 million of current year spend that would have been capitalised to intangible assets under the Group's previous accounting policy has now been recognised within prepayments (£6 million) and underlying profit (£8 million).

There is no impact on cash flows.

Climate change considerations

In preparing the Group's financial statements, consideration has been given to the impact of both physical and transition climate change risks, as described within the Task Force on Climate-Related Financial Disclosures (TCFD) section on page 17, and how these impact the financial statements. While it is not believed that these climate change risks have a material impact on the Group's financial statements, further narrative disclosure has been provided in the following disclosure notes:

- Going Concern – note 2.2
- Significant accounting judgements, estimates and assumptions – note 4
- Property, plant and equipment – note 14
- Impairment of non-financial assets – note 17
- Provisions – note 25
- Retirement benefit obligations – note 37

The policy, technology and market changes in response to climate change are still developing, and these are interdependent upon each other, and consequently the financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

2 Significant accounting policies continued

2.2 Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for a period of at least 12 months from the date of approval. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The assessment period for the purposes of considering going concern is the 12 months to 27 April 2023.

In assessing the Group's ability to continue as a going concern, the Directors have considered the Group's most recent corporate planning and budgeting processes. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecasted future funding requirements over three years, with a further two years of indicative movements.

The Group manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of standby liquidity via the Revolving Credit Facility. This seeks to minimise liquidity risk by maintaining a suitable level of undrawn additional funding capacity.

The Revolving Credit Facility is split into two Facilities, a £300 million Facility (A) and a £1,094 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024. As at 5 March 2022, both Facility (A) and Facility (B) were undrawn.

In assessing going concern, scenarios in relation to the Group's principal risks have been considered in line with those disclosed in the viability statement on page 51 by overlaying them into the corporate plan and assessing the impact on cash flows, net debt and funding headroom. These severe but plausible scenarios included modelling inflationary pressures on both food margins and general recession-related risks, the impact of any regulatory fines, and the failure to deliver planned cost savings.

In performing the above analysis, the Directors have made certain assumptions around the availability and effectiveness of the mitigating actions available to the Group. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses and dividend payments.

The Group's most recent corporate planning and budgeting processes incorporates assumed cashflows to address climate change risks, including those associated with the Group's Plan for Better commitment which include reducing environmental impacts and meeting customer expectations in this area, notably through reducing packaging and energy usage across the estate. Climate-related risks do not result in any material uncertainties affecting the Group's ability to continue as a going concern.

Consideration was also given to the conflict in Ukraine which has continued to develop subsequent to the Group's balance sheet date. Inflationary pressures which may be caused by the conflict are already incorporated into the overall going concern assessment, as such the impact of the conflict in Ukraine does not impact the conclusions reached over going concern.

As a consequence of the work performed, the Directors considered it appropriate to adopt the going concern basis in preparing the Financial Statements with no material uncertainties to disclose.

2.3 Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities, including structured entities (see below) over which the Group has control. This is 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.

Sainsbury's Property Scottish Partnership, Sainsbury's Property Scottish Limited Partnership, Sainsbury's Thistle Scottish Limited Partnership and Nectar 360 Services LLP, are partnerships 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.

Significant judgement – Consolidation of structured entities
Sainsbury's Thistle Scottish Limited Partnership ('the Partnership') is a structured entity which the Group fully consolidates.

A structured entity is one in which the Group does not hold the majority interest but for which management has concluded that voting rights are not the dominant factor in deciding who controls the entity. The Partnership, in which both the Group and Pension Scheme Trustee hold an interest, was established following the 2018 triennial valuation of the Group's defined benefit scheme.

The Group has determined that the relevant activities of the Partnership are the funding of the Scheme and whether the funding targets have been met. Furthermore, a general partner wholly owned by the Group has exclusive responsibility for the management and control of the Partnership and sole authority to exercise the Partnership's rights. This includes the ability to make additional contributions to the Scheme such that the funding targets are met. As the Group can direct the Partnership's relevant activities and affect its returns (through reaching the Scheme's funding targets), it has been concluded that the Group controls the Partnership, despite not having a majority interest. It is therefore consolidated in the Group accounts. Further information is included in note 37.

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

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

A full list of the Group's joint ventures is included in note 43. Joint ventures with a different year-end date to the Group are reported to include the results up to 28 February 2022, the nearest month-end to the Group's year-end. Adjustments are made for the effects of significant transactions or events that occurred between 28 February and the Group's balance sheet date. No joint venture arrangements are considered significant to the Group.

c) Foreign currencies

The consolidated financial statements are presented in sterling, which is the ultimate parent company's functional currency.

Foreign operations
The Group has operations in Asia that source and purchase certain general merchandise and clothing inventory. In addition the Group has a trading entity in Ireland. On consolidation, assets and liabilities of foreign operations are translated into sterling at year-end exchange rates. The results of foreign operations are translated into sterling at average rates of exchange for the year. Exchange differences arising are recognised in the Group statement of comprehensive income/(loss) and are included in the Group's translation reserve.

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.

2 Significant accounting policies continued

2.4 Amendments to published standards

Effective for the Group and Company in these financial statements:
The Group has considered the following amendments to published standards that are effective for the Group for the financial year beginning 7 March 2021 and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements other than disclosures.

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' on the Interest Rate Benchmark Reform – Phase 2
- Amendment to IFRS 16 'Leases' with regards to the exemption granted in the 'COVID-19-related rent concessions'

The Group early adopted the Interest Rate Benchmark Reform Phase 2 amendments in the financial year ended 6 March 2021. The Group has elected not to apply the exemption granted in the 'COVID-19-related rent concessions' as the Group has not received material COVID-19-related rent concessions as a lessee.

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

- Amendments to IFRS 3 'Business Combinations' with reference to the Conceptual Framework
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use
- Amendments to IAS 1 'Presentation of Financial Statements' on the classification of liabilities as current or non-current
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements' on the disclosure of accounting policies
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of accounting estimates
- Amendments to IAS 12 'Income Taxes' on Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
- IFRS 17 'Insurance Contracts'

The Group 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's financial statements.

3 Alternative performance measures (APMs)

In the reporting of financial information, the Directors use various APMs. These APMs should be considered in addition to, and are not intended to be a substitute for, IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies' APMs.

The Directors believe that these APMs provide additional useful information for understanding the financial performance and health of the Group. They are also used to enhance the comparability of information between reporting periods (such as like-for-like sales and underlying profit) by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid users in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes.

The APMs that the Group has focused on in the period are defined and reconciled on page 203. All of the APMs relate to the current period's results and comparative periods.

4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements 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. Those which are significant to the Group are discussed separately below:

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- Consolidation of structured entities – refer to note 2.3
- Non-underlying items – refer to note 5
- Aggregation of operating segments – refer to note 7
- Lease term – refer to note 15

Sources of estimation uncertainty

The areas where estimates and assumptions are significant to the financial statements are as listed below. 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.

- Nectar accounting (breakage estimates) – refer to note 6
- Lease liabilities (derivation of discount rates) – refer to note 15
- Impairment of non-financial assets – refer to note 17
- Provisions – refer to note 25
- Impairment of Financial Services loans and advances – refer to note 30
- Post-employment benefits (assets and liabilities) – refer to note 37

In assessing the Group's judgements and sources of estimation uncertainty, consideration has been given to the impact of climate change risk on these. Aside from impairment of non-financial assets (refer to note 17) and post-employment benefits (refer to note 37), climate change risks do not have any impacts on the Group's judgements or sources of estimation uncertainty.

Effective interest rates on Financial Services loans and receivables, which was disclosed as a key estimate in the prior year financial statements, is no longer deemed to be a key estimate. In calculating the effective interest rate of a financial instrument the Group takes into account all amounts that are integral to the yield of a financial instrument as well as incremental transaction costs. In the case of loans and advances to customers, any significant changes in the assumptions used to estimate the effect on future cash flows would not have a material impact on the value of loans and receivables held on the balance sheet, and therefore the Group no longer deems this to be a source of significant estimation uncertainty.

5 Profit before non-underlying items

In order to provide shareholders with additional insight into the year-on-year performance of the business, an adjusted measure of profit (underlying profit before tax) is provided to supplement the reported IFRS numbers, and reflects how the business measures performance internally. This adjusted measure excludes items recognised in reported profit or loss before tax which, if included, could distort comparability between periods.

Determining which items are to be adjusted requires judgement, in which the Group considers items which are significant either by virtue of their size and/or nature, or that are non-recurring. The same assessment is applied consistently to any reversals of prior non-underlying items.

Underlying profit is not an IFRS measure and therefore not directly comparable to other companies.

The most significant non-underlying items in the current year relate to income received in relation to the settlement of legal disputes over interchange fees, and costs associated with restructuring programmes. More details on each are included further below.

The Group has not included any additional costs incurred or credits received directly in relation to the impacts of COVID-19 within non-underlying items. Whilst some items (such as additional expenses incurred protecting colleagues and customers) are discrete and can be separately quantified, others, such as incremental food sales, cannot be reliably disaggregated from the Group's underlying performance. The Group has therefore concluded that presenting some movements as underlying and others as non-underlying would give an imbalanced view that is not easily comparable to past and subsequent periods.

	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/ (costs) £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Income recognised in relation to legal disputes	–	13	167	–	180	(35)	145
Restructuring and integration							
Restructuring programmes	(69)	(35)	12	–	(92)	17	(75)
Financial Services transition and other	–	(11)	–	–	(11)	2	(9)
Total restructuring and integration	(69)	(46)	12	–	(103)	19	(84)
Software as a service accounting adjustment	–	(21)	–	–	(21)	4	(17)
Property, finance, pension and acquisition adjustments							
ATM business rates reimbursement	2	–	–	–	2	–	2
Profit on disposal of properties	–	–	7	–	7	–	7
Non-underlying finance and fair value movements	76	–	–	(8)	68	(13)	55
IAS 19 pension expenses	–	(4)	–	15	11	(2)	9
Acquisition adjustments	–	(20)	–	–	(20)	4	(16)
Total property, finance, pension and acquisition adjustments	78	(24)	7	7	68	(11)	57
Tax adjustments							
Over provision in prior years	–	–	–	–	–	(2)	(2)
Revaluation of deferred tax balances	–	–	–	–	–	9	9
Other tax adjustments	–	–	–	–	–	(7)	(7)
Total adjustments	9	(78)	186	7	124	(23)	101

Income recognised in relation to legal disputes

During the current period, agreements were reached and two legal cases settled in relation to overcharges from payment card processing fees, which largely reflect inter-bank "interchange fees". This has led to net income of £167 million being recognised. The Group has one ongoing legal case remaining – refer to note 40.

Of the £167 million, cash of £75 million was received in a prior year and held as deferred income. Net cash of £93 million was received during the current financial year and £1 million of legal fees remains outstanding.

In addition, a provision for a legal claim totalling £13 million has been released as it was assessed during the financial period that a pay-out is no longer considered probable.

5 Profit before non-underlying items continued

Restructuring programmes

In the prior year, the Group announced a restructuring programme to accelerate the structural integration of Sainsbury's and Argos and further simplify the Argos business; create a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos; and further rationalise/repurpose the Group's supermarkets and convenience estate. The programme also considered the Group's Store Support Centre ways of working.

The programme is a multi-year activity which began in the prior year and has continued into the current year. Total cumulative costs to 5 March 2022 are £(640) million split between £(548) million in the prior year and £(92) million in the current period as detailed in the table below. Total expected costs are still in the range of £900 million to £1 billion to March 2024, with the majority in the period to March 2024. In line with IFRIC 21 "Levies", business rates are now recognised as a periodic cost and as such approximately £40 million of business rates associated with leased properties in the restructuring programme will be recognised after the year ended March 2024. Refer to note 2 for further details.

(Costs)/gains recognised in the current year are as follows:

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 (restated) £m
Write downs of property, plant and equipment[a]	**(6)**	(26)
Write downs of leased assets[a]	**(3)**	(72)
Write downs of intangible assets	**–**	(3)
Closure provisions[b]	**(24)**	(145)
Accelerated depreciation of assets[c]	**(33)**	(27)
Redundancy provisions[d]	**(40)**	(61)
Consultancy costs	**(18)**	(10)
Gain on lease terminations[e]	**9**	16
Property profits[f]	**12**	–
Recognition of sub-lease debtor[g]	**11**	–
Restructuring programmes	**(92)**	(328)
Impairment of non-financial assets	**–**	(220)
Total restructuring and impairment costs	**(92)**	(548)

a) During the financial year, the Group announced the closure of 200 of its in-store cafes. Related assets have been written down as a result.
b) Closure provisions relate to onerous contract costs, dilapidations and strip out costs on leased sites that have been identified for closure. Upon initial recognition of closure provisions, management uses its best estimates of the relevant costs to be incurred as well as expected closure dates. Business rates on leased property where the Group no longer operates from are recognised in the period they are incurred.
c) The remaining useful economic lives of corresponding sites have been reassessed to align with closure dates, resulting in an acceleration in depreciation of these assets. The existing depreciation of these assets (depreciation that would have been recognised absent of a closure decision) is recognised within underlying expenses, whereas accelerated depreciation above this is recognised within non-underlying expenses.
d) Redundancy costs are recognised as the plan is announced and a valid expectation raised with the affected colleagues. The current year charge relates to redundancies announced as part of Argos store closures, depot closures, and café and food counter closures.
e) Gains on lease terminations relate to sites impaired in the prior year for which it has been negotiated to exit the leases before the contractual end date. This includes the release of any lease liabilities and right-of-use assets, as well as any closure provisions previously recognised.
f) Profit on disposal of properties relates to profits recognised in the period as sites previously impaired as part of the restructuring programmes have been disposed of.
g) During the year, the Group was able to negotiate a sub-lease on a previously impaired site for the duration of the remaining headlease. This resulted in the creation of a sub-lease debtor (refer to accounting policies for Group as lessor on page 137), with any difference between the lease receivable and right-of-use asset being recognised in the income statement.

As the costs incurred facilitate future underlying cost savings, it was considered whether it was appropriate to report these costs within underlying profit. Whilst they arise from changes in the Group's underlying operations, they can be separately identified, are material in size and do not relate to ordinary in-year trading activity. In addition, the areas being closed or restructured no longer relate to the Group's remaining underlying operations and their exclusion provides meaningful comparison between financial years.

Software as a service accounting adjustment

During the year, the Group revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing software as a service (SaaS) arrangements; refer to note 2.1 for further details. Costs capitalised in prior years totalling £21 million have been written off this year. Given this is an out of period cost and could distort comparability between reporting periods, this has been included within non-underlying profit before tax.

Financial Services transition and other

These comprise Financial Services transition costs of £(11) million and were incurred in transitioning to new banking platforms as part of the previously announced New Bank Programme. These principally comprise contractor and service provider costs relating to the migration of data and other services to the Bank's new infrastructure and operating model. These costs of integration do not reflect the business's trading performance and so are adjusted to ensure consistency between periods. The programme ended this financial year.

5 Profit before non-underlying items continued

Property, finance, pension and acquisition adjustments

- A further £2 million of ATM rates reimbursement income is due to be received from the Valuation Office following the Supreme Court's ruling that ATMs outside stores should not be assessed for additional business rates on top of normal store rates.
- Profit on disposal of non-trading properties for the financial period comprised £(7) million for the Group. These are excluded from underlying profit as such profit is not related to the ongoing operating activities of the Group.
- Non-underlying finance and fair value movements for the financial period comprised £68 million for the Group. These include fair value remeasurements on derivatives not in a hedging relationship and lease interest on impaired non-trading sites, including site closures. The fair value movements are driven by external market factors and can significantly fluctuate year-on-year. They are therefore excluded to ensure consistency between periods. Lease interest on impaired, non-trading sites is excluded as they do not contribute to the operating activities of the Group. Included within cost of sales is £76 million of income in relation to favourable movements on long-term, fixed price power purchase arrangements (PPAs) with independent producers. These are accounted for as derivative financial instruments, however are not designated in hedging relationships, therefore gains and losses are recognised in the income statement. Increases in electricity forward prices in the year have led to gains on the related derivative financial instruments. During the year, the Group entered into an additional PPA, however have designated this in a formal hedging relationship, with gains and losses being recognised within other comprehensive income. Further information is included within note 31. The remaining movements of £(8) million within finance income and costs are analysed further in note 10.
- Defined benefit pension interest and expenses comprises pension finance income of £15 million and scheme expenses of £(4) million (see note 37). Although a recurring item, the Group has chosen to exclude net retirement benefit income and costs from underlying profit as, following closure of the defined benefit scheme to future accrual, it is not part of the ongoing operating activities of the Group and its exclusion is consistent with how the Directors assess the performance of the business.
- Acquisition adjustments of £(20) million reflect the unwind of non-cash fair value adjustments arising from Home Retail Group and Nectar UK acquisitions. The Group would not normally recognise these as assets outside of a business combination. Therefore the unwinds are classified as non-underlying and are recognised as follows:

	52 weeks to 5 March 2022			52 weeks to 6 March 2021		
	Argos £m	**Nectar £m**	**Total Group £m**	Argos £m	Nectar £m	Total Group £m
Depreciation	**3**	**–**	**3**	5	–	5
Amortisation	**(18)**	**(5)**	**(23)**	(18)	(6)	(24)
	(15)	**(5)**	**(20)**	(13)	(6)	(19)

Comparative information (restated)

	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/ (costs) £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Restructuring programmes	(263)	(65)	–	–	(328)	58	(270)
Impairment of non-financial assets	(112)	(108)	–	–	(220)	33	(187)
Financial Services transition and other	–	(17)	–	–	(17)	3	(14)
Total restructuring, impairment and integration	(375)	(190)	–	–	(565)	94	(471)
Property, finance, pension and acquisition adjustments							
ATM business rates reimbursement	42	–	–	–	42	(8)	34
Profit on disposal of properties	–	–	1	–	1	7	8
Perpetual securities coupons	–	–	–	14	14	–	14
Non-underlying finance movements	–	–	–	–	–	–	–
IAS 19 pension (expenses)/income	–	(13)	–	19	6	(1)	5
Acquisition adjustments	–	(19)	–	–	(19)	4	(15)
Total property, finance, pension and acquisition adjustments	42	(32)	1	33	44	2	46
Tax adjustments							
Derecognition of capital losses	–	–	–	–	–	(28)	(28)
Total adjustments	**(333)**	**(222)**	**1**	**33**	**(521)**	**68**	**(453)**

Refer to note 2 for details of prior year restatements.

5 Profit before non-underlying items continued

Cash flow statement

The table below shows the impact of non-underlying items on the Group cash flow statement:

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 £m
Cash flows from operating activities		
IAS 19 pension expenses	**(7)**	(7)
Financial Services transition and other	**(13)**	(15)
Restructuring programmes	**(114)**	(39)
Income recognised in relation to legal disputes	**93**	–
ATM rates reimbursement	**14**	27
Cash used in operating activities	**(27)**	(34)
Cash flows from investing activities		
Proceeds from property disposals[1]	**46**	27
Cash generated from investing activities	**46**	27
Net cash flows	**19**	(7)

[1] £19 million of the current period proceeds from property disposals are a result of restructuring programmes.

6 Revenue

Accounting policies

Revenue consists of sales through retail outlets and online and, in the case of Financial Services, interest receivable, fees and commissions and excludes Value Added Tax (VAT). Revenue is recognised when the Group has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation.

Retail sales

a) Retail – sale of goods

For sales through retail outlets and online, the transaction price is the value of the goods, net of returns, colleague discounts, and vouchers. Revenue is recognised when the customer obtains control of the goods, which is when the transaction is completed in-store or, for online orders, when goods have been delivered or collected by customers (for click and collect).

b) Other revenue items

Other revenue items include wholesale sales made directly to third-party customers, and income from concessions and commissions, net of returns and discounts. Wholesale revenue is recognised when the goods are delivered to the customer. Revenue collected on behalf of others is not recognised as revenue, other than the related commission which is based on the terms of the contract. Sales are recorded net of VAT.

An element of judgement is required for commission-based arrangements to determine whether the Group should recognise revenue as principal (recognising gross revenue and associated costs) or as agent (recognising net income as revenue only). The assessment considers whether the Group controls the relevant goods prior to sale to the end customer. The Group's relevant contracts are not complex and therefore the level of judgement involved is not considered significant to the Group.

c) Nectar points

The issuance of Nectar points within the Group creates a separate performance obligation and therefore a portion of the transaction price is allocated to the loyalty programme using the standalone selling price of points issued, and the corresponding revenue deferred. The deferral is treated as a deduction from revenue and recognised as a contract liability within deferred income (see note 23). The fair value of the points awarded is determined with reference to the value per point to a customer and considers expected redemption rates (breakage) and the money off that each point entitles a customer to. The revenue deferred is subsequently recognised when the Nectar points are redeemed by the customer.

Significant estimate – Fair value of Nectar points

The Group estimates the fair value of points awarded under the Nectar programme by reference to the value per point to a customer, multiplied by expected breakage assumptions. Breakage represents management's estimate of points issued that will never be redeemed and is therefore subject to uncertainty. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns.

As at the year-end, if the breakage estimate used in determining the deferred revenue for the Group had been 1.0 per cent lower, the deferred points liability would have been £48 million higher. If the breakage estimate had been 1.0 per cent higher, the deferred points liability would have been £48 million lower.

6 Revenue continued

Financial Services

a) Interest income
Interest income is recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest rate of a financial asset is calculated on initial recognition and is applied to the gross carrying amount of the asset. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset net of impairment. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. In calculating the effective interest rate of a financial instrument the Group takes into account all amounts that are integral to the yield of a financial instrument as well as incremental transaction costs.

b) Fees and commission income
Fees and commissions that are not integral to the effective interest rate calculation relate primarily to certain credit card and storecard fees, ATM interchange fees, insurance introduction commission and warranty commission receivable. These are recognised in the income statement on an accruals basis as performance obligations are satisfied. Where in the case of insurance commissions the income comprises an initial commission and profit share, both are recognised on completion of the service to the extent reliably measurable. Where there is a risk of potential clawback, an appropriate element of the commission receivable is deferred and amortised over the clawback period.

Margin from the sale of travel money, representing the difference between the cost price and the selling price, is recognised when the sale to the customer takes place.

Other income

Other income generally consists of profits and losses on disposal of assets.

Revenue recognised

	5 March 2022 £m	6 March 2021 £m
Grocery and General Merchandise & Clothing (GM&C)	**25,440**	26,103
Fuel	**4,023**	2,514
Total retail sales	**29,463**	28,617
Financial Services interest receivable	**322**	344
Financial Services fees and commission	**110**	87
Total Financial Services income	**432**	431
Total revenue	**29,895**	29,048

7 Segment reporting

Background

Management has 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. Three operating segments were identified as follows:

- Retail – Food
- Retail – General Merchandise and Clothing
- Financial Services

Significant judgement – aggregation of operating segments
Management has considered the economic characteristics, in particular average gross margin, similarity of products, production processes, customers, sales methods and regulatory environment of its two Retail segments. In doing so it has been concluded that they should be aggregated into one 'Retail' segment in the financial statements. This aggregated information provides users with the financial information needed to evaluate the business and the environment in which it operates.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. Underlying profit before tax is an APM as described in note 3. All material operations and assets are in the UK.

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

Segment revenue presents a disaggregation of revenue from customers consistent with the Group's primary revenue streams.

7 Segment reporting continued

Income statement and balance sheet

52 weeks to 5 March 2022	Retail £m	Financial Services £m	Group £m
Segment revenue			
Retail sales to external customers	29,463	–	29,463
Financial Services to external customers	–	432	432
Revenue	29,463	432	29,895
Underlying operating profit	1,001	38	1,039
Underlying finance income	3	–	3
Underlying finance costs	(312)	–	(312)
Underlying profit before tax	692	38	730
Non-underlying income (note 5)			124
Profit before tax			854
Income tax expense (note 11)			(177)
Profit for the financial year			677
Assets	20,368	6,541	26,909
Investment in joint ventures and associates	3	–	3
Segment assets	20,371	6,541	26,912
Segment liabilities	(12,870)	(5,619)	(18,489)
Other segment items			
Additions to non-current assets			
Property, plant and equipment	417	–	417
Intangible assets	229	49	278
Right-of-use assets	1,294	–	1,294
Depreciation expense[1]			
Property, plant and equipment	590	1	591
Right-of-use assets	477	1	478
Amortisation expense[2]			
Intangible assets	130	21	151
Impairment charges	8	1	9
Share-based payments	53	5	58

[1] Depreciation within the Retail segment includes a £(3) million credit in relation to the unwind of fair value adjustments recognised on acquisition of HRG.

[2] Amortisation within the Retail segment includes a £23 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

7 Segment reporting continued

52 weeks to 6 March 2021 (restated)	Retail £m	Financial Services £m	Group £m
Segment revenue			
Retail sales to external customers	28,617	–	28,617
Financial Services to external customers	–	431	431
Revenue	28,617	431	29,048
Underlying operating profit/(loss)	731	(21)	710
Underlying finance income	3	–	3
Underlying finance costs	(356)	–	(356)
Underlying profit/(loss) before tax	378	(21)	357
Non-underlying expense			(521)
Loss before tax			(164)
Income tax expense			(37)
Loss for the financial year			(201)
Assets	17,735	7,520	25,255
Investment in joint ventures and associates	5	–	5
Segment assets	17,740	7,520	25,260
Segment liabilities	(11,941)	(6,618)	(18,559)
Other segment items			
Additions to non-current assets			
Property, plant and equipment	419	–	419
Intangible assets	145	27	172
Right-of-use assets	542	–	542
Depreciation expense[1]			
Property, plant and equipment	627	2	629
Right-of-use assets	483	1	484
Amortisation expense[2]			
Intangible assets	116	20	136
Impairment charges	216	105	321
Restructuring charges	227	–	227
Share-based payments	26	3	29

[1] Depreciation within the Retail segment includes a £(5) million credit in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

[2] Amortisation expense within the Retail segment includes a £24 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

Refer to note 2 for details of prior year restatements.

Geographical segments

The Group trades predominantly in the UK and the Republic of Ireland and consequently the majority of revenues, capital expenditure and segment net assets arise there. The profits, turnover and assets of the businesses in the Republic of Ireland are not material to the Group.

7 Segment reporting continued

Cash flow

		52 weeks to 5 March 2022			52 weeks to 6 March 2021 (restated)		
	APM reference	Retail £m	Financial Services £m	Group £m	Retail £m	Financial Services £m	Group £m
Profit/(loss) before tax		**833**	**21**	**854**	(17)	(147)	(164)
Net finance costs		**304**	**(2)**	**302**	320	–	320
Operating profit		**1,137**	**19**	**1,156**	303	(147)	156
Adjustments for:							
Depreciation and amortisation expense		**1,197**	**23**	**1,220**	1,226	23	1,249
Net impairment charge on property, plant and equipment, right-of-use assets and intangible assets		**8**	**1**	**9**	216	105	321
Non-cash adjustments arising from acquisitions		**–**	**–**	**–**	(1)	–	(1)
Financial Services movement in loss allowance for loans and advances to customers		**–**	**19**	**19**	–	85	85
(Profit)/loss on sale of non-current assets and early termination of leases		**(6)**	**–**	**(6)**	(19)	2	(17)
Non-underlying fair value movements		**(76)**	**–**	**(76)**	–	–	–
Share-based payments expense		**53**	**5**	**58**	26	3	29
Non-cash defined benefit scheme expenses		**4**	**–**	**4**	13	–	13
Cash contributions to defined benefit scheme		**(71)**	**–**	**(71)**	(101)	–	(101)
Operating cash flows before changes in working capital		**2,246**	**67**	**2,313**	1,663	71	1,734
Changes in working capital							
Movements in working capital		**(306)**	**(646)**	**(952)**	612	439	1,051
Cash generated from operations		**1,940**	**(579)**	**1,361**	2,275	510	2,785
Interest paid	a	**(319)**	**(10)**	**(329)**	(349)	–	(349)
Corporation tax (paid)/received		**(23)**	**–**	**(23)**	(94)	1	(93)
Net cash generated/(used) from operating activities		**1,598**	**(589)**	**1,009**	1,832	511	2,343
Cash flows from investing activities							
Purchase of property, plant and equipment		**(416)**	**–**	**(416)**	(423)	–	(423)
Initial direct costs on new leases		**(3)**	**–**	**(3)**	(7)	–	(7)
Purchase of intangible assets		**(229)**	**(49)**	**(278)**	(145)	(27)	(172)
Proceeds from disposal of property, plant and equipment		**46**	**–**	**46**	27	–	27
Dividends and distributions received	e	**2**	**–**	**2**	22	–	22
Net cash used in investing activities		**(600)**	**(49)**	**(649)**	(526)	(27)	(553)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	d	**21**	**–**	**21**	17	–	17
Proceeds from short-term borrowings	c	**–**	**–**	**–**	660	–	660
Repayment of borrowings	c	**(248)**	**–**	**(248)**	(289)	–	(289)
Repayment of short-term borrowings	c	**–**	**–**	**–**	(660)	–	(660)
Repayment of perpetual capital securities	c	**(8)**	**–**	**(8)**	(250)	–	(250)
Purchase of own shares	d	**(48)**	**–**	**(48)**	(30)	–	(30)
Repayment of capital element of obligations under lease liabilities	b	**(491)**	**(2)**	**(493)**	(499)	(2)	(501)
Dividends paid on ordinary shares		**(238)**	**–**	**(238)**	(232)	–	(232)
Dividends paid on perpetual securities	a	**(4)**	**–**	**(4)**	(23)	–	(23)
Net cash used in financing activities		**(1,016)**	**(2)**	**(1,018)**	(1,306)	(2)	(1,308)
Net (decrease)/increase in cash and cash equivalents		**(18)**	**(640)**	**(658)**	–	482	482

Refer to note 2 for details of prior year restatements.

8 Supplier arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and directly affect the Group's reported margin.

Income is recognised when earned by the Group when all obligations per the terms of the contract have been performed. Any supplier arrangements which are linked to inventory purchases are included within the cost of the related inventory, and therefore recognised within cost of sales once the inventory is sold. Unpaid amounts relating to supplier arrangements are recognised within trade and other receivables, unless there is a legal right of offset, in which case it is recognised within trade and other payables.

The types of supplier arrangements applicable to the Group are as follows:

- **Discounts and supplier incentives** – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.
- **Fixed amounts** – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space.
- **Supplier rebates** – these are typically agreed on an annual basis, aligned with the Group's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes.
- **Marketing and advertising income** – advertising income from suppliers through the Group's subsidiary Nectar 360 Services LLP and online marketing and advertising campaigns within Argos.

Amounts recognised in the income statement during the year for fixed amounts, volume-based rebates and marketing and advertising income are shown below. Discounts and supplier incentives are not shown as they are deemed to be part of the cost price of inventory.

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 £m
Fixed amounts	**208**	236
Supplier rebates	**94**	55
Marketing and advertising income[1]	**79**	69
Total supplier arrangements	**381**	360

[1] The prior year has been restated. There is no impact to any of the primary statements.

Of the above amounts, the following was outstanding and held on the balance sheet at the period-end:

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 £m
Within inventory	**(4)**	(5)
Within current trade receivables		
Supplier arrangements due	**39**	49
Accrued supplier arrangements	**37**	37
Within current trade payables		
Supplier arrangements due	**47**	32
Accrued supplier arrangements	**2**	5
Deferred income due	**–**	(2)
Total supplier arrangements	**121**	116

9 Operating profit

Accounting policies

Cost of sales

Cost of sales consists of all costs that are directly attributable to the point of sale including warehouse, transportation costs and all the costs of operating retail outlets. In the case of Financial Services, cost of sales includes interest expense on operating activities, calculated using the effective interest method.

Operating profit is stated after charging/(crediting) the following items:

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 £m
Employee costs (note 36)	**3,600**	3,752
Depreciation expense[1] (note 14 and 15)	**1,069**	1,113
Amortisation expense[2] (note 16)	**151**	136
Profit on disposal of non-current assets[3] (note 33)	**(6)**	(17)
Foreign exchange (gains)/losses	**(19)**	6
Movement in loss allowance for loans and advances to customers	**19**	85
Impairment charges (note 17)	**9**	321

[1] Depreciation expense includes a £(3) million credit (2021: £(5) million credit) in relation to the unwind of acquisition adjustments.

[2] Amortisation expense includes a £23 million charge (2021: £24 million) in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

[3] Includes £(19) million in relation to disposals of property, plant and equipment (2021: £(1) million), loss on disposals of intangible assets of £4 million (2021: £nil), gains on lease terminations of £(12) million (2021: £(16) million) and adjustments in relation to software as a service accounting of £21 million (2021: £nil).

	2022 £m	2021 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	**1.1**	1.0
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**2.4**	2.3
Audit-related assurance services	**0.1**	0.1
Non-audit services	**0.9**	–
Total fees	**4.5**	3.4

Non-audit services relate to services provided by the Group's auditor in the capacity of reporting accountant.

10 Finance income and finance costs

Accounting policies

Finance income and costs, excluding those arising from Financial Services, are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method. For Financial Services, finance income and finance costs are recognised in revenue and cost of sales.

The coupons on the perpetual capital securities and perpetual convertible bonds are accounted for as dividends in accordance with IAS 32 'Financial Instruments: Presentation' and hence are not a finance cost. These are included as a finance cost in the presentation of underlying results, but do not qualify as a finance cost for IFRS statutory purposes.

Fair value remeasurements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship.

	2022			2021 (restated)		
	Underlying £m	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Interest on bank deposits and other financial assets	**1**	**–**	**1**	1	–	1
Fair value measurements	**–**	**2**	**2**	–	10	10
IAS 19 pension financing income	**–**	**15**	**15**	–	19	19
Finance income on net investment in leases	**2**	**–**	**2**	2	–	2
Finance income	**3**	**17**	**20**	3	29	32
Secured borrowings	**(40)**	**–**	**(40)**	(49)	–	(49)
Unsecured borrowings	**(2)**	**–**	**(2)**	(1)	–	(1)
Lease liabilities	**(271)**	**(10)**	**(281)**	(295)	(10)	(305)
Provisions – amortisation of discount	**(1)**	**–**	**(1)**	(1)	–	(1)
Interest capitalised – qualifying assets	**2**	**–**	**2**	4	–	4
Perpetual securities coupon	**–**	**–**	**–**	(14)	14	–
Finance costs	**(312)**	**(10)**	**(322)**	(356)	4	(352)

Refer to note 2 for details of prior year restatements.

11 Taxation

Accounting policies

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.

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.

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.

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 (restated) £m
Current year UK tax	**131**	34
Current year overseas tax	**6**	6
Under/(over) – provision in prior years	**5**	(12)
Total current tax expense	**142**	28
Origination and reversal of temporary differences	**52**	(46)
(Over)/under-provision in prior years	**(35)**	27
Adjustment from changes in tax rates	**23**	–
(Recognition)/derecognition of capital losses	**(5)**	28
Total deferred tax expense	**35**	9
Total income tax expense in income statement	**177**	37
Analysed as:		
Underlying tax	**154**	105
Non-underlying tax	**23**	(68)
Total income tax expense in income statement	**177**	37
Underlying tax rate	**21.1%**	29.4%
Effective tax rate	**20.7%**	(22.6)%

11 Taxation continued

The effective tax rate of 20.7 per cent (2021 restated: (22.6) per cent) is higher than (2021: lower than) the standard rate of corporation tax in the UK of 19 per cent. The differences are explained below:

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 (restated) £m
Profit before tax	**854**	(164)
Income tax at UK corporation tax rate of 19.00%	**162**	(31)
Effects of underlying items:		
Disallowed depreciation on UK properties	**25**	23
(Over)/under – provision in prior years	**(28)**	15
Revaluation of deferred tax balances	**14**	–
Disallowed depreciation on right of use assets	**5**	–
Effects of non-underlying items:		
Loss on disposal of properties	**(1)**	(7)
Over-provision in prior years	**(2)**	–
Revaluation of deferred tax balances	**9**	–
Impairment of non-financial assets	**–**	9
Restructuring programmes	**–**	3
Derecognition of capital losses	**(5)**	28
Perpetual capital securities	**–**	(3)
Other	**(2)**	–
Total income tax expense in income statement	**177**	37

Refer to note 2 for details of prior year restatements.

It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25 per cent from 1 April 2023. This change was enacted during the accounting period.

As a result, existing temporary differences on which deferred tax has been provided have been revalued, where appropriate, to reflect the fact that they will now unwind at 25 per cent rather than 19 per cent. The impact of this is £23 million (£14 million underlying, £9 million non-underlying and a further £183 million reflected in other comprehensive income).

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

	Share-based payment reserve £m	Actuarial reserve £m	Fair value movements £m	Total £m
52 weeks to 5 March 2022				
Current tax in equity or other comprehensive income	**(1)**	**–**	**–**	**(1)**
Deferred tax in equity or other comprehensive income	**(2)**	**431**	**87**	**516**
	(3)	**431**	**87**	**515**
52 weeks to 6 March 2021				
Current tax in equity or other comprehensive income	–	(44)	–	(44)
Deferred tax in equity or other comprehensive income	–	(23)	4	(19)
	–	(67)	4	(63)

11 Taxation continued

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.

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:

	Accelerated capital allowances £m	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payments £m	Leases £m	Other £m	Total £m
At 7 March 2021	**(141)**	**64**	**(48)**	**(81)**	**(192)**	**9**	**126**	**8**	**(255)**
Prior year adjustment to income statement	**(7)**	**(3)**	**2**	**6**	**–**	**–**	**(1)**	**38**	**35**
Credit/(charge) to income statement	**16**	**5**	**4**	**4**	**(11)**	**4**	**(21)**	**(48)**	**(47)**
(Charge)/credit to equity or other comprehensive income	**–**	**–**	**(59)**	**–**	**(276)**	**2**	**–**	**–**	**(333)**
Revaluation adjustment to income statement	**(41)**	**21**	**(4)**	**(22)**	**(6)**	**3**	**28**	**(2)**	**(23)**
Revaluation adjustment to equity or other comprehensive income	**–**	**–**	**(28)**	**–**	**(155)**	**–**	**–**	**–**	**(183)**
At 5 March 2022	**(173)**	**87**	**(133)**	**(93)**	**(640)**	**18**	**132**	**(4)**	**(806)**
At 8 March 2020	(143)	93	(46)	(83)	(214)	12	124	(8)	(265)
Prior year adjustment to income statement	(20)	(10)	–	10	–	(5)	(1)	(1)	(27)
Credit/(charge) to income statement	39	(28)	4	–	(1)	1	(15)	18	18
(Charge)/credit to equity or other comprehensive income	–	–	(1)	–	48	–	–	–	47
Revaluation adjustment to income statement	(17)	9	(2)	(8)	–	1	18	(1)	–
Revaluation adjustment to equity or other comprehensive income	–	–	(3)	–	(25)	–	–	–	(28)
At 6 March 2021	(141)	64	(48)	(81)	(192)	9	126	8	(255)

	2022 £m	2021 £m
Total deferred income tax liabilities	**(1,043)**	(462)
Total deferred income tax assets	**237**	207
Net deferred income tax liability recognised in non-current liabilities	**(806)**	(255)

Deferred income tax assets have been recognised in respect of all income tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered, with the exception of unrecognised capital losses of £194 million (2021: £172 million) following Finance Act 2020 which restricts the amount of chargeable (capital) gains that a company can relieve with its carried-forward capital losses. 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.

12 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 Trusts (note 29), which are treated as cancelled.

In calculating the diluted earnings per share, 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 perpetual subordinated convertible bonds are assumed to be converted.

Underlying earnings per share is provided by excluding the effect of any non-underlying items as defined in note 5. 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.

	2022 **million**	2021 (restated) million
Weighted average number of shares in issue	**2,271.8**	2,210.0
Weighted average number of dilutive share options	**39.6**	21.7
Weighted average number of dilutive subordinated perpetual convertible bonds	**39.6**	88.4
Total number of shares for calculating diluted earnings per share	**2,351.0**	2,320.1

	£m	£m
Profit/(loss) for the financial period (net of tax)	**677**	(201)
Less profit attributable to:		
Holders of perpetual convertible bonds	**–**	(7)
Profit/(loss) for the financial period attributable to ordinary shareholders	**677**	(208)
Diluted earnings/(loss) for calculating diluted earnings/(loss) per share	**677**	(208)
Profit/(loss) for the financial period attributable to ordinary shareholders of the parent	**677**	(208)
Adjusted for non-underlying items (note 5)	**(124)**	521
Tax on non-underlying items	**23**	(68)
Add back coupons on perpetual securities (net of tax)	**–**	14
Underlying profit after tax attributable to ordinary shareholders of the parent	**576**	259
Add coupon on subordinated perpetual convertible bonds (net of tax)	**–**	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**576**	265

	Pence per share	Pence per share
Basic earnings/(loss)	**29.8**	(9.4)
Diluted earnings/(loss)[1]	**28.8**	(9.4)
Underlying basic earnings	**25.4**	11.7
Underlying diluted earnings	**24.5**	11.4

[1] Basic and diluted loss per share are the same in the prior year as the dilutive share options and their respective earnings adjustments are anti-dilutive.

Refer to note 2 for details of prior year restatements.

13 Dividends

	2022 pence per share	2021 pence per share	**2022 £m**	2021 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**7.4**	–	**164**	–
Interim dividend of current financial year	**3.2**	3.2	**74**	71
Special dividend of prior financial year	**–**	7.3	**–**	161
	10.6	10.5	**238**	232

After the balance sheet date on 27 April 2022 a final dividend of 9.9 pence per share (2021: 7.4 pence per share) was proposed by the Directors in respect of the 52 weeks to 5 March 2022. This results in a total final proposed dividend of £230 million (2021: £164 million).

Subject to shareholders' approval at the Annual General Meeting, the dividend will be paid on 15 July 2022 to the shareholders on the register at 10 June 2022. The proposed final dividend has not been included as a liability at 5 March 2022.

14 Property, plant and equipment

Accounting policies

a) Land and buildings

Land and buildings are held at historical 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 attributable to bringing the asset to its working condition for intended use. This includes capitalised borrowing costs.

b) 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.

c) Depreciation

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

- Freehold buildings and leasehold improvements – 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 prior to being brought to its working condition and its intended use. Capital work in progress does not include land.

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. This includes consideration over climate change related risks which may impact the useful lives of the Group's assets, such as the impact of flood risks on store and non-store assets, and any anticipated replacement of existing assets with new technologies. During the year, no changes were made to the remaining useful lives of the Group's assets as a result of climate change risks.

Capitalisation of interest

Borrowing 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.

14 Property, plant and equipment continued

Impairment of non-financial assets

Refer to note 17 for details of impairment policies.

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 7 March 2021	**9,655**	**5,288**	**14,943**
Additions	**87**	**330**	**417**
Disposals	**(40)**	**(330)**	**(370)**
Transfer to asset held for sale	**(9)**	**–**	**(9)**
At 5 March 2022	**9,693**	**5,288**	**14,981**
Accumulated depreciation and impairment			
At 7 March 2021	**2,793**	**3,563**	**6,356**
Depreciation expense for the year	**170**	**421**	**591**
Impairment loss for the year	**–**	**6**	**6**
Disposals	**(37)**	**(328)**	**(365)**
Transfer to asset held for sale	**(9)**	**–**	**(9)**
At 5 March 2022	**2,917**	**3,662**	**6,579**
Net book value at 5 March 2022	**6,776**	**1,626**	**8,402**
Capital work-in-progress included above	**103**	**314**	**417**
Cost			
At 8 March 2020	9,716	5,362	15,078
Additions	89	330	419
Disposals	(59)	(404)	(463)
Transfer to asset held for sale	(91)	–	(91)
At 6 March 2021	9,655	5,288	14,943
Accumulated depreciation and impairment			
At 8 March 2020	2,693	3,436	6,129
Depreciation expense for the year	173	456	629
Impairment loss for the year	26	62	88
Disposals	(32)	(391)	(423)
Transfer to asset held for sale	(67)	–	(67)
At 6 March 2021	2,793	3,563	6,356
Net book value at 6 March 2021	6,862	1,725	8,587
Capital work-in-progress included above	122	320	442

14 Property, plant and equipment continued

Interest capitalised

Interest capitalised included in additions amounted to £2 million (2021: £4 million) for the Group. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £335 million (2021: £334 million) for the Group. Accumulated interest capitalised held at net book value in property, plant and equipment amounted to £284 million (2021: £285 million) for the Group. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.2 per cent (2021: 4.0 per cent).

Security

Property, plant and equipment pledged as security is as follows:

	2022		2021	
	Number of properties	**Net book value £bn**	Number of properties	Net book value £bn
Loan due 2031	**48**	**0.9**	48	0.9
Revolving Credit Facility	**60**	**1.3**	60	1.3
Asset backed pension contribution scheme	**48**	**1.2**	48	1.2
Bank loans due 2021	**–**	**–**	10	0.2
Other	**6**	**0.1**	6	0.1
	162	**3.5**	172	3.7

15 Leases

Group as lessee

The Group's lease portfolio is principally comprised of property leases of land and buildings in relation to stores, distribution centres and support offices, but also includes other assets such as motor vehicles. The leases have varying terms and often include break clauses or options to renew beyond the non-cancellable periods.

Accounting policies

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease and are measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The majority of the Group's leases are discounted using the IBR.

The IBRs depend on the start date and term of the lease, and are determined based on a reference (risk free) rate and adjustments to reflect the Group's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the group and quoted credit default swaps ("CDS"). IBRs are determined quarterly.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease (a break clause), if it is reasonably certain not to be exercised.

The lease payments include fixed payments and variable lease payments that depend on an index or a rate (using the relevant rate at the commencement date of the lease), less any lease incentives receivable. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. For agreements which contain both lease and non-lease components, such as cleaning and maintenance services, the non-lease component is excluded from the lease payments used to measure the lease liabilities.

After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is remeasured when there is a change in the future lease payments due to a change in the lease term such as a recognition of an extension or break option, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to groups of underlying leases that are considered uniformly low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are expensed to the income statement.

15 Leases continued

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Net book value	Land and buildings £m	Equipment £m	Total £m
At 7 March 2021	**4,414**	**333**	**4,747**
New leases and modifications[1]	**1,244**	**50**	**1,294**
Depreciation charge	**(389)**	**(89)**	**(478)**
Impairment charge	**(3)**	**–**	**(3)**
At 5 March 2022	**5,266**	**294**	**5,560**
At 8 March 2020	4,536	290	4,826
New leases and modifications[1]	413	129	542
Depreciation charge	(398)	(86)	(484)
Impairment charge	(137)	–	(137)
At 6 March 2021	4,414	333	4,747

[1] Includes new leases, terminations, modifications and reassessments.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2022 £m	2021 £m
At 7 March 2021 and 8 March 2020	**5,834**	5,774
New leases and modifications	**1,280**	561
Interest expense	**281**	305
Payments	**(774)**	(806)
At 5 March 2022 and 6 March 2021	**6,621**	5,834
Current	**526**	524
Non-current	**6,095**	5,310

The Group presents additions to lease liabilities and right-of-use assets in line with the disclosure requirements of IFRS 16 'Leases'. In doing so, additions to right-of-use assets and lease liabilities above include the net impact of new leases, terminations, modifications, and reassessments. This year includes the impact of exercising purchase options on 21 leased supermarkets held by a property investment pool in which the Group holds an interest. The purchase options were not included within the lease liabilities at inception of the lease as the Group was not reasonably certain to exercise them. Following the exercise of the options, the respective lease liabilities have been remeasured to include the assumed purchase price, leading to an increase in lease liabilities with a corresponding increase to the right-of-use asset. The purchases will be completed in the financial year ended 2 March 2024 when the existing leases end.

The purchase price is subject to negotiation and at the year-end had not yet been agreed. Therefore to remeasure the lease liability, the purchase price has been estimated based on up-to-date property valuations carried out by independent valuers not connected with the Group. The lease liabilities (and right-of-use assets) may be subsequently adjusted as the property valuations change, and when purchase prices are agreed. This is not considered a significant estimate in line with IAS 1 'Presentation of financial statements'.

Guarantee in relation to property pool

When the properties are sold by the property investment pool in the financial year ended 2 March 2024, the proceeds will be used to settle bonds issued by the structure. The Group has previously issued a financial guarantee in relation to this, which is triggered if there is a shortfall in the property proceeds and the bonds cannot be fully repaid. The guarantee is up to £300 million.

The current property valuations indicate that there is significant headroom and therefore no shortfall.

In the event of a delay in the property negotiations, meaning the bond repayment is due before the properties have been sold, the guarantee will be called upon in full. In such an event, once the properties are sold, Sainsbury's will recover the guarantee payment in full from the property proceeds.

Significant judgement – lease terms

The inclusion of a lease extension period or lease break period in the lease term is a key judgement for the Group and considers all relevant factors that create an economic incentive for it to exercise them. For leased properties, this includes the current and expected profitability of the respective site, as well as the length of time until the option can be exercised. Any changes to the Group's judgement over lease terms will impact both the right of use asset and lease liability.

Set out below are the undiscounted future rental payments not currently included within the reported lease liability where lease extensions have not been included, or where lease breaks have been assumed:

	2022 £m	2021 £m
Extension options expected to not be exercised	**4,681**	4,590
Lease breaks expected to be exercised	**458**	463

15 Leases continued

Significant estimate – discount rates

As noted above, lease liabilities are measured at the present value of lease payments to be made over the lease term, discounted using the IBR at the lease commencement date (for additions) or at the lease modification date (for modifications).

The IBRs depend on the start date and term of the lease, and are determined based on a number of inputs including a reference (risk free) rate and adjustments to reflect the Group's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the Group and quoted credit default swaps ("CDS").

The following table summarises the impact that a reasonable possible change in the IBR would have had on the lease liability additions and modifications recognised during the year:

	(Decrease)/ increase in lease liability recognised £m
Increase in IBR of 1%	**(40)**
Decrease in IBR of 1%	**42**

Amounts recognised in profit or loss

The following are the amounts recognised in profit or loss:

	2022 £m	2021 £m
Depreciation of right-of-use assets	**(478)**	(484)
Impairment of right-of-use assets	**(3)**	(137)
Interest on lease liabilities	**(281)**	(305)
Variable lease payments not included in the measurement of lease liabilities	**–**	(1)
Finance income from sub-leasing of right-of-use assets	**2**	2
Operating sublet income	**56**	42
Expenses relating to short-term leases	**(32)**	(33)
Expenses relating to leases of low-value assets	**(2)**	(2)
Total amount recognised in profit or loss	**(738)**	(918)
Total cash outflow for leases (excludes sublet income)	**(808)**	(841)

There were no leases with residual value guarantees. There have been no sale or leaseback transactions during the period. The Group does not hold any leases as investment properties under IAS 40. Approximately £2,807 million (2021: £2,856 million) of the Group's lease liabilities are subject to inflation-linked rentals and a further £255 million (2021: £268 million) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis. The Group is committed to payments totalling £nil (2021: £32 million) in relation to leases that have been signed but not yet commenced.

Maturity analysis

	2022 £m	2021 £m
Contractual undiscounted cash flows		
Less than one year	**773**	748
One to two years	**1,683**	716
Two to three years	**627**	643
Three to four years	**575**	594
Four to five years	**542**	547
Total less than five years	**4,200**	3,248
Five to ten years	**2,416**	2,420
Ten to fifteen years	**2,005**	2,078
More than fifteen years	**3,338**	3,706
Total undiscounted lease liability	**11,959**	11,452
Lease liabilities included in the statement of financial position	**6,621**	5,834
Current	**526**	524
Non-current	**6,095**	5,310

15 Leases continued

Group as lessor

Lessor accounting

The Group leases out owned properties and sublets leased properties under operating and finance leases. Such properties include mall units, stores and units within stores. Where the Group subleases assets, the sublease classification is assessed with reference to the head lease right-of-use asset. This assessment considers, among other factors, whether the sublease represents the majority of the remaining life of the head lease. The ratio of rental income to head lease rental payments is used to determine how much of the right-of-use asset should be derecognised, or analysis of square foot leased in the headlease and sublease where appropriate. This assessment takes into consideration whether the sublease/headlease are above or below market rate.

Amounts due from lessees under finance leases are recorded as a receivable at an amount equal to the net investment in the lease. This is initially calculated and recognised using the IBR prevalent in the underlying headlease at the recognition date. Any difference between the derecognised right-of-use asset and the newly recognised amounts due for leases under finance leases is recognised in the income statement. The Group recognises finance income over the lease term, reflecting a constant periodic rate of return on the Group's net investment in the lease. Operating lease income is recognised as earned on a straight-line basis over the lease term.

The below table sets out the maturity analysis of lease receivables classified as operating leases:

	2022 £m	2021 £m
Less than one year	**18**	17
One to two years	**16**	15
Two to three years	**13**	13
Three to four years	**11**	11
Four to five years	**10**	9
Five to ten years	**30**	28
Ten to fifteen years	**9**	8
More than fifteen years	**10**	13
Total undiscounted lease payments receivable	**117**	114

The net book value of property, plant and equipment subject to operating leases at year-end is not material to the accounts.

The below table sets out the maturity analysis of lease receivables classified as finance leases:

	2022 £m	2021 £m
Contractual undiscounted cash flows		
Less than one year	**7**	7
One to five years	**36**	26
More than five years	**5**	15
Total undiscounted net investment in lease receivable	**48**	48
Lease receivables included in the statement of financial position	**41**	34
Current	**5**	5
Non-current	**36**	29

16 Intangible assets

Accounting policies

a) 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 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.

b) Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are amortised on a straight-line basis over their useful economic lives of five to fifteen 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 fifteen years within administrative expenses.

16 Intangible assets continued

c) Cloud computing arrangements

Software as a Service (SaaS) arrangements are service contracts providing the Group with the right to access a cloud provider's application software over the contract period. Typically such arrangements involve ongoing licence fees to obtain access to the cloud provider's application software, as well as upfront costs incurred to configure or customise the SaaS solution.

Configuration and customisation costs are capitalised in the following instances as intangible assets:

- The Group has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor.
- The costs incurred meet the definition of and recognition criteria for an intangible asset. This includes for example the development of software code that enhances or modifies, or creates additional capability to, existing systems controlled by Sainsbury's.

Where these conditions are not met, costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Where the configuration or customisation of a SaaS solution is performed by the SaaS vendor, consideration is given to whether this activity is distinct from the provision of the solution itself. This assessment considers the nature of the activities, and whether Sainsbury's can benefit from any of the services in isolation. Where the activity is not considered distinct, the costs are capitalised as a prepayment and amortised over the expected useful life of the solution.

d) 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 five to ten years, within administrative expenses.

Refer to note 17 for details of impairment policies.

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Total £m
Cost					
At 7 March 2021	**394**	**899**	**229**	**32**	**1,554**
Additions	**–**	**278**	**–**	**–**	**278**
Disposals[1]	**(2)**	**(100)**	**–**	**–**	**(102)**
At 5 March 2022	**392**	**1,077**	**229**	**32**	**1,730**
Accumulated amortisation and impairment					
At 7 March 2021	**28**	**457**	**127**	**28**	**640**
Amortisation expense for the year	**–**	**129**	**20**	**2**	**151**
Disposals	**(2)**	**(65)**	**–**	**–**	**(67)**
At 5 March 2022	**26**	**521**	**147**	**30**	**724**
Net book value at 5 March 2022	**366**	**556**	**82**	**2**	**1,006**
Cost					
At 8 March 2020	400	749	231	32	1,412
Additions	–	172	–	–	172
Disposals	(6)	(22)	(2)	–	(30)
At 6 March 2021	394	899	229	32	1,554
Accumulated amortisation and impairment					
At 8 March 2020	22	281	109	26	438
Amortisation expense for the year	–	114	20	2	136
Impairment loss for the year	12	84	–	–	96
Disposals	(6)	(22)	(2)	–	(30)
At 6 March 2021	28	457	127	28	640
Net book value at 6 March 2021	366	442	102	4	914

[1] Disposals include write offs of software-as-a-service balances as disclosed in note 2.

Goodwill balances are detailed in note 17.

17 Impairment of non-financial assets

Accounting policies

Goodwill

Goodwill is not subject to amortisation but is tested for impairment annually or whenever there is an indication that the asset may be impaired.

For the purposes of impairment testing, goodwill is allocated to the Cash Generating Unit (CGU) or group of CGUs within the Retail or Financial Services segments. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to dispose. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not subsequently reversed.

Property, plant and equipment, right-of-use assets, and finite-lived intangible assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment (PPE), right-of-use assets, and finite-lived 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 it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and an impairment loss is recognised immediately in the income statement.

Where there has been a change in the estimates used to determine the recoverable amount and an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. An impairment loss reversal is recognised immediately in the income statement.

Identification of cash-generating units

Retail

Cash generating units are deemed to be each trading store, store pipeline development site or in certain cases for Argos, a cluster of stores.

PPE, intangible assets and right-of-use assets are allocated to the store CGU they are associated with. For leased assets, the CGU also includes corresponding lease liabilities as management has concluded that lease liabilities need to be considered when determining the recoverable amount of the CGU. For non-store assets, including depots and IT assets, these are allocated to a group of CGUs (i.e. the Sainsbury's or Argos store CGUs that they support).

Goodwill recognised on acquisition of retail chains of stores (Bells and Jacksons) is allocated to its respective store CGUs. Goodwill arising on the purchase of Home Retail Group is allocated to the Argos group of store and non-store CGUs. Nectar is a separate CGU.

Financial Services

Cash generating units are deemed to be each respective product or product group that is capable of generating cash flows independent of other products. Non-product assets are reviewed separately as collective CGUs with the products that they support.

Goodwill arising on the purchase of Sainsbury's Bank plc is allocated to the Financial Services collective CGUs.

Review for indicators of impairment

At the year-end reporting date, the Group assessed whether indicators of impairment existed within its Retail and Financial Services CGUs. It was concluded that no indicators of impairment existed within either segment.

Equally, consideration was given as to whether there had been any changes in the estimates used to determine the recoverable amount of assets (excluding goodwill) which had previously been impaired. No changes were identified and therefore no impairment loss reversals have been recognised.

Impairments recognised as part of restructuring programme

Whilst no indicators of impairment have been identified, impairments of £9 million have been recognised in relation to restructuring activities as disclosed in note 5.

Climate change considerations

The Group's scenario analysis performed as part of the Task Force on Climate-Related Financial Disclosures (TCFD) report (refer to page 17) identified that the four most material climate-related risks were drought, flooding, carbon taxes and changes in consumer preferences. Produce, Clothing, Meat, Fish and Poultry (MFP), Dairy and Fuel were the product categories most exposed to the climate-related risks.

Changes in consumer preferences in MFP was identified as the risk most vulnerable to transitional risks and modelling this risk in isolation to 2030 in a 1.5°C scenario, assuming no actions are taken to mitigate risks, calculated a £300 million to £350 million loss in revenue. The potential financial impact of climate-related physical risks on selected Produce in isolation to 2050 in a 4.3°C scenario calculated a £60 million to £75 million loss in revenue. The Group assessed the effect such losses would have on the recoverable amount of the Retail segment's store CGUs, and no material impairments were noted.
As such, climate-related risks did not have a material impact on the Group's impairment considerations at the reporting date.

17 Impairment of non-financial assets continued

Goodwill

Goodwill was separately tested at the year-end as required under IAS 36. Goodwill comprises the following:

	2022 **£m**	2021 £m
Jacksons Stores Limited	**28**	28
Home Retail Group	**119**	119
Sainsbury's Bank plc	**45**	45
Nectar	**147**	147
Bells Stores Limited	**9**	9
Other	**18**	18
	366	366

Value in use calculations used to derive the recoverable amount of the CGU to which the respective goodwill has been allocated are based on the following key assumptions:

Cash flow years/assumptions	Cash flows relating to Home Retail Group, Sainsbury's Bank plc and Nectar are derived from Board approved cash flow projections for five years and then extrapolated into perpetuity with no assumed growth rate. Cash flows relating to goodwill attributable to stores are derived from Board approved cash flow projections for five years and then extrapolated for a further 10 years with no assumed growth rate, representing the typical time between refits. Where lease terms are shorter than this, the remaining lease term has been used.
Discount rate	A post-tax discount rate representing the Retail segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 7 per cent (2021: pre-tax rate of 8 per cent), has been used for all goodwill balances, except Sainsbury's Bank plc. A post-tax discount rate representing the Financial Services segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 13 per cent (2021: pre-tax rate of 13 per cent), has been used for the goodwill balance relating to Sainsbury's Bank plc

No impairments were identified in any of the Group's goodwill amounts. Sensitivity analysis on the impairment tests for each group of cash-generating units to which goodwill has been allocated has been performed. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill.

Overall, management are satisfied that there are no reasonable possible changes to assumptions that would lead to the recognition of impairments in any goodwill.

			Sensitivities (revised headroom)			
			Discount rate		Cash flows	
	Carrying amount £m	Headroom £m	Decrease of 1% £m	Increase of 1% £m	Decrease of 5% £m	Increase of 5% £m
Jacksons Stores Limited	28	41	45	38	38	45
Home Retail Group	119	2,026	2,502	1,669	1,882	2,171
Sainsbury's Bank plc	45	278	316	244	229	326
Nectar UK	147	980	1,170	838	923	1,038
Bells Stores Limited	9	14	15	13	13	15
Other	18	28	33	23	25	31

18 Financial assets at fair value through other comprehensive income

Accounting policies

Financial assets that are held for both the purpose of collecting contractual cash flows and to sell are classified as fair value through other comprehensive income (FVOCI). They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Equity investments have been irrevocably designated as fair value through other comprehensive income. Subsequent to initial recognition at fair value plus transaction costs, these assets are recorded at fair value at each period end with the movements recognised in other comprehensive income until derecognition or impaired. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income reserves is recognised in the income statement for debt instruments. Gains and losses on equity instruments are never recycled to the income statement. Dividends on financial assets at fair value through other comprehensive income are recognised in the income statement when the entity's right to receive payment is established.

Interest on financial assets at fair value through other comprehensive income debt instruments is recognised using the effective interest method.

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 £m
Non-current		
Equity		
Other financial assets	**382**	306
Debt		
Interest bearing financial assets	**–**	1
Financial Services related investment securities	**222**	447
	604	754
Current		
Debt		
Financial Services related investment securities	**196**	90
	800	844

The other financial asset predominantly 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 per cent (2021: 0 per cent) and a discount rate of seven per cent (2021: seven per cent). There were no disposals in the current year (2021: nil) and no impairment provisions in either the current or the previous financial year. Sensitivities are included in note 30.

19 Inventories

Accounting policies

Inventories comprise goods held for resale and are valued on a weighted average cost basis and carried at the lower of cost or 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.

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 £m
Gross finished goods	**1,930**	1,751
Inventory provision	**(133)**	(126)
Inventory recognised on Group balance sheet	**1,797**	1,625

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 5 March 2022 was £22,499 million (2021: £21,459 million).

Inventory losses and provisions recognised as an expense for the year were £511 million (2021: £500 million).

20 Receivables

(a) Trade and other receivables

Accounting policies

Trade and other receivables are non-interest bearing and are on commercial terms. They are initially recognised at fair value and subsequently measured at amortised cost less allowances for expected credit losses, using the simplified approach under IFRS 9, with adjustments for factors specific to each receivable.

	2022 £m	2021 £m
Non-current		
Other receivables	**41**	43
Prepayments	**24**	7
	65	50
Current		
Trade receivables	**148**	161
Other receivables	**363**	409
Prepayments	**172**	155
	683	725

Trade and other receivables include £76 million (2021: £86 million) relating to supplier arrangements where there is no right of offset. Refer to note 8. In addition, current other receivables of £373 million (2021: £409 million) include £171 million (2021: £152 million) of bank funds in the course of settlement. The carrying amounts of trade and other receivables are denominated in sterling.

(b) Allowance for expected credit losses

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.

2022	**Not past due £m**	**0 to 6 months past due £m**	**6 to 12 months past due £m**	**Over 1 year past due £m**	**Total £m**
Trade receivables	**136**	**15**	**6**	**5**	**162**
Other receivables	**403**	**5**	**2**	**10**	**420**
Gross carrying amount – Trade and other receivables	**539**	**20**	**8**	**15**	**582**
Allowance for expected credit losses	**(6)**	**(5)**	**(7)**	**(12)**	**(30)**
Net carrying amount on balance sheet	**533**	**15**	**1**	**3**	**552**

2021	Not past due £m	0 to 6 months past due £m	6 to 12 months past due £m	Over 1 year past due £m	Total £m
Trade receivables	140	24	3	5	172
Other receivables	461	8	9	4	482
Gross carrying amount – Trade and other receivables	601	32	12	9	654
Allowance for expected credit losses	(17)	(7)	(9)	(8)	(41)
Net carrying amount on balance sheet	584	25	3	1	613

(c) Major counterparties

The Group has five (2021: seven) major counterparties totalling £124 million (2021: £218 million). No major counterparty balances are considered overdue or impaired.

21 Amounts due from Financial Services customers and other banks

Accounting policies

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

Refer to note 31 for a detailed description of the accounting policies applicable to financial assets and note 30 for the accounting policies applicable to impairment of financial assets.

	2022 **£m**	2021 £m
Non-current		
Loans and advances to customers	**2,069**	2,332
Impairment of loans and advances to customers	**(43)**	(52)
	2,026	2,280
Current		
Loans and advances to customers	**3,202**	3,301
Loans and advances to banks	**121**	37
Impairment of loans and advances to customers	**(160)**	(211)
	3,163	3,127

Eligible personal and mortgage loans with applicable haircuts are used as collateral for the bilateral personal loans securitisation facility and the Bank of England's Term Funding Scheme Small and Medium-sized enterprises (TFSME) and Indexed Long-term Repo (ILTR) facilities.

As at 5 March 2022, £638 million (2021: £623 million) of Personal Loans assets, including £80 million (2021: £nil) of loans indirectly encumbered via the Bank's securitisation facilities, and £626 million (2021: £955 million) of Mortgage assets were pledged to the Bank of England facilitating funding of £nil million (2021: £950 million) from the TFS, £661 million (2021: £nil) from the TFSME and £225 million (2021: £150 million) from the ILTR.

A further £69 million (2021: £14 million) of Personal Loans assets were pledged indirectly via the Bank's securitisation facilities generating £50 million (2021: £10 million) of funding via sale and repurchase agreements and collateral swaps.

Refer to note 30 for further details on Financial Services impairments of loans and advances.

22 Assets held for sale

Accounting policies

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 within one year from the date of classification and the assets are available for sale in their present condition. Assets held for sale are stated at the lower of the carrying amount and fair value less costs to dispose.

	5 March 2022 £m	6 March 2021 £m
Opening balance	**24**	4
Classified as held for sale in the year	**–**	24
No longer classified as held for sale	**–**	–
Sold in the year	**(16)**	(4)
Closing balance	**8**	24

For the remaining assets, the sale is still considered probable in the next financial year and so they remain classified as held for sale. The fair value of assets held for sale is based on independent market valuations of the assets.

23 Trade and other payables

Accounting policies

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.

Trade payables are initially recognised at fair value, which is typically the invoiced amount and then held at amortised cost. They are shown net of supplier arrangements due where there is a contractual right of offset.

	2022 £m	2021 £m
Current		
Trade payables	**2,965**	2,873
Other payables	**675**	711
Accruals	**565**	499
Deferred income	**341**	405
	4,546	4,488
Non-current		
Trade payables	**–**	1
Other payables	**11**	5
Accruals	**2**	13
Deferred income	**11**	1
	24	20

Deferred income

The following table presents a reconciliation of deferred income during the year:

	2022 £m	2021 £m
Opening balance	**406**	340
Revenue deferred in the year	**282**	393
Revenue recognised in the year which has previously been deferred	**(336)**	(327)
Closing balance	**352**	406

The deferred revenue balance includes £327 million (2021: £323 million) in relation to deferred Nectar points.

Foreign currency risk

The Group has net euro denominated trade payables of £53 million (2021: £50 million) and US dollar denominated trade payables of £119 million (2021: £124 million).

Supplier financing arrangements

The Group has supply chain finance programmes in place. The programmes act as an alternative source of financing for suppliers who have the option to trade their invoices with funding providers in order to receive cash earlier than the invoice due dates. The payment terms offered to suppliers who are party to the supply chain finance programmes are within standard supplier payment terms and agreed directly between the Group and the supplier.

Balances outstanding under the supplier financing arrangements are classified as trade payables, and cash flows are included in operating cash flows, since the financing arrangements are agreed between the supplier, the funding providers and the third-party platform providers. The Group does not provide additional credit enhancement nor obtain any working capital benefit from the arrangements.

Included in trade payables at 5 March 2022 are amounts of £355 million (6 March 2021: £349 million) drawn by suppliers who are party to the supply chain finance programmes.

24 Amounts due to Financial Services customers and banks

Accounting policies

With the exception of fixed rate bonds, amounts due to Financial Services customers are generally repayable on demand and accrue interest at retail deposit rates.

	2022 £m	2021 £m
Current		
Customer accounts	**4,083**	4,924
Other deposits	**361**	1,162
	4,444	6,086
Non-current		
Customer accounts	**152**	203
Other deposits	**663**	–
	815	203

Other deposits of £1,024 million (2021: £1,162 million) relate to deposits from wholesale counterparties, including the Bank of England.

25 Provisions

Accounting policies and key information

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 benefits will be required to settle the obligation and where the amount 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.

Property provisions

Where the Group no longer operates from a leased property, onerous property contract provisions are recognised for the least net cost of exiting from the contract. Unless a separate exit agreement with a landlord has already been agreed, the Group's policy is that this onerous contract provision includes all unavoidable costs of meeting the obligations of the contract. The amounts provided are based on the Group's best estimates of the likely committed outflows and site closure dates. These provisions do not include rent in accordance with IFRS 16, however do include unavoidable costs related to the lease such as service charges and insurance. These provisions historically included business rates, however business rates are considered a statutory obligation rather than a contractual one, and are therefore now recognised as a periodic cost in line with IFRIC 21 "Levies". Prior period comparatives have been restated to remove business rates from previously recognised property provisions. Refer to note 2 for further details.

Property provisions also include provisions for dilapidations which are recognised where the Group has the obligation to make-good its leased properties. These provisions are recognised based on historically settled dilapidations which form the basis of the estimated future cash outflows. Any difference between amounts expected to be settled and the actual cash outflow will be accounted for in the period when such determination is made.

Where the Group is able to exit lease contracts before the expiry date or agree sublets, this results in the release of any associated property provisions. Such events are subject to the agreement of landlords, therefore the Group makes no assumptions on the ability to either exit or sublet a property until a position is agreed.

Insurance provisions

The provision relates to the Group's outstanding insurance claims liabilities in relation to public and employer's liability claims, and third-party motor claims. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent actuary and are intended to provide a best estimate of the most likely or expected outcome.

Restructuring provisions

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.

The charge for the year mostly comprises redundancy payments as part of Argos store closures, depot closures, and café and food counter closures announced during the year as detailed in note 5.

25 Provisions continued

Financial Services related provisions

Financial services loan commitment provisions reflect expected credit losses modelled in relation to loan commitments not yet recognised on the balance sheet, including on credit cards and Argos store cards.

Other Financial Services related provisions are primarily in relation to Argos Financial Services customers in respect of potential redress payable arising from the historic sales of Payment Protection Insurance (PPI).

The eventual cost is dependent on response rates, uphold rates, complaint rates, redress costs and claim handling costs. The provision represents management's best estimate of future costs. These assumptions are inherently uncertain and the ultimate financial impact may differ from the amount provided.

	Property provisions £m	Insurance provisions £m	Restructuring £m	Financial Services related provisions £m	Other provisions £m	Total £m
At 7 March 2021 (restated)	**164**	**67**	**54**	**26**	**38**	**349**
Additional provisions	**9**	**34**	**44**	**6**	**1**	**94**
Unused amounts reversed	**(7)**	**(5)**	**(16)**	**(3)**	**(24)**	**(55)**
Utilisation of provision	**(27)**	**(34)**	**(53)**	**(3)**	**(1)**	**(118)**
Amortisation of discount	**1**	**–**	**–**	**–**	**–**	**1**
At 5 March 2022	**140**	**62**	**29**	**26**	**14**	**271**
Current	**16**	**22**	**28**	**26**	**8**	**100**
Non-current	**124**	**40**	**1**	**–**	**6**	**171**
At 8 March 2020 (restated)	38	63	20	37	16	174
Additional provisions	146	33	61	7	32	279
Unused amounts reversed	(5)	(2)	–	(2)	–	(9)
Utilisation of provision	(16)	(27)	(27)	(16)	(10)	(96)
Amortisation of discount	1	–	–	–	–	1
At 6 March 2021 (restated)	164	67	54	26	38	349
Current	72	24	53	21	29	199
Non-current	92	43	1	5	9	150

Climate change considerations

The Group has reviewed its provisions and concluded that no adjustments need to be made for climate change risks, nor that any new provisions need to be recognised for climate-related matters.

Significant estimate – provisions

The Group's provisions are estimates of the actual costs and timing of future cash flows, which are dependent on future events and market conditions. Thus there is inherently an element of estimation uncertainty within the provisions recognised by the Group. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

The provisions are most sensitive to estimates of the future cash outflows. The following table summarises the impact that a reasonable possible change in the cash outflow assumptions when estimating provisions would have had on the amounts recognised during the year.

	Increase/(decrease) in provisions recognised				
	Property provisions	**Insurance provisions**	**Restructuring**	**Other provisions**	**Total**
Increase in cash outflows of 5%	**7**	**3**	**1**	**1**	**12**
Decrease in cash outflows of 5%	**(7)**	**(3)**	**(1)**	**(1)**	**(12)**

Sensitivities on Financial Services ECL provisions are included in note 30, therefore not included in the above.

26 Called up share capital, share premium and merger reserve

Accounting policies

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.

	2022 million	2021 million	**2022 £m**	2021 £m
Called up share capital				
Allotted and fully paid ordinary shares 28 4/7p	**2,336**	2,231	**668**	637
Share premium account				
Share premium			**1,406**	1,173

The movements in the called up share capital, share premium and merger reserve are set out below:

	Number of ordinary shares million	Ordinary shares £m	Share premium account £m	Merger reserve £m
At 6 March 2021	**2,231**	**637**	**1,173**	**568**
Allotted in respect of share option schemes	**14**	**5**	**17**	**–**
Allotted in respect of Hybrid Convertible Bond payment	**91**	**26**	**216**	**–**
At 5 March 2022	**2,336**	**668**	**1,406**	**568**
At 7 March 2020	2,217	634	1,159	568
Allotted in respect of share option schemes	14	3	14	–
At 6 March 2021	2,231	637	1,173	568

27 Capital redemption and other reserves

	Currency translation reserve £m	Financial assets at fair value through other comprehensive income £m	Cash flow hedge £m	Total other reserves £m	Capital redemption reserve £m
At 7 March 2021	**–**	**251**	**(84)**	**167**	**680**
Currency translation differences	**(1)**	**–**	**–**	**(1)**	**–**
Financial assets at fair value through other comprehensive income movements	**–**	**71**	**–**	**71**	**–**
Cash flow hedges gains and losses transferred to inventory	**–**	**–**	**28**	**28**	**–**
Items reclassified from financial assets at fair value through other comprehensive income reserve	**–**	**4**	**–**	**4**	**–**
Cash flow hedges effective portion of fair value movements	**–**	**–**	**204**	**204**	**–**
Items reclassified from cash flow hedge reserve	**–**	**–**	**7**	**7**	**–**
Other adjustments	**–**	**–**	**16**	**16**	**–**
Deferred tax	**–**	**(33)**	**(54)**	**(87)**	**–**
At 5 March 2022	**(1)**	**293**	**117**	**409**	**680**
At 8 March 2020	5	209	(46)	168	680
Currency translation differences	(5)	–	–	(5)	–
Financial assets at fair value through other comprehensive income movements	–	57	–	57	–
Cash flow hedges gains and losses transferred to inventory	–	–	(1)	(1)	–
Cash flow hedges effective portion of fair value movements	–	–	(61)	(61)	–
Items reclassified from cash flow hedge reserve	–	–	13	13	–
Deferred tax	–	(15)	11	(4)	–
At 6 March 2021	–	251	(84)	167	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 financial assets at fair value through other comprehensive income reserve represents the fair value gains and losses on the financial assets at fair value through other comprehensive income 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 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.

28 Perpetual securities

Accounting policies and key information

Perpetual securities (perpetual subordinated capital securities and perpetual subordinated convertible bonds) are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity at the time it becomes obligated to pay the periodic return. Any associated tax impacts are recognised in the income statement as this is where the distributable profits were generated in line with IAS 12 'Income Taxes'.

On 30 July 2015 the Group issued £250 million of perpetual subordinated capital securities and £250 million of perpetual subordinated convertible bonds, collectively known as perpetual securities. Costs directly associated with the issue of £6 million were offset against the value of the proceeds. The perpetual securities have no fixed redemption date. Holders of the perpetual securities do not benefit from any put option rights.

In the prior year, the Group redeemed the £250 million perpetual subordinated capital securities, at the first call date on 30 July 2020.

In the current year, the Group redeemed the £250 million perpetual convertible bonds. Of these, £240 million were converted to shares on 23 July 2021, resulting in the creation of 91 million new shares. The remaining were redeemed.

	Perpetual capital securities £m	Perpetual convertible bonds £m
At 7 March 2021	**–**	**248**
Redemption of perpetual convertible bonds	**–**	**(240)**
Repayment of perpetual convertible bonds	**–**	**(8)**
At 5 March 2022	**–**	**–**
At 8 March 2020	248	248
Distributions to holders of perpetual securities	–	(7)
Redemption of perpetual capital securities	(248)	–
Profit for the year attributable to holders of perpetual securities	–	7
At 6 March 2021	–	248

29 Retained earnings

Own shares held by Employee Share Ownership Trust (ESOT)

The Group owns 26,607,166 (2021: 17,204,213) of its ordinary shares of 28 4/7 pence nominal value each. At 5 March 2022, the total nominal value of the own shares was £7.6 million (2021: £4.9 million).

All shares (2021: all shares) are held by a Group trust for satisfying awards under the Group's Share Plans. The Group trust waives the rights to the dividends receivable in respect of the shares 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 5 March 2022 was £66 million (2021: £40 million).

	Own shares £m	Profit and loss account £m	Total retained earnings £m
At 7 March 2021 (as previously reported)	**(33)**	**3,164**	**3,131**
Opening balance adjustment	**–**	**97**	**97**
At 7 March 2021 (restated)	**(33)**	**3,261**	**3,228**
Profit for the year	**–**	**677**	**677**
Remeasurements on defined benefit pension schemes (net of tax)	**–**	**1,457**	**1,457**
Deferred tax on retirement benefit obligations	**–**	**(431)**	**(431)**
Dividends paid	**–**	**(238)**	**(238)**
Conversion of perpetual convertible bonds	**–**	**(2)**	**(2)**
Share-based payment	**–**	**60**	**60**
Purchase of own shares	**(48)**	**–**	**(48)**
Current tax on share based payment equity movement	**–**	**1**	**1**
Deferred tax on share based payment equity movement	**–**	**2**	**2**
Allotted in respect of share option schemes	**14**	**(15)**	**(1)**
Other Adjustments	**(1)**	**(12)**	**(13)**
At 5 March 2022	**(68)**	**4,760**	**4,692**
At 8 March 2020 (as previously reported)	(16)	4,084	4,068
Opening balance adjustment	–	18	18
At 8 March 2020 (restated)	(16)	4,102	4,086
Profit for the year (restated)	–	(208)	(208)
Remeasurements on defined benefit pension schemes (net of tax)	–	(482)	(482)
Current tax on retirement benefit obligations	–	44	44
Deferred tax on retirement benefit obligations	–	23	23
Dividends paid	–	(232)	(232)
Share-based payment	–	29	29
Purchase of own shares	(30)	–	(30)
Allotted in respect of share option schemes	13	(13)	–
Redemption of perpetual capital securities	–	(2)	(2)
At 6 March 2021	(33)	3,261	3,228

Refer to note 2 for details of restatement.

30 Financial risk management

The principal financial risks faced by the Group relate to liquidity risk, credit risk, market risk (foreign currency risk, interest rate risk and commodity risk) and capital risk.

Financial risk management is managed by a central treasury department in accordance with policies and guidelines which are reviewed and approved by the Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying financial exposures and setting appropriate risk limits and controls. The risk management policies also ensure sufficient liquidity is available to the Group to meet foreseeable financial obligations and that cash assets are invested safely.

Financial risk management with respect to Financial Services is separately managed within the Financial Services' governance structure.

Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its financial obligations as they fall due.

The principal operational cash flow of the Group is largely stable and predictable reflecting the low business risk profile of the food retail sector and the cyclical profile of the non-food retail sector. Cash flow forecasts are produced to assist management in identifying future liquidity requirements. The Group's liquidity policy sets a minimum funding headroom of £400 million in excess of forecast funding requirements over a rolling 12 month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding contingent committed credit facilities.

The Group's committed £1,394 million Revolving Credit Facility was undrawn at 5 March 2022. The facility is provided by a syndicate of 16 banking partners. The Group has no financial covenants. The facility is split into two Facilities, a £300 million Facility (A) and a £1,094 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024.

30 Financial risk management continued

As detailed in note 23, some suppliers have access to supply chain finance facilities, which allows these suppliers to benefit from the Group's credit profile. The total size of the facility at 5 March 2022 was £1,101 million (2021: £957 million) across a number of banks and platforms. The level of utilisation is dependent on the individual supplier requirements and varies significantly over time.

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.

At 5 March 2022	**Less than one year £m**	**One to two years £m**	**Two to five years £m**	**More than five years £m**
Non-derivative financial liabilities				
Secured loans:				
Loan due 2031[1]	**(76)**	**(80)**	**(265)**	**(378)**
Unsecured loans:				
Bank overdraft	**(7)**	**–**	**–**	**–**
Trade and other payables	**(4,205)**	**(13)**	**–**	**–**
Amounts due to Financial Services customers and banks[2]	**(4,444)**	**(109)**	**(708)**	**–**
Derivative contracts – net settled				
Commodity contracts	**22**	**2**	**–**	**–**
Interest rate swaps in hedging relationships[1, 3]	**(4)**	**7**	**4**	**1**
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[4]	**(1,680)**	**(233)**	**–**	**–**
Foreign exchange forwards – inflow[4]	**1,707**	**234**	**–**	**–**
Commodity contracts – outflow	**(13)**	**(25)**	**(61)**	**(56)**
Commodity contracts – inflow	**82**	**55**	**102**	**109**

At 6 March 2021	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
Non-derivative financial liabilities				
Secured loans:				
Loan due 2031[1]	(73)	(74)	(229)	(373)
Unsecured loans:				
Bank loans due 2021[5]	(201)	–	–	–
Bank overdrafts	(99)	–	–	–
Trade and other payables	(4,083)	(19)	–	–
Amounts due to Financial Services customers and banks[2]	(6,088)	(126)	(82)	–
Derivative contracts – net settled				
Commodity contracts	2	1	–	–
Interest rate swaps in hedging relationships[1, 3]	(27)	(23)	(3)	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[4]	(1,570)	(198)	–	–
Foreign exchange forwards – inflow[4]	1,483	196	–	–
Commodity contracts – outflow	(10)	(9)	(21)	(13)
Commodity contracts – inflow	11	9	23	15

Assumptions:

[1] Cash flows relating to debt and swaps linked to inflation rates have been calculated using a RPI of 1.4 per cent for the year ended 5 March 2022, 5.0 per cent for the year ending 4 March 2023 and 5.0 per cent for future years (2021: RPI of 2.7 per cent for the year ended 6 March 2021, 1.4 per cent for the year ending 5 March 2022 and 1.4 per cent for future years).

[2] 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.

[3] The swap rate that matches the remaining term of the interest rate swaps as at 5 March 2022 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2021: 6 March 2021).

[4] Cash flows in foreign currencies have been translated using spot rates as at 5 March 2022 and 6 March 2021.

[5] Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates as at 6 March 2021.

Financial Services

Liquidity risk is the risk that Sainsbury's Bank and its subsidiaries (the Bank) cannot meet its payment obligations as they fall due, or can only do so at excessive cost. The Bank seeks to ensure that financial obligations can be met at all times, even under liquidity stress conditions.

The annual Internal Liquidity Adequacy Assessment Process (ILAAP) enables the Bank to:

(1) Identify and assess its most relevant liquidity risk drivers;

(2) Quantify its liquidity needs under various stress scenarios; and

(3) Put in place appropriate limits and controls to mitigate liquidity risks.

30 Financial risk management continued

In meeting its internal limits as well as PRA requirements, the Bank maintains a stock of high quality liquid assets that can be readily monetised by outright sale or repurchase agreement to meet the Bank's obligations to depositors and other creditors.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside cash flow and funding ratios. Long-term and short-term forecasts are prepared to assess liquidity requirements, taking into account factors such as ATM cash management, contractual maturities and customer deposit patterns (stable or less stable deposits) as well as outflows regarding undrawn commitments. These reports support daily liquidity management, with early warning indicators reviewed on a daily basis and appropriate triggers for escalation and action in line with risk appetite, Liquidity and Funding Policy and Liquidity Contingency Plan. Asset encumbrance ratios and risk indicators for wholesale funding concentrations by type (total/secured/unsecured), maturity, sector, geography and counterparty are also regularly monitored and reported to the Asset-Liability Committee (ALCO).

Asset encumbrance

	2022		2021	
	Carrying value of encumbered assets £m	**Matching liabilities, contingent liabilities or securities lent £m**	Carrying value of encumbered assets £m	Matching liabilities, contingent liabilities or securities lent £m
Loans and advances to customers	**1,365**	**885**	1,596	1,110
Debt securities	**157**	**75**	27	–
Other assets	**40**	**27**	76	27
Cash and balances with central banks	**15**	**–**	17	–

The primary sources of encumbrance in the Bank relate to margin requirements for derivative transactions and collateral relating to secured funding transactions. Cash collateral is advanced and received as variation margin on derivative transactions, whilst eligible treasury assets (primarily Gilts and Treasury bills) are pledged as collateral for initial margin requirements on derivatives which are centrally cleared. Eligible personal loans and mortgages, with applicable haircuts, are used as collateral for Bank of England funding facilities, including the Term Funding Scheme (TFS), the Term Funding Scheme with additional incentives for SMEs (TFSME) and Indexed Long-Term Repo (ILTR) facilities.

Credit risk

a. Retail credit risk management

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of the Group's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers.

Specifically within Financial Services, retail credit risk is the possibility of losses arising from a retail customer failing to meet their agreed repayment terms as they fall due under mortgage, unsecured personal loan, credit card or store card arrangements. The Financial Services division utilises automated scorecards to assess the credit worthiness and affordability criteria of new applicants and ongoing behavioural characteristics of existing customers. The outcome from all scorecard models are monitored utilising a set of credit quality metrics to ensure actual performance is in line with agreed expectations. Additional expert underwriting of credit applications is undertaken by a specialist operational team where further consideration is appropriate.

The Retail Credit Risk Committee of Sainsbury's Bank provides portfolio oversight control over credit strategy to maintain lending in line with the Board approved risk appetite, with additional oversight and control provided by the Executive Risk Committee and Board Risk Committee. Internal Audit provide additional assurance by undertaking regular reviews on the adequacy of credit risk policies and procedures.

b. Wholesale and derivative credit risk management

The Group (excluding Financial Services) sets counterparty limits for each of its banking and investment counterparties based on their credit ratings. The minimum long-term credit rating accepted by the Group is BBB- (Standard & Poor's and Fitch) or Baa3 (Moody's) or, in the case of sterling liquidity funds, AAA or Aaa/MR1+ from Moody's. In the event of a split credit rating, the lower rating applies.

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 2022 £m**	Group 2021 £m
Financial institutions – Money market deposits	AAAm/Aaa	**–**	198
Financial institutions – Money market deposits	AA+/Aa1 to A/A2	**25**	200
Deposits at central banks	AA+/Aa1	**234**	852

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 2022 £m**	Group 2021 £m
Interest rate swaps	AA+/Aa1 to A/A2	**35**	1
Inflation rate swaps	AA+/Aa1 to A/A2	**5**	–
FX forward contracts	AA+/Aa1 to A/A2	**46**	2
Commodity forward contracts	AA+/Aa1 to A/A2	**25**	4

30 Financial risk management continued

The Bank's treasury portfolio is held primarily for liquidity management purposes and in the case of derivatives, for the purpose of managing market risk. The liquidity portfolio is invested in eligible investment securities that qualify for the regulatory Liquidity Coverage Ratio (LCR) and internal Operational Liquidity Pool (OLP). These investments include the Bank of England's (BoE) reserve account, UK Government securities (gilts or Treasury bills), multilateral development bank securities, government guaranteed agency securities, UK regulated covered bond programmes and asset backed securities.

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings. Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark to market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures. Daily monitoring is undertaken by the Bank's Treasury department, including early warning indicators with appropriate triggers for escalation.

c. Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	2022 **£m**	2021 £m
Credit risk exposures relating to on balance sheet items		
Loans and advances to customers and other banks	**5,189**	5,407
Cash and balances with central banks	**825**	1,477
Derivative financial instruments (excludes level 3 instruments)	**111**	13
Investment securities	**418**	538
Other assets	**552**	609
Credit risk exposures relating to off balance sheet items		
Loans commitments	**26**	64
Total credit risk exposures	**7,121**	8,108

The commitments to lend disclosed in the above table do not include undrawn limits on credit cards and store cards of £8,777 million (2021: £9,165 million). These are not considered contractual commitments but, because in practice Financial Services does not expect to withdraw these credit limits from customers, they are within the scope of impairment provisioning.

d. Impairment of financial assets

Accounting policies

Impairments on financial assets are accounted for using a 3-stage forward-looking expected credit loss (ECL) approach in line with IFRS 9. The Group is required to record an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

ECLs are based on the difference between the cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For Financial Services portfolios of loans, such as credit card lending, scorecard lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level. The allowance is calculated by reference to the estimated probability of default (PD), exposure at default (EAD) and loss given default (LGD).

- The probability of default represents the likelihood of a borrower defaulting within 12 months from the balance sheet date or within the expected lifetime of the borrower.
- Exposure at default represents the expected amount due from the borrower at the point of default by reference to exposure at the balance sheet date adjusted for expected future changes including repayments and utilisation of undrawn facilities.
- Loss given default represents the expected percentage loss at the point of default relative to the EAD. The estimate takes into account utilisation of any expected collections and recoveries strategies, debt sale arrangements and collateral.

ECL 3-stage model

- Stage 1 – Impairment allowance on financial assets that have not significantly increased in credit risk since origination, nor are credit impaired, is calculated using the probability that a borrower will default within 12 months from the balance sheet date. Interest income is recognised on the gross carrying value of the financial asset.
- Stage 2 – Where a financial asset exhibits a significant increase in credit risk (SICR) but is not yet considered to be credit impaired, the probability of default considered in the impairment allowance is based upon the lifetime probability of the borrower defaulting. Interest income continues to be recognised on the gross carrying value of the financial asset.
- Stage 3 – Assets considered to be credit impaired resulting from one or more events that have occurred that has resulted in a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets will continue to recognise lifetime expected impairment losses (with a 100 per cent probability of default) and interest income will be recognised on the net carrying amount (i.e. gross amount less impairment allowance).

30 Financial risk management continued

Significant increases in credit risk

The Group determines whether there has been a significant increase in credit risk by reference to quantitative thresholds, qualitative indicators and the backstop presumption that credit risk has significantly increased if contractual payments are more than 30 days past due.

Quantitative thresholds have been determined that when the lifetime PD of an instrument as at the reporting date has increased to greater than a specified multiple of the origination lifetime PD, a significant increase in credit risk is deemed to have occurred.

Qualitative tests are based around the Group's credit origination policy rules for Financial Services customers. These rules are in place at account origination in order to decline accounts that may demonstrate risk factors outside of risk appetite that are not yet reflected in PD measures. At the reporting date, if an account satisfies any policy decline rules that it had not at the point of origination, it will be considered to have significantly increased in credit risk.

There is no probationary period applied in respect of accounts that cure from stage 2 to stage 1. Transfer criteria have been subject to extensive analysis to ensure that they appropriately reflect the flow of accounts from origination to default so as to maximise the number of accounts that flow through the stages and minimise accounts that jump from stage 1 to stage 3, or that fail to enter stage 3 from stage 2.

The Group has applied the low credit risk exemption in respect of its high quality treasury portfolio held for liquidity purposes. This exemption permits low credit risk debt securities (i.e. those considered investment grade) to remain in stage 1 without an assessment of significant increase in credit risk.

Definition of default

The Group's definition of default is used in determining those accounts classified as stage 3 (i.e. credit impaired). The Group has chosen not to rebut the backstop presumption prescribed by IFRS 9 that where an account is 90 days or more past its due date then default has occurred.

The Group has also defined a number of unlikeliness-to-pay criteria that result in an account being deemed to have defaulted. These include:

- Where operational collections activities have been exhausted on accounts that are less than 90 days past due and the account is subject to recoveries processes
- If any forbearance has been granted on the account (see forbearance definition in section h below)
- Where the customer is subject to insolvency proceedings
- Where the customer is deceased

Where an account no longer meets any of the default criteria, such as by bringing payments back up to date, the Group will continue to consider the account as being in default for a period of 24 months from the date when it last met the definition of default.

Write-off

Loans and advances to customers are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off.

Subsequent recoveries of amounts previously written off result in impairment gains recorded in the statement of comprehensive income.

Expected lifetime

For the purposes of considering the lifetime probability of default, the expected lifetime of a financial asset is the contractual term where this is fixed within the contract, or in the case of revolving products such as credit cards a behavioural life is determined by reference to historic trends.

Modified financial assets

When the contractual cash flows of a financial asset have been renegotiated or modified and the financial asset was not derecognised, its gross carrying amount is recalculated as the present value of the modified contractual cash flows, discounted at the original effective interest rate with a gain or loss recognised in the income statement.

30 Financial risk management continued

Loans and advances to customers per stage

The tables below summarise the breakdown of the gross carrying amount of loans and advances to customers per stage. Unsecured lending represents Sainsbury's Bank credit cards and personal loan lending in addition to Argos storecards. Secured lending represents Sainsbury's Bank mortgage lending.

At 5 March 2022 Unsecured lending	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impaired				
Less than 3 months, but impaired	–	–	**31**	**31**
Over 3 months	–	–	**75**	**75**
Recoveries	–	–	**59**	**59**
Total gross impaired loans	–	–	**165**	**165**
Past due 30 days to 3 months	–	**20**	–	**20**
Past due less than 30 days	**11**	**29**	–	**40**
Not past due	**3,815**	**465**	–	**4,280**
Total gross amount due	**3,826**	**514**	**165**	**4,505**
Impairment				
Impairment on gross balance	**(34)**	**(47)**	**(120)**	**(201)**
Undrawn commitments impairment	**(10)**	**(8)**	**(1)**	**(19)**
Total impairment	**(44)**	**(55)**	**(121)**	**(220)**
Coverage	**1.2%**	**10.7%**	**73.3%**	**4.9%**

At 5 March 2022 Secured lending	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impaired				
Less than 3 months, but impaired	–	–	**8**	**8**
Over 3 months	–	–	**1**	**1**
Recoveries	–	–	–	–
Total gross impaired loans	–	–	**9**	**9**
Past due 30 days to 3 months	–	–	–	–
Past due less than 30 days	–	**1**	–	**1**
Not past due	**713**	**59**	–	**772**
Total gross amount due	**713**	**60**	**9**	**782**
Impairment				
Impairment on gross balance	–	–	**(2)**	**(2)**
Undrawn commitments impairment	–	–	–	–
Total impairment	–	–	**(2)**	**(2)**
Coverage	**0.1%**	**0.7%**	**23.6%**	**0.4%**

30 Financial risk management continued

At 6 March 2021 Unsecured lending	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impaired				
Less than 3 months, but impaired	–	–	38	38
Over 3 months	–	–	76	76
Recoveries	–	–	93	93
Total gross impaired loans	–	–	207	207
Past due 30 days to 3 months	–	21	–	21
Past due less than 30 days	8	26	–	34
Not past due	3,640	499	–	4,139
Total gross amount due	3,648	546	207	4,401
Impairment				
Impairment on gross balance	(40)	(63)	(157)	(260)
Undrawn commitments impairment	(9)	(5)	(1)	(15)
Total impairment	(49)	(68)	(158)	(275)
Coverage	1.3%	12.4%	76.3%	6.3%

At 6 March 2021 Secured lending	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impaired				
Less than 3 months, but impaired	–	–	10	10
Over 3 months	–	–	1	1
Recoveries	–	–	–	–
Total gross impaired loans	–	–	11	11
Past due 30 days to 3 months	–	–	–	–
Past due less than 30 days	–	1	–	1
Not past due	1,189	46	–	1,235
Total gross amount due	1,189	47	11	1,247
Impairment				
Impairment on gross balance	–	–	(3)	(3)
Undrawn commitments impairment	–	–	–	–
Total impairment	–	–	(3)	(3)
Coverage	–	0.4%	27.2%	0.2%

30 Financial risk management continued

The tables below present the reconciliations of ECL allowances on loans and advances to customers, and to overall amounts held on the balance sheet:

At 5 March 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross exposure				
Impaired	**–**	**–**	**174**	**174**
Past due but not impaired	**11**	**50**	**–**	**61**
Neither past due nor impaired	**4,528**	**524**	**–**	**5,052**
	4,539	**574**	**174**	**5,287**
Allowance for expected credit loss				
Opening loss allowance	**(40)**	**(63)**	**(160)**	**(263)**
Transfers between stages	**8**	**(3)**	**(5)**	**–**
Additional provisions less amounts recovered	**(6)**	**2**	**13**	**9**
Write-offs	**–**	**1**	**78**	**79**
Changes in credit risk during the year	**4**	**16**	**(48)**	**(28)**
Closing loss allowance	**(34)**	**(47)**	**(122)**	**(203)**
Net exposure	**4,505**	**527**	**52**	**5,084**
Hedging fair value adjustment				**(16)**
Loans and advances to other banks				**121**
Net book value on balance sheet				**5,189**

At 6 March 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross exposure				
Impaired	–	–	218	218
Past due but not impaired	8	48	–	56
Neither past due nor impaired	4,829	545	–	5,374
	4,837	593	218	5,648
Allowance for expected credit loss				
Opening loss allowance	(37)	(52)	(178)	(267)
Transfers between stages	59	3	(62)	–
Additional provisions less amounts recovered	–	2	12	14
Write-offs	–	1	88	89
Changes in credit risk during the year	(62)	(17)	(20)	(99)
Closing loss allowance	(40)	(63)	(160)	(263)
Net exposure	4,797	530	58	5,385
Hedging fair value adjustment				22
Net book value on balance sheet				5,407

Financial commitments

Sainsbury's Bank has off-balance sheet commitments to extend credit to customers of £26 million (2021: £64 million). These commitments do not include undrawn limits on credit cards and store cards of £8,777 million (2021: £9,165 million). These are not considered contractual commitments but, because in practice Financial Services does not expect to withdraw these credit limits from customers, they are within the scope of impairment provisioning.

At the year-end, £19 million of expected credit loss provisions are recognised in respect of off-balance sheet loan commitments and undrawn limits in line with IFRS 9 (2021: £15 million).

Credit quality per class of loans and advances

The Group defines the following classifications for all loans and advances to customers: High, Satisfactory, Low and Credit impaired. These are segmented by 12 month probability of default (PD) under IFRS 9.

30 Financial risk management continued

	IFRS 9 12 month PD
High quality	<=3.02%
Satisfactory quality	>=3.03% – 11.10%
Low quality	>=11.11%
Credit impaired	100%

Unsecured lending

At 5 March 2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
High quality	**3,401**	**233**	**–**	**3,634**
Satisfactory quality	**381**	**181**	**–**	**562**
Low quality	**44**	**100**	**–**	**144**
Credit impaired	**–**	**–**	**165**	**165**
Total	**3,826**	**514**	**165**	**4,505**

At 6 March 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
High quality	3,176	161	–	3,337
Satisfactory quality	420	252	–	672
Low quality	52	133	–	185
Credit impaired	–	–	207	207
Total	3,648	546	207	4,401

Secured lending

At 5 March 2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
High quality	**713**	**59**	**–**	**772**
Satisfactory quality	**–**	**1**	**–**	**1**
Low quality	**–**	**–**	**–**	**–**
Credit impaired	**–**	**–**	**9**	**9**
Total	**713**	**60**	**9**	**782**

At 6 March 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
High quality	1,189	45	–	1,234
Satisfactory quality	–	2	–	2
Low quality	–	–	–	–
Credit impaired	–	–	11	11
Total	1,189	47	11	1,247

e. Significant estimate – macro-economic scenarios

IFRS 9 requires that the measurement of ECL should reflect an unbiased and probability weighted amount that is determined by evaluating a range of forward-looking economic assumptions. The Group has engaged an external supplier to provide economic forecasts which are subject to review, challenge and approval through the Bank's governance processes.

For the year ended 5 March 2022 the economic scenarios have been updated to include a reduction in unemployment rates as a result of improved economic conditions albeit this is offset by increased inflation/CPI rates which is having a notable impact on the cost of living.

The ECL models utilise 4 scenarios (2021: 4 scenarios) including a 'base case' scenario considered to be the most likely outcome together with an upside, downside scenario and severe downside. The base case has been assigned a probability weighting of 45% with the upside, downside and severe downside scenarios weighted 35%, 15%, 5% respectively (2021: base scenario 40%; upside, downside and severe downside scenarios weighted 30%, 25%, 5% respectively).

30 Financial risk management continued

The key macro-economic assumptions included in the ECL calculation (shown as 5 year averages from the reporting date) were:

	As at 5 March 2022			
	Base **%**	**Upside** **%**	**Downside** **%**	**Severe downside** **%**
Unemployment rate	**4.0**	**3.9**	**4.7**	**6.2**
Consumer price growth	**2.7**	**2.8**	**2.6**	**2.5**
GDP	**1.8**	**2.2**	**1.5**	**1.0**
Mortgage debt as a percentage of household income	**102.8**	**101.7**	**104.3**	**105.9**
Real household disposable income	**1.0**	**1.3**	**0.7**	**0.4**
Probability weighting (%)	**45**	**35**	**15**	**5**
Sensitivity analysis impact on impairment of 100 per cent weighting	**£(3.8)m**	**£(7.4)m**	**£9.7m**	**£30.4m**

f. Management overlays

In the context of IFRS 9, management overlays are short-term increases or decreases to the ECL at either a customer or portfolio level to account for items that have not been fully reflected in the existing models.

Internal governance is in place to regularly monitor management overlays and to reduce the reliance on management overlays through model recalibration or redevelopment, as appropriate.

Management overlays applied in estimating the reported ECL at 5 March 2022 are set out in the following table. The table includes adjustments in relation to data and model limitations resulting from economic uncertainty related to the ongoing recovery from the COVID-19 pandemic. It shows the adjustments applicable to the scenario weighted ECL numbers.

Movement in ECL	**At 5 March 2022 £m**	At 6 March 2021 £m
Economic adjustment	**10**	21
PD adjustment	**–**	10
LGD adjustment	**–**	9
Operational overlays	**5**	2
Total	**15**	42

The proportion of management overlay is 9 per cent of the total ECL provision as at 5 March 2022 (2021: 16 per cent).

The Economic adjustment is included where management judge the underlying models do not respond adequately to the economic scenarios. As a result of COVID-19 there remains uncertainty over the levels of defaults that may arise following the cessation of government assistance schemes, and inflation is an emerging concern as markets re-open.

The majority of the Operational overlays relate to model or data limitations that are manually corrected, whilst a permanent fix is being developed.

g. Collateral relating to loans and advances to customers

Mortgages held over residential properties represent the only collateral held by the Group for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired was £23 million (2021: £26 million). The fair value of collateral held against possession cases was £nil (2021: £nil).

An analysis by loan-to-value (LTV) ratio of the Group's residential mortgage lending is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices.

At 5 March 2022	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Less than 70%	**607**	**57**	**8**	**672**
70% to 80%	**102**	**2**	**1**	**105**
80% to 90%	**4**	**1**	**–**	**5**
90% to 100%	**–**	**–**	**–**	**–**
Greater than 100%	**–**	**–**	**–**	**–**
Total mortgages	**713**	**60**	**9**	**782**

At 6 March 2021	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Less than 70%	795	37	8	840
70% to 80%	265	7	2	274
80% to 90%	128	3	1	132
90% to 100%	1	–	–	1
Greater than 100%	–	–	–	–
Total mortgages	1,189	47	11	1,247

30 Financial risk management continued

h. Forbearance

The Group provides support to customers who are experiencing financial difficulties. Forbearance is defined as relief granted by a lender to assist customers in financial difficulty, through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or the Group where financial difficulty would prevent repayment within the original terms and conditions of the contract.

The main aim of forbearance is to support customers in returning to a position where they are able to meet their contractual obligations.

The Group has well defined forbearance policies and processes. A number of forbearance options are made available to customers. These include arrangements to repay arrears over a period of time by making payments above the contractual amount, that ensure the loan is repaid within the original repayment term and short-term concessions, where the borrower is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short-term financial hardship.

The table below details the values of secured and unsecured advances that are subject to the Group's forbearance programmes:

	2022			2021		
	Gross loans and advances subject to forbearance £m	**Forbearance as a total of loans and advances %**	**Forbearance covered by impairment provision %**	Gross loans and advances subject to forbearance £m	Forbearance as a total of loans and advances %	Forbearance covered by impairment provision %
Unsecured	**52**	**1.2**	**72.0**	130	3.0	43.8
Secured	**2**	**0.3**	**25.7**	4	0.3	24.6
Total	**54**	**1.0**	**70.1**	134	2.4	43.3

Market risk

The Group uses forward contracts 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 Board approved policies which prohibit the use of derivative financial instruments for speculative purposes.

a. Foreign 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 highly probable foreign currency cash flows to be hedged. Highly probable foreign currency cash flows, which may be either contracted or un-contracted, are hedged on a layered basis using foreign currency forward contracts.

The Group has exposure to currency risk on balances held in 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 10 per cent movement in exchange rates against sterling is a reasonable measure of volatility. The impact of a 10 per cent movement in the exchange rate of US dollar and euro versus sterling as at the balance sheet date, with all other variables held constant, is summarised in the table below:

Group	**2022 Change in exchange rate impact on post-tax profit +/-10% £m**	**2022 Change in exchange rate impact on cash flow hedge reserve +/-10% £m**	2021 Change in exchange rate impact on post-tax profit +/-10% £m	2021 Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	**3/(3)**	**(115)/141**	3/(4)	(112)/137
EUR/GBP	**3/(3)**	**(29)/36**	3/(3)	(27)/33

Financial Services

The Bank is exposed to FX risk through its holding of cash denominated in foreign currencies, primarily Euro and US Dollar, within its travel money bureaux in J Sainsbury's stores. The FX positions are hedged on a regular basis. Furthermore a US dollar deposit is held with MasterCard. This exposure is also hedged.

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 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-sets on the borrowings are less frequent than once every 12 months. Interest on financial instruments is classified as floating rate if interest re-sets on the borrowings occur every 12 months or more frequently. Floating rate instruments are considered variable capped rate if the nominal interest rate is subject to a cap.

30 Financial risk management continued

The mix of the Group's financial assets and liabilities at the balance sheet date was as follows:

	Fixed £m	Floating £m	Variable capped £m	Total £m
Interest bearing financial assets at fair value through other comprehensive income	**121**	**297**	**–**	**418**
Amounts due from Financial Services customers and other banks	**2,799**	**2,390**	**–**	**5,189**
Cash and cash equivalents	**547**	**278**	**–**	**825**
Bank overdrafts	**–**	**(7)**	**–**	**(7)**
Borrowings	**(179)**	**–**	**(575)**	**(754)**
Amounts due to Financial Services customers and banks	**(603)**	**(4,656)**	**–**	**(5,259)**
Derivative effect:				
Interest rate swaps	**(1,952)**	**1,952**	**–**	**–**
Inflation linked swaps	**(490)**	**–**	**490**	**–**
At 5 March 2022	**243**	**254**	**(85)**	**412**

	Fixed £m	Floating £m	Variable capped £m	Total £m
Interest bearing financial assets at fair value through other comprehensive income	74	464	–	538
Amounts due from Financial Services customers	3,102	2,305	–	5,407
Cash and cash equivalents	166	1,409	–	1,575
Bank overdrafts (restated)	–	(99)	–	(99)
Borrowings	(179)	(200)	(627)	(1,006)
Amounts due to Financial Services customers and banks	(675)	(5,614)	–	(6,289)
Derivative effect:				
Interest rate swaps	(2,951)	2,951	–	–
Inflation linked swaps	(490)	–	490	–
At 6 March 2021	(953)	1,216	(137)	126

(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:

	2022 Impact on post-tax profit £m	**2022 Impact on cash flow hedge reserve £m**	2021 Impact on post-tax profit £m	2021 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(5)/9**	**(0)/0**	(9)/5	1/(1)

(ii) Cash flow sensitivity for variable capped rate liabilities
The Group holds £575 million of capped inflation-linked borrowings (2021: £627 million) of which £490 million (2021: £490 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing in April 2023.

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:

	2022 Impact on post-tax profit £m	**2022 Impact on cash flow hedge reserve £m**	2021 Impact on post-tax profit £m	2021 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(0)/0**	**5/(6)**	(2)/2	9/(9)

Financial Services

Interest Rate Risk in the Banking Book (IRRBB) arises from interest rate movements which impact the present value and timing of future cash flows resulting in changes in the underlying value of a bank's assets and liabilities and hence its economic value. Interest rates movements also affect a bank's earnings by altering interest-sensitive income and expenses, affecting its net interest income.

30 Financial risk management continued

The main types of interest rate risk faced by the Bank are:

- Re-pricing gap risk: the risk arising from timing differences in the interest rate changes of bank assets and liabilities (e.g. fixed rate personal loans and instant access savings accounts).
- Yield curve risk: the risk arising from changes in the slope and shape of the yield curve.
- Basis risk: risk arising from imperfect correlation between different interest rate indices (e.g. administered rate on savings products and treasury assets linked to SONIA).
- Prepayment risk: the risk arising from the timing of customer prepayments which differ from planning and hedging assumptions.
- Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for the Bank.
- Credit Spread Risk: the risk of adverse effects resulting from a change in credit spreads, arising via the Bank's Treasury portfolio.

Interest risk exposure is actively managed within limits that are aligned with the Bank's risk appetite by using financial instruments such as interest rate swaps and by taking into account natural hedges between assets and liabilities with similar repricing characteristics. Hedging strategies are implemented and reviewed to ensure the Bank remains within its limits.

In order to measure the exposure to interest rate risk the Bank adopts a Capital at Risk ('CaR') approach to assess the value sensitivity of the Bank's capital to movements in interest rates under various interest rates shock scenarios, as well as via an annual earnings at risk metric which measures the sensitivity of the Bank's earnings to movements in interest rates over a 12 month period. The CaR measure is an aggregate measure of five separate risk components, each being a distinct form of interest rate risk including repricing risk, basis risk, prepayment risk, MTM risk and credit spread risk.

c. 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 diesel. The Group hedges own use consumption of electricity and gas with forward purchases under flexible purchasing arrangements with its suppliers as well as power purchase agreements for electricity. The Group uses a combination of purchasing agreements and financial derivatives to hedge fuel exposures on a layered basis using contracts for difference. See note 32 for derivative disclosures.

Capital risk management

The Group defines capital as net assets (excluding the pension deficit/surplus) less 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.

Whilst there are no repeating financial covenants, part of the Group's capital risk management is to ensure compliance with the general covenants included in the Group's borrowing facilities. Examples of general covenants include restrictions on the permitted value of asset disposals and incremental secured indebtedness. In addition to there being no breaches of general covenants in the financial year ended 5 March 2022, there is healthy headroom within all general covenants as at 5 March 2022.

Information relating to Financial Services capital risk management is detailed below.

Financial Services capital resources (unaudited)

The following table analyses the regulatory capital resources under CRD IV. From a prudential perspective, Sainsbury's Bank is monitored and supervised on a consolidated basis with its subsidiary, Home Retail Group Card Services Limited, from the point of acquisition of Argos Financial Services in September 2016. The Bank has obtained an individual consolidation waiver from the PRA, which allows the Bank to monitor its capital position on a consolidated basis only. Therefore, the capital position shown below is on a regulatory consolidated basis.

The Bank implemented IFRS 9, effective 1 March 2018. The following table analyses the regulatory capital resources under CRD IV and aligns to the phase-in approach of IFRS 9 impacts on capital, over a 5-year period. The current year transitional data also includes adjustments introduced to mitigate against the impact of COVID-19, reflecting an additional benefit received for ECL increases.

	Transitional 2022 IFRS 9 £m	**Full impact 2022 IFRS 9 £m**	Transitional 2021 IFRS 9 £m	Full impact 2021 IFRS 9 £m
Common Equity Tier 1 (CET 1) capital:				
Ordinary share capital	**701**	**701**	901	901
Allowable reserves	**126**	**126**	(44)	(44)
Regulatory adjustments	**(142)**	**(180)**	(66)	(131)
Tier 1 capital	**685**	**647**	791	726
Tier 2 capital (loan notes – listed)	**109**	**109**	120	119
Total capital	**794**	**756**	911	845

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV) incorporating CRR2 changes that are effective from 1 January 2022 and aligns to the phase-in approach of IFRS 9 impacts on capital, over a 5-year period from 1 March 2018, as enacted in the UK. Common Equity Tier 1 (CET 1) capital includes ordinary share capital, other reserves, losses and regulatory deductions.

30 Financial risk management continued

The movement of CET 1 capital during the financial year is analysed as follows:

	Transitional 2022 IFRS 9 £m	**Full impact 2022 IFRS 9 £m**	Transitional 2021 IFRS 9 £m	Full impact 2021 IFRS 9 £m
At 1 March 2021 and 1 March 2020	**791**	**726**	822	756
Verified profits/(losses) attributable to shareholders	**22**	**22**	(142)	(142)
Foreseeable dividend	**(50)**	**(50)**	–	–
Transitional adjustments	**(27)**	**–**	(1)	–
Other reserve movements	**(2)**	**(2)**	5	5
Movement in additional value adjustments	**1**	**1**	–	–
Movement in intangible assets	**(50)**	**(50)**	107	107
At 28 February 2022 and 28 February 2021	**685**	**647**	791	726

Leverage ratio (unaudited)

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets, which is measured below on a regulatory consolidated basis. The denominator represents the total non-risk weighted assets of the regulatory group (Bank and Home Retail Group Card Services Limited) adjusted for certain off balance sheet exposures, assets and regulatory deductions and provides a non-risk-weighted 'backstop' capital measure. The leverage ratio is calculated below as at 28 February 2022 on the UK basis which allows central bank assets to be excluded from the leverage exposures. The Bank's leverage ratio of 9.7 per cent exceeds the minimum Basel leverage ratio of 3 per cent.

	Transitional 2022 IFRS 9 £m	**Full impact 2022 IFRS 9 £m**	Transitional 2021 IFRS 9 £m	Full impact 2021 IFRS 9 £m
Components of the leverage ratio				
Total assets as per published financial statements (Sainsbury's Bank plc)	**6,436**	**6,436**	7,438	7,438
Uplift on consolidation of subsidiary undertakings	**80**	**80**	58	58
Exposure value for derivatives and securities financing transactions	**37**	**37**	22	22
Off balance sheet exposures: unconditionally cancellable (10%)	**878**	**878**	917	917
Off balance sheet: other (100%)	**5**	**5**	13	13
Other adjustments	**(169)**	**(207)**	(79)	(143)
Central Bank Claims	**(219)**	**(219)**	–	–
	7,048	**7,010**	8,369	8,305
Tier 1 capital	**685**	**647**	791	726
Leverage ratio	**9.7%**	**9.2%**	9.5%	8.7%

Capital management

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. Capital adequacy is monitored on an ongoing basis by senior management, the ALCO, 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.

31 Financial instruments

Accounting policies

a) Financial assets

The Group classifies all of its financial assets as either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The business model assessment reflects how the Group manages the risks relating to the underlying financial assets, including whether the Group's principal objective is to collect the contractual cash flows arising from the instruments (amortised cost), to sell the financial instruments (FVTPL) or a combination thereof (FVOCI).

31 Financial instruments continued

Financial instruments at amortised cost

Financial assets that are principally held for the collection of contractual cash flows and which pass the SPPI test are classified as amortised cost. For the Group this includes cash, receivables and amounts due from financial services customers and other banks. The Group has no intention of trading these assets. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures these financial assets at fair value plus transaction costs. Subsequently these assets are carried at amortised cost less impairment using the effective interest rate method. Income from these financial assets is calculated on an effective interest rate basis and is recognised in the income statement.

Financial assets at fair value through other comprehensive income

Accounting policies are detailed in note 18.

Financial assets at fair value through profit and loss

The Group's derivatives are classified as fair value through profit or loss. They are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

Financial assets are derecognised when the contractual cash flows from the asset have expired or have been transferred, usually by sale, and with them either substantially all the risks and rewards of the asset or significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

b) Financial liabilities

The Group recognises all of its financial liabilities at amortised cost and all derivative financial liabilities are classified as FVTPL. Financial liabilities costs, 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 rate 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.

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 rate method.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled, or expires.

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 5 March 2022 and 6 March 2021.

	Amortised cost £m	**Fair value through OCI £m**	**Fair value through profit or loss £m**	**Total £m**
Cash and cash equivalents	**825**	**–**	**–**	**825**
Trade and other receivables	**552**	**–**	**–**	**552**
Amounts due from Financial Services customers and other banks	**5,189**	**–**	**–**	**5,189**
Financial assets at FVOCI	**–**	**800**	**–**	**800**
Trade and other payables	**(4,218)**	**–**	**–**	**(4,218)**
Borrowings	**(761)**	**–**	**–**	**(761)**
Amounts due to Financial Services customers and banks	**(5,259)**	**–**	**–**	**(5,259)**
Derivative financial instruments	**–**	**–**	**259**	**259**
Lease liabilities	**(6,621)**	**–**	**–**	**(6,621)**
At 5 March 2022	**(10,293)**	**800**	**259**	**(9,234)**

Restated	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	1,575	–	–	1,575
Trade and other receivables	609	–	–	609
Amounts due from Financial Services customers	5,407	–	–	5,407
Financial assets at FVOCI	–	844	–	844
Trade and other payables	(4,102)	–	–	(4,102)
Borrowings	(1,104)	–	–	(1,104)
Amounts due to Financial Services customers and banks	(6,289)	–	–	(6,289)
Derivative financial instruments	–	–	(124)	(124)
Lease liabilities	(5,834)	–	–	(5,834)
At 6 March 2021	(9,738)	844	(124)	(9,018)

31 Financial instruments continued

c) Fair value estimation

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 values 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, other receivables, overdrafts and payables and lease liabilities are assumed to approximate to their book values.

At 5 March 2022	**Carrying amount £m**	**Group fair value £m**
Financial assets		
Amounts due from Financial Services customers[1]	**5,189**	**5,216**
Financial liabilities		
Loans due 2031	**(575)**	**(717)**
Tier 2 capital due 2023	**(179)**	**(180)**
Amounts due to Financial Services customers and other banks	**(5,259)**	**(5,260)**

At 6 March 2021	Carrying amount £m	Group fair value £m
Financial assets		
Amounts due from Financial Services customers[1]	5,407	5,418
Financial liabilities		
Loans due 2031	(627)	(761)
Bank loans due 2021	(199)	(199)
Tier 2 capital due 2023	(179)	(183)
Amounts due to Financial Services customers and other banks	(6,289)	(6,298)

[1] Included within a portfolio fair value hedging relationship with £3,235 million (2021: £3,984 million) of interest rate swaps.

The fair value of the financial assets has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy (see below for fair value hierarchy description). The fair value of financial liabilities have been calculated by discounting cash flows at prevailing interest rates and are within Level 2 of the fair value hierarchy.

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).

31 Financial instruments continued

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 5 March 2022				
Financial instruments at fair value through other comprehensive income				
Other financial assets	**–**	**15**	**367**	**382**
Investment securities	**418**	**–**	**–**	**418**
Derivative financial assets	**–**	**111**	**180**	**291**
Derivative financial liabilities	**–**	**(32)**	**–**	**(32)**
At 6 March 2021				
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	–	1	–	1
Other financial assets	–	15	291	306
Investment securities	537	–	–	537
Derivative financial assets	–	7	6	13
Derivative financial liabilities	–	(137)	–	(137)

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

	Financial instruments at FVTOCI £m	**Commodity derivatives £m**	**Total £m**
At 7 March 2021	**291**	**6**	**297**
In cost of sales in the Group income statement	**–**	**76**	**76**
In other comprehensive income	**76**	**98**	**174**
At 5 March 2022	**367**	**180**	**547**

	Financial instruments at FVTOCI £m	Commodity derivatives £m	Total £m
At 8 March 2020	237	(3)	234
In finance cost in the Group income statement	–	9	9
In other comprehensive income	54	–	54
At 6 March 2021	291	6	297

The financial instruments at fair value through OCI 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 zero per cent per annum (2021: zero per cent) and a discount rate of seven per cent (2021: seven per cent) – see note 18. 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:

	2022 Change in growth rate +/-1.0% £m	**2022 Change in discount rate +/-1.0% £m**	2021 Change in growth rate +/-1.0% £m	2021 Change in discount rate +/-1.0% £m
Financial instruments at fair value through OCI	**6/(6)**	**(5)/5**	9/(9)	(6)/6

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial assets is £180 million (2021: £6 million) relating to these agreements. The Group has entered into a new Power Purchase Agreement during the year, and this has been designated as a cash flow hedge.

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 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:

31 Financial instruments continued

Not in a hedge relationship

	2022 Change in volume +/-20.0% £m	**2022 Change in electricity forward price +/-20.0% £m**	2021 Change in volume +/-20.0% £m	2021 Change in electricity forward price +/-20.0% £m
Derivative financial instruments	**23/(23)**	**16/(16)**	1/(1)	7/(7)

Designated in a cash flow hedge relationship

	2022 Change in volume +/-20.0% £m	**2022 Change in electricity forward price +/-20.0% £m**	2021 Change in volume +/-20.0% £m	2021 Change in electricity forward price +/-20.0% £m
Derivative financial instruments	**32/(32)**	**20/(20)**	N/A	N/A

d) 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.

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 a party defaults on their obligations.

				Amounts not offset in balance sheet		
	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
Assets						
Derivative financial assets	**291**	**–**	**291**	**–**	**(20)**	**271**
Trade and other receivables	**643**	**(91)**	**552**	**–**	**–**	**552**
Cash and cash equivalents	**825**	**–**	**825**	**–**	**–**	**825**
Total assets at 5 March 2022	**1,759**	**(91)**	**1,668**	**–**	**(20)**	**1,648**
Liabilities						
Derivative financial liabilities	**(32)**	**–**	**(32)**	**–**	**20**	**(12)**
Trade and other payables	**(4,309)**	**91**	**(4,218)**	**–**	**–**	**(4,218)**
Total liabilities at 5 March 2022	**(4,341)**	**91**	**(4,250)**	**–**	**20**	**(4,230)**
Assets						
Derivative financial assets	19	(6)	13	(2)	(2)	9
Trade and other receivables	756	(147)	609	–	–	609
Cash and cash equivalents	1,477	–	1,477	–	–	1,477
Total assets at 6 March 2021	2,252	(153)	2,099	(2)	(2)	2,095
Liabilities						
Derivative financial liabilities	(143)	6	(137)	2	30	(105)
Trade and other payables	(4,249)	147	(4,102)	–	–	(4,102)
Total liabilities at 6 March 2021	(4,392)	153	(4,239)	2	30	(4,207)

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. As at 5 March 2022, the Group held no collateral against these financial derivative assets (2021: £nil).

Financial Services has derivatives that are governed by the International Swaps and Derivatives Association and their associated credit support annex bilateral agreements where if the fair value exceeds a pre-agreed level, cash collateral is posted. As at 5 March 2022, Financial Services and its subsidiary had pledged/posted collateral of £20 million (2021: provided collateral of £30 million) against the derivatives and received collateral of £20 million (2021: £2 million).

The Group also operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. As at 5 March 2022 the Group had a net overdraft of £7 million (2021: £99 million) under this facility.

32 Derivative financial instruments and hedge accounting

Accounting policies

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. 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. Where derivatives do not qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised in the income statement as they arise.

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, the nature of the risks being hedged and an assessment of the effectiveness of the hedging relationship to ensure it is highly effective on an ongoing basis.

Where a derivative does qualify for hedge accounting, any changes in fair value are recognised depending on the nature of the hedge relationship and the item being hedged as follows:

i) Cash flow hedges

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the Group's exposure to variability in cash flows resulting from a highly probable forecasted transaction. These include the exchange rate risk of inventory purchases denominated in foreign currency, interest rate risk and commodity risk on purchases of power and fuel. 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 a cash flow hedge is hedging a firm commitment or forecast transaction that 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. This applies to the Group's foreign currency hedges in relation to inventory purchases.

ii) Fair value hedges

The Group designates certain derivatives as fair value hedges where the derivative financial instrument hedges the change in fair value of the particular risks inherent in recognised assets or liabilities (fair value hedges).

The Group has adopted IFRS 9 hedge accounting requirements for its fair value hedges of investment securities and its one-for-one hedge on Tier 2 Debt issuance within Sainsbury's Bank. The Group continues to adopt IAS 39 for its macro portfolio fair value hedges of fixed rate personal loans and residential mortgages, as it is permitted to do so under IFRS 9 and until the point that the new macro hedge accounting standard is finalised and adopted.

Fair value hedging matches the change in fair value of designated hedged items against the corresponding change in value of the hedging derivative. The designated hedged item can be a recognised asset or liability, a firm commitment, or an identified portion of an asset.

The effective part of any gain or loss on the hedged item adjusts the balance of the hedged item and is recognised in the income statement, offsetting the gain or loss on the hedging derivative. Should circumstances arise where the hedge relationship subsequently proves ineffective, is early settled, or is terminated the adjustment to the balance of the hedged item is amortised over the remaining life of the hedged item and to the income statement.

Micro fair value hedging – IFRS 9

The Group has purchased a number of fixed rate debt investment securities and has issued fixed rate subordinated debt within Sainsbury's Bank. These instruments are hedged via plain vanilla interest rate swaps, with the critical economic terms of both the hedging instrument and hedged item matching. The notional amount, fixed interest legs and maturity dates are economically matched.

Portfolio fair value hedging – IAS 39

The Group uses portfolio fair value hedging as a risk management tool for hedging interest rate risk on the Personal Loans and Mortgage portfolios. Portfolio fair value hedging allows the designation of the whole or part of a portfolio of assets or liabilities with similar risk exposures. The hedged item can be designated based on expected maturities to match the hedging derivative maturity. Hedge effectiveness is considered to have been met where the change in fair value of the hedged item offsets the change in fair value of hedging instruments, within the 80 to 125 per cent ratio corridor.

The effects of hedge accounting on the Group's financial position and performance

The fair value of derivative financial instruments has been disclosed in the balance sheet as follows:

	2022 Asset £m	**2022 Liability £m**	2021 Asset £m	2021 Liability £m
Non-current	**213**	**(3)**	8	(44)
Current	**78**	**(29)**	5	(93)
Total	**291**	**(32)**	13	(137)

32 Derivative financial instruments and hedge accounting continued

The table below provides a breakdown of the type of derivatives in fair value and cash flow hedges as well as derivatives not in a formal hedge accounting relationship.

	2022				2021			
	Asset		**Liability**		Asset		Liability	
	Fair value £m	**Notional £m**	**Fair value £m**	**Notional £m**	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	**35**	**2,249**	**(19)**	**986**	1	724	(29)	3,260
Cash flow hedges								
Interest rate swaps	**–**	**–**	**–**	**–**	–	–	(1)	200
Inflation rate swaps	**5**	**490**	**–**	**–**	–	–	(13)	490
Foreign exchange forward contracts	**46**	**1,153**	**(13)**	**323**	1	28	(94)	1,586
Commodity contracts	**25**	**33**	**–**	**–**	4	26	–	10
Power Purchase contracts	**98**	**6**	**–**	**–**	–	–	–	–
Derivatives not in a formal hedging relationship								
Interest rate swaps	**–**	**9**	**–**	**–**	–	444	–	453
Cross currency swaps	**–**	**44**	**–**	**69**	1	57	–	5
Power Purchase contracts	**82**	**11**	**–**	**–**	6	11	–	–
Total	**291**	**3,995**	**(32)**	**1,378**	13	1,290	(137)	6,004

Cash flow hedges

There is an economic relationship between the hedged items and the hedging instruments as the terms of the interest rate swaps, foreign exchange and commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument compared to the hedged items
- Changes to the forecasted cash flows of hedged items

At 5 March 2022 the maturity profile and average price/rate of the hedging instruments used in the Group's non-dynamic hedging strategies were as follows:

	Maturity				
At 5 March 2022	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**One to five years**	**More than five years**
Cash flow hedges					
Interest rate risk					
Notional amount	**–**	**–**	**–**	**490**	**–**
Average net interest (pay)/receive	**–**	**–**	**–**	**1.37%**	**–**

	Maturity				
At 6 March 2021	Less than 1 month	1 to 3 months	3 months to 1 year	One to five years	More than five years
Cash flow hedges					
Interest rate risk					
Notional amount	–	–	200	490	–
Average net interest (pay)/receive	–	–	(0.51)%	(0.94)%	–

32 Derivative financial instruments and hedge accounting continued

The impact of the hedged items on Group's financial statements is as follows:

At 5 March 2022	**Change in value of hedged item for calculating hedge ineffectiveness £m**	**Change in value of hedging instrument for calculating hedge ineffectiveness £m**	**Cumulative impact on cash flow hedge reserve £m**
Cash flow hedges			
Inflation rate swaps	**(8)**	**8**	**5**
Foreign exchange forward contracts[1]	**(73)**	**73**	**25**
Commodity contracts	**(25)**	**25**	**25**
Power Purchase Agreements	**(98)**	**98**	**98**

1 Includes £16m reclassified to retained earnings during the year.

At 6 March 2021	Change in value of hedged item for calculating hedge ineffectiveness £m	Change in value of hedging instrument for calculating hedge ineffectiveness £m	Cumulative impact on cash flow hedge reserve £m
Cash flow hedges			
Interest rate swaps	–	–	(1)
Inflation rate swaps	5	(5)	(13)
Foreign exchange forward contracts	60	(60)	(92)
Commodity contracts	(4)	4	4

There are no amounts remaining in the hedging reserves for which hedge accounting is no longer applied.

The following table presents a reconciliation by risk category of the cash flow hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

At 5 March 2022	**Opening £m**	**Fair value movements recognised in other comprehensive income £m**	**Amounts reclassified £m**	**Closing £m**	**Reclassification recognised in**
Interest rate swaps	**(1)**	**–**	**1**	**–**	**Finance costs**
Inflation rate swaps	**(13)**	**8**	**10**	**5**	**Finance costs**
Foreign exchange forward contracts[1]	**(92)**	**73**	**44**	**25**	**Inventory/retained earnings**
Commodity contracts	**4**	**25**	**(4)**	**25**	**Cost of sales**
Power purchase agreements	**–**	**98**	**–**	**98**	**Cost of Sales**
Tax	**18**	**(54)**	**–**	**(36)**	
	(84)	**150**	**51**	**117**	

1. Includes £16 million reclassified to retained earnings during the year.

At 6 March 2021	Opening £m	Fair value movements recognised in other comprehensive income £m	Amounts reclassified £m	Closing £m	Reclassification recognised in
Interest rate swaps	(1)	–	–	(1)	Finance costs
Inflation rate swaps	(13)	(5)	5	(13)	Finance costs
Foreign exchange forward contracts	(31)	(60)	(1)	(92)	Inventory
Commodity contracts	(8)	4	8	4	Cost of sales
Tax	7	11	–	18	
	(46)	(50)	12	(84)	

Fair value hedges

Within the Financial Services business, interest rate swaps are executed to hedge interest rate risk arising from fixed rate exposures in its retail personal loan and retail mortgage books, and certain fixed rate treasury investment securities, which are predominantly funded by variable rate linked liabilities.

The cash flows under the hedging instruments (interest rate swap derivatives) substantially match the cash flow profile of the hedged items (personal loans, mortgages, treasury investment securities and borrowings). The changes in fair value of the derivatives offset changes in the fair value of the hedged items through the income statement, with any ineffective portion also being recognised in the income statement.

The main source of ineffectiveness within the micro hedge relationships relates to the floating leg valuation changes inherent within the hedging instrument that do not exist within the hedged item.

Ineffectiveness on portfolio hedges can arise as a result of several factors, including floating leg valuation changes inherent within the hedging instrument that do not exist within the hedged item, mismatch in cash flow maturities between the hedged item and hedging instrument and basis risk between cash flows discounted using different benchmark rates.

32 Derivative financial instruments and hedge accounting continued

At 5 March 2022 the maturity profile and average price/rate of the hedging instruments used in the Group's non-dynamic hedging strategies were as follows:

	Maturity				
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**One to five years**	**More than five years**
At 5 March 2022					
Fair value hedges					
Interest rate risk					
Interest rate swaps					
Notional amount	**–**	**138**	**584**	**1,246**	**1,267**
Average net interest (pay)/receive	**–**	**(0.08)%**	**(0.20)%**	**(0.28)%**	**0.06%**
At 6 March 2021					
Fair value hedges					
Interest rate risk					
Interest rate swaps					
Notional amount	–	328	973	1,441	1,242
Average net interest (pay)/receive	–	(0.82)%	(0.66)%	(0.60)%	–

The impact of the hedged items on Group's financial statements is as follows:

	Carrying amount of the hedged item		**Change in fair value used for measuring ineffectiveness for the period**	**Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item**		
At 5 March 2022	**Assets £m**	**Liabilities £m**	**£m**	**Assets £m**	**Liabilities £m**	**Line item in financial statements**
Fair value hedges						
Interest rate swaps	**2,725**	**–**	**(38)**	**(16)**	**–**	**Amounts due from Financial Services customers**
Interest rate swaps	**197**	**–**	**(4)**	**(3)**	**–**	**Financial assets at FVOCI**
Interest rate swaps	**–**	**(179)**	**1**	**–**	**(2)**	**Borrowings**
	2,922	**(179)**	**(41)**	**(19)**	**(2)**	

	Carrying amount of the hedged item		Change in fair value used for measuring ineffectiveness for the period	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		
At 6 March 2021	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m	Line item in financial statements
Fair value hedges						
Interest rate swaps	3,164	–	(5)	22	–	Amounts due from Financial Services customers
Interest rate swaps	73	–	–	(1)	–	Financial assets at FVOCI
Interest rate swaps	–	(179)	1	–	(3)	Borrowings
	3,237	(179)	(4)	21	(3)	

32 Derivative financial instruments and hedge accounting continued

The impact of the hedging instruments on the financial statements is as follows:

At 5 March 2022	Notional amount £m	Carrying amount Asset £m	Carrying amount Liability £m	Change in fair value for measuring ineffectiveness for the period £m	Line item in financial statements
Fair value hedges					
Interest rate swaps (loans and mortgages)	**3,164**	**30**	**(18)**	**40**	Derivative financial assets/ liabilities
Interest rate swaps (Tier 2 capital)	**–**	**–**	**(1)**	**(1)**	Derivative financial liabilities
Interest rate swaps (investment securities)	**71**	**5**	**–**	**5**	Derivative financial assets
	3,235	**35**	**(19)**	**44**	

At 6 March 2021	Notional amount £m	Carrying amount Asset £m	Carrying amount Liability £m	Change in fair value for measuring ineffectiveness for the period £m	Line item in financial statements
Fair value hedges					
Interest rate swaps (loans and mortgages)	3,912	1	(29)	5	Derivative financial liabilities
Interest rate swaps (Tier 2 capital)	–	–	–	(5)	Derivative financial assets
Interest rate swaps (investment securities)	72	–	–	2	Derivative financial liabilities
	3,984	1	(29)	2	

Fair value hedge relationships impacted profit or loss as follows:

Hedge ineffectiveness recognised in cost of sales	2022 £m	2021 £m
Change in value of hedged items for calculating hedge ineffectiveness	**(41)**	(4)
Change in value of hedging instruments for calculating hedge ineffectiveness	**44**	2
Hedge ineffectiveness recognised in cost of sales	**3**	(2)

Derivatives not in a hedge relationship

Some of the Group's derivative contracts do not qualify for hedge accounting and are therefore not designated in a hedging relationship. In addition, where gains or losses on a derivative contract economically offset the losses or gains on an underlying transaction, the derivative is not designated as being in a hedging relationship.

The Group has several long-term fixed price Power Purchase agreements with independent producers as detailed in note 31. Included within derivative financial assets is £180 million (2021: £6 million) relating to these agreements, of which £82 million is not within a hedging relationship. Fair value gains of £76 million have been recognised in the income statement during the year for these arrangements.

Sainsbury's Bank and its subsidiaries had a £9 million portfolio of interest rate swaps hedging mortgage pipeline offers that cannot be entered into a hedge accounting relationship (2021: £9 million) with fair value fluctuations fully accounted for in the P&L, with no effective offset.

Additionally, the Group had £nil of compressed and offsetting LIBOR swaps forming part of Sainsbury's Bank's novation project from LIBOR to SONIA derivatives (2021: £888 million).

The fair value fluctuations crediting the income statement for interest rate derivatives not in a hedge accounting relationship was a credit of £nil (2021: £nil).

33 Cash and cash equivalents

Accounting policies

Cash and cash equivalents

Cash and bank balances 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.

To be classified as cash and cash equivalents, an asset must:

- Be readily convertible into cash;
- Have an insignificant risk of changes in value; and
- Have a maturity period of typically three months or less at acquisition.

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.

Cash flow statement

The Group presents its cash flow statement using the indirect method, whereby profit is reconciled to net cash from operating activities by adjusting profit and loss for non-cash items.

Interest, dividends and taxes
The Group has chosen to present interest received on bank deposits and other financial assets as well as dividends received as cash flows from investing activities because they are returns on the Group's investments.

Dividends paid are presented as financing cash flows as they are considered a cost of obtaining financial resources.

Interest paid on borrowings is presented within cash flows from operating activities as they are held for cash management purposes.

Lease payments and receipts
Lease payments are presented as follows in the Group cash flow statement:

- Cash payments for the principal element of the lease liabilities are presented as cash flows from financing activities
- Cash payments for the interest element of lease liabilities are presented as interest paid within cash flows from operating activities consistent with presentation of interest payments
- Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities
- Cash receipts in relation to sub-leases (both operating and finance leases) are included within operating cash flows

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

	2022 £m	2021 (restated) £m
Cash in hand and bank balances	**566**	325
Money market funds and deposits	**25**	398
Deposits at central banks	**234**	852
Cash and bank balances as reported in the Group balance sheet	**825**	1,575
Bank overdrafts	**(7)**	(99)
Net cash and cash equivalents as reported in the Group cash flow statement	**818**	1,476

Of the above balance, £18 million (2021: £20 million) was restricted as at year-end. Of the £18 million (2021: £20 million) restricted cash, £15 million (2021: £17 million) is held as a reserve deposit with the Bank of England in accordance with statutory requirements. This deposit is not available for use in day-to-day operations. A further £3 million (2021: £3 million) is restricted for Insurance purposes.

Refer to note 2 for details of restatement.

33 Cash and cash equivalents continued

Reconciliation of cash flow items

Working capital

	Inventories £m	Financial assets at fair value through OCI £m	Trade and other receivables £m	Amounts due from Financial Services customers £m	Trade and other payables £m	Amounts due to Financial Services customers and other deposits £m	Provisions £m
At 5 March 2022	**1,797**	**800**	**748**	**5,189**	**(4,570)**	**(5,259)**	**(271)**
At 6 March 2021 (restated)	1,625	844	775	5,407	(4,508)	(6,289)	(349)
Balance sheet movement	**(172)**	**44**	**27**	**218**	**62**	**(1,030)**	**(78)**
Fair value movements	–	71	–	(38)	–	–	–
Hedge adjustments	(7)	–	–	–	–	–	–
Interest in working capital	–	–	–	–	(6)	–	–
Transfer of SaaS spend to prepayments	–	–	9	–	–	–	–
Reclassification to other lines in the cash flow statement	–	–	–	–	(28)	–	–
Financial Services ECL impairments	–	–	–	(19)	–	–	–
Movement in capital accruals	–	–	–	–	1	–	–
Amortisation of discount	–	–	–	–	–	–	(1)
Other	–	–	(3)	–	(1)	–	(1)
Movement shown in cash flow statement	**(179)**	**115**	**33**	**161**	**28**	**(1,030)**	**(80)**

	Inventories £m	Financial assets at fair value through OCI £m	Trade and other receivables £m	Amounts due from Financial Services customers £m	Trade and other payables £m	Amounts due to Financial Services customers and other deposits £m	Provisions £m
At 6 March 2021 (restated)	1,625	844	775	5,407	(4,508)	(6,289)	(349)
At 7 March 2020 (restated)	1,732	1,054	854	7,404	(4,286)	(8,094)	(174)
Balance sheet movement	107	210	79	1,997	222	(1,805)	175
Fair value movements	–	57	–	–	–	–	–
Hedge adjustment to inventory	10	–	–	–	–	–	–
Reclassification to other lines in the cash flow statement	–	–	–	–	80	–	–
Dividends received from JVs	–	–	(18)	–	–	–	–
Financial Services ECL impairments	–	–	–	(85)	–	–	–
Movement in capital accruals	–	–	–	–	8	–	–
Other	–	–	1	–	11	–	2
Movement shown in cash flow statement	117	267	62	1,912	321	(1,805)	177

33 Cash and cash equivalents continued

Other

2022	**Note**	**Gross additions £m**	**Capitalised interest £m**	**Movement in capital accruals £m**	**Movement shown in cash flow statement £m**
Purchase of property, plant and equipment	**14**	**(417)**	**2**	**(1)**	**(416)**
Purchase of intangible assets	**16**	**(278)**	**–**	**–**	**(278)**

2021	Note	Gross additions £m	Capitalised interest £m	Movement in capital accruals £m	Movement shown in cash flow statement £m
Purchase of property, plant and equipment	14	(419)	4	(8)	(423)
Purchase of intangible assets	16	(172)	–	–	(172)

Profit on the sale of properties and early termination of leases in the cash flow statement is reconciled as follows:

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 £m
Profit on disposal of properties (note 5)	**(7)**	(1)
Non-underlying gain on early termination of leases (note 5)	**(9)**	(16)
Profit on disposal of properties within restructuring programmes (note 5)	**(12)**	–
Non-underlying SaaS adjustment (note 5)	**21**	–
Underlying gain on early termination of leases	**(3)**	–
Loss on disposal of intangible assets	**4**	–
Profit on sale of non-current assets and early termination of leases	**(6)**	(17)

34 Analysis of net debt

The Group's definition of net debt includes the following:

- Cash
- Borrowings and overdrafts
- Lease liabilities
- Perpetual securities
- Debt-related financial assets at fair value through other comprehensive income
- Derivatives used in hedging borrowings

Net debt includes the capital injections to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries (Financial Services). Financial Services' net debt balances are excluded because they are required as part of the business as usual operations of a bank, as opposed to specific forms of financing for the Group.

Derivatives exclude those not used to hedge borrowings, and borrowings exclude bank overdrafts as they are disclosed separately.

34 Analysis of net debt continued

A reconciliation of opening to closing net debt is included below. Balances and movements for the total Group and Financial Services are shown in addition to Retail to enable reconciliation between the Group balance sheet and Group cash flow statement.

		Cash movements		Non-cash movements			
	7 March 2021 £m	Cash flows excluding interest £m	Net interest (received)/paid £m	Accrued interest £m	Other non-cash movements £m	Changes in fair value £m	5 March 2022 £m
Retail							
Net derivative financial instruments	**(14)**	**–**	**10**	**(10)**	**11**	**8**	**5**
Borrowings (excluding overdrafts)	**(826)**	**248**	**28**	**(25)**	**–**	**–**	**(575)**
Lease liabilities	**(5,829)**	**491**	**281**	**(281)**	**(1,280)**	**–**	**(6,618)**
Arising from financing activities	**(6,669)**	**739**	**319**	**(316)**	**(1,269)**	**8**	**(7,188)**
Financial assets at fair value through other comprehensive income	**1**	**–**	**–**	**–**	**–**	**(1)**	**–**
Cash and cash equivalents (restated)	**546**	**(110)**	**–**	**–**	**–**	**–**	**436**
Bank overdrafts (restated)	**(99)**	**92**	**–**	**–**	**–**	**–**	**(7)**
Retail net debt (excluding perpetual securities)	**(6,221)**	**721**	**319**	**(316)**	**(1,269)**	**7**	**(6,759)**
Financial Services							
Net derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Borrowings (excluding overdrafts)	**(179)**	**–**	**10**	**(11)**	**–**	**1**	**(179)**
Lease liabilities	**(5)**	**2**	**–**	**–**	**–**	**–**	**(3)**
Arising from financing activities	**(184)**	**2**	**10**	**(11)**	**–**	**5**	**(178)**
Financial assets at fair value through other comprehensive income	**537**	**(115)**	**–**	**–**	**–**	**(4)**	**418**
Cash and cash equivalents	**1,029**	**(640)**	**–**	**–**	**–**	**–**	**389**
Financial Services net debt	**1,382**	**(753)**	**10**	**(11)**	**–**	**1**	**629**
Group							
Net derivative financial instruments	**(14)**	**–**	**10**	**(10)**	**11**	**12**	**9**
Borrowings (excluding overdrafts)	**(1,005)**	**248**	**38**	**(36)**	**–**	**1**	**(754)**
Lease liabilities	**(5,834)**	**493**	**281**	**(281)**	**(1,280)**	**–**	**(6,621)**
Arising from financing activities	**(6,853)**	**741**	**329**	**(327)**	**(1,269)**	**13**	**(7,366)**
Financial assets at fair value through other comprehensive income	**538**	**(115)**	**–**	**–**	**–**	**(5)**	**418**
Cash and cash equivalents (restated)	**1,575**	**(750)**	**–**	**–**	**–**	**–**	**825**
Bank overdrafts (restated)	**(99)**	**92**	**–**	**–**	**–**	**–**	**(7)**
Group net debt (excluding perpetual securities)	**(4,839)**	**(32)**	**329**	**(327)**	**(1,269)**	**8**	**(6,130)**
Retail net debt (excluding perpetual securities)	**(6,221)**	**721**	**319**	**(316)**	**(1,269)**	**7**	**(6,759)**
Perpetual convertible bonds	**(248)**	**8**	**–**	**–**	**240**	**–**	**–**
Retail net debt (including perpetual securities)	**(6,469)**	**729**	**319**	**(316)**	**(1,029)**	**7**	**(6,759)**
Of which:							
Leases	**(5,829)**						**(6,618)**
Net debt excluding lease liabilities	**(640)**						**(141)**

Other non-cash movements relate to interest accruals and new leases.

Refer to note 2 for details of restatement.

34 Analysis of net debt continued

		Cash movements		Non-cash movements			
	8 March 2020 £m	Cash flows excluding interest £m	Net interest (received)/paid £m	Accrued interest £m	Other non-cash movements £m	Changes in fair value £m	6 March 2021 £m
Retail							
Net derivative financial instruments	(15)	–	6	(5)	5	(5)	(14)
Borrowings (excluding overdrafts)	(1,116)	289	38	(37)	–	–	(826)
Lease liabilities	(5,768)	499	305	(305)	(560)	–	(5,829)
Arising from financing activities (restated)	(6,899)	788	349	(347)	(555)	(5)	(6,669)
Financial assets at fair value through other comprehensive income	1	–	–	–	–	–	1
Cash and cash equivalents (restated)	506	40	–	–	–	–	546
Bank overdrafts (restated)	(59)	(40)	–	–	–	–	(99)
Retail net debt (excluding perpetual securities) (restated)	(6,451)	788	349	(347)	(555)	(5)	(6,221)
Financial Services							
Net derivative financial instruments	4	–	–	–	–	(4)	–
Bank overdrafts	–	–	–	–	–	–	–
Borrowings (excluding overdrafts)	(180)	–	–	–	–	1	(179)
Lease liabilities	(6)	2	–	–	(1)	–	(5)
Arising from financing activities (restated)	(182)	2	–	–	(1)	(3)	(184)
Financial assets at fair value through other comprehensive income	802	(267)	–	–	–	2	537
Cash and cash equivalents	547	482	–	–	–	–	1,029
Financial Services net debt	1,167	217	–	–	(1)	(1)	1,382
Group							
Net derivative financial instruments	(11)	–	6	(5)	5	(9)	(14)
Borrowings (excluding overdrafts)	(1,296)	289	38	(37)	–	1	(1,005)
Lease liabilities	(5,774)	501	305	(305)	(561)	–	(5,834)
Arising from financing activities (restated)	(7,081)	790	349	(347)	(556)	(8)	(6,853)
Financial assets at fair value through other comprehensive income	803	(267)	–	–	–	2	538
Cash and cash equivalents (restated)	1,053	522	–	–	–	–	1,575
Bank overdrafts (restated)	(59)	(40)	–	–	–	–	(99)
Group net debt (excluding perpetual securities) (restated)	(5,284)	1,005	349	(347)	(556)	(6)	(4,839)
Retail net debt (excluding perpetual securities)	(6,451)	788	349	(347)	(555)	(5)	(6,221)
Perpetual capital securities	(248)	250	–	–	(2)	–	–
Perpetual convertible bonds	(248)	–	–	–	–	–	(248)
Retail net debt (including perpetual securities)	(6,947)	1,038	349	(347)	(557)	(5)	(6,469)
Of which:							
Leases	(5,768)						(5,829)
Net debt excluding lease liabilities	(1,179)						(640)

Refer to note 2 for details of restatement.

34 Analysis of net debt continued

Reconciliation of net cash flow to movement in net debt

	52 weeks to 5 March 2022 £m	52 weeks to 6 March 2021 £m
Opening net debt	**(6,469)**	(6,947)
Cash flow movements		
Net (decrease)/increase in cash and cash equivalents (including overdrafts)	**(658)**	482
Elimination of Financial Services movement in cash and cash equivalents	**640**	(482)
Repayment of perpetual capital securities	**8**	250
Decrease in Retail borrowings	**248**	289
Decrease in Retail lease obligations	**491**	499
Net interest paid on components of Retail net debt	**319**	349
Changes in net debt resulting from cash flow	**1,048**	1,387
Non-cash movements		
Accrued interest	**(316)**	(347)
Retail fair value and other non-cash movements	**(1,022)**	(562)
Changes in net debt resulting from non-cash movements	**(1,338)**	(909)
Movement in net debt	**(290)**	478
Closing net debt	**(6,759)**	(6,469)

35 Borrowings

	2022			2021		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Loan due 2031	**44**	**531**	**575**	55	572	627
Bank overdrafts (restated)	**7**	**–**	**7**	99	–	99
Bank loans due 2021	**–**	**–**	**–**	199	–	199
Sainsbury's Bank Tier 2 Capital due 2027	**3**	**176**	**179**	3	176	179
	54	**707**	**761**	356	748	1,104

Refer to note 2 for details of restatement.

a) Loan due 2031
The loan is secured against 48 (2021: 48) supermarket properties (note 14). This is an inflation linked amortising loan from the finance company Longstone Finance plc with an outstanding principal value of £566 million (2021: £614 million) fixed at a real rate of 2.36 per cent where principal and interest rate are uplifted annually by RPI subject to a cap at five per cent and a floor at nil per cent. The carrying value of the loan is £575 million (2021: £627 million) with a final repayment date of April 2031.

The Group has entered into inflation swaps to convert £490 million (2021: £490 million) of the £566 million (2021: £614 million) loan from RPI linked interest to fixed rate interest until April 2023. These transactions have been designated as cash flow hedges (note 32).

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

Intertrust Corporate Services Limited holds all the issued share capital of Longstone Finance Holdings Limited on trust for charitable purposes. 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.

b) Bank overdrafts
Bank overdrafts are repayable on demand and bear interest at a spread above Bank of England base rate.

c) Bank loan due 2021
On 6 August 2021 the Group repaid the secured £200 million Green Loan and subsequently ensured the release of all security interests.

d) Sainsbury's Bank Tier 2 Capital due 2027
The Bank issued £175 million of fixed rate reset callable subordinated Tier 2 notes on 23 November 2017. The notes pay interest on the principal amount at a rate of six per cent per annum, payable in equal instalments semi-annually in arrears, until 23 November 2022 at which time the interest rate will reset. The Bank has the option to redeem these notes on 23 November 2022.

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35 Borrowings continued

e) Short-term borrowings

The Revolving Credit Facility is split into two Facilities, a £300 million Facility (A) and a £1,094 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024. At 5 March 2022, the Revolving Credit Facility was undrawn (2021: undrawn).

The Revolving Credit Facility incurs commitment fees at market rates and drawdowns bear interest at a margin above SONIA.

The Group maintains uncommitted facilities to provide additional capacity to fund short-term working capital requirements. Drawdowns on these uncommitted facilities bear interest at a margin. The uncommitted facilities were undrawn at 5 March 2022 (2021: undrawn).

36 Employee costs

	2022 £m	2021 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**3,119**	3,302
Social security costs	**240**	230
Pension costs – defined contribution schemes	**183**	191
Share-based payments expense	**58**	29
	3,600	3,752

	2022 ’000	2021 ’000
The average number of employees, including Directors, during the year was:		
Full-time	**65**	65
Part-time	**116**	115
	181	180
Full-time equivalent	**117**	117

Details of key management compensation can be found in note 41 and within the Directors’ Remuneration Report on pages 84 to 95.

37 Retirement benefit obligations

Accounting policies – defined contribution pension schemes

The Group contributions to defined contribution pension schemes are charged to the income statement as incurred. 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.

Accounting policies – defined benefit pension scheme (Sainsbury’s Pension Scheme)

The surplus or deficit recognised in the balance sheet for defined benefit schemes 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.

Actuarial gains and losses are reported in the statement of other comprehensive income as incurred, and comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

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.

Background

The retirement benefit obligations relate to the Sainsbury’s Pension Scheme plus three unfunded pension liabilities for former senior employees of Sainsbury’s and Home Retail Group.

The Sainsbury’s Pension Scheme has two sections, the Sainsbury’s Section which holds the assets and liabilities of the original Sainsbury’s Pension Scheme, and the Argos Section which holds the assets and liabilities of the Home Retail Group Pension Scheme. Each section’s assets are segregated by deed and ring fenced for the benefit of the members of that section. The Scheme is run by a corporate trustee with nine directors.

The Scheme is also used to pay life assurance benefits to current (including new) colleagues.

The retirement benefit obligations at the year-end have been calculated by Isio, the actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at the date of the previous triennial valuation for known events and changes in market conditions as allowed under IAS 19 ‘Employee Benefits’.

37 Retirement benefit obligations continued

Sainsbury's section

The section was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. There are three benefit categories: final salary, career average and cash balance. Final salary and career average benefits are determined by service and salary. Cash balance benefits are determined by the accrued retirement account credits.

Argos section

The section was closed to new employees in 2009 and to future accrual in January 2013. Pension benefits are based on service and final salary when leaving the Scheme.

Triennial valuation

The Trustee's triennial valuation is used to determine the contributions required for the Scheme to pay all the benefits due, now and in the future. The Trustee must allow for a level of prudence and so these assumptions therefore place a relatively high value on the Scheme's liabilities. By contrast, IAS 19 'Employee Benefits' requires all companies to value the liabilities on a 'best estimate' basis which places a lower value on the liabilities and therefore a more favourable financial position. As such, the accounting value is different to the result obtained using the Trustee's triennial valuation basis.

The Trustee completed a triennial valuation, carried out by Willis Towers Watson, as at 30 September 2018 on the projected unit basis and a recovery plan was agreed. The deficit on the basis of the assumptions agreed was £538 million.

Under the funding plan, Sainsbury's established a new Scottish Limited partnership – Sainsbury's Thistle Scottish Limited Partnership ('the Partnership') with the Scheme on 17 July 2019.

Properties with a valuation of £1,350 million were transferred into a newly formed property holding company – Sainsbury's Property Holdings Limited ('Propco') from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. The Propco is a wholly owned subsidiary of the Group and leases the transferred properties to other Group companies. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership, in which the Scheme holds an interest.

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 Scheme's investment 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 Propco remains in the Group's property, plant and equipment on the balance sheet, and the Group retains full operational flexibility to extend, develop and substitute them.

The Scheme's interest in the Partnership entitles it to annual distributions over up to 20 years through three payment streams:

1) Payments to the Sainsbury's section (£15 million per year)
2) Payments to the Argos section (£20 million per year)
3) Switching payment stream, paid to either the Sainsbury's section or Argos section (initially approximately £23 million per year, increasing to £33 million by 2038)

In addition to the above, cash contributions of £10 million were paid during the year (2021: cash contributions of £40 million).

The payments to the Sainsbury's and Argos sections (streams 1 and 2) stop in 2030, or when the relevant section reaches its funding target, if earlier.

The switching stream is initially paid to the Sainsbury's section until it reaches the funding target, when it will then switch to the Argos section. Payments continue until 2038 or until both sections have reached their funding targets, if earlier.

The level of property in the Propco reduces as the Scheme reaches the funding targets.

The Sainsbury's section reached its funding target on 31 December 2021, and so the first payment stream was switched off. The switching stream will move to the Argos section from March 2022.

The next triennial funding valuation as at 30 September 2021 is currently being completed by the Trustee. The results of this valuation are not yet available.

IFRIC 14

Under IFRIC 14, a company is required to measure any economic benefits available to it in the form of refunds or reductions to future contributions at the maximum amount that is consistent with the terms and conditions of the pension scheme. These are regarded as available to a company if it has an unconditional right to realise them at some point during the life of the pension scheme or when all benefits are finally settled. Such an unconditional right would not exist when the availability of the refund or the reduction in future contribution would be contingent upon factors beyond the company's control.

Management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such no adjustment has been made for potential additional liabilities.

In forming this conclusion management has considered whether the Group can control the run-off of the Scheme until there are no liabilities left, consistent with IFRIC 14. For example, if the Trustee has a unilateral power to wind up the Scheme while there are liabilities remaining, then it is viewed that the Group cannot access surplus through this route. For both sections, management have assessed that the Group can control run-off until no liabilities remain by complying with its obligations under the Scheme rules and pensions legislation, and there will therefore be a gradual settlement of the planned liabilities over the life of each section.

The Scheme rules list certain situations under which the Trustee can wind up the Scheme; however whilst there is gradual settlement of the Scheme's liabilities, these are concluded to be within the control of the Group. As a result, it is concluded that the Trustee does not have a unilateral power to wind up the Scheme nor augment benefits while the Scheme is ongoing.

37 Retirement benefit obligations continued

Unfunded pension liabilities

The unfunded pension liabilities are 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.

a) Income statement
The amounts recognised in the income statement are as follows:

	2022 £m	2021 £m
Excluded from underlying profit before tax:		
Interest cost on pension liabilities[1]	**(197)**	(163)
Interest income on plan assets	**212**	182
Total included in finance income	**15**	19
Defined benefit pension scheme expenses	**(7)**	(7)
Past service credit/(cost)	**3**	(6)
Total excluded from underlying profit before tax	**11**	6
Total income statement expense	**11**	6

[1] Includes interest of £1 million for the unfunded pension scheme (2021: £1 million).

Past service credit

The past service credit of £3 million is in relation to a Pension Increase Exchange (PIE) option introduced in the Argos section following a deed of amendment signed during the current financial year. The prior year past service cost relates to Guaranteed Minimum Pension (GMP) equalisation following a High Court ruling in November 2020 regarding individual transfer payments.

b) Other comprehensive income
Re-measurements of the retirement benefit obligations have been recognised as follows:

	2022 £m	2021 £m
Return on plan assets, excluding amounts included in interest	**739**	(458)
Actuarial gains/(losses) arising from changes in:		
Finance assumptions[1]	**334**	(115)
Demographic assumptions[2]	**133**	24
Experience[3]	**251**	67
Total actuarial gains/(losses)	**718**	(24)
Total remeasurements	**1,457**	(482)

[1] Includes £1 million for the unfunded pension scheme (2021: £nil).
[2] Includes £1 million for the unfunded pension scheme (2021: £nil).
[3] Includes £nil for the unfunded pension scheme (2021: £2 million loss).

37 Retirement benefit obligations continued

c) Balance sheet

The amounts recognised in the balance sheet are as follows:

	2022			2021		
	Sainsbury's £m	**Argos £m**	**Group £m**	Sainsbury's £m	Argos £m	Group £m
Present value of funded obligations	**(8,060)**	**(1,313)**	**(9,373)**	(8,808)	(1,410)	(10,218)
Fair value of plan assets	**10,158**	**1,535**	**11,693**	9,596	1,404	11,000
Retirement benefit surplus/(deficit)	**2,098**	**222**	**2,320**	788	(6)	782
Present value of unfunded obligations	**(20)**	**(17)**	**(37)**	(21)	(17)	(38)
Retirement benefit surplus/(deficit)	**2,078**	**205**	**2,283**	767	(23)	744

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

The movements in the Group's net defined benefit surplus are as follows:

	2022 £m	2021 £m
As at the beginning of the year	**744**	1,119
Net interest income	**15**	19
Remeasurement gains/(losses)	**1,457**	(482)
Pension Scheme expenses	**(7)**	(7)
Contributions by employer	**71**	101
Past service credit/(charge)	**3**	(6)
As at the end of the year	**2,283**	744

The movements in the retirement benefit obligations (including unfunded obligations) are as follows:

	2022 £m	2021 £m
As at the beginning of the year	**(10,256)**	(10,372)
Interest cost	**(197)**	(163)
Remeasurement gains/(losses)	**718**	(24)
Benefits paid	**322**	309
Past service credit/(charge)	**3**	(6)
As at the end of the year	**(9,410)**	(10,256)
Analysed as:		
Retirement benefit obligations	**(9,373)**	(10,218)
Unfunded obligations	**(37)**	(38)

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

	2022 £m	2021 £m
As at the beginning of the year	**11,000**	11,491
Interest income on plan assets	**212**	182
Pension Scheme expenses	**(7)**	(7)
Remeasurement gains/(losses)	**739**	(458)
Contributions by employer	**71**	101
Benefits paid	**(322)**	(309)
As at the end of the year	**11,693**	11,000

37 Retirement benefit obligations continued

Significant estimate – pension scheme assets

The Scheme holds some private market assets as they are expected to deliver a more favourable risk/return profile than public market equivalents. These assets are relatively illiquid (likely to be realised over c.5 years) but the Scheme holds sufficient liquid assets (cash, gilts and other liquid securities) to be confident that it can meet its pension and collateral obligations over time.

The valuation of these assets is based on the audited accounts of the funds, where available, and net asset value statements from the investment managers where recent accounts are not available. For many of the investments, the valuations provided are at 30 September. The Group therefore performs a roll-forward for these valuations, adjusting for cash received or paid and applying the changes seen in relevant liquid indices as follows:

Asset class	Returns from 30-Sep-21 to 5-Mar-22
Global equity USD return	(3.22)%
Global High Yield Debt USD return	(3.02)%
US loans USD return	0.51%
UK REITS GBP return	(1.10)%

The roll-forward has increased the valuation of illiquid assets by £40 million. A 1 per cent increase/decrease in the indices used would have caused a £18 million increase/decrease in the adjustment.

As at 5 March, the scheme has an immaterial exposure to Russian and Ukrainian assets, with market value totalling £6.0m, which represents only 0.05% of total scheme assets.

Investment strategy and risks associated with the Group’s defined benefit pension scheme

The Trustee considers that its primary responsibility in respect of investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due. Based on this responsibility and its obligation to manage the investments, its investment objectives are as follows:

In respect of the Sainsbury’s section:

1. Target a 50 per cent or better chance of being fully funded on a gilts + 0.5 per cent p.a. funding level basis by March 2022; and
2. To limit the downside risk associated with the investment policy, wherever possible.

In respect of the Argos section:

1. Target a 50 per cent or better chance of being fully funded on a gilts + 0.5 per cent funding level basis by September 2022; and
2. To limit the downside risk associated with the investment policy, wherever possible.

37 Retirement benefit obligations continued

The risks associated with achieving the above strategy are as follows:

Risk	Description	Mitigation
Investment strategy risk	Underperformance of Defined Benefit investment strategy relative to the Pension Scheme's liabilities reduces the future resources available to meet pension obligations.	The Scheme adopts a liability driven investment framework to generate excess asset returns with reference to its liabilities by largely removing its interest and inflation uncertainties.
Investment implementation risk	Poor execution including investment manager underperformance relative to their targets leads to lower funding levels.	Over two thirds of investment mandates are managed to closely follow a portfolio benchmark with limited investment decisions made by managers.
Custody risk	Inadequate controls lead to inaccurate record keeping and loss of assets through investment fraud.	The top tier global custodian Northern Trust is used to oversee the Scheme's assets. The Trustee also uses an independent third party to periodically review Northern Trust.
Sustainability, including ESG and climate risks	Investment managers have poor ESG, Stewardship and climate risks oversight policies.	The Scheme incorporates ESG, stewardship and other related risks into its Statement of Investment Principles (SIP) and publishes an annual Implementation Statement. Investment managers are requested to confirm whether they operate in line with the Scheme's official policies. The approach that the Trustee has adopted as part of its ongoing process to deliver a Net Zero goal by 2050 includes investment decisions based on new climate governance and reporting standards, engagement with corporates and government, maintaining outcomes focused climate objectives in investments and the role of the Scheme's investment managers in signing up to the UN Principles of Responsible Investment and having Net Zero targets.
Investment regulatory risk	Insufficient training and awareness of regulatory requirements results in non-compliance with regulations .	The Scheme is advised by Eversheds Sutherland on legal and regulatory matters, and closely follows changes in regulatory and other legal requirements for pensions and investments. Periodic training is provided to the Investment Committee, advisers, and if necessary, the full Board by relevant experts.
Investment liquidity risk	Insufficient liquidity to meet ongoing cashflow requirements in respect of member benefit payments.	The Scheme adopts a collateral sufficiency framework which ensures sufficient high quality liquid assets are maintained in order to meet liquidity requirements, even in times of market stress. The Investment Adviser liaises with the Scheme Actuary to understand future cash flow requirements.
Investment counterparty risk	Financial losses may be incurred due to failure of counterparties or inability to roll-over derivative positions	Asset Managers manage credit limits for all their derivative counterparty exposures and monitor positions over derivative roll dates.
Longevity risk	The Scheme pays benefits longer than expected due to Scheme members' increasing life expectancy.	Longevity risk is managed as part of the Scheme's integrated risk management framework. The Scheme monitors longevity risk closely and aims to achieve sufficient funding level by meeting milestone targets to prepare for members' increasing life expectancy.
Currency risk	The Scheme's unhedged foreign currency exposure leads to additional volatility for non-sterling denominated assets' returns.	Foreign currency exposure is closely monitored and hedging programmes are implemented to efficiently control foreign currency risk at reasonable hedging costs.

37 Retirement benefit obligations continued

The major categories of plan assets are as follows:

	Quoted 2022 £m	**Unquoted[1] 2022 £m**	Quoted 2021 £m	Unquoted 2021 £m
Equity				
Private	**–**	**393**	–	304
Bonds[2]				
Government Bonds	**3,241**	**19**	1,356	76
Corporate Bonds	**4,038**	**1,478**	5,378	507
Emerging Market Bonds	**139**	**4**	380	8
Derivatives[3]	**115**	**379**	164	581
Alternatives				
Real Estate	**–**	**593**	–	670
Private Debts	**–**	**733**	–	690
Diversified Growth	**–**	**301**	–	286
Cash and Cash equivalents	**260**	**–**	596	4
	7,793	**3,900**	7,874	3,126

[1] Certain unquoted fixed interest securities, private equity and debt investments and property investments are stated at fair value. These fair values may differ from their realisable values due to the absence of liquid markets in these investments.
[2] Bonds – circa 84 per cent of the Scheme's corporate bonds are invested in investment grade credit. The remainder are either unrated or below investment grade.
[3] Swap contract derivatives outstanding at the year-end are stated at the net present value of future discounted cash flows of each leg of the swap.

Of the above assets, £5,575 million are denominated in sterling and £6,118 million are denominated in overseas currencies.

d) Assumptions

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

	2022 %	2021 %
Discount rate	**2.40**	1.95
Inflation rate – RPI	**3.60**	3.15
Inflation rate – CPI	**2.90**	2.45
Future pension increases	**2.30 – 3.45**	2.15 – 3.10

Discount rate

The discount rate for the Scheme is derived from the expected yields on high quality corporate bonds over the duration of the Group's pension scheme and extrapolated in line with gilts with no theoretical growth assumptions. High quality corporate bonds are those for which at least one of the main ratings agencies considers to be at least AA (or equivalent).

Inflation

On 25 November, the Government and UK Statistics Authority's joint consultation response on RPI reform was published. This confirmed their intention to amend the RPI calculation methodology to be aligned to that already in use for the calculation of the CPI (including housing) with effect from 2030. As a result, the Group reduced the post 2030 gap between RPI and CPI to nil in the prior year, effectively assuming RPI will be aligned with CPI post 2030, resulting in a single weighted average RPI-CPI gap of 0.70% p.a. for the 5th March 2022 year-end. This approach has been applied consistently in the current year.

Mortality

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements for the 2022 year-end are CMI 2021 projections with a long term rate of improvement of 1.25 per cent p.a. Future mortality improvements for the 2021 year-end were CMI 2020 projections with a long term rate of improvement of 1.25 per cent p.a.

While Covid-19 had an impact on mortality in 2020, the impact on future mortality trends is currently unknown. All IAS 19 calculations use the CMI model, which measures potential changes to future mortality trends. The Group's policy is to use the available version as at the year-end (the 2021 results used the CMI 2020 model). The latest CMI model, CMI 2021, was released on 9 March 2022.

The CMI 2020 model showed a significant reduction of 11.8 per cent in the 2020 rates of longevity for the general population. This is well outside the range of annual mortality changes in the last 40 years.

As a result of this significant change in mortality, the CMI modified the calibration process for CMI 2020 to allow choice on the weighting placed on an individual year's data. For the Core version of CMI 2020, a weight of zero per cent was applied to 2020 data and weightings of 100 per cent for other years, so the potentially exceptional 2020 experience was ignored when modelling future improvements. This approach has been maintained for CMI 2021, with zero per cent weighting applied to 2020 and 2021 data. In the prior year, the Group determined that putting a high weighting on the impact of 2020 could undervalue the liability so a zero per cent weighting was therefore applied to the 2020 mortality data.

37 Retirement benefit obligations continued

The level and quality of knowledge on the long-term impact of COVID-19 is still uncertain, however there have now been two years of adverse experience and management is of the opinion that this justifies some allowance in long-term mortality trends. The choice of weighting to apply to 2020 and 2021 data is judgemental. The UK has continued to see the impact of the pandemic into 2021 with significant excess deaths compared to pre-pandemic levels. Deaths for 2021 are therefore expected to be higher than 2019 but not as high as 2020 given the success, thus far, of the vaccination programme at reducing hospitalisations and deaths. With 2020 and 2021 experiencing negative mortality improvements relative to 2019, it is felt that it would be overly conservative to adopt the Core CMI 2021 model which shows improvements in mortality in 2020, 2021 and beyond.

A 10 per cent weighting has therefore been applied to the 2020 and 2021 mortality data, broadly reflecting that the effects of the pandemic are significantly reduced going forwards with mortality rates for 2022 immediately returning to those in 2019. Thereafter, mortality improvements are in line with the CMI 2021 Core model. The impact of different weightings on the Scheme liabilities is included in the sensitivities section within this note.

The life expectancy for members aged 65 years at the balance sheet date is as follows:

	Sainsbury's section Main Scheme 2022 Years	**Sainsbury's section Executive Scheme 2022 Years**	**Argos section 2022 Years**	Sainsbury's section Main Scheme 2021 Years	Sainsbury's section Executive Scheme 2021 Years	Argos section 2021 Years
Male pensioner	**19.6**	**23.8**	**21.3**	20.0	24.1	21.7
Female pensioner	**23.5**	**25.0**	**23.9**	23.8	25.3	24.0

The life expectancy at age 65 for members aged 45 years at the balance sheet date is as follows:

	Sainsbury's section Main Scheme 2022 Years	**Sainsbury's section Executive Scheme 2022 Years**	**Argos section 2022 Years**	Sainsbury's section Main Scheme 2021 Years	Sainsbury's section Executive Scheme 2021 Years	Argos section 2021 Years
Male pensioner	**20.8**	**25.0**	**22.5**	21.3	25.3	23.0
Female pensioner	**25.0**	**26.5**	**25.4**	25.3	26.7	25.5

e) Sensitivities

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 the discount rate. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates. The carrying value of the retirement benefit obligations is impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate.

The following 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 impact 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.

	Sainsbury's £m	Argos £m	Total £m
Financial sensitivities			
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	**673**	**120**	**793**
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	**763**	**138**	**901**
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	**399**	**109**	**508**
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	**409**	**99**	**508**
An increase of 0.5% in the inflation rate for future pension increases would increase the present value of funded obligations by	**202**	**64**	**266**
A decrease of 0.5% in the inflation rate for future pension increases would reduce the present value of funded obligations by	**233**	**60**	**293**
Demographic sensitivities			
An increase of one year to the life expectancy would increase the present value of funded obligations by	**347**	**55**	**402**
Changing the 2020 and 2021 weighting parameters in CMI 2021 to 0% would increase the present value of funded obligations by	**108**	**17**	**125**
Changing the 2020 and 2021 weighting parameters in CMI 2021 to 25% would decrease the present value of funded obligations by	**104**	**17**	**121**

37 Retirement benefit obligations continued

f) Future benefit payments

Details of future committed payments are included in the Background section at the beginning of this note. Expected cash contributions in FY22/23 are approximately £62 million.

The duration of the plan liabilities is around 19 years for the Sainsbury's section and 21 years for the Argos section. The following table provides information on the timing of benefit payments (amounts undiscounted):

	2022 £m	2021 £m
Within the next 12 months (next annual reporting period)	**240**	199
Between 2 and 5 years	**1,003**	936
Between 6 and 15 years	**3,644**	3,662
Between 16 and 25 years	**4,176**	4,317
Beyond 25 years	**6,362**	6,591
Total expected payments	**15,425**	15,705

38 Share-based payments

Accounting policies

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). This fair value is charged to the income statement over the vesting period of the share-based payment scheme with a corresponding increase in equity.

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 a 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.

The Group recognised £58 million (2021: £29 million) of employee costs (note 36) related to share-based payment transactions made during the financial year. Of these, a credit of £1.5 million (2021: £0.5 million credit) was cash-settled.

The Group operates several 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 (and historically also 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 can use their savings to purchase shares within six months of their leaving.

A reconciliation of Sharesave option movements is shown below:

	2022 Number of options million	**2022 Weighted average exercise price pence**	2021 Number of options million	2021 Weighted average exercise price pence
Outstanding at beginning of year	**64.1**	**179**	60.8	190
Granted	**13.8**	**228**	23.7	161
Lapsed/forfeited	**(10.0)**	**179**	(11.4)	196
Exercised	**(9.6)**	**204**	(9.0)	186
Outstanding at end of year	**58.3**	**186**	64.1	179
Exercisable at end of year	**4.7**	**238**	6.2	186
Exercisable range		**161 to 260**		161 to 260

38 Share-based payments continued

The weighted average share price for options exercised over the year was 259 pence (2021: 216 pence). The weighted average remaining contractual life of options outstanding at 5 March 2022 was 1.8 years (2021: 2.2 years).

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:

		2022	2021
Share price at grant date (pence)		**277**	226
Exercise price (pence)		**228**	161
Expected volatility	– 3 year period (%)	**30.8**	29.9
Option life	– 3 year period (years)	**3.2**	3.2
Expected dividends (expressed as dividend yield %)		**4.0**	5.2
Risk-free interest rate	– 3 year period (%)	**0.1**	0.1
Fair value per option	– 3 year period (pence)	**59**	55

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

b) Long-Term Incentive Plan

Under the Long-Term Incentive Plan, 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.

Performance is measured at the end of the three-year performance period. If the required performance conditions have been met, the awards vest and the participants are able to exercise 100% of the awards received. For 2020 awards and prior, recipients were only able to receive 50% of their awards after 3 years and 50% of their awards after 4 years. Options granted will expire five years from the grant date.

For Executive Directors, awards will normally be subject to a two-year holding period following the end of the three-year performing period. Options granted to acquire the award of shares will expire six years from the date of grant.

Dividends will accrue on the shares that vest in the form of additional shares.

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.

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

	2022 Million	2021 Million
Outstanding at beginning of year	**12.2**	10.2
Conditionally allocated	**12.9**	7.8
Released to participants	**(5.0)**	(4.4)
Lapsed	**(1.6)**	(1.4)
Outstanding at end of year	**18.5**	12.2

The weighted average remaining contractual life of share options outstanding at 5 March 2022 was 1.5 years (2021: 1.4 years).

Details of shares conditionally allocated at 5 March 2022 are set out below:

Date of conditional award	2022 Million	2021 Million
12 May 2016 (2016 Future Builder)	**–**	0.1
11 May 2017 (2017 Future Builder)	**1.1**	3.3
11 May 2018 (2018 Future Builder)	**2.8**	2.1
09 May 2019 (2019 Future Builder)	**2.9**	3.1
07 May 2020 (2020 Future Builder)	**3.3**	3.6
06 Jun 2021 (2021 Win in Food Plan)	**8.4**	–
	18.5	12.2

The 2021 Win in Food Plan was opened up to a larger population of managers, which has driven through the higher amount of options granted for the year. This was a one-off increase specifically for the 2021 Win in Food Plan.

38 Share-based payments continued

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:

	2022	2021
Share price at grant date (pence)	**267**	199
Option life (years)	**3**	3 or 4
Fair value per option (pence)	**267**	199

During the year, a total number of 5.0 million shares were exercised (2021: 4.4 million shares). The weighted average share price during the year for options exercised was 248 pence (2021: 194 pence).

c) Deferred Share Award

This plan is closed to new participants; the last awards made under this plan were in 2020/21. The Deferred Share Award targets a diverse range of financial and strategic scorecard measures. These are intended to reward the Directors 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 are made to participants subject to performance against a basket of measures. At least 50 per cent of the awards are based on the delivery of financial performance and returns to shareholders. The balance is based on measures which will assess the Company's performance relative to its competitors as well as key strategic goals.

Performance against the target is measured over one financial year. 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. 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:

	2022 Million	2021 Million
Outstanding at beginning of year	**3.6**	3.8
Granted	**0.2**[1]	2.1
Lapsed	**(0.1)**	(0.6)
Exercised	**(2.0)**	(1.7)
Outstanding at end of year	**1.7**	3.6

1. The awards Granted in 2022 relate to dividend shares awarded.

The number of shares allocated at the end of the year is set out below:

	2022 Million	2021 Million
09 May 2019	**0.1**	1.9
07 May 2020	**1.6**	1.7
	1.7	3.6

The weighted average remaining contractual life of share options outstanding at 5 March 2022 was nil years (2021: 0.5 years). The weighted average share price during the year for options exercised was 241 pence (2021: 195 pence).

d) Bonus Share Award

Senior managers and supermarket managers receive 60 per cent of their bonus in cash and 40 per cent of the award in shares. Director level managers receive 50 per cent of their bonus in cash and 50 per cent of the award in shares. Before 2021 awards had a three year deferral period, however awards granted from 2021 now have a deferral period of two years (except for colleagues who are subject to a deferral period due to certain financial service regulations).

Dividends accrue on these shares and are released at the end of the deferral period.

38 Share-based payments continued

A reconciliation of the number of shares granted over the year is shown below:

	2022 Million	2021 Million
Outstanding at beginning of year	**10.6**	12.7
Granted	**12.6**	1.7
Exercised in the period	**(4.3)**	(2.9)
Lapsed	**(1.7)**	(0.9)
Outstanding at end of year	**17.2**	10.6

The number of shares allocated at the end of the year is set out below:

	2022 Million	2021 Million
11 May 2018	**–**	3.2
09 May 2019	**5.1**	6.1
07 May 2020	**1.1**	1.3
07 May 2021	**11.0**	–
	17.2	10.6

The weighted average remaining contractual life of share options outstanding at 5 March 2022 was 0.7 years (2021: 0.8 years). The weighted average share price during the year for options exercised was 242 pence (2021: 184 pence).

39 Capital commitments

At 5 March 2022, capital commitments contracted, but not provided for by the Group, amounted to £108 million (6 March 2021: £113 million) and £nil for the property joint ventures (6 March 2021: £nil).

In addition, the Group is committed to payments totalling £nil (2021: £32 million) in relation to leases that have been signed but not yet commenced.

40 Contingent liabilities and contingent assets

The Group has a number of contingent liabilities in respect of historic lease guarantees, particularly in relation to the disposal of assets, which if the current tenant and their ultimate parents become insolvent, may expose the Group to a material liability. This liability decreases over time as the leases expire. The Group has considered a number of factors, including past history of default as well as the profitability and cash generation of the current leaseholders, and has concluded that the likelihood of pay out is remote.

Along with other retailers, the Group is currently subject to claims from current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. There are currently circa 8,600 equal pay claims from circa 4,400 claimants, in which the claimants are alleging that their work within Sainsbury's stores is or was, of equal value to that of colleagues working in Sainsbury's distribution centres, and that differences in terms and conditions relating to pay are not objectively justifiable. The claimants are seeking the differential back pay based on the higher wages in distribution centres, and the equalisation of wages and terms and conditions on an ongoing basis. The Group believes further claims will be served.

There are three stages in the tribunal procedure for equal value claims of this nature and the claimants will need to succeed in all three. The first stage is whether store claimants have the legal right to make the comparison with depot workers. Following European and Supreme Court decisions in other similar litigation, Sainsbury's has conceded this point. The second stage is the lengthy process to determine whether any of the claimants' roles are of equal value to their chosen comparators. This process is likely to continue for several more years. In the event that any of the claimants succeed at the second stage there will be further hearings, in the years following, to consider whether any pay differential is justified.

Given that the outcome of the second and third stages in the litigation remains highly uncertain at this stage, the Group cannot make any assessment of the likelihood nor quantum of any outcome. No provision has therefore been recognised on the Group's balance sheet. There are substantial factual and legal defences to these claims and the Group intends to defend them vigorously.

As disclosed in note 5 to the financial statements, the Group had a number of ongoing legal cases in relation to overcharges arising from payment card interchange fees. During the year settlements have been reached in two of these cases, resulting in non-underlying income of £167 million being recognised. The last of these cases goes to trial for a final determination of quantum in early 2023. A range of possible outcomes is possible, including £nil. As the outcome and quantum of any award is not virtually certain no income has been recognised in accordance with IAS 37: 'Provisions, Contingent Liabilities and Contingent Assets'.

41 Related party transactions

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:

	2022 **£m**	2021 £m
Short-term employee benefits	**12**	9
Post-employment employee benefits	**1**	1
Share-based payments	**6**	5
	19	15

Three key management personnel had credit card balances with Financial Services (2021: five). These arose in the normal course of business and were immaterial to the Group and the individuals. One key management personnel held saving deposit accounts with Financial Services (2021: three). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 5 March 2022, the Group entered into various transactions with joint ventures and associates as set out below. All transactions with joint ventures and associates are at arm's-length.

	2022 **£m**	2021 £m
Dividends and distributions received	**2**	4
Rental expenses paid	**(8)**	(6)

Year-end balances arising from transactions with joint ventures and associates

	2022 **£m**	2021 £m
Other payables	**(1)**	(2)

c) Retirement benefit obligations

As discussed in note 37, 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 37 to these financial statements.

42 Post balance sheet events

In light of the events in Russia and Ukraine, which continued to evolve subsequent to the Group's balance sheet date, it has been concluded that the conflict has no material impacts on the Group's financial statements.

43 Details of related undertakings

All companies listed below are owned by the Group and all interests are in the ordinary share capital, except where otherwise indicated. All subsidiaries have been consolidated.

a) Subsidiary undertakings

The Group holds a majority of the voting rights of the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address*
ARG Personal Loans Limited	UK	100%	Indirect	Avebury
ARG Services Limited†	UK	100%	Indirect	33 Holborn
Argos Best Sellers Limited†	UK	100%	Indirect	33 Holborn
Argos Business Solutions Limited	UK	100%	Indirect	Avebury
Argos Card Transactions Limited	UK	100%	Indirect	33 Holborn
Argos Direct Limited	UK	100%	Indirect	33 Holborn
Argos Distributors (Ireland) Limited	Ireland	100%	Indirect	Unit 7, Ashbourne Retail Park
Argos Holdings Limited	UK	100%	Indirect	Avebury
Argos Limited	UK	100%	Indirect	Avebury
Argos (N.I.) Ltd	UK	100%	Indirect	Forestside Shopping Centre
Argos Retail Group Limited†	UK	100%	Indirect	33 Holborn
Argos Superstores Limited†	UK	100%	Indirect	33 Holborn
Argos Surbs Investments Limited	UK	100%	Indirect	Avebury
Barleygold Limited	UK	100%	Indirect	50 Bedford Street
Bed Store & More Limited†	UK	100%	Indirect	33 Holborn
Bells Stores Limited	UK	100%	Direct	33 Holborn
BLSSP (PHC 7) Limited	UK	100%	Indirect	33 Holborn
Braemar Castle Limited	UK	100%	Direct	33 Holborn
Brand-Leader's Limited	UK	100%	Indirect	33 Holborn
Chad Valley Limited	UK	100%	Indirect	33 Holborn
Clearance Bargains Limited	UK	100%	Indirect	33 Holborn
Cliffrange Limited	UK	100%	Indirect	33 Holborn
Coolidge Investments Limited	UK	100%	Indirect	33 Holborn
Financial Recovery Services Limited	UK	100%	Indirect	Avebury
First Stop Stores Limited	UK	100%	Indirect	33 Holborn
Flint Castle Limited	UK	100%	Direct	33 Holborn
Global (Guernsey) Limited	Guernsey	100%	Indirect	PO Box 33 Dorey Court
Habitat Retail Limited	UK	100%	Indirect	Avebury
Holborn UK Investments Limited	UK	100%	Direct	33 Holborn
Home Retail Group Limited	UK	100%	Indirect	Avebury
Home Retail Group (Cyprus) Limited	Cyprus	100%	Indirect	5 Anastasios Leventis Street
Home Retail Group (Finance) LLP	UK	100%	Indirect	Avebury
Home Retail Group (Guernsey) LP	Guernsey	100%	Indirect	PO Box 33 Dorey Court
Home Retail Group (Jersey) Limited	Jersey	100%	Indirect	44 Esplanade
Home Retail Group (UK) Limited	UK	100%	Indirect	Avebury
Home Retail Group Card Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Holdings (Overseas) Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Insurance Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Nominees Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Pension Scheme Nominees Limited†	UK	100%	Indirect	Avebury
Home Retail Group UK Service Company Limited	UK	100%	Indirect	33 Holborn
Home Store & More Limited†	UK	100%	Indirect	33 Holborn
J Sainsbury Limited†	Ireland	100%	Direct	6th Floor, South Bank House
J Sainsbury Common Investment Fund Limited	UK	100%	Indirect	33 Holborn
J Sainsbury Distribution Limited	UK	100%	Direct	33 Holborn
J Sainsbury Pension Scheme Trustees Limited	UK	100%	Direct	33 Holborn
J Sainsbury Trustees Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores Limited	UK	100%	Direct	33 Holborn
Jacksons Stores 2002 Limited	UK	100%	Indirect	33 Holborn
JS Information Systems Limited	UK	100%	Direct	33 Holborn
JS Insurance Limited	Isle of Man	100%	Direct	Third Floor, St George's Court
JSD (London) Limited	UK	100%	Indirect	33 Holborn

* See full addresses on page 193.
† Dissolved subsequent to 5 March 2022.

43 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Address*
Jungle Online	UK	100%	Indirect	33 Holborn
Jungle.com Limited	UK	100%	Indirect	33 Holborn
Jungle.com Holdings Limited	UK	100%	Indirect	33 Holborn
Nash Court (Kenton) Limited	UK	100%	Indirect	33 Holborn
Nectar 360 Limited	UK	100%	Indirect	33 Holborn
Nectar 360 Services LLP	UK	100%	Indirect	33 Holborn
Nectar EMEA Limited	UK	100%	Indirect	33 Holborn
Nectar Loyalty Holding Limited	UK	100%	Direct	33 Holborn
Premier Incentives Limited†	UK	100%	Indirect	33 Holborn
Ramheath Properties Limited	UK	100%	Direct	33 Holborn
Sainsbury Bridgeco Holdco Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco A Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco B Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco A Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco B Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco C Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco D Limited	UK	100%	Direct	33 Holborn
Sainsbury Property Investments Limited	UK	100%	Direct	33 Holborn
Sainsbury's Argos Asia Limited	Hong Kong	100%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Commercial Limited	Hong Kong	100%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Sourcing Limited	Hong Kong	100%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Technical Limited	Hong Kong	100%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Commercial Consulting (Shanghai) Limited	China	100%	Indirect	26/F, Tower 1
Sainsbury's Bank plc	UK	100%	Direct	33 Holborn
Sainsbury's Convenience Stores Limited†	UK	100%	Direct	33 Holborn
Sainsburys Corporate Director Limited	UK	100%	Direct	33 Holborn
Sainsbury's Corporate Healthcare Trustee Limited (formerly Argos Extra Limited)	UK	100%	Direct	33 Holborn
Sainsbury's Corporate Secretary Limited	UK	100%	Direct	33 Holborn
Sainsbury's Group Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Heather GP Limited	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Intermediate Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Limited†	Ireland	100%	Direct	6th Floor, South Bank House
Sainsbury's Limited**	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Manor GP Limited	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Manor II Property Limited	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Manor Property Limited	UK	100%	Direct	3 Lochside Avenue
Sainsburys (NI) Ltd	UK	100%	Indirect	Forestside Shopping Centre
Sainsbury's Planet Limited†	UK	100%	Direct	33 Holborn
Sainsbury's Property Scottish Limited Partnership	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Property Scottish Partnership	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Rose LP Limited	UK	100%	Indirect	33 Holborn
Sainsbury's SL Limited	UK	100%	Direct	33 Holborn
Sainsbury's Supermarkets Ltd	UK	100%	Direct	33 Holborn
Sainsbury's Thistle Scottish Limited Partnership	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Tyne Property Holdings Limited	UK	100%	Indirect	33 Holborn
Software Warehouse Holdings Limited	UK	100%	Indirect	33 Holborn
Stamford House Investments Limited	UK	100%	Direct	33 Holborn
Stamford Properties One Limited	UK	100%	Direct	33 Holborn
Stamford Properties Three Limited	UK	100%	Direct	33 Holborn
Stamford Properties Two Limited	UK	100%	Direct	33 Holborn
Stanhope Finance Limited	UK	100%	Indirect	33 Holborn
Tintagel Castle Limited	UK	100%	Direct	33 Holborn
Town Centre Retail (Bicester) Limited	UK	100%	Indirect	33 Holborn

* See full addresses on page 193.

** An application has been made to strike off this company from the Companies Register.

† Dissolved subsequent to 5 March 2022.

43 Details of related undertakings continued

b) Associated undertakings

The Group has a participating interest in the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address*
3BW Limited	UK	50%	Indirect	5 St John's Lane
Harvest 2 GP Limited	UK	50%	Indirect	100 Victoria Street
Harvest 2 Limited Partnership	UK	50%	Indirect	100 Victoria Street
Harvest Development Management Limited	UK	50%	Indirect	100 Victoria Street
Harvest GP Limited	UK	50%	Indirect	100 Victoria Street
Hedge End Park Limited	UK	50%	Direct	33 Holborn

c) Undertakings other than subsidiaries and associated undertakings

The direct or indirect holder of 100 per cent of the voting interests in the following undertakings is an associate of the Group:

Entity	Country of incorporation	Interest	Holding	Address*
BLSSP (Cash Management) Limited**	UK	50%	Indirect	York House
BLSSP Property Holdings Limited**	UK	50%	Indirect	York House
Harvest 2 Selly Oak Limited	UK	50%	Indirect	100 Victoria Street
BL Sainsbury Superstores Limited	UK	50%	Indirect	York House
British Land Superstores (Non-Securitised)	UK	50%	Indirect	York House
Pencilscreen Limited	UK	50%	Indirect	York House

d) Overseas branches

The Group has the following branches overseas:

Entity	Country	Holding	Address*
Sainsbury's Argos Asia Limited – Bangladesh Liaison Office	Bangladesh	Indirect	Level 10, Simpletree Anarkali
Sainsbury's Argos Asia Limited – India Branch Office	India	Indirect	Unit No. 1, 1st Floor, Ambience Corporate Tower II

* See full addresses below.

** An application has been made to strike off this company from the Companies Register.

Address	Full address
3 Lochside Avenue	3 Lochside Avenue, Edinburgh, EH12 9DJ, United Kingdom
5 Anastasios Leventis Street	5 Anastasios Leventis Street, Leventis Gallery Tower, 8th Floor, 1097 Nicosia, Cyprus
5 St John's Lane	5 St John's Lane, London, EC1M 4BH, United Kingdom
6th Floor, South Bank House	6th Floor, South Bank House, Barrow Street, Dublin 4, D04 TR29, Ireland
Unit 904, 9/F, Tower 2	Unit 904, 9/F, Tower 2, The Quayside, 77 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong
26/F, Tower 1	26/F, Tower 1, Kerry Everbright City Phase III-Enterprise Centre, No.128, West Tian Mu Road, Shanghai 200070, People's Republic of China
33 Holborn	33 Holborn, London, EC1N 2HT, United Kingdom
44 Esplanade	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands
50 Bedford Street	50 Bedford Street, Belfast, BT2 7FN, United Kingdom
100 Victoria Street	100 Victoria Street, London, SW1E 5JL, United Kingdom
Avebury	Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW, United Kingdom
Forestside Shopping Centre	Forestside Shopping Centre, Upper Galwally, Belfast, BT8 6FX, United Kingdom
Level 10, Simpletree Anarkali	Level 10, Simpletree Anarkali, 89 Gulshan Avenue Plet 03, Block – CWS(A), Dhaka – 1212 Bangladesh
PO Box 33 Dorey Court	PO Box 33, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 4AT
Third Floor, St George's Court	Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Unit 7, Ashbourne Retail Park	Unit 7, Ashbourne Retail Park, Ballybin Road, Ashbourne, Co. Meath, Ireland
Unit No. 1, 1st Floor, Ambience Corporate Tower II	Unit No. 1, 1st Floor, Ambience Corporate Tower II, Ambience Island, NH-8, Gurgaon – 122011, Haryana, India
York House	York House, 45 Seymour Street, London, W1H 7LX, United Kingdom

Company balance sheet

At 5 March 2022 and 6 March 2021

	Note	2022 £m	2021 £m
Non-current assets			
Investments in subsidiaries, joint ventures and associates	2	**7,668**	7,610
Financial assets at fair value through other comprehensive income		**–**	1
Trade and other receivables	3	**149**	161
		7,817	7,772
Current assets			
Trade and other receivables	3	**2,080**	1,489
Taxes receivable		**–**	16
Derivative financial assets		**7**	14
Cash and cash equivalents		**14**	353
		2,101	1,872
Total assets		**9,918**	9,644
Current liabilities			
Trade and other payables	4	**(3,499)**	(2,789)
Borrowings	5	**–**	(199)
Derivative financial liabilities		**(7)**	(1)
Provisions		**–**	(1)
		(3,506)	(2,990)
Net Current liabilities		**(1,405)**	(1,118)
Non-current liabilities			
Derivative financial liabilities		**–**	(13)
Deferred income tax liability	6	**(16)**	(12)
Provisions		**(1)**	–
		(17)	(25)
Total liabilities		**(3,523)**	(3,015)
Net assets		**6,395**	6,629
Equity			
Called up share capital	7	**668**	637
Share premium	7	**1,406**	1,173
Merger reserve	7	**568**	568
Capital redemption reserve	7	**680**	680
Other reserves	7	**2**	3
Retained earnings	8	**3,071**	3,320
Total equity before perpetual securities		**6,395**	6,381
Perpetual convertible bonds		**–**	248
Total equity		**6,395**	6,629

The loss after tax for the Company for the year was £(68) million (2021: loss of £(202) million). The notes on pages 196 to 199 form an integral part of these financial statements.

The financial statements on pages 194 to 199 were approved by the Board of Directors on 27 April 2022, and are signed on its behalf by:

Simon Roberts
Chief Executive

Kevin O'Byrne
Chief Financial Officer

The Company's registered number is 00185647.

Company statement of changes in equity

for the 52 weeks to 5 March 2022

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 7 March 2021		**637**	**1,173**	**568**	**683**	**3,320**	**6,381**	**–**	**248**	**6,629**
Loss for the year	8	**–**	**–**	**–**	**–**	**(68)**	**(68)**	**–**	**–**	**(68)**
Other comprehensive loss		**–**	**–**	**–**	**(1)**	**–**	**(1)**	**–**	**–**	**(1)**
Total comprehensive expense for the year ended 5 March 2022		**–**	**–**	**–**	**(1)**	**(68)**	**(69)**	**–**	**–**	**(69)**
Transactions with owners:										
Dividends	8	**–**	**–**	**–**	**–**	**(238)**	**(238)**	**–**	**–**	**(238)**
Purchase of own shares		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Allotted in respect of share option schemes	7, 8	**5**	**17**	**–**	**–**	**59**	**81**	**–**	**–**	**81**
Conversion of perpetual convertible bonds		**26**	**216**	**–**	**–**	**(2)**	**240**	**–**	**(240)**	**–**
Repayment of perpetual convertible bonds		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
At 5 March 2022		**668**	**1,406**	**568**	**682**	**3,071**	**6,395**	**–**	**–**	**6,395**
At 8 March 2020		634	1,159	568	683	3,734	6,778	248	248	7,274
Loss for the year	8	–	–	–	–	(209)	(209)	–	7	(202)
Total comprehensive (expense)/income for the year ended 6 March 2021		–	–	–	–	(209)	(209)	–	7	(202)
Transactions with owners:										
Dividends	8	–	–	–	–	(232)	(232)	–	–	(232)
Distribution to holders of perpetual securities		–	–	–	–	–	–	–	(7)	(7)
Allotted in respect of share option schemes	7, 8	3	14	–	–	29	46	–	–	46
Redemption of perpetual capital securities		–	–	–	–	(2)	(2)	(248)	–	(250)
At 6 March 2021		637	1,173	568	683	3,320	6,381	–	248	6,629

The notes on pages 196 to 199 form an integral part of these financial statements.

Notes to the Company financial statements

1 Basis of preparation

The parent company's financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the Standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition measurement and disclosure requirements of UK-adopted international accounting standards.

The financial year represents the 52 weeks to 5 March 2022 (prior financial year 52 weeks to 6 March 2021).

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 to present a cash flow statement
- The requirements of paragraph 17 of IAS 24 'Related Party Transactions', to disclose information related to key management personnel, and the requirements of IAS 24 to disclose related party transactions between two or more members of a group for wholly owned subsidiaries
- The requirements of paragraphs 30 and 31 of IAS 8 to disclose information assessing the possible impact of new standards issued but which are not yet effective
- The requirements of IFRS 7 and IFRS 13 for disclosure of financial instruments and fair values

The financial statements are presented in sterling, rounded to the nearest £million unless otherwise stated. They have been prepared on the going concern basis under the historical cost convention, except for derivative financial instruments and financial assets at fair value through other comprehensive income that have been measured at fair value.

Amendments to published standards

Effective for the Company in these financial statements:
The Company has considered the following amendments to published standards that are effective for the Company for the financial year beginning 7 March 2021 and concluded that they are either not relevant to the Company or that they do not have a significant impact on the Company's financial statements other than disclosures.

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' on the Interest Rate Benchmark Reform – Phase 2
- Amendment to IFRS 16 'Leases' with regards to the exemption granted in the 'COVID-19-related rent concessions'

The Company early adopted the Interest Rate Benchmark Reform Phase 2 amendments in the financial year ended 6 March 2021. The Company has elected not to apply the exemption granted in the 'COVID-19-related rent concessions' as the Company has not received material COVID-19-related rent concessions as a lessee.

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

- Amendments to IFRS 3 'Business Combinations' with reference to the Conceptual Framework
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use
- Amendments to IAS 1 'Presentation of Financial Statements' on the classification of liabilities as current or non-current
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements' on the disclosure of accounting policies
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of accounting estimates
- Amendments to IAS 12 'Income Taxes' on Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
- IFRS 17 'Insurance Contracts'

The 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 Company's financial statements.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement nor a statement of comprehensive income for the Company alone.

2 Investments in subsidiaries, joint ventures and associates

Accounting policies

Investments in subsidiaries, joint ventures and associates are carried at cost less any impairment loss in the financial statements of the Company.

At each reporting period, the Company assesses the carrying amounts of its investments to determine whether there is any indication of impairment. Where such an indication exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the investment is less than its carrying amount, the investment is written down to its recoverable amount. Any impairment loss is immediately recognised in the income statement.

Significant estimate – impairment of investments in subsidiaries

The Company considers impairment of its investment in subsidiaries by estimating the recoverable amounts of the investments, which are based on either the net assets of the subsidiary, or value-in-use calculations. Where a value-in-use calculation is used, discounted cash flows have been derived from the latest five-year Board-approved cash flows to perpetuity with no growth rate applied, discounted at a pre-tax rate of 7 per cent to 13 per cent.

	2022 £m	2021 £m
Subsidiaries		
At the beginning of the year	**7,609**	7,749
Additions	**58**	29
Impairments	**–**	(169)
At the end of the year	**7,667**	7,609
Joint ventures and associates	**1**	1
Subsidiaries, joint ventures and associates	**7,668**	7,610

The directors acknowledged that as at 5 March 2022 the market capitalisation of J Sainsbury plc was less than the net assets of the company, which primarily consists of investments in subsidiaries. This was considered an indicator of impairment and an impairment test over the investment in subsidiaries was performed. No impairments were identified. Where value-in-use calculations have been used to estimate the recoverable amounts of the investments, sensitivity analysis has been performed. The analysis indicates that there is sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment in any of the Company's investments in subsidiaries.

An impairment charge of £169 million was recognised in the prior year in relation to the Company's investment in its subsidiary Sainsbury's Bank plc, reducing the Company's investment to £856 million based on remaining net assets. No impairment charge was recognised over the Company's other investments in subsidiaries.

3 Other receivables

Accounting policies

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

	2022 £m	2021 £m
Non-current		
Amounts owed by Group companies	**149**	161
Current		
Amounts owed by Group companies	**2,080**	1,478
Prepayments and accrued income	**–**	11
	2,080	1,489

Receivable balances with other Group entities are reviewed for potential impairment based on the ability of the counterparty to meet its obligations. This is assessed by considering the net asset position of the entity and whether the amounts owed to the Company are covered. Where this is not the case, the estimated future cashflows of the counterparty are considered in line with the methodology detailed in note 2. No impairment losses were recognised in the year.

4 Trade and other payables

Accounting policies

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

	2022 £m	2021 £m
Current		
Amounts owed to Group entities	**3,496**	2,782
Other payables	**3**	7
	3,499	2,789

5 Borrowings

	2022			2021		
	Current £m	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Bank loans due 2021	**–**	**–**	**–**	199	–	199
Total borrowings	**–**	**–**	**–**	199	–	199

6 Taxation

Accounting policies

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.

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches and joint ventures except where the Company 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.

	Capital losses £m	**Rolled over capital gains £m**	**Total £m**
At 7 March 2021	**12**	**(24)**	**(12)**
Rate change adjustment to income statement	**4**	**(8)**	**(4)**
At 5 March 2022	**16**	**(32)**	**(16)**
At 6 March 2021 and 8 March 2020	**12**	**(24)**	**(12)**

7 Share capital and reserves

Accounting policies

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.

Share capital, share premium and merger reserve

	2022 million	2021 million	**2022 £m**	2021 £m
Called up share capital				
Allotted and fully paid ordinary shares 28$^4/_7$p	**2,336**	2,231	**668**	637
Share premium account				
Share premium			**1,406**	1,173

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

	Number of ordinary shares million	**Ordinary shares £m**	**Share premium account £m**	**Merger reserve £m**
At 6 March 2021	**2,231**	**637**	**1,173**	**568**
Allotted in respect of share option schemes	**14**	**5**	**17**	**–**
Allotted in respect of Hybrid Convertible Bond payment	**91**	**26**	**216**	**–**
At 5 March 2022	**2,336**	**668**	**1,406**	**568**
At 8 March 2020	2,217	634	1,159	568
Allotted in respect of share option schemes	14	3	14	–
At 6 March 2021	2,231	637	1,173	568

Capital redemption and other reserves

	Financial assets at fair value through other comprehensive income £m	Total other reserves £m	Capital redemption reserve £m
At 6 March 2021	**3**	**3**	**680**
Financial assets at fair value through other comprehensive income movements	**(1)**	**(1)**	**–**
At 5 March 2022	**2**	**2**	**680**

The financial assets at fair value through other comprehensive income reserve represents the fair value gains and losses on the financial assets at fair value through other comprehensive income held by the Company.

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.

8 Retained earnings

	2022 £m	2021 £m
Beginning of the year	**3,320**	3,734
Loss for the year	**(68)**	(209)
Dividends paid	**(238)**	(232)
Allotted in respect of share option schemes	**59**	29
Conversion of perpetual convertible bonds	**(2)**	–
Redemption of perpetual capital securities	**–**	(2)
End of the year	**3,071**	3,320

9 Contingent liabilities

Through the normal course of business, the Company has issued guarantees covering various commitments of its subsidiaries. No liabilities have been recognised in the Company's accounts as it is considered remote that the guarantees will be called on.

Additional shareholder information

Financial calendar

Ex-dividend date of final dividend	9 June 2022
Record date of final dividend	10 June 2022
Q1 trading statement	5 July 2022
Annual General Meeting	7 July 2022
Payment date of final dividend	15 July 2022
Interim (half-year) results announcement	3 November 2022
Q3 trading statement	January 2023*
Preliminary (full year) results announcement	April 2023*

* provisional dates

Shareholders

End of year shareholder information as at 5 March 2022.

	2022	2021
Number of shareholders	**103,337**	112,571
Number of shares in issue	**2,336,350,627**	2,230,782,394

Annual General Meeting (AGM)

The AGM will be held at 33 Holborn, London EC1N 2HT at 11.00am on Thursday, 7 July 2022 with facilities to attend electronically. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report and further details will be available on our website **www.about.sainsburys.co.uk**.

Registrars

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact:

Equiniti Registrars
Aspect House
Spencer Road
Lancing BN99 6DA
Telephone: 0333 207 6557*

*Lines are open 9am to 5pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

Please remember to tell Equiniti if you change your residential address or bank details, or if there is any other change to your account information.

You can view and manage your shareholding online at **www.shareview.co.uk**. You will require your 11-digit Shareholder Reference Number to log in which can be found on your share certificate and dividend confirmation.

Dividends

We have simplified the way we pay dividends. Since December 2021, payments to shareholders are no longer made by cheque. To continue to receive dividends and any other money payable to you in connection with your J Sainsbury plc ordinary shares, you will need to provide your bank or building society account details, so that payments can be made directly to your nominated account by direct credit. Please visit **www.shareview.co.uk** for further details.

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 24,569 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from Equiniti. Alternatively, you can elect to join the DRIP by registering at **www.shareview.co.uk**.

Shareholder communications website

J Sainsbury plc Interim and Annual Reports, and results announcements, are available via our website at **www.about.sainsburys.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.

Electronic shareholder communications

The Company encourages all shareholders to receive their shareholder communications electronically to reduce our impact on the environment and has set up a facility for shareholders to do so. 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 address for this service)
- Check the balance and current value of your shareholding and view your dividend history
- Submit your vote online prior to a general meeting

To register, visit **www.shareview.co.uk**. You will need your 11-digit Shareholder Reference Number which can be found on your share certificate and dividend confirmation.

Share dealing services

To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or your bank who will usually be able to assist you. Alternatively, you may consider using Equiniti. Equiniti offers a telephone and online 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 0371 384 2030. The online share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting **www.shareview.co.uk**.

ShareGift

If you have 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 Equiniti. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity. If you are a UK taxpayer, it is also possible to obtain income tax relief. Further information about ShareGift may be obtained by calling 0207 930 3737, emailing **help@sharegift.org** or by visiting **www.sharegift.org**.

Shareholder security

Some of our shareholders have received unsolicited telephone calls or correspondence from organisations or persons claiming or implying that they have some connection with the Company. These are typically from purported ‘brokers’ who offer to buy shares at a price often far in excess of their market value. Shareholders are advised to be very wary of any offers of unsolicited advice, discounted shares, premium prices for shares they own or free Company reports.

If you receive any such unsolicited calls, correspondence or investment advice:

- make sure you get the name of the person and organisation;
- check that they are properly authorised by the Financial Conduct Authority (FCA) before getting involved by visiting **https://register.fca.org.uk**; and
- report the matter to the FCA either by calling 0800 111 6768 or by completing an online form at **www.fca.org.uk/consumers/report-scam-unauthorised-firm**.

More detailed information on this or similar activity can be found on the FCA website **https://www.fca.org.uk/scamsmart**.

To understand how Sainsbury’s processes shareholder data, please visit **www.about.sainsburys.co.uk/site-services/privacy-policy**.

ProSearch

Sainsbury’s has instructed ProSearch, a specialist tracing company, to identify and communicate with shareholders who may be owed dividends or shares in Sainsbury’s. If you have received a communication from ProSearch and think you may be due some dividends or shares in Sainsbury’s and would like further information, please contact ProSearch directly. You can call them on 0800 389 6479* or for more information, visit **www.prosearchassets.com**.

* Lines are open 9am to 5pm Monday to Friday (excluding UK public holidays).

American Depository Receipts (ADRs)

The Company has a sponsored Level I ADR programme for which the Bank of New York Mellon acts as depository. The ADRs are traded on the over-the-counter (OTC) market in the US under the symbol JSAIY, where one ADR is equal to four ordinary shares. All enquiries relating to ADRs should be addressed to:

Bank of New York Mellon
Shareholder Correspondence
PO Box 505000
Louisville
KY 40233-5000

Toll Free Telephone number for US domestic callers: 1-888-269-2377

International callers can call: +1-201-680-6825

Website: **www.mybnymdr.com**

Email: **shrrelations@bnymellon.com**

Key contacts and advisers

Registered office

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33 Holborn
London EC1N 2HT
Registered number 185647

Investor relations

James Collins
Director of Investor Relations and Financial Planning
J Sainsbury plc
33 Holborn
London EC1N 2HT
InvestorRelations2@sainsburys.co.uk

Registrars

Equiniti Registrars
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Spencer Road
Lancing BN99 6DA
www.shareview.co.uk

Auditors

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1 More London Place
London SE1 2AF

Solicitors

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Stockbrokers

UBS
5 Broadgate
London EC2M 2QS

Shore Capital Stockbrokers
Cassini House
57 St James's Street
London SW1A 1LD

General contact details

For any customer enquiries, please visit our websites:

- Sainsbury's **https://help.sainsburys.co.uk/help**
- Argos **www.argos.co.uk/help/contact-us**
- Habitat **www.habitat.co.uk/contact-us**
- Nectar **www.nectar.com/help**
- Sainsbury's Bank **www.sainsburysbank.co.uk/insuring/support/customer_support_zone**

Cautionary statement

Certain statements included in this Annual Report are forward-looking. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. 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 business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Alternative performance measures (APMs)

In the reporting of financial information, the Directors use various APMs which they believe provide additional useful information for understanding the financial performance and financial health of the Group. These APMs should be considered in addition to, and are not intended to be a substitute for IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures.

All of the following APMs relate to the current period's results and comparative periods where provided.

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition</th><th>Purpose</th><th>Reconciliation</th></tr>
<tr><td colspan="5">Income statement – Revenue</td></tr>
<tr><td>Retail sales</td><td>Revenue</td><td>Group sales less Financial Services revenue.</td><td>Shows the annual rate of growth in the Group's Retail business sales.</td><td>A reconciliation of the measure is provided in note 6 of the financial statements.</td></tr>
<tr><td>Like-for-like sales</td><td>No direct equivalent</td><td>Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year.
The relocation of Argos stores into Sainsbury's supermarkets are classified as new space, while the host supermarket is classified like-for-like.
The impact on sales of stores which were temporarily closed due to COVID-19 have been included within LFL sales. Only permanently closed sites and those temporarily closed for non COVID-19 related reasons are treated as non LFL.</td><td>The measure is used widely in the retail industry as an indicator of current trading performance and is useful when comparing growth between retailers that have different profiles of expansion, disposals and closures.</td><td>The reported retail like-for-like sales decline of (2.3) per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for 2022. See movements below:
<table>
<tr><th></th><th>2022</th><th>2021</th></tr>
<tr><td>Retail like-for-like (exc. Fuel, inc. VAT)</td><td>(2.3)%</td><td>8.1%</td></tr>
<tr><td>Underlying net new space impact</td><td>(0.3)%</td><td>(0.8)%</td></tr>
<tr><td>Retail sales growth (exc. Fuel, inc. VAT)</td><td>(2.6)%</td><td>7.3%</td></tr>
<tr><td>Fuel impact</td><td>6.0%</td><td>(7.2)%</td></tr>
<tr><td>Total retail sales growth (inc. Fuel, inc. VAT)</td><td>3.4%</td><td>0.1%</td></tr>
<tr><td>VAT impact</td><td>(0.4)%</td><td>0.6%</td></tr>
<tr><td>Total retail sales growth per note 6</td><td>3.0%</td><td>0.7%</td></tr>
</table></td></tr>
<tr><td colspan="5">Income statement – Profit</td></tr>
<tr><td>Retail underlying operating profit</td><td>Profit before tax</td><td>Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.</td><td>This is the lowest level at which the retail segment can be viewed from a management perspective, with finance costs managed for the Group as a whole.</td><td>
<table>
<tr><th></th><th>2022 £m</th><th>2021 (Restated) £m</th></tr>
<tr><td>Group PBT (note 7)</td><td>854</td><td>(164)</td></tr>
<tr><td>(Less)/Add back Group non-underlying items (note 5)</td><td>(124)</td><td>521</td></tr>
<tr><td>Group UPBT</td><td>730</td><td>357</td></tr>
<tr><td>Financial Services underlying operating (profit)/loss</td><td>(38)</td><td>21</td></tr>
<tr><td>Retail underlying profit before tax</td><td>692</td><td>378</td></tr>
<tr><td>Net underlying finance costs</td><td>309</td><td>353</td></tr>
<tr><td>Retail underlying operating profit</td><td>1,001</td><td>731</td></tr>
<tr><td>Retail sales (note 7)</td><td>29,463</td><td>28,617</td></tr>
<tr><td>Retail underlying operating margin</td><td>3.40%</td><td>2.55%</td></tr>
</table></td></tr>
<tr><td>Underlying profit before tax</td><td>Profit before tax</td><td>Underlying results exclude items recognised in reported profit or loss before tax which, if included, could distort comparability between periods. In determining which items to exclude from underlying profit, the Group considers items which are significant either by virtue of their size and/or nature, or that are non-recurring.</td><td>In order to provide shareholders with additional insight into the year-on-year performance of the business, this adjusted measure of profit is provided to supplement the reported IFRS numbers and reflects how the business measures performance internally.</td><td>— Underlying profit before tax is bridged to statutory profit before tax in the income statement and note 5 of the financial statements.
— The adjusted items are as described in note 5 of the financial statements</td></tr>
</table>

Alternative performance measures (APMs) continued

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition</th><th>Purpose</th><th>Reconciliation</th></tr>
<tr><td colspan="5">Income statement – Profit</td></tr>
<tr><td>Underlying basic earnings per share</td><td>Basic earnings per share</td><td>Earnings per share using underlying profit as described above.</td><td>This is a key measure to evaluate the performance of the business and returns generated for investors.</td><td>A reconciliation of the measure is provided in note 12 of the financial statements.</td></tr>
<tr><td>Retail underlying EBITDA</td><td>No direct equivalent</td><td>Retail underlying operating profit as above, before underlying depreciation, and amortisation.</td><td>EBITDA is used to review the retail segment's profit generation and the sustainability of ongoing capital reinvestment and finance costs.</td><td>
<table>
<tr><th></th><th>2022
£m</th><th>2021
(Restated)
£m</th></tr>
<tr><td>Retail underlying operating profit</td><td>1,001</td><td>731</td></tr>
<tr><td>Add: Retail depreciation and amortisation expense</td><td>1,197</td><td>1,226</td></tr>
<tr><td>Less: Non-underlying depreciation and amortisation</td><td>(53)</td><td>(47)</td></tr>
<tr><td>Retail underlying EBITDA</td><td>2,145</td><td>1,910</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Retail sales (note 7)</td><td>29,463</td><td>28,617</td></tr>
<tr><td>Retail underlying EBITDA margin</td><td>7.28%</td><td>6.67%</td></tr>
</table>
</td></tr>
<tr><td>Underlying net finance costs</td><td>Finance income less finance costs</td><td>Net finance costs before any non-underlying items as defined above that are recognised within finance income/expenses.</td><td>This provides shareholders with additional insight into the underlying net finance costs of the Group by excluding non-recurring one-off items.</td><td>A reconciliation of this measure is included in note 10 of the financial statements.
The adjusted items are as follows:
— Perpetual securities coupons – these are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit as they are included by management when assessing Group borrowings. These are now £nil following the redemption of the perpetual convertible bond during the year
— Non-underlying finance movements – these include fair value remeasurements on derivatives not in a hedging relationship and lease interest on impaired non-trading sites, including site closures. The fair value movements are driven by external market factors and can significantly fluctuate year-on-year. They are therefore excluded to ensure consistency between periods. Lease interest on impaired, non-trading sites is excluded as they do not contribute to the operating activities of the Group
— IAS 19 pension interest. Although a recurring item, the Group has chosen to exclude net retirement benefit income and costs from underlying profit as, following closure of the defined benefit scheme to future accrual, it is not part of the ongoing operating activities of the Group and its exclusion is consistent with how the Directors assess the performance of the business.</td></tr>
<tr><td>Underlying tax rate</td><td>Effective tax rate</td><td>Tax on underlying items, divided by underlying profit before tax.</td><td>Provides an indication of the tax rate across the Group before the impact of non-underlying items.</td><td>The tax on non-underlying items is included in note 5 of the financial statements.</td></tr>
</table>

Alternative performance measures (APMs) continued

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition</th><th>Purpose</th><th>Reconciliation</th></tr>
<tr><td colspan="5">Cash flows and net debt</td></tr>
<tr><td>Retail cash flow items in Financial Review</td><td>No direct equivalent</td><td>To help the reader understand cash flows of the business a summarised cash flow statement is included within the Financial Review.</td><td>As part of this a number of line items have been combined. The cash flow in note 7 of the financial statements includes a reference to show what has been combined in these line items.</td><td>
<table>
<tr><th></th><th>Ref</th><th>5 March 2022 £m</th><th>6 March 2021 £m</th></tr>
<tr><td>Net interest paid</td><td>a</td><td>(323)</td><td>(372)</td></tr>
<tr><td>Repayment of lease liabilities</td><td>b</td><td>(491)</td><td>(499)</td></tr>
<tr><td>Repayment of borrowings</td><td>c</td><td>(256)</td><td>(539)</td></tr>
<tr><td>Other</td><td>d</td><td>(27)</td><td>(13)</td></tr>
<tr><td>Dividends and distributions received</td><td>e</td><td>2</td><td>22</td></tr>
</table>
</td></tr>
<tr><td>Retail free cash flow</td><td>Net cash generated from operating activities</td><td>Net cash generated from retail operations, after perpetual security coupons and cash capital expenditure, and including payments of lease obligations, cash flows from joint ventures and associates and Sainsbury's Bank capital injections.</td><td>This measures cash generation, working capital efficiency and capital expenditure of the retail business.</td><td>
<table>
<tr><th></th><th>5 March 2022 £m</th><th>6 March 2021 £m</th></tr>
<tr><td>Cash generated from retail operations</td><td>1,940</td><td>2,275</td></tr>
<tr><td>Net interest paid (ref (a) above)</td><td>(323)</td><td>(372)</td></tr>
<tr><td>Corporation tax</td><td>(23)</td><td>(94)</td></tr>
<tr><td>Retail purchase of property, plant and equipment</td><td>(416)</td><td>(423)</td></tr>
<tr><td>Retail purchase of intangible assets</td><td>(229)</td><td>(145)</td></tr>
<tr><td>Retail proceeds from disposal of property, plant and equipment</td><td>46</td><td>27</td></tr>
<tr><td>Initial direct costs on right-of-use assets</td><td>(3)</td><td>(7)</td></tr>
<tr><td>Repayments of obligations under leases</td><td>(491)</td><td>(499)</td></tr>
<tr><td>Dividends and distributions received</td><td>2</td><td>22</td></tr>
<tr><td>Retail free cash flow</td><td>503</td><td>784</td></tr>
</table>
</td></tr>
<tr><td>Adjusted net cash generated from retail operations (per Financial Review)</td><td>Cash generated from operations</td><td>This presents retail operating cash flows adjusted for movements in working capital, less net interest paid (including distributions on perpetual securities) and pension cash contributions.</td><td>This enables management to assess the cash generated from its core retail operations.</td><td>
<table>
<tr><th></th><th>5 March 2022 £m</th><th>6 March 2021 £m</th></tr>
<tr><td>Retail cash generated from operating activities (note 7)</td><td>1,598</td><td>1,832</td></tr>
<tr><td>Perpetual security coupons</td><td>(4)</td><td>(23)</td></tr>
<tr><td>Adjusted net cash generated from operating activities</td><td>1,594</td><td>1,809</td></tr>
</table>
</td></tr>
<tr><td>Core retail capital expenditure</td><td>No direct equivalent</td><td>Capital expenditure excluding Sainsbury's Bank.</td><td>This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance.</td><td>
<table>
<tr><th></th><th>2022 £m</th><th>2021 £m</th></tr>
<tr><td>Purchase of property, plant and equipment</td><td>(416)</td><td>(423)</td></tr>
<tr><td>Purchase of intangibles</td><td>(229)</td><td>(145)</td></tr>
<tr><td>Cash capital expenditure</td><td>(645)</td><td>(568)</td></tr>
</table>
</td></tr>
</table>

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition	Purpose
Underlying working capital movements	**No direct equivalent**	Removes working capital and cash movements relating to non-underlying items.	To provide a reconciliation of the working capital movement in the financial statements to the underlying working capital movement in the Financial Review.

Reconciliation

	5 March 2022 £m	6 March 2021 (Restated) £m
Retail working capital movements per cash flow (note 7)	**(306)**	612
Adjustments for:		
Retail non-underlying impairment charges (note 7)	**8**	216
Non-underlying restructuring and impairment charges (note 5)	**(92)**	(548)
Bank non-underlying restructuring and impairment charges	**7**	105
Accelerated depreciation (note 5)	**33**	27
Gains on early termination of leases (note 5)	**(9)**	(16)
Profit on disposal of properties within restructuring programme (note 5)	**(12)**	–
ATM income (note 5)	**2**	42
Income recognised in relation to legal disputes (note 5)	**180**	–
Other	**1**	2
Non-underlying working capital movements before cash movements	**118**	(172)
Non-underlying cash movements:		
Restructuring (note 5)	**114**	39
Bank restructuring	**(4)**	–
ATM income (note 5)	**(14)**	(27)
Income recognised in relation to legal disputes (note 5)	**(93)**	–
Retail non-underlying operating cash flows (excluding pensions)	**3**	12
Total adjustments for non-underlying working capital	**121**	(160)
Underlying working capital movements	**(185)**	452

Alternative performance measures (APMs) continued

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition</th><th>Purpose</th><th>Reconciliation</th></tr>
<tr><td>Net debt</td><td>Borrowings, cash, derivatives, financial assets at FVTOCI, lease liabilities</td><td>Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries.
It is calculated as: financial assets at fair value through other comprehensive income (excluding equity investments) + net derivatives to hedge borrowings + net cash and cash equivalents + loans + lease obligations + perpetual securities.</td><td>This shows the overall strength of the balance sheet alongside the liquidity and its indebtedness and whether the Group can cover its debt commitments.</td><td>A reconciliation of the measure is provided in note 34 of the financial statements. In addition, to aid comparison to the balance sheet, reconciliations between financial assets at FVTOCI and derivatives per the balance sheet and Group net debt (i.e. including Financial Services) is included below:
<table>
<tr><th></th><th>5 March 2022 £m</th><th>6 March 2021 £m</th></tr>
<tr><td>Financial instruments at FVTOCI per balance sheet</td><td>800</td><td>844</td></tr>
<tr><td>Less: equity-related securities</td><td>(382)</td><td>(306)</td></tr>
<tr><td>Financial instruments at FVTOCI included in net debt</td><td>418</td><td>538</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Net derivatives per balance sheet</td><td>259</td><td>(124)</td></tr>
<tr><td>Less: derivatives not used to hedge borrowings</td><td>(250)</td><td>110</td></tr>
<tr><td>Derivatives included in net debt</td><td>9</td><td>(14)</td></tr>
</table></td></tr>
<tr><td>Other</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Net debt/ underlying EBITDA</td><td>No direct equivalent</td><td>Net debt divided by Group underlying EBITDA.</td><td>This helps management measure the ratio of the business's debt to operational cash flow.</td><td>Net debt as provided in note 34. Group underlying EBITDA is reconciled within the fixed charge cover analysis below.</td></tr>
<tr><td>Return on capital employed</td><td>No direct equivalent</td><td>Return on capital employed is calculated as return divided by average capital employed.
Return is defined as 52 week rolling underlying profit before interest and tax.
Capital employed is defined as Group net assets excluding pension deficit/surplus, less net debt (excluding perpetual securities). The average is calculated on a 14-point basis.
The 14-point basis uses the average of 14 datapoints – the prior year closing capital employed, the current year closing capital employed and 12 intra-year periods as this more closely aligns to the recognition of amounts in the income statement.</td><td>This represents the total capital that the Group has utilised in order to generate profits. Management use this to assess the performance of the business.</td><td>
<table>
<tr><th></th><th>52 weeks to 5 March 2022 £m</th><th>52 weeks to 6 March (Restated) 2021 £m</th></tr>
<tr><td>Underlying profit before tax</td><td>730</td><td>357</td></tr>
<tr><td>Add: Underlying net interest</td><td>309</td><td>353</td></tr>
<tr><td>Return</td><td>1,039</td><td>710</td></tr>
</table>
Capital employed is reconciled as follows:
<table>
<tr><th></th><th>52 weeks to 5 March 2022 £m</th><th>52 weeks to 6 March (Restated) 2021 £m</th></tr>
<tr><td>Group net assets</td><td>8,423</td><td>6,701</td></tr>
<tr><td>Less: Pension surplus (note 37)</td><td>(2,283)</td><td>(744)</td></tr>
<tr><td>Deferred tax on pension surplus</td><td>640</td><td>192</td></tr>
<tr><td>Less: net debt (ex-perpetual securities) (note 34)</td><td>6,759</td><td>6,221</td></tr>
<tr><td>Effect of in-year averaging</td><td>(1,127)</td><td>240</td></tr>
<tr><td>Capital employed</td><td>12,412</td><td>12,610</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Return on capital employed</td><td>8.4%</td><td>5.6%</td></tr>
</table></td></tr>
<tr><td>Fixed charge cover</td><td>No direct equivalent</td><td>Group underlying EBITDA divided by rent (representing capital and interest repayments on leases) and underlying net finance costs, where interest on perpetual securities is treated as an underlying finance cost.
All items are calculated on a 52 week rolling basis.</td><td>This helps assess the Group's ability to satisfy fixed financing expenses from performance of the business.</td><td>
<table>
<tr><th></th><th>52 weeks to 5 March 2022 £m</th><th>52 weeks to 6 March (Restated) 2021 £m</th></tr>
<tr><td>Group underlying operating profit</td><td>1,039</td><td>710</td></tr>
<tr><td>Add: Group depreciation and amortisation expense</td><td>1,220</td><td>1,249</td></tr>
<tr><td>Less: Non-underlying depreciation and amortisation expense</td><td>(53)</td><td>(47)</td></tr>
<tr><td>Group underlying EBITDA</td><td>2,206</td><td>1,912</td></tr>
<tr><td>Repayment of capital element of lease obligations</td><td>(493)</td><td>(501)</td></tr>
<tr><td>Underlying finance income</td><td>3</td><td>3</td></tr>
<tr><td>Underlying finance costs</td><td>(312)</td><td>(356)</td></tr>
<tr><td>Fixed charges</td><td>(802)</td><td>(854)</td></tr>
<tr><td>Fixed charge cover</td><td>2.8</td><td>2.2</td></tr>
</table></td></tr>
</table>

Glossary

Annual General Meeting (AGM) – This year the AGM will be held on Thursday 7 July 2022 at our registered office 33 Holborn, London EC1N 2HT at 11.00am.

Argos Financial Services (AFS) – ARG Personal Loans Limited; Home Retail Group Card Services Limited; and Home Retail Group Insurance Services Limited.

bps – Basis points.

by Sainsbury's – Core own-label brand.

Click & Collect – Service which allows customers to place general merchandise and grocery orders online for collection in-store.

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 ordinary 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.

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.

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.

Group – The Company and its subsidiaries.

IFRIC – International Financial Reporting Interpretations Committee.

IFRSs – International Financial Reporting Standard(s).

Joint venture (JV) – A business jointly owned by two or more parties.

Kantar Worldpanel (Kantar) – An independent third party providing data on the UK Grocery Market.

LTIP – Long-Term Incentive Plan.

MSC – Marine Stewardship Council.

Nectar – One of the most popular loyalty schemes in the UK.

PRA – Prudential Regulation Authority.

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.

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