Live Well For Less

Annual Report and Financial Statements 2019

150 Sainsbury's Est. 1869

Sainsbury's Group at a glance

Helping customers live well for less has been at the heart of what we do for 150 years, since John James and Mary Ann Sainsbury opened the doors of our first shop in Drury Lane in 1869.

We employ 178,000 colleagues who work hard every day to make our customers' lives easier and provide them with great products, quality and service.

Read more about our business model on page 08
Read more about our business strategy on page 09

Food

We are committed to helping our customers live well for less. We offer customers quality and convenience as well as great value. Our distinctive ranges and innovative partnerships differentiate our offer. Customers consistently rate the quality of our food as market-leading and continue to switch to us from more premium competitors.

See more on page 10

2.2%

Growth in *Taste the Difference* volumes

57%

Of UK households benefit from Same Day delivery

General Merchandise and Clothing

We are one of the largest general merchandise and clothing retailers in the UK, offering a wide range of products across Argos, Sainsbury's Home and Habitat, in stores and online. We are a market leader in toys, electricals and technology and *Tu* clothing offers high street style at supermarket prices.

See more on page 12

281

Argos stores in Sainsbury's supermarkets

1bn+

Visits to the Argos website every year and sales generated through mobile devices passed £2 billion for the first time

Financial Services

Financial Services are an integral part of our business. Sainsbury's Bank offers accessible products such as credit cards, insurance, travel money and personal loans that reward loyalty to the Group. Sainsbury's Bank and Argos Financial Services each have over two million active customers.

See more on page 14

2m+

Active customers at Sainsbury's Bank and two million active customers at Argos Financial Services

45%

Of Argos Card balance payments made via our app last year

Performance highlights

£32,412m
Group sales (inc VAT), up 2.1 per cent

£635m
Underlying profit before tax, up 7.8 per cent

(0.2)%
Group like-for-like sales

11.0p
Proposed full-year dividend, up 7.8 per cent

22.0p
Underlying basic earnings per share, up 7.8 per cent

9.1p
Basic earnings per share, down 31.6 per cent

£239m
Statutory profit before tax, down 41.6 per cent

8.5%
Return on capital employed

94%
Of stores partnered with local charities, up from 91 per cent

35%
Absolute reduction in carbon emissions against our 2005 baseline, achieving our 2020 target early

Read more about our financial KPIs on page 28

Non-financial information statement

We are pleased to set out below where you can find information relating to non-financial matters in our Strategic Report, as required under sections 414CA and 414CB of the Companies Act 2006.

Matter	Where to find the information in the Annual Report	Page
Environmental matters	Sourcing with integrity	22 and 23
	Respect for our environment	24 and 25
Colleagues	Great place to work	26 and 27
Social matters	Living healthier lives	20
	Making a positive difference to our community	21
	Sourcing with integrity	22 and 23
Human rights	Sourcing with integrity	22 and 23
	Great place to work	26 and 27
Anti-corruption and anti-bribery	Great place to work	26

Reference to our policies, due diligence processes and information on how we are performing on various measures in these areas are contained throughout the Strategic Report. Information on our principal risks and uncertainties can be found on pages 30 to 36, information on our non-financial key performance indicators can be found on page 29 and a description of our business model can be found on page 08

Strategic Report

Governance Report

Financial Statements

Find out more at
www.about.sainsburys.co.uk/ar2019

Chairman's letter

Chairman Martin Scicluna sets out how we plan to deliver on our strategy and grow value for shareholders.

2018/19 highlights

11.0p
Proposed full-year dividend

8.5%
Return on capital employed

22.0p
Underlying basic earnings per share

£461m
Free cash flow

I joined the Sainsbury's Board in the knowledge that it is a highly respected, values-driven business, known for quality, value and customer service. Sainsbury's has a long and distinguished heritage and I'm delighted to have become Chairman during the Company's 150th anniversary year.

"The retail market remains highly competitive. We have the right strategy in place and a clear plan for the year ahead. Combined with committed, hard-working colleagues led by a talented, experienced leadership team, I believe we are well placed for the future."

Martin Scicluna
Chairman

Joining the Board

I joined Sainsbury's Board as Chairman Designate in November 2018 and took over as Chairman of Sainsbury's Group in March 2019. I did so in the knowledge that I was joining a highly respected, values-driven business, known for quality, value and customer service. Sainsbury's has a long and distinguished heritage and I'm delighted to have become Chairman during the Company's 150th anniversary year.

I have spent my first few months learning as much as I can about the business by visiting stores, distribution centres and store support centres around the country. In talking to colleagues at all levels of the business, as well as to suppliers and other key industry stakeholders, I have been struck by a number of things.

Firstly, that in Sainsbury's, Argos and Sainsbury's Bank, we have three of the most trusted brands in UK retail. We offer customers strong, distinctive ranges of high quality food, clothing, general merchandise and financial services, available through convenient, well-established channels and with home delivery and Click & Collect.

I have also been hugely impressed by the enthusiasm and commitment of our colleagues, by their passion for our business and by their relentless focus on quality and customer service. Though the retail environment has become fiercely competitive and fast moving, I believe that our strong management team, working under the leadership of Mike Coupe, will continue to enhance our strong business.

This has been a big year of change across the business and I would like to thank Mike, the Operating Board and all of our colleagues for their hard work and commitment.

Strategy

In the current retail market, it is obvious that standing still is not an option. We must continue to adapt to market forces and meet the needs of our customers. We were, therefore, very disappointed by the Competition and Markets Authority's decision on our proposed merger with Asda. We strongly believe that the deal would have benefited our customers and our business.

Since we changed the way we run Sainsbury's stores last year, our colleagues have worked hard to improve store standards, service and availability for our customers. We have also reduced costs, which supports our drive to invest in making commodity products better value for our customers. Customers continue to rate us top for quality food and we are growing our premium ranges.

We have an excellent store estate in great locations and will invest in over 800 supermarkets and convenience stores this year, rolling out our beauty concept, wellness aisles, food to go and integrated general merchandise and clothing sections.

£4.7 billion of our sales are generated through our digital channels and we will invest more in technology to make shopping across Sainsbury's, Argos and Sainsbury's Bank as easy and seamless as possible. Integrating Nectar more fully into the business also supports our strategy of knowing our customers better than anyone else.

We are delivering on our strategic objective to grow the proportion of secured lending on Sainsbury's Bank's balance sheet and to reduce regulatory capital requirements.

In a very competitive market, we have increased underlying profits to £635 million, growing underlying earnings per share by 7.8 per cent to 22.0 pence per share.

We have announced a number of steps we are taking to grow value for our shareholders. We will continue to strengthen our balance sheet and reduce net debt significantly and improve free cash flow over the next three years.

Business activity in the year

Our customers continue to rate the quality of our food ahead of our competitors and we outperformed the market in our premium food ranges as well as in our growing convenience store and online grocery channels. We have successfully integrated Argos, which outperformed a highly competitive and promotional market this year and delivered £160 million of synergies nine months ahead of our original schedule. We have 281 Argos stores in our supermarkets, making shopping easy and convenient for our customers. Clothing sales declined in an extremely competitive market but full-price clothing sales increased after we removed one of our promotional events.

Sainsbury's Bank is well positioned in a competitive financial services market and its underlying operating profits were in line with our guidance, at £31 million. We will continue to grow our mortgage business, increase revenues and drive customer loyalty over the coming year.

Technology has enabled us to improve efficiency and customer service across the business. SmartShop – available in over 100 supermarkets – allows customers to scan their purchases using a hand-held device or their mobile phone and customers can use Pay@Browse in 162 Argos stores, enabling them to pay digitally, without queuing at a till.

Our values are integral to our business and I am delighted that we are celebrating our 150th year by introducing a volunteering scheme that builds on our heritage, enabling our colleagues to make a real difference in their local communities.

Board changes

I would like to thank David Tyler for his significant contribution to the business and for his leadership of the Board during his time as Chairman. I am also personally grateful for the smooth transition he ensured for me when I joined the Board as Chairman Designate. I look forward to leading our strong and diverse Board, with its mix of skills, gender and ethnicity.

We appointed Clodagh Moriarty to the Operating Board in June to lead the Group's digital strategy, ensuring customers have an integrated and seamless digital experience across Sainsbury's, Argos, Sainsbury's Bank and Nectar.

Dividend

In line with our policy of paying a dividend that is covered 2.0 times by underlying earnings, we propose to pay a final dividend of 7.9 pence per share, bringing our full-year dividend to 11.0 pence per share, an increase of 7.8 per cent.

Outlook

The retail market remains highly competitive. We have the right strategy in place and a clear plan for the year ahead. Combined with committed, hard-working colleagues led by a talented, experienced leadership team, I believe we are well placed for the future.

Martin Scicluna
Chairman

Q&A

As we celebrate our 150th anniversary, Group Chief Executive Officer Mike Coupe looks back on the year.

2018/19 highlights

£635m Underlying profit before tax	**£32,412m** Group sales (inc VAT)
£220m Cost savings	**£222m** Reduction in net debt

When we opened our doors on Drury Lane in 1869, Mary Ann and John James Sainsbury promised customers 'quality perfect, prices lower'. I'm proud to say that our focus on giving customers high quality food at good value remains as true today as it was 150 years ago.

"We have been delivering on our strategy for the past four and a half years and the last year in particular has been a big year of change for the business. Shopping habits continue to evolve and we are therefore updating our strategic priorities. We have set the business up for the long term and have a clear plan for the year ahead."

Mike Coupe
Group Chief Executive Officer

How would you sum up the last year?

We are committed to helping customers live well for less, so I was disappointed by the Competition and Markets Authority's decision on our proposed merger with Asda, which would have enabled us to reduce the cost of living for millions of households through £1 billion of lower prices.

I remain confident in our strategy as a standalone business. We know what we need to do to respond to changing customer shopping habits and an increasing focus on value.

We have achieved a lot this year and we know there is more to do. Some of the key achievements include completing the largest reorganisation in Sainsbury's stores for more than a decade. This transformed the way we work by creating a more efficient and effective management structure. A single fair and consistent contract for all Sainsbury's store colleagues gives us greater flexibility to ensure colleagues are always in the right place for our customers. In recognition of this, we increased base rates of pay to an industry-leading £9.20 per hour, taking Sainsbury's store colleagues' total pay increase over the past four years to 30 per cent.

We completed the integration of Argos, delivering synergies of £160 million nine months ahead of our original schedule. We have 281 Argos stores in Sainsbury's supermarkets, as we make better use of the space in our stores to enable customers to do more of their shopping easily and conveniently under one roof.

We continue to adapt to changing customer shopping habits. Our digital capability is increasingly important, both to support colleagues and improve the shopping experience for our customers. Argos is a technology-led retailer and sales generated through mobile devices passed £2 billion this year. SmartShop is now available in over 100 supermarkets, allowing customers to scan their shopping using a hand-held device or their mobile phone. We were the first grocer in the UK to introduce SmartShop Mobile Pay, enabling customers in eight of our convenience stores to pay on their smartphone from anywhere in the store, saving them time and helping them manage their budgets. As we develop our Nectar offer, we are trialling a new digital proposition in Wales which gives customers greater choice over their rewards managed conveniently via their mobile phones.

We are committed to paying above the National Living Wage, rewarding great work with great pay. We increased the hourly rate of pay for the majority of Argos colleagues from £8 to £8.50 from April, bringing the total increase to 18 per cent since we acquired Argos in September 2016.

Are you pleased with the Group's performance?

I am pleased that we have increased underlying profits, reduced net debt and increased the dividend. In the context of a very competitive retail market, though Group like-for-like sales decreased by 0.2 per cent, we continued to deliver on our strategy, growing underlying profit before tax to £635 million, driven by a solid food performance and the Argos synergies we have delivered ahead of schedule.

Food remains at the heart of our business. Our strength and growth in premium, value-added ranges help us to invest in making our commodity ranges better value. In this highly competitive area, we know we have more to do to grow sales. Following the important structural changes we made in Sainsbury's stores last year, we have made significant improvements to store standards in recent months, which remain a focus. Our Convenience and Groceries Online channels remain strong drivers of growth, with sales increases of 3.7 per cent and 6.9 per cent respectively.

General Merchandise and Clothing delivered a solid performance, with Argos outperforming a highly competitive and promotional market. Having reduced the number of promotional events, our *Tu* clothing range outperformed a challenging market and increased full price sales.

Our focus on increasing efficiencies delivered overall cost savings of £220 million. We have reduced net debt by £222 million to £1,636 million and we are targeting a further reduction in net debt of at least £600 million in the next three years. We have strong cash generation with retail free cash flow of £461 million. In line with our affordable dividend policy, this year's final dividend is 7.9 pence per share, bringing the full-year dividend to 11.0 pence per share, an increase of 7.8 per cent compared to last year.

How are you celebrating your 150th anniversary and what will the next 150 years look like?

When we opened our doors on Drury Lane in 1869, Mary Ann and John James Sainsbury promised customers "quality perfect, prices lower". I'm proud to say that our focus on giving customers high quality food at good value remains as true today as it was 150 years ago.

In that time, we've remained true to our values, which continue to be integral to the way we do business and allow us to drive lasting, positive change in the communities we serve. So, one way we are marking our anniversary is by giving all of our colleagues the chance to volunteer for one day with a local charity or community initiative.

With our experienced management team and talented colleagues, we are well placed to maximise the opportunities for growth and create value for our stakeholders. As we look to the next 150 years, our success will be rooted in knowing what our customers want and we will continue to strive to ensure that our colleagues reflect the great diversity of the communities we serve. We must also keep pace with our customers' changing lives, so that shopping with us remains easy and convenient and new technology will play an important role in this.

What is the Group's focus for the year ahead?

We have been delivering on our strategy for the past four and a half years and the last year in particular has been a big year of change for the business. Shopping habits continue to evolve and we are therefore updating our strategic priorities for the year ahead.

Customers rate us first for food quality, but we know there is more to do to make our commodity products better value for customers and grow sales in those categories. We have completed the Sainsbury's store transformation and made significant improvements to store standards in recent months and this will continue to be a focus this year, using our new customer feedback service, Lettuce Know, to inform store managers on how customers feel about shopping in their specific store in real time. We are investing significantly in our store estate this year – we trialled enhanced beauty ranges, wellness aisles and new concession partnerships last year and will be rolling these out to more stores this year. In total, we will invest in over 400 supermarkets this year.

We have completed the Argos integration, delivering the £160 million of synergies and there is more we can do this year to continue to bring the businesses closer together to drive efficiencies and also to improve the customer experience.

£4.7 billion of our revenue now comes from our online businesses and we are increasing investment in technology to make shopping across Sainsbury's, Argos and Sainsbury's Bank as quick and convenient as possible and to make the business more efficient.

We will also continue to strengthen our balance sheet and are making a new commitment to reduce net debt by at least £600 million over the next three years.

We have set the business up for the long term and have a clear plan for the year ahead.

Mike Coupe
Group Chief Executive Officer

Market context

The market

Economic conditions eased slightly for UK consumers over the last 12 months, as average weekly earnings grew ahead of a reducing inflation burden for most of the year. Despite this, consumer confidence was impacted by the continuing uncertainty around Brexit.

Lower levels of inflation and declining consumer confidence have resulted in reduced sales growth in both the food and non-food sectors. Non-food retailers were particularly impacted by weak demand, rising costs and the ongoing impact of increasing online penetration, driving further consolidation and restructuring of the sector.

Retail trends

The past year has seen continued rapid change in how customers shop in the UK. With greater access to a variety of shopping channels, the UK consumer has more flexibility and choice than ever in how and when they shop for food, general merchandise and clothing. Barriers to entry in some of these channels are far lower than before, giving disruptors the opportunity to gain strong footholds across the retail landscape. The impact of this can be seen in the record levels of store closures, traditional retail business collapses and redundancy for retail colleagues. Restructuring of the UK retail industry is likely to continue for some time given rising cost pressures in wages, rates and other fixed costs.

Consumers are shopping for groceries more frequently across different channels and store formats, with online and convenience channels showing strong growth. There is limited new space being added to the market from traditional grocers but discount and bargain retailers continue to open significant numbers of new stores and gain market share. Consumers are also eating more meals outside the home and the growth of food delivery services such as Deliveroo, Just Eat and Uber Eats is also impacting grocery spending.

High streets and retail parks continue to experience footfall and sales declines as online participation grows. A key driver of the trend towards general merchandise and clothing being bought online is the wide choice of delivery and pick-up options. Delivery services have improved in terms of speed and reliability, while Click & Collect is both cost-effective and convenient for customers and accounts for a significant proportion of online general merchandise and clothing sales.

Retailers that can fulfil their customers' needs flexibly, rapidly and conveniently, offering a consistent experience to consumers across all channels, will be set up to succeed in this increasingly tough and competitive retail environment.

Sainsbury's response to a competitive and evolving market

Our strategy is to respond to the changing needs of our customers and enable them to shop with us whenever and wherever they want.

The quality of our food continues to be a strong differentiator and we are working in partnership with our suppliers to bring exclusive, innovative and distinctive products to our customers. We are adapting our supermarket space to serve a wide variety of shopping missions, ensuring we offer customers a broad range of products and services under one roof. This includes Argos stores as well as popular brands such as Specsavers, Sushi Gourmet and Explore Learning. Maximising the productivity of our supermarket space in this way is driving an increase in trading intensity across our supermarket estate. We have also transformed the way we run Sainsbury's stores, fundamentally changing how our managers and colleagues work, aligning better with the ways customers shop.

In the fast-growing Groceries Online channel, technological improvements have improved productivity and helped to drive sales, making this channel to market more profitable. Our convenience store estate consists of over 800 stores and is outperforming the market in value and volume as we continue to tailor the ranges we offer to ensure they reflect the local demographics and different shopping missions in each store.

Our General Merchandise and Clothing business is performing well in a highly competitive market and we had 281 Argos stores in our supermarkets at year end. Argos's unique hub and spoke distribution network enables quick, convenient and efficient fulfilment of customer orders for collection or home delivery. Our *Fast Track* collection and delivery channels have grown significantly as the combination of a strong online proposition and a wide availability of delivery and pick-up options continues to be popular with customers.

We have accelerated the rate of change across the Group, with a focus on technology-led innovation that makes shopping faster, easier and more convenient for our customers. SmartShop self-scan, which enables customers to scan their shopping directly on to their phone or hand-held device, is available in over 100 supermarkets. We were the first grocer in the UK to introduce SmartShop mobile pay in eight convenience stores, enabling customers to bypass the checkout and pay on their smartphone from anywhere in the store. Pay@Browse is currently available in 162 Argos stores, offering customers a convenient payment option without the need to queue at a till. We have also introduced a visual search function which allows customers to search the Argos product range using a photo of the product they want.

We have delivered £160 million EBITDA of synergies from the acquisition of Argos. Together with ongoing cost savings progress and a focus on maintaining balance sheet strength, we are confident that we have the resources to remain competitive in our rapidly changing markets.

Our business model

Creates value for our shareholders, customers and colleagues, both now and in the future.

Supply chain
We source products from over 70 countries, according to the ability of suppliers to meet our quality, safety and ethical standards. We invest in British farming through 1,300 members of our farmer and grower Development Groups and we are involved in 12 research projects to improve agricultural productivity and reduce the environmental impact of British farming.

Logistics
Seven days a week, we deliver fresh food, groceries, general merchandise and clothing from suppliers around the world, via 33 distribution centres, to our store and online customers, meeting their requirements for flexible, convenient shopping. Argos's unique Hub and Spoke logistics network enables us to fulfil *Fast Track* same day home deliveries and store collections.

Channels
We have over 2,300 Sainsbury's supermarkets, convenience stores and Argos stores across the UK and Ireland and growing online businesses. Our popular Groceries Online app now accounts for around 20 per cent of food orders, while our convenience stores outgrew the market on both value and volume. Argos is a technology-led retailer and the third most visited website in the UK, with more than one billion visits every year. This strong multi-channel, multi-product proposition means customers can shop with us whenever and wherever they want.

Quality
Our passion for quality extends to everything we sell food, general merchandise, clothing and financial services. We are consistently ranked ahead of our peers on the quality of our food and we regularly review and improve our own-brand product ranges.

Value
Offering great quality products and services at fair prices is part of our commitment to help our customers live well for less. Quality and price are both important in the value proposition and our regular lower prices reassure customers that they can always get good value at Sainsbury's.

Service
We employ 178,000 colleagues who are the foundation of our business. They make a real difference in the communities they serve, offering customers great service day in, day out, in our stores, online and over the phone.

Choice
Through our Sainsbury's, Argos and Habitat brands, we are one of the UK's largest retailers, offering a range of branded and own-brand products across food, general merchandise, clothing and financial services.

Our values key

- **Living healthier lives**
- **Making a positive difference to our community**
- **Sourcing with integrity**
- **Respect for our environment**
- **A great place to work**

Our business strategy

Our vision is to be the most trusted retailer where people love to work and shop. Our goal is to make our customers' lives easier every day by offering great quality and service at fair prices.

Investment case

A strong, differentiated food and grocery business

Growth opportunities in Clothing, General Merchandise and Financial Services

Leveraging our assets:
store estate, brands, online presence, customer knowledge, logistics

Generating strong, consistent cash flows, which:
- Fund a consistent dividend
- Reduce leverage
- Can be reinvested in higher return growth opportunities

What makes us different

We are a multi-brand, multi-channel business with a strong, differentiated proposition across Sainsbury's, Sainsbury's Bank, Argos, Habitat and Nectar.

We benefit from an experienced management team, a structurally advantaged store estate, world-class property assets, an efficient supply chain and a significant digital presence with fast delivery networks. All this is underpinned by customer insights that enable us to adapt our business to customers' changing lives.

Our values

Our values underpin everything we do as a business and help us strengthen relationships with all our stakeholders. They enable us to build trust, reduce operating costs, mitigate risks and attract and retain talent.

As a business with a global footprint, our values help us to drive lasting, positive change in the UK and internationally.

See more on page 18

Our strategy

We are delivering the strategy we set out in November 2014. The market is competitive and the way customers shop continues to evolve in the ways we anticipated.

Our strategy is based on five pillars: knowing our customers better than anyone else; great products and services at fair prices; being there for our customers whenever and wherever; colleagues making the difference; and our values making us different.

Our priorities

As shopping habits evolve, we continue to update our strategic priorities. This will help to develop and differentiate our customer offer and to grow and create value for our shareholders. Our five updated priorities are:

Priority 1
Differentiate food and grocery through quality, value and service

See more on page 10

Priority 2
Grow General Merchandise and Clothing

See more on page 12

Priority 3
Offer our customers easy access to financial services

See more on page 14

Priority 4
Generate efficiencies to invest in our digital future

See more on page 15

Priority 5
Strengthen the balance sheet

See more on page 17

Priority 1

Differentiate food and grocery through quality, value and service

Great quality food has been at the heart of our business since John James and Mary Ann Sainsbury opened the doors of our first shop in Drury Lane in 1869.

150 years later, we continue to invest in quality, value and choice, differentiating our offer in a highly competitive market.

Grocery sales increased by 0.6 per cent, predominantly in the first half of the year. Sales in Convenience and Groceries Online grew 3.7 per cent and 6.9 per cent respectively and Convenience outperformed the market[1].

Grocery shopping habits continue to change rapidly as customers seek higher quality at lower prices. Quality is a key differentiator for us. Customers consistently rate the quality of our food as market-leading[2] and continue to switch to us from more premium competitors[3]. We outperform the market in our top tier categories[4] such as *Taste the Difference*, which grew faster than the market, with volume growth of 2.2 per cent.

Our strength and growth in premium, value-added ranges help us to invest in making our commodity ranges better value. But in this highly competitive area, we know we have more work to do to grow sales. We continue to review our ranges to ensure we offer our customers the right combination of value and choice. Our cheese category is a good example of this. By reducing costs in our supply chain, we were able to lower prices at the value end of the category, making us more competitive on price and driving volume growth. Together with an improvement in quality and greater choice at the premium end, we improved our market share position[5] and drove growth in cheese volumes of six per cent compared to the period before we implemented the changes.

“Quality is a key differentiator for us and customers consistently rate the quality of our food as market-leading.”

In fresh produce, we have worked closely with suppliers to develop our Ripe & Ready ranges. As a result, we have grown volumes by 72 per cent over the last five years, with prices on average 13 per cent lower than the market leader in this category.

We are well positioned in a number of high growth food categories where we can add value for our customers. For example, we have a strong share in the fast-growing vegetarian and vegan markets and we have invested in new ranges of plant-based meals for customers who want more alternatives to meat. Our free-from ranges contribute over £100 million in sales and we outperform the growing allergen-free market[6]. We also increased volumes in our dairy alternatives category by 8.4 per cent and outperformed the market by offering a wide choice of branded products.

Customers want distinctive products they can't find anywhere else and the number of customers who said this was their primary reason for shopping with us increased. Our dedicated Future Brands team works closely with small, specialist suppliers to bring these innovative and exclusive ranges to our customers. We have a longstanding history of working in genuine partnership with our suppliers and, over the last seven years, they have consistently ranked us first or second for supplier relationships in the industry's largest independent supplier survey[7]. We now have 126 Future Brands in our stores. Every £1 of profit made from a Future Brand is more than 50p of profit that we would not have otherwise made.

Our strategy is to enable our customers to shop with us whenever and wherever they want. Our supermarkets are the right size, in high quality locations and we continue to invest in them. By regularly reviewing our ranges, introducing new and exclusive products and opening Argos stores in Sainsbury's supermarkets, we have increased trading intensity in supermarkets. We have further invested in our store estate by refitting our General Merchandise and *Tu* clothing areas and bringing in the right ranges to serve local customer needs. We will increase investment in our supermarkets in 2019/20.

We work with selected concession partners such as Sushi Gourmet, Timpsons and Specsavers so that our customers can do more of their shopping under one roof. We trialled a major upgrade of our beauty range in eight stores, with new and exclusive products and larger, more inspiring store layouts. This has proved popular and elements of this will be rolled out further next year.

In food and grocery, online and convenience sales continue to grow faster than supermarket sales. Both of these channels continue to be strong drivers of profitable growth for us. Increasingly, ranges in our convenience stores are specifically tailored to local customer demographics, generating market-leading trading intensities.

We are investing in our Groceries Online offer so that we can continue to improve the ease, speed and reliability of the service for customers. Our Groceries Online app now accounts for over 20 per cent of orders. We offer Same Day delivery to 57 per cent of UK households, up from 40 per cent in 2017/18. Customers can also collect online orders from 124 supermarkets. Our Chop Chop one-hour delivery service now operates in London zones one and two, covering over 1.7 million customers.

We are also investing in technology in supermarkets to make shopping easier and more convenient. SmartShop, which allows customers to scan their shopping using a hand-held device or their mobile phone, is now available in over 100 supermarkets, helping customers save time and manage their budgets. We introduced SmartShop Mobile Pay in eight convenience stores, enabling customers to scan their shopping and pay on their smartphone from anywhere in the store – a first for the UK grocery market. Customers who use SmartShop are more likely to buy more and to be more loyal to Sainsbury's.

During the year we completed the largest reorganisation in our stores for more than a decade. We made two major changes to the way Sainsbury's stores operate, to ensure we are fit for the future and able to adapt to evolving shopping habits. Firstly, we created a more efficient and effective management structure which is designed to ensure that our managers are genuinely managing our stores and our colleagues and that our customer-facing colleagues have more time to spend with customers on the shop floor. We also introduced one fair and consistent colleague contract, which includes greater flexibility, so that we can make sure our colleagues are always in the right place at the right time for our customers. In recognition of these changes, we made an industry-leading investment in colleague pay, taking the base rate to £9.20 per hour and bringing the total pay increase to 30 per cent over the last four years for Sainsbury's store colleagues.

We have made significant improvements to store standards in recent months, which remain a focus. Our new customer feedback service, Lettuce Know, provides detailed data to each of our stores individually, enabling them to respond to customer feedback in real time. We would like to thank our store colleagues for all their commitment and hard work as we have worked through a year of significant change.

Our strategy in action

Vegan and vegetarian range expansion

We have a strong share in the fast-growing vegetarian and vegan market and we have invested in new ranges of plant-based meals for customers who want more alternatives to meat. The flexitarian market is predicted to reach £658 million by 2021[8].

100+

Plant-based meal options in ranges such as Love Your Veg

Making shopping easier – SmartShop and SmartShop Mobile Pay

We have introduced new technology such as Smartshop self-scan to make shopping in our stores faster and more convenient for our customers. We were the first grocery retailer in the UK to offer customers the ability to shop checkout-free using their smartphone, through SmartShop Mobile Pay.

100+

Supermarkets now offer SmartShop self-scan

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.

1 Nielsen EPOS Convenience Total Business, Quarterly data to Q4 18/19
2 Sainsbury's Brand Tracker
3 Nielsen Panel Market Universe : Total Outlet | 52 weeks data to P13 18/19
4 Nielsen EPOS Data Market Universe: Grocer Multiples, 52 weeks ending 9 March 2019
5 Nielsen Panel and EPOS Report, as at week 24
6 Nielsen Panel Market Universe : Total Outlet | 52 weeks data to P13 18/19
7 Advantage Supplier Survey
8 Mintel.
9 2016/17 excludes Argos stores in Sainsbury's supermarkets

Priority 2

Grow General Merchandise and Clothing

We are one of the largest general merchandise retailers in the UK, offering customers choice, value, convenience, flexibility and fast delivery.

The majority of our General Merchandise sales are through Argos, which we continue to integrate with the Sainsbury's General Merchandise business to drive scale and efficiency. We have delivered £160 million in Argos EBITDA synergies nine months ahead of our original schedule.

Overall, General Merchandise sales were flat in a declining market. Argos sales grew, outperforming a highly competitive and very promotional market by 2.2 per cent[1]. Margins remained under pressure, impacted by strong sales of lower margin consumer technology products.

Sainsbury's General Merchandise sales, particularly electricals, declined as we continued to streamline our ranges in nearly 300 supermarkets in favour of Argos General Merchandise. We continued to rebalance Sainsbury's ranges away from lower margin products such as electricals towards higher margin ranges such as clothing.

Argos saw sales growth in electricals, leisure and toys and, during the hot summer, in seasonal categories such as garden furniture, outdoor games and barbeques. We are investing in our home, garden and furniture categories with an emphasis on our own-brand ranges.

We have 281 Argos stores in Sainsbury's supermarkets, achieving our 2018/19 year-end target of 280. These stores now account for around 20 per cent of Argos store sales. Sales in Argos stores in Sainsbury's supermarkets that have been trading for more than three years are 43 per cent higher than in their first year and sales in stores trading for more than two years are 31 per cent higher than their first year of trading. We continue to see an uplift in grocery sales in supermarkets that have an Argos store. We opened our first Argos in a Sainsbury's convenience store in Ascot, Berkshire, as we trial new ways to bring our broader Food and General Merchandise offer to more customers.

£160m

Argos EBITDA synergies delivered nine months ahead of our original schedule

As the third most visited website in the UK, Argos is already a leading online retailer. Around 60 per cent of Argos sales start online, exceeding £3 billion in the year, and sales generated through mobile devices have now passed £2 billion. Over the last two years we have significantly improved the Argos online shopping experience, making our website easier to use and giving customers more information on product availability and more control over delivery times. We have improved the display of homewares and furniture online, making browsing easier and more inspiring. We also improved the online experience to make it quicker for customers to buy through Argos Financial Services, increasing penetration to 19 per cent of Argos store sales.

Argos has a market-leading delivery and collection proposition and we have invested in improving our ability to rapidly fulfil online orders. We can deliver to over 90 per cent of UK postcodes within four hours and offer immediate in-store collection. Sales through our unique *Fast Track* delivery service increased by 13 per cent and *Fast Track* Click & Collect by 10 per cent. We offer customers a number of convenient options for online delivery and collection. 85 per cent of customers who order online choose to collect from Argos's 1,200 physical locations across the UK, including 594 standalone Argos stores, 281 Argos stores in Sainsbury's supermarkets and 317 collection points in supermarkets and convenience stores. We opened our regional fulfilment centre in Croydon last year to improve our service to 3.4 million households across London and the South East. This enables us to deliver our full range the same day to over 50 per cent of the country. We had on average over 20,000 products stocked in our stores available for delivery within four hours through our *Fast Track* service. This service is available to over 90 per cent of UK postcodes.

“As the third most visited website in the UK, Argos is already a leading online retailer. Around 60 per cent of sales start online, exceeding £3 billion in the year, and sales generated through mobile devices have now passed £2 billion.”

We continue to invest in technology to make customers' lives easier. Since we acquired the business in 2016, we have made significant progress in upgrading the Argos store estate to digital stores. We have 476 digital Argos stores, including 281 in Sainsbury's supermarkets, compared to 104 digital stores at the end of 2016/17. We will have 650 by the end of 2019/20. We have introduced Pay@Browse to 162 Argos stores, which enables customers to pay digitally, without queuing at a till, and we will roll this out to a further 200 stores in 2019/20.

We are pleased that Argos's customer satisfaction levels, measured through our Net Promoter Scores, increased in the year. We are also delighted that, in an independent UK-wide survey, our ranking for customer service satisfaction jumped from 46th place last year to eighth place this year[2].

In recognition of the great service Argos colleagues give customers every day, we awarded a pay increase for the majority of Argos colleagues from £8 to £8.50 from April 2019, bringing the total increase to 18 per cent since we acquired Argos in September 2016.

The general merchandise market will remain highly competitive as online shopping offers customers greater choice and convenience. We continue to drive efficiency throughout the business so that we can give customers better value for money. We combined our Sainsbury's and Argos General Merchandise commercial teams this year. By buying and managing our ranges together we are able to improve our offer to customers and reduce costs. For example, we brought together our homewares ranges under our own brand, Home, sold through both Sainsbury's and Argos.

Offering high street quality at supermarket prices has made *Tu* the sixth largest clothing brand in the UK by volume. *Tu* clothing outperformed the market and while sales declined, our decision to remove a key promotional event during the year helped increase full price clothing sales by 12 per cent. We continued to develop our *Tu* online offer and online sales of *Tu* clothing grew by 55 per cent in the year. We have also launched *Tu* clothing on the Argos website for home delivery or collection from Argos stores and collection points in Sainsbury's stores across the UK.

Sales growth

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

1 British Retail Consortium, market data 52 weeks ended 9 March 2019
2 Institute of Customer Service UK Customer Satisfaction Index ranking
3 2016/17 excludes Argos
4 2017/18 calculated including Argos in the base

Our strategy in action

Growth of *Fast Track* delivery and collection

Our *Fast Track* delivery and collection service is a key point of difference for us. Argos is the only UK retailer that offers customers same day delivery across over 90 per cent of UK postcodes as well as free of charge, immediate in-store collection.

13%

Growth in *Fast Track* delivery. *Fast Track* Click & Collect grew by 10 per cent

Trialling new store formats

In our new Selly Oak supermarket, we are trialling a General Merchandise layout that inspires customers and makes it easier for them to browse our ranges, with products such as Argos and Habitat furniture on display in attractive room settings.

Ranked by the IGD as one of the top 16 stores to visit globally, it sees Argos and Habitat fully integrated within the supermarket and a selection of Argos jewellery and watches prominently displayed in the *Tu* clothing area, making it easier for customers to accessorise their outfits.

"Our Selly Oak supermarket is ranked by the IGD as one of the top 16 stores to visit globally."

***Tu* clothing**

Our Be You *Tu* lingerie campaign has focused on making women feel body confident. The campaign drove a five per cent increase in sales compared to the same period last year.

55%

Increase in online sales of *Tu* clothing

Priority 3

Offer our customers easy access to financial services

We are focused on delivering great value financial services to more customers across the Sainsbury's Group.

Customer numbers increased by five per cent to two million at Sainsbury's Bank and by six per cent at Argos Financial Services, to two million. Nectar is a key differentiator for Sainsbury's Bank and around 74 per cent of our customers have a Nectar card and benefit from Nectar points across a range of products.

Financial Services underlying operating profits decreased to £31 million, as we previously guided. This is because of a combination of higher bad debt charges due to the adoption of IFRS 9, higher costs and a more cautious approach to unsecured lending. Our new strategy focuses on growing our mortgage book and commission products. Customer lending increased by £1.3 billion. Growth in mortgage balances accounted for the majority of the increase, alongside increases in Credit Card and Argos Financial Services card balances, while personal loan balances were slightly down year-on-year.

Income was three per cent lower, reflecting the incremental cost of Tier 2 capital of £8 million and an increase in the cost of savings as interest rates rose.

We continue to grow mortgages, focusing on high quality, low loan-to-value lending, and had lent £1.4 billion at the year end. Margins were under some pressure in the first half of the year, but this eased in the second half, in line with the market, and overall returns on mortgages continue to be strong. Mortgage balances now account for 21 per cent of customer lending, up from five per cent last year.

Argos Financial Services customer numbers grew, with 19 per cent of Argos store sales made on Argos Cards and balances up 11 per cent.

Our Commissions business has grown significantly this year, with combined Home, Car, Pet and Life Insurance new business volumes up 25 per cent, while Travel Money income increased 14 per cent. ATM income decreased due to a fall in transactions.

£1.4bn

Mortgage lending – a fivefold increase on last year

We are focused on improving our digital offer to help customers access information and manage their finances in real time. During the year, we launched Insurance and Credit Card apps and enhanced the My Argos Card app, improving customer experience and reducing costs. We will continue to enhance our digital offer over the coming year.

While we expect the banking market to remain competitive, we are well positioned to grow revenue and increase customer loyalty. We will continue to grow our mortgage business and maintain our cautious approach to unsecured lending, focusing on customers with a Nectar card and on increasing Argos Financial Services sales.

Sales growth

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

1 2016/17 excludes Argos Financial Services.

2 2017/18 calculated including Argos Financial Services in the base

Our strategy in action

Helping customers manage their finances

Our mobile apps help customers manage their finances and access the information they need in real time. More than 1.2 million customers are registered to use the My Argos Card app, with 45 per cent of Argos Card balance payments made via the app in the last year. During the year we launched our Sainsbury's Bank credit card app and a home and car insurance app.

45%

Of all Argos Card balance payments are now made via the My Argos Card app

Priority 4

Generate efficiencies to invest in our digital future

Over the last four years we have built a business serving customers with a broader range of products and services. We offer great quality at fair prices across food, grocery, general merchandise and clothing.

Through our network of well-located supermarkets, convenience and Argos stores, our online offer and our delivery network, customers can shop with us whenever and wherever they want. We help our customers manage their finances – making it easier for them to shop with us – and we reward them for their loyalty through Nectar. This gives us unique insight into our customers across the Group, which means we can make their lives easier while rewarding them for shopping with us.

The traditional physical retail model remains under pressure. The continued shift towards online requires investment in new digital and delivery infrastructures, while physical store costs continue to rise. We are well placed to address these challenges and become more efficient. Bringing Sainsbury's and Argos together is one example of how we have already delivered a step change in reducing our costs. In 2018/19, we delivered £220 million of cost savings in addition to the £160 million cumulative EBITDA synergies delivered through the integration of Argos.

We have an excellent store estate in great locations and, by integrating Argos stores into Sainsbury's, we are capitalising on our property portfolio to make Argos more accessible to Sainsbury's customers. We will continue to open Argos stores in Sainsbury's supermarkets and build further concession partnerships to offer customers a broader range of products and services, increasing trading intensity in stores, driving additional profit and making shopping with us easier. Offering customers products and services from Specsavers, Timpsons, Explore Learning and Sushi Gourmet make our stores more attractive shopping destinations.

The next stage in delivering our strategy requires closer integration across our Group. In 2018/19 we brought together the Sainsbury's and Argos General Merchandise commercial teams and we now have one team creating ranges, negotiating with our suppliers and selling through both the Sainsbury's and Argos brands. Over time this will allow us to lower our costs and create efficiencies in our General Merchandise own-brand development and supply chain operations. We are developing the Argos Financial Services offer, using the expertise and capability we have in Sainsbury's Bank. Bringing together some central functions across Sainsbury's and Argos has reduced our costs and there is more to do in the future.

We are well positioned to benefit from the shift to online shopping in food and grocery, general merchandise, clothing and financial services. We have enhanced our digital scale and capability in recent years and, across the Group, £4.7 billion of our sales are generated online. We are developing new technologies to improve the customer experience and make shopping with us easy, fast and convenient. For example, we are focused on improving our digital financial services offer to help customers manage their finances and access the information they need in real time. During the year, we launched apps for Insurance and Credit Cards and enhanced the My Argos Card app, improving customer experience and reducing costs.

"We are well positioned to benefit from the shift to online shopping. We have enhanced our digital scale and capability in recent years and, across the Group, £4.7 billion of our sales are generated online."

We will continue to invest in technology that will make it easier for customers to shop with us and in technology that will help us make the business more efficient.

This will support our long-term profitability. We will bring our digital offer together to make it easy for customers to shop across all of our channels and access a variety of financial services products, with increasingly personalised rewards.

As we strive to make our customers' lives easier, we will invest in innovative new services that enable them to browse, select, pay, earn rewards, save and borrow with us in just a few clicks. As well as digitising the Argos store estate, we will continue to develop technologies such as SmartShop, helping customers save time and manage their budgets.

£4.7bn

Group online sales

We have also developed a number of digital tools that make it easier for our colleagues to provide good service and availability to our customers across all of our channels. For example, we improved the productivity of Sainsbury's online pickers by 13 per cent in the last year by using technologically advanced handsets. We have introduced new apps in Sainsbury's stores, which are helping colleagues to replenish stock and reduce waste in the most efficient way.

As part of our focus on investing in data and technology, we acquired Nectar in February 2018. Nectar has 18.5 million registered users, 1.2 million of whom actively use the Nectar app – an increase of eight per cent compared to last year. We signed up five new partners in the year, including Esso and EE, and renewed our long-term agreements with a number of key partners including eBay and Brakes.

Nectar deepens our understanding of how customers are shopping across the Group, enabling us to provide more of what they want. We are trialling a new digital Nectar proposition in Wales which allows customers to collect, spend and manage their Nectar rewards using their mobile phone, making it easier and quicker for customers to shop with us.

Trading intensity
We are improving the use of space in our stores to serve more shopping missions.

Definition: Change in year-on-year sales per sq ft.

Our strategy in action

Developing our Nectar offer
We want to reward loyalty in a way that is increasingly personalised to our customers. As we develop our Nectar offer, we are trialling a new digital proposition in Wales which gives customers greater choice over their rewards, managed conveniently via their mobile phones.

1.2m
Regular Nectar app users

Digitising Argos stores
We have made significant progress in upgrading the Argos store estate to digital stores since we acquired the business in 2016. 476 stores are now digital, compared to 104 at the end of 2016/17. We have introduced Pay@Browse to 162 Argos stores, which enables customers to pay digitally, without queuing at a till, and will roll it out to more than 200 further stores in 2019/20.

162
Argos stores now offer Pay@Browse

Strengthen the balance sheet

We continue to maintain a strong balance sheet and have reduced net debt by £222 million to £1,636 million (including perpetual securities).

This represents a decrease of £162 million before fair value movements on derivatives and exceeds our target £100 million reduction for the year.

Our focus on net debt reduction will continue and we are introducing a new target to reduce this by at least £600 million over the next three years through a disciplined approach to cash generation and capital allocation[1].

Gross retail capital expenditure of £554 million (including Argos integration) remains low compared to the preceding five years and capex is expected to remain at around £550 million next year.

> **"Our focus on net debt reduction will continue and we will target to reduce this by at least £600 million over the next three years through a disciplined approach to cash generation and capital allocation."**

We are targeting adjusted net debt to EBITDAR (treating perpetual securities as debt) of less than three times and fixed charge cover above three times in the medium term supported by the reduction in net debt[1].

The pension scheme moved from a £261 million deficit at the end of 2017/18 to a £743 million surplus at the end of 2018/19. This was a result of both experience and actuarial gains in relation to changes in demographic assumptions.

Net debt
Definition: Net debt including perpetual securities (£m) over the last four years and our target for net debt reduction over the next three years to 2021/22.

Net debt/EBITDAR
Definition: Lease adjusted net debt/underlying EBITDAR.

Fixed charge cover
Definition: Group underlying EBITDAR/net rent and underlying net interest costs (including interest on perpetual securities).

The Group has financing facilities of £3.6 billion, of which only £2.1 billion was drawn down at the year end. As a result of the repayment of the securitised loan in April 2018, net finance costs reduced by £23 million. We expect finance costs in 2019/20 to remain in line with 2018/19.

Our strategy in action

Sustainable cash generation
We will continue to have a disciplined and focused approach to cash generation and debt reduction. We have exceeded our £100 million net debt reduction target by more than 60 per cent in 2018/19. We will target to deliver further net debt reductions of at least £600 million over the next three years to 2021/22.[2]

£600m
Target for net debt reduction over the next three years to 2021/22[1,2]

1 Unless otherwise stated, all forward guidance is stated before the impact of IFRS 16
2 Net debt including perpetual securities
3 2017/18 lease adjusted net debt/EBITDAR reported as 3.5 2017/18 capitalised lease obligations of £5,931 million have been updated following a review of lease cost profile This does not impact total lease obligations of £10 billion

Our values make us different

"Our values are integral to how we do business and they enable us to help our customers to live well, and drive lasting, positive change in communities across the UK and overseas. They help us grow trust with our stakeholders, as we work closely with our partners to build a more sustainable future."

Mike Coupe
Group Chief Executive Officer

2018/19 progress on our 2020 commitments includes

Living healthier lives

Page 20

Offering customers nutritious and healthy food and encouraging active lifestyles

78%

of our own-brand products are labelled with green and/or amber traffic lights, just one of the ways we are helping our customers to eat and live well

Making a positive difference to our community

Page 21

Generating positive impact in the communities we serve and source from, locally and globally

94%

of our stores partnered with local charities this year, raising £2.6 million to make a big local impact

Sourcing with integrity

Page 22

Building resilient supply chains by sourcing products ethically and sustainably

Winner

of the Marine Stewardship Council (MSC) UK Supermarket of the Year Award for the fifth year in a row, and leading UK retailer, with the most MSC labelled products

Respect for our environment

Page 24

Reducing emissions, water use and waste across our value chain

100m+

items with reduced or zero plastic packaging through design changes this year, with further reductions in the pipeline

Great place to work

Page 26

Being an inclusive employer where colleagues love to work

31.4%

of senior roles are now held by women, making progress towards achieving our target of 40 per cent

For all our 2018/19 sustainability performance indicators, see our Sustainability Update on our corporate website

As part of our efforts to be the most inclusive retailer, Mike Coupe has set corporate objectives to increase female and Black, Asian and Minority Ethnic (BAME) colleagues in senior roles. Page 26.

Over 4,500 children took part in our new Active Kids holiday clubs, helping keep kids active and healthy over the summer. Page 20.

Over 50,000 trees for individuals, schools, community groups and MPs to plant in their communities through our support for the Queen's Commonwealth Canopy. Page 23.

35 per cent absolute reduction in carbon emissions against our 2005 baseline, meaning that we achieved our 2020 reduction target early, as a result of our efficiency savings and National Grid decarbonisation. Page 24.

Over one million donations through our Brighten a Million Christmases campaign, focusing on food donations in Sainsbury's and toy donations in Argos. Page 21.

Making the difference

Our Sustainability Plan is structured around our values and is our guide for building a more sustainable future. Working closely with our partners, we focus our efforts where we can make the greatest difference. Our 2020 targets have driven remarkable progress since we launched them in 2011. We will be publishing our full 2020 performance review in the coming year, along with new targets, which we are developing in discussion with our colleagues, partners and experts.

United Nations Sustainable Development Goals

We fully support the UN's Sustainable Development Goals to end poverty, fight inequality and stop climate change. Working closely with our partners, our sustainability activities contribute towards many of the goals, helping address local and global challenges.

Living healthier lives

Related UN Sustainable Development Goals

We help our customers to live well and living well starts with eating well.

With over 28 million customer transactions every week, we have a responsibility to make sure our customers can always choose nutritious and healthy food when shopping with us.

Inspiring healthier choices through new products

This year we introduced over 50 new products within Love your Veg, grain pouches and Slim Choice meals, along with the first mushrooms on the market fortified with vitamins D and B12. We also extended our Little Ones brand to include 60 food products, all balanced towards savoury flavours and guided by our 'veg first' approach.

9m+ Love your Veg and Little Ones food products sold

Collaborating for our customers

We are partnering with Oxford University, the Wellcome Trust and others on LEAP (Livestock, Environment and People), a world-leading research project. This aims to provide evidence and tools to promote healthy and sustainable diets.

The number of people aged 85 and over is projected to double in the UK by 2041[1]. Through the Protein for Life research project, we are working with partners to help develop guidelines for higher-protein snack foods for older adults.

To make shopping easier for people with food allergies and intolerances, we have partnered with food search platform FoodMaestro on an app that over 52,000 of our customers have used to create personalised allergen profiles, automatically checking products online for allergens.

Inspiring kids to live healthier lifestyles

Through Active Kids, we continue to help children get active and understand the importance of diet and exercise. We donated over £186 million worth of equipment and experiences through our Active Kids voucher scheme from 2005 to 2017. In 2018, to help keep kids active and healthy over the summer, we trialled holiday clubs in 25 schools and plan to run more in 2019.

4,500+ children took part in Active Kids holiday clubs

"We want to help our customers to eat well. Even small changes to the food in their baskets can make a big impact on people's health, which is why we continue to make everyday products healthier and contribute to collaborations designed to help nudge people towards healthier choices when shopping with us."

Nilani Sritharan
Company Nutritionist at Sainsbury's

Making everyday products healthier

We have been cutting sugar, saturated fat and salt in our products for several years, at the same time as continuing to offer a wide variety of choice to our customers.

To help reduce childhood obesity, Public Health England challenged the food industry to cut 20 per cent of sugar from a range of products by 2020. This year, building on earlier savings, we reduced sugar in our deep filled mince pies by 14 per cent and cut sugar across our frozen dessert range.

We continue to support the Food Foundation's Peas Please initiative, which makes a pledge for more veg. Vegetables comprise 18.8 per cent of our own-brand food sales by volume.

78% green and/or amber traffic lights on our own-brand products, up from 77 per cent in 2017/18[2]
(2020 target: 79 per cent)

Living Well Index

Our ambition has always been to help our customers live well for less. To explore what living well means, we work with leading researchers to survey 8,000 people every six months.

Our third Living Well Index revealed that the UK's sense of wellbeing has fallen since 2017, identifying social interaction and community connections as key drivers for living well. To bring people together, we trialled Talking Tables in 20 stores, often hosted by our colleagues and community partners.

For our Living Well Index, visit our corporate website.

1 Office for National Statistics National population projections for the UK (2016-based)
2 Based on data from January to March 2019 for food products with nutritional labels

Making a positive difference to our community

Related UN Sustainable Development Goals

Our long-term business success relies on resilient, thriving communities in the UK and internationally.

In the context of social challenges such as inequality, health issues and an ageing population, we are working with partners to support social cohesion, economic prosperity and inclusive growth.

Alongside our community investment, we make positive economic contributions through our supply chain, our market-leading pay for colleagues and our responsible approach to tax, contributing £2.3 billion in taxes borne and collected this year.

> **£30m** generated for charities and communities, bringing total investment since 2011/12 to £330 million
> (2020 target: £400 million)[1]

Contributing to our local communities

Our Local Charity of the Year programme has been making a big positive impact in our local communities for ten years. This year our colleagues and customers raised £2.6 million for their favourite local charities, supporting them through fundraising, volunteering and donations.

> **94%** of stores took part in our Local Charity of the Year, up from 91 per cent in 2017/18
> (2020 target: 100 per cent)

"We can't thank Sainsbury's enough for all the help provided to residents of Betel UK who have been rescued from desperate situations. Thanks to Sainsbury's support, we can look to the future with hope."

Timon Robins
Fundraising Director for rehabilitation charity Betel UK, partnered with 15 of our Birmingham stores

Tackling food poverty in our communities

As more UK families struggle to pay basic living costs and food bank use soars[2], we have expanded our food donation programme to 1,425 stores, making it the UK's largest scheme of its kind. 87 per cent of our stores have a community food partner – a record, as we work towards 100 per cent.

This year we launched food bank friendly labelling on shelves to alert customers to priority items, after a trial led to a three-fold rise in donations. The initiative was suggested by teenage National Citizen Service graduates.

> **1m+** donations through our Brighten a Million Christmases campaign, focusing on food donations in Sainsbury's and toy donations in Argos

Collaborating for greater impact

With 850,000 people living in the UK with a form of dementia[3], our Argos colleagues chose the Alzheimer's Society as their charity of the year, raising enough to fund 15 dementia support workers and advisers for a whole year. All colleagues have been offered the opportunity to become Dementia Friends, increasing their awareness and understanding of those affected by dementia. This builds on the success of Argos's award-winning three-year partnership with Macmillan Cancer Support and the Irish Cancer Society, which raised £3.3 million.

As a partner of The Royal British Legion for 25 years, our activities to mark the centenary of the end of the First World War included partnering with 11 iconic brands that were staples in British homes 100 years ago and are still sold in-store today.

This year marks the 20th anniversary of our partnership with Comic Relief. Since 1999 we have raised over £130 million for the charity, helping nearly 1.5 million people across the UK and over 7.1 million internationally. Key activities include selling red noses and merchandise, colleague fundraising and partnerships with multiple brands.

> **£11m** raised for Comic Relief this year, bringing the 20-year total to over £130 million
>
> **£3.8m** raised for The Royal British Legion, up from £3.4 million last year
>
> **£422,000** raised for the Alzheimer's Society, exceeding our £400,000 target

"Sainsbury's is a brilliant long-standing partner of ours. Since 1999 they have raised an incredible amount of money for Comic Relief. Together with Sainsbury's and Argos employees, we help fund projects locally and abroad – saving and changing lives."

Liz Warner
CEO of Comic Relief

As part of our support for our communities internationally, we responded when we heard that Kerala, where we source Fairtrade cashew nuts from, had been hit by floods. Our funds joined those of other organisations to help rebuild the area and restore livelihoods. In addition, nearly 8,000 customers contributed to emergency charity appeals through Nectar this year, donating points and cash to help communities in crisis.

1 This includes corporate donations, volunteering, fundraising and community investment.
2 Joseph Rowntree Foundation, Destitution in the UK (2018)
3 The Alzheimer's Society, Dementia UK Update (2014)

Sourcing with integrity

Related UN Sustainable Development Goals

With over 1,200 own-brand products sourced from more than 70 countries, we have a vital role to play in supporting our farmers, growers and suppliers across the world.

Our approach is to work collaboratively to tackle climate change, reduce the environmental impact of our raw materials, advance respect for human rights across our supply chain and improve the livelihoods of our farmers, growers and suppliers.

Sustainable sourcing

To help develop more resilient supply chains, we have worked with independent experts on our sustainability standards for the key materials used in our own-brand products.

These standards are designed to help our farmers and growers identify opportunities to strengthen their economic sustainability, enhance worker wellbeing and reduce environmental impacts. We are trialling our standards for prawns, tea, sugar cane and flowers in Central America, East Africa and South East Asia. We trained 100 suppliers, farmers, growers and co-operative representatives in our sustainability standards this year.

We also continue to source products such as palm oil and timber to international standards. See page 23.

Trading for a fairer future

We support farmers and workers in challenged value chains through our own Fairly Traded programme and the Fairtrade brand.

We source Sainsbury's Fairly Traded tea from producer groups in Rwanda, Kenya and Malawi, who we work with on environmental, economic and social challenges. Alongside our minimum price guarantee, tea farmers have received a $260,000 social premium to invest in their businesses and communities. We have set up the Sainsbury's Foundation to oversee social, economic and environmental activities in our Fairly Traded producer communities. Members include external experts and colleagues.

Through our wider sourcing commitments, we continue to work with the Fairtrade brand, which we have supported since 1994, empowering farmers and workers in developing countries.

Responsible fishing

We are leading the way in sourcing fish responsibly, so our fish populations remain healthy and our customers can enjoy great quality fish, now and in the years to come.

In addition to line and pole caught tuna, this year we expanded our responsibly fished tuna offer to include Fishing Aggregation Device (FAD)-free fishing. This avoids the use of FADs that attract lots of fish and can lead to other marine life being caught. Non-profit organisation OceanMind uses the latest technology to independently verify that our suppliers' fishing practices are FAD-free.

We also continue to support fishery improvement projects, working towards an environmentally sustainable future for UK fisheries.

Winner of the Marine Stewardship Council (MSC) UK Supermarket of the Year for the fifth time, and leading UK retailer, with the most MSC labelled products

82.5% of wild caught seafood and 100 per cent of farmed seafood sourced sustainably to an independent standard, compared to 86 and 100 per cent respectively in 2017/18

(2020 targets: 100 per cent)

Backing British farming

As a UK retailer, we are proud to support British producers. In addition to boosting the national economy and contributing to rural communities, this reduces food transport miles.

Nearly 500 of our farmers, growers and suppliers attended our ninth annual Farming Conference. Speakers included Mike Coupe, Food Commercial Director Paul Mills-Hicks and, for the first time, National Farmers Union President, Minette Batters.

We returned as a principal sponsor of Open Farm Sunday for the third year, with around 360 British farms opening their gates to over 290,000 visitors and sharing educational resources we developed with Linking Environment and Farming (LEAF). We are also supporting LEAF's FaceTime a Farmer initiative, which connects schools and farmers on curriculum areas linked to farming. This is inspiring young people and raising awareness of careers in farming.

Five farmers and growers in our supply chain completed our 18-month Farm Tech Scholarship, delivered in partnership with Imperial College. Supported by mentors from our teams, they worked on projects to develop technological solutions and use data to drive efficiency in their businesses.

100% of our fresh chicken, eggs and milk are British

Sustainable crops

Building on over ten years of collaboration with our growers and suppliers through our Crop Action Groups, this year we launched Grower Interaction Groups, which bring diverse growers together to find solutions to shared challenges. We also introduced a Wheat Development Network linking our colleagues and suppliers to combine expertise.

120+ attendances at our Crop Action and Grower Interaction Groups

Sustainable dairy farming

We have been working closely with our dairy farmers through the Sainsbury's Dairy Development Group since 2007, protecting their livelihoods and ensuring a sustainable milk supply for our customers.

Together, we continue to improve herd health and efficiency, ensure a fair price for milk for dairy farmers and reduce costs in our milk supply chain.

This year we trialled our first small group tackling a specific issue, feed efficiency. Over 40 farmers were invited to attend workshops, receive consultancy support and test technology innovations, including ear tags that give real-time health alerts and a smart device for feed wagons.

235 farmers attended our Dairy Development Group regional meetings

Caring for animal health and welfare

Healthy, well-managed animals are more likely to deliver better tasting, higher quality products for our customers. Our current collaborations for animal welfare include a three-year research project with industry partners to test the use of 3D cameras to help stop pig tail biting.

No. 1 UK retailer for RSPCA Assured products, selling 30 per cent of all RSPCA Assured products sold in the UK in 2018

Protecting human rights

Our vision is to be the most trusted retailer where people love to work and shop. This includes treating people fairly wherever they are in our business and supply chain.

This year we expanded our Modern Slavery Risk Assessment Tool, became founding sponsors of the Responsible Recruitment Toolkit and piloted initiatives as members of the Responsible Car Wash Scheme. Mike Coupe spoke about our efforts to tackle modern slavery at The Consumer Goods Forum's Sustainable Retail Summit and took on the role of Retailer College Chair for the Forum's sustainability pillar. The Business and Human Rights Resource Centre identified Sainsbury's as a leader for transparency on Modern Slavery Act requirements.

For our Human Rights Policy and Modern Slavery Statement, visit our corporate website.

Protecting forests

With many of the world's tropical forests at risk, we have a long history of collaborating to progress sustainable sourcing of palm oil, cocoa, soy and timber globally.

A common ingredient in many products – from shampoo to biscuits – we continue to source palm oil certified sustainable by the Roundtable on Sustainable Palm Oil. We believe this is the best way to drive global change, conserving natural resources and biodiversity, respecting human rights and protecting livelihoods.

This year we joined the World Cocoa Foundation, working towards a sustainable cocoa sector. We also continued our collaborative efforts on sustainable soy, as signatories to the Cerrado Manifesto and the UK Roundtable on Sustainable Soya, as well as working with our suppliers and updating our policy.

Together with other retailers, we are engaging with CDP on its revised methodology for forest disclosures, which affected scores across our sector this year.

98.7% of palm oil and 97 per cent of timber in our products certified to international sustainability standards[1], improving on 98 and 95 per cent respectively in 2017/18
(2020 targets 100 per cent)

We have raised £8.6 million for the Woodland Trust since 2004, planting 3.3 million native trees and involving over 1 million volunteers. This year we funded over 50,000 trees for individuals, schools, community groups and MPs as part of the Queen's Commonwealth Canopy and we were lead sponsor for the First World War Centenary Woodland Project, which created four new woods.

Sustainable general merchandise and clothing

As one of the largest general merchandise and clothing retailers in the UK, we can make a real difference. At our annual supplier conference, we highlighted our sustainability targets, ethical sourcing policies and modern slavery risks. In the coming year, we will publish our first tier manufacturing sites for clothing and footwear on our *Tu* website.

68% of our cotton certified to international sustainability standards[1], up from 61 per cent in 2017/18, working with the Better Cotton Initiative
(2020 target 100 per cent)

Collaborating on global goals

We have a strong track record of partnering to help address global challenges and drive change in our value chains. We are currently involved in over 40 collaborations, including:

- Cerrado Manifesto to protect Brazil's Cerrado savannah
- The Consumer Goods Forum's Sustainable Supply Chain Initiative
- Ethical Trading Initiative
- Roundtable on Sustainable Palm Oil
- UK Roundtable for Sustainable Soya
- UN Task Force on Digital Financing of Sustainable Development Goals
- World Cocoa Foundation

1 Palm oil data provided by calendar year. Timber and cotton data provided by financial year in arrears

Respect for our environment

Related UN Sustainable Development Goals

Climate change and resource scarcity are complex, global challenges, which affect every part of our business.

To grow our business sustainably, we are cutting carbon, maximising energy and water efficiency, keeping food waste at a minimum and upgrading our fleet.

Cutting carbon emissions

To help tackle climate change, we have a bold ambition to be the Greenest Grocer by cutting carbon emissions from our heating, cooling, lighting and logistics.

Sainsbury's Argos has also implemented a colleague engagement programme that encourages simple changes in behaviour to save energy, building on our successful Greenest Grocer programme.

Across the Group we have reduced energy use by four per cent year-on-year, through our colleague behavioural change programme, cutting carbon emissions and costs.

We achieve further emissions reductions by sourcing 18 per cent of our electricity from on-site renewables generation and renewable power purchase agreements.

Following a successful trial that reduced energy use in store by 15 per cent, this year we rolled out aerofoil technology across 1,400 Sainsbury's stores. Inspired by Formula 1 innovations, aerofoil prevents cold air from fridges spilling out into aisles, so we reduce our environmental impacts and energy costs and our customers enjoy warmer aisles.

In the coming year we will continue to test opportunities for the Internet of Things technology linked to metering to identify ways to further enhance energy efficiency in stores.

35% absolute reduction in carbon emissions against our 2005 baseline, achieving our target early
(2020 target: 30 per cent reduction)

55% relative reduction in carbon emissions against our 2005 baseline, as a result of our efficiency savings and National Grid decarbonisation
(2020 target: 65 per cent reduction)

For more on our greenhouse gas emissions see pages 87 and 88

CDP A rating for our climate change disclosure for the fifth year running – the only UK food retailer to achieve this score for so many years

Setting science-based targets

Science-based targets seek to deliver on the commitment made by international leaders to limit global warming to a maximum increase of 2°C. When we set our 2020 carbon reduction targets in 2011, the Science Based Targets initiative had not yet been established. Analysis shows that our Scope 1 and 2 reductions are in line with the science-based target trajectory. We are particularly proud that we have reduced absolute carbon emissions by 35 per cent since 2005, while growing our business. We are now working with the Carbon Trust to develop science-based reduction targets, which we will publish in the coming year as part of our post-2020 plan.

"Sainsbury's has made great progress in reducing its carbon footprint through energy efficiency measures. Best practice now requires companies to set long-term targets to limit global warming to below 2°C and we are pleased to see Sainsbury's taking a leadership position, working in partnership to develop science-based targets."

Mark Reynolds
Account Director at the Carbon Trust

Improving air quality

We recognise the impact of vehicle emissions on air quality and human health and continue to trial and roll out new technologies to minimise emissions across our fleet.

Following successful trials of refrigerated vehicles powered by alternative technologies and fuels, rather than diesel, we are now purchasing gas vehicles as part of our fleet replacement programme. This will dramatically reduce nitrogen oxide outputs across our operations and cut carbon emissions. All our vehicles in London's Ultra Low Emission Zones are Euro 6 compliant for 1 April 2019, when fees come into effect, supporting the Mayor's efforts to improve air quality.

30+ gas vehicles joined our fleet, having been the first retailer in the world to trial refrigerated vehicles cooled by CO_2

Reducing, reusing and recycling

With UK households generating 27 million tonnes of waste each year[1], we provide facilities to help our customers recycle unwanted clothing, metal cans, glass, paper, batteries and other materials, as well as supporting global efforts to reduce food waste and working to minimise our own packaging.

We support the UN Sustainable Development Goal 12.3 to halve food waste by 2030 and are a signatory to the Courtauld Commitment to cut food waste by 20 per cent by 2025

87% of our stores have food donation partners for unsold food, up from 73 per cent in 2017/18
(2020 target: 100 per cent)

To help our customers divert unwanted clothing from landfill, this year we expanded our partnership with Oxfam, providing a network of 356 clothing recycling banks in our store car parks. This also generates valuable funds for the charity's work to create a world without poverty.

78% of available sites have Sainsbury's-managed recycling facilities, maintaining our 2017/18 performance
(2020 target: 100 per cent)

Collectively, they recycled 29,500+ tonnes of waste – an estimated 1 million items per site

Pledging to cut plastic

Plastic has become one of the biggest environmental issues of our time, polluting our oceans and harming wildlife. We all need to work harder and act together to reduce our reliance on plastic and improve reuse and recycling rates.

This year we redesigned packaging to reduce plastic across over 100 million items, including water bottles, bananas, cauliflowers, tomatoes, chicken, olive oil, bedding, clothing and greeting cards. We also reduced black plastic use on fresh produce, meat, fish and poultry. We continue to explore additional opportunities to cut plastic across the Group.

We made substantial progress towards eliminating single-use plastic in our Group office restaurants and Argos store cafés and plan to expand this approach to all our cafés, as well as continuing our packaging redesign programme.

As members of WRAP's UK Plastics Pact, we are collaborating to eliminate unnecessary single-use packaging by 2025 and working towards all plastic packaging being 100 per cent reusable, recyclable or compostable, as well as containing at least 30 per cent recycled content.

100m+ items with reduced or zero plastic packaging through design changes this year, with further reductions in the pipeline

1m+ disposable plastic items set to be saved annually from our Group offices and support centres, with further savings planned in our Group cafés

Saving water

Having achieved our 2020 water reduction targets early, we continue to drive efficiency across the Group. In the coming year, we will be rolling out low-flow water taps.

30% absolute reduction in water use and 57 per cent relative reduction against 2005 baseline, achieving our 2020 reduction targets early
(2020 targets: 30 and 55 per cent reductions respectively)

CDP A- rating for our water disclosure for the second year running

Collaborating on global challenges

We are now in the ninth year of our partnership with Imperial College London, which provides us with academic independence and quality research. MSc students from around the world have completed innovation projects as part of our carbon reduction programme, supporting the transition to a low carbon future.

"The partnership between Imperial College and Sainsbury's is a great example of the power of collaboration between academia and business. We welcome the progress made by Sainsbury's and look forward to continued engagement to further reduce emissions."

Dr Neil Jennings
Partnership Development Manager at the Grantham Institute, Imperial College London

1 Department for Environment, Food and Rural Affairs, UK Statistics on Waste (2019)

Great place to work

Related UN Sustainable Development Goals

We want to be the most inclusive retailer, where every single one of our colleagues can fulfil their potential and where all our customers feel welcome when they shop anywhere in our Group.

Our customers value excellent service, which our colleagues strive to provide across our Sainsbury's, Argos and Habitat stores, Sainsbury's Bank, Travel Money outlets and customer management centres.

A place where colleagues love to work

We invest in our colleagues to make sure they feel rewarded and motivated to do the best possible job for our customers every day. This sets us up to run the best shops and banks in the industry, delivering the best possible service for our customers.

This year we launched our new online colleague recognition portal with discounts and benefits, 'Love it'. Sainsbury's Argos embedded our Group values and 'Love It'. Values Ambassadors in Argos stores engage colleagues in our values, supported by regular features in our communication channels.

We completed the largest reorganisation in our Sainsbury's stores for more than a decade, designed to meet the challenges of today's retail environment and help us to deliver the best possible service for our customers. This included introducing one fair and consistent contract, giving us greater flexibility to ensure store colleagues are always in the right place at the right time for our customers. In recognition of this, as part of our Winning Teams strategy, we invested over £100 million in store colleagues, taking the base rate of pay to £9.20 per hour.

69% of our colleagues across our Group stores, banks, support centres and depots feel that we're a great place to work

£9.20 per hour base rate of pay in Sainsbury's stores, an industry-leading investment in pay, up from £8.00

"We want to be a place where people love to work and shop. That means harnessing the talent, creativity and diversity of our colleagues to ensure that customers receive great service every time they shop with us."

Angie Risley
Group HR Director

A place where colleagues learn and grow

Apprenticeships give colleagues on-the-job skills and training and help us secure our talent pipeline. We have offered apprenticeships since 1974 and continue to expand our offer.

We introduced 19 new apprenticeship programmes this year, bringing the total available across the Group to 33, from fundamental skills all the way up to degree level. These reflect the diverse range of skills we rely on, from traditional food crafts such as bakery, butchery and fish, to retail skills such as hospitality and merchandising, and business skills such as analytics, cyber security, finance, risk, software and supply chain management. Our Group-wide programme saw 120 Sainsbury's Argos apprentices develop skills in areas from team leadership to data analysis, and 15 Sainsbury's Bank colleagues complete a modern apprenticeship with Microcom. We also trialled our first supplier apprenticeship collaboration, helping The Lakes Free Range Egg Company support one of their colleagues through the Supply Chain Practitioner Apprenticeship.

887 colleagues enrolled on apprenticeships across our Group, with **156** completing their programme

Investors in People Gold

Ethical policies

We are committed to complying with laws and regulations and set high ethical standards for our colleagues and suppliers. We expect all colleagues to abide by our Ethical Conduct Policy, which covers areas including anti-bribery and corruption, conflicts of interest, suppliers, fraud and whistleblowing. Training in support of our ethical policies is provided to colleagues, especially in the commercial divisions, both as part of their induction and through annual refreshers.

Inclusive leadership

Mike Coupe has set corporate objectives to increase female and Black, Asian and Minority Ethnic (BAME) colleagues in senior management and department director roles. In addition, our department directors have inclusion objectives linked to their annual bonus.

To support the delivery of these goals, we have invested in engaging and upskilling our leadership teams through deep dive sessions on inclusive leadership and an inclusion training module for new line managers.

Our aspirational targets for senior management and department directors:

40% of senior roles held by women, currently 31.4 per cent

10% of senior roles held by BAME colleagues, currently 7.5 per cent

Our well-established Group Diversity and Inclusion Steering Group, which consists of six Operating Board sponsors and other key stakeholders, meets regularly to influence our strategy and govern progress.

Recognised in the Best Employers for Race list by Business in the Community

Three of our colleagues recognised in the Financial Times EMpower Ethnic Minority Leaders and Advocates lists for their outstanding achievements, and two of our colleagues nominated for the prestigious British LGBT awards

Disability Confident Leader status – the highest tier of accreditation in the Government's Disability Confident Programme

Celebrating and empowering diverse colleagues

Through our Embrace the Difference inclusion campaign we continue to explore challenging topics with our colleagues, such as banter. This year during our Inclusion Week we equipped colleagues to call out exclusive behaviour. Our colleague networks hosted popular events, connecting diverse groups and providing insights into the lived experience of our colleagues. We also launched our everyday role model campaign, #thisisme, through which diverse colleagues share their stories.

Colleagues invited to wear an 'Embrace the Difference' badge to demonstrate their support for diversity and inclusion

Inclusive recruitment and development

We have trialled several initiatives in recent years to reduce recruitment bias, such as anonymised CVs and strengths-based assessment. We continue to integrate best practices obtained through these experiments to improve our recruitment processes. This year we also created an in-house executive recruitment team, who are taking proactive steps to increase the diversity of senior teams.

Inclusion is at the heart of our approach to talent development. This year, following a successful trial of our women's development programme, we have rolled it out across the Group. In the coming year we will trial a BAME colleague development programme.

Purple Day events at stores across the Group, celebrating our disabled customers and exploring opportunities to make our store experience even more inclusive

Pride events across the UK attended by colleagues, in partnership with our Lesbian, Gay, Bisexual, Trans and Allies (LGBTA) networks

"I am proud to be the Group Board sponsor for Disability, Age and Carers. Creating a great place to work, where every colleague feels included, is not only the right thing to do, it helps us to drive colleague engagement, productivity and to boost our overall business performance."

Tim Fallowfield
Company Secretary and Corporate Services Director

Gender pay balance

We continue to work hard to improve gender balance across the Group and welcome the opportunity to report on our gender pay gap. This year we reduced our median gender pay gap by 0.6 per cent to 3.8 per cent and our mean gap by 2.5 per cent to 12.1 per cent. We recognise that we have more to do. To find out more about our gender pay gap and initiatives to improve gender balance, please read our Gender Pay Gap Report on our corporate website.

Our KPIs

Financial key performance indicators are critical to understanding and measuring our financial health.

Group measures

Underlying profit before tax (£m)[1]
Definition: Profit before tax adjusted for certain items in note 3 which, by virtue of their size and/or nature, do not reflect the Group's underlying performance

Underlying basic earnings per share (pence)[1]
Definition: Earnings per share using underlying profit

Retail operating cash flow (£m)
Definition. Retail cash generated from operations after changes in working capital and pension contributions, and before exceptional pension contributions

Retail free cash flow (£m)
Definition: Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure and after investments in joint ventures and associates and Sainsbury's Bank capital injections

Retail underlying EBITDAR margin (%)
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 (%)[1]
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)[1]
Definition: Capital expenditure excluding Financial Services, after proceeds from disposal of property, plant and equipment and before strategic capital expenditure

1 Refer to APMs on page 185
2 Retail free cash flow was only defined as a KPI from 2015/16 onwards
3 2016/17 restated to include Argos on a post acquisition consolidation basis

Maintaining balance sheet strength

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

Gearing (%)[1]
Definition: Net debt divided by net assets

Lease adjusted net debt/ underlying EBITDAR (%)[1]
Definition Net debt plus capitalised lease obligations (5 5 per cent discount rate) divided by Group underlying EBITDAR

Retail

Like-for-like sales 2018/19 (%)[1]
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 2018/19 (%)
Definition: Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services

Like-for-like transactions growth 2018/19 (%)
Definition: Year-on-year growth in transactions, excluding fuel, excluding Financial Services, for stores that have been open for more than one year

Cost savings (%)
Definition: Excludes Financial Services and Argos and represents cost reductions as a result of identified initiatives

Non-financial KPIs[3]

Colleague engagement (%)
Definition: Percentage of our colleagues who feel that we are a great place to work[3]

Community investment (£m)
Definition: Total investment generated for good causes since 2011[4]

Greenhouse gas emissions reduction (%)
Definition: Percentage reduction in absolute greenhouse gas emissions since 2005/06

1 Refer to APMs on page 185.
2 2016/17 and 2017/18 LFL growth both include Argos in the base.
3 2018/19 data is for the Group and prior data is for Sainsbury's. Argos data has been incorporated into the greenhouse gas emissions 2005 baseline
4 Including all corporate donations, volunteering, fundraising, awareness-raising and investment in community programmes

Our principal risks and uncertainties

Risk is an inherent part of doing business. The management of risk is based on the balance between risk and reward, determined through careful assessment of both the potential outcomes and impact as well as risk appetite. Consideration is given to both reputational as well as financial impact, recognising the significant commercial value of the Sainsbury's brand. The risk management process is aligned to our strategy and each principal risk and uncertainty is considered in the context of how it relates to the achievement of the Group's strategic objectives.

Our corporate risk map captures the principal risks to achieving Sainsbury's business objectives. Sainsbury's Operating Board formally reviews this twice a year. The appetite for each key risk is also discussed and assessed with a target risk position agreed to reflect the level of risk that the business is willing to accept. This enables the Board to agree and monitor appropriate actions as required. Please see the risk framework on page 67 for further detail.

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

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

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

Where principal risks have been included in the risk modelling, undertaken as part of the preparation of the viability statement (see page 37), this has been indicated with the following symbol: V

Key risk movements

As noted, the principal and emerging risks are discussed and monitored throughout the year to identify changes to the risk landscape. Risks are reviewed in line with the Company's strategic objectives.

Following the review of the principal risks and our strategic key drivers, we have included two new principal risks and uncertainties. One relates to the ongoing heightened levels of political and regulatory uncertainty in the UK following the referendum vote to leave the EU in June 2016, and the second is to separate out the Sainsbury's Bank plc's risks from our Finance and Treasury principal risk and uncertainty disclosure. The Bank has a defined risk appetite aligned to the delivery of its own strategic objectives.

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

Brand perception

Risk

We are a multi-brand, multi-channel business incorporating Sainsbury's, Argos, Habitat, Tu, Nectar and Sainsbury's Bank. Our business must continue to evolve to meet customer needs and maintain customer loyalty. Customer lifestyles, behaviours and expectations are changing and we need to continue to differentiate our offer to retain and attract customers. We also need to protect our brands so that customers, suppliers and stakeholders continue to trust us.

Direct oversight – Operating Board, Food Management Board, Sainsbury's Argos Management Board and Sainsbury's Bank Executive Committee

Mitigations

- We continually focus on evolving our ways of working to ensure we meet our customers' needs so that our brands remain relevant
- We have a wide, differentiated product offer, which gives our customers more reasons to shop with us
- We change and evolve to meet the needs of our customers through our digital strategy and technology developments, so that we are there for them whenever and wherever they want to shop with us, with great products and services at fair prices. To deliver this, we will continue to listen to and understand our customers
- The purchase of Nectar supports our strategy of knowing our customers better than anyone else. The acquisition has given us more control over how we reward and recognise our customers and we have since launched trials in the Isle of Wight and Wales that are digital and give customers offers which are completely personalised to them
- Our Living Well Index helps us to understand what 'living well' means to people across the UK today and to track how that picture changes over time. The most recent research identified that the UK's sense of wellbeing had fallen last year, with loneliness a key factor. By bringing people together though our Talking Tables initiative, we utilised our café store-space to help people be better connected to the communities they live and work in, bridging the loneliness gap
- In terms of brand protection, many of the mitigation activities set out against the risks above also help prevent or reduce the risk of losing the trust and loyalty of customers, suppliers and broader stakeholders

NEW Brexit

Risk

There remain heightened levels of political and regulatory uncertainty in the UK following the referendum vote to leave the EU in June 2016 and the lack of clarity around the date of departure. These uncertainties could have an adverse effect on customers, supply chains and colleagues, potentially impacting trading performance across the sector.

Direct oversight – Operating Board

Mitigations

- We have co-ordinated activities across the Trading, Retail, HR, Legal and Finance teams to help ensure that, in the event of a no deal, appropriate mitigations are in place to reduce the impact on customers, supply chains and colleagues

These activities specifically relate to three key areas of risk in the event of a no deal:

1. Delays at borders, reducing product availability and choice
2. Cost impact associated with tariffs, loss of trade and currency fluctuations
3. Impact of changes in EU migration throughout our supply chains

- We continue to engage actively with key stakeholders to assess the specific impact on our business
- We continue to assess and monitor the potential risks and impacts of these changes on our customers, supply chains and colleagues so that we can take appropriate action

Business continuity, operational resilience and major incident response

Risk

A major incident or catastrophic event could impact on the Group's or individual brands' ability to trade. Sainsbury's exposure to operational resilience and major incident risks may be greater following the acquisition of Argos and Nectar given the increased size and complexity of the business.

Direct oversight – Group Operational Resilience Committee

Mitigations

— The operational resilience (OR) strategy, including incident management, resilience exercises and testing, has been aligned across the Group
— The Group Operational Resilience Committee meets quarterly chaired by the CFO, with support from our Company Secretary and CIO. The Committee sets the operational resilience strategy for the Group and monitors progress against this
— To support this, Operational Resilience Committees which include representatives from Sainsbury's Food, Argos, the Bank, and Habitat, meet regularly to ensure that the OR policy and strategy is implemented. In addition, they oversee the mitigation of all risks associated with OR and IT disaster recovery
— Group-wide resilience exercises are undertaken to imitate real life business continuity scenarios and test the Group's ability to respond effectively
— Key strategic locations have secondary backup sites which would be made available within pre-defined timescales and are regularly tested

Incident management

— In the event of any unplanned or unforeseen events, the Incident Response Team is convened at short notice to manage the response and any associated risk to the business
— The Group has plans in place, supported by senior representatives who have the experience and the authority levels to make decisions in the event of a potentially disruptive incident

Business strategy and change

Risk

If the Board adopts the wrong business strategy or does not communicate or implement its strategies effectively, the business may be negatively impacted. Risks to delivering the strategy, change initiatives forming part of the strategy and other significant supporting change such as the integration with Argos need to be properly understood and managed to deliver long-term growth for the benefit of all stakeholders alongside management of business as usual.

Direct oversight – Board of J Sainsbury plc

Mitigations

— The business strategy is focused on the following:
1. We know our customers better than anyone else
2. We will be there wherever and whenever they need us
3. We will offer great products and services at fair prices
4. Our colleagues make the difference
5. Our values make us different

— The progress against strategic programmes and any risks to delivery, such as the ability to implement and deliver change and new business initiatives, is regularly reviewed by the Board and the overall strategy is reviewed at the annual two-day Strategy Conference
— The Operating Board also has regular sessions to discuss strategy, supported by a dedicated strategy team
— The strategy is communicated and the Group engages with a wide range of stakeholders, including shareholders, colleagues, customers and suppliers, on a continual basis
— In addition, management performs ongoing monitoring of business as usual performance to determine indicators of potential negative performance because of change initiatives

Colleague engagement, retention and capability

Risk

The Group employs 178,000 colleagues who are critical to the success of our business. Attracting talented colleagues, investing in training and development, maintaining good relations, and rewarding colleagues fairly are essential to the efficiency and sustainability of the Group's operations. Delivery of the strategic objectives, including integration with Argos, increases the impact of an inability to attract, motivate and retain talent, specific skill sets and capability. In addition, the challenging trading environment requires a focus on efficient operations, which may include change initiatives affecting colleagues, therefore presenting a risk of loss of colleague trust or engagement.

Direct oversight – Food Management Board, Sainsbury's Argos Management Board and Sainsbury's Bank Executive Committee

Mitigations

- The Group's employment policies and remuneration and benefits packages are regularly reviewed and are designed to be competitive with other companies, fair and consistent, as well as providing colleagues with fulfilling career opportunities
- In addition to strong leadership and nurturing of talent by line managers, formal processes are also in place to identify talent and actively manage succession planning throughout the business
- Reviews are performed to help develop the skills colleagues need to deliver objectives and this is supported by embracing new ways of attracting talent
- Colleague surveys, performance reviews, listening groups, communications with trade unions, regular communication of business activities and colleague networking forums such as Yammer, the updated colleague portal (Our Sainsbury's) and the colleague learning portal are some of the methods the Group uses to understand and respond to colleagues' needs
- Our corporate value 'Great Place to Work' reinforces our commitment to giving people the opportunity to be the best they can be
- As change initiatives are implemented, the methods described above will continue to be employed to understand and maintain colleague trust and engagement

Data security

Risk

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

Direct oversight – Group Data Governance Committee

Mitigations

- A Group Data Governance Committee is established and is supported by focused working groups looking at the management of colleague data, customer data, information security, commercial data and awareness and training
- The Chief Information Security Officer continues to develop information security strategies and to build the necessary capability to deliver against those strategies
- The Head of Data Governance focuses on improving how we handle data across the organisation
- Various information security policies and standards 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 awareness campaigns, focusing on specific aspects of data and information security
- A review of key third parties who hold sensitive customer or colleague data continues to take place, and progress is monitored by the Data Governance Committee
- A risk-based security testing approach across Group IT infrastructure and applications is in place to identify ongoing vulnerabilities
- Reflecting the importance of data security, the Chief Information Security Officer and the Head of Data Governance provide regular updates to the Audit Committee on mitigating controls and activities to manage this risk. These discussions are conveyed to the Board as part of our normal governance processes

Environment and sustainability

Risk

The environment and sustainability are core to Sainsbury's values. The key risk facing the Group in this area relates to reducing the environmental impact of the business, which could result in a financial and/or reputational risk.

Direct oversight – Operating Board

Mitigations

- The Corporate Responsibility and Sustainability Committee met twice during the year. The Committee oversees the impact of Sainsbury's corporate responsibility and sustainability strategy against 'Live Well for Less' and building customer trust
- The Committee has relaunched Sainsbury's Value Management Groups, which are responsible for driving and executing the strategy. Five Value Management Groups have been formed:
  - Health Management Group
  - Community Management Group
  - Environment Management Group
  - Sourcing With Integrity Management Group
  - Great Place to Work Management Group

Financial and treasury

Risk

The main financial risks are the availability of short- and long-term funding to meet business needs and fluctuations in interest, commodity and foreign currency rates. In addition, there remains a risk around the Group defined benefit pension arrangement that is subject to risks in relation to liabilities as a result of changes in interest rates, life expectancy, inflation and their alignment to the value of investments and the returns derived from such investments.

Direct oversight – Board of J Sainsbury plc

Mitigations

- The Treasury Committee is responsible for reviewing Retail Treasury proposals, approving Retail Treasury transactions and monitoring compliance with Retail Treasury policy
- The Group Treasury function is responsible for managing the Group's liquid resources, funding requirements, mandates, interest rate and currency exposures and the associated risks as set out in line with the Group Treasury policy
- The Group Treasury function has clear policies and operating procedures, which are regularly reviewed and audited
- The Cash Action Group is responsible for the optimisation of activities to continually review and improve our cash generation, and meets periodically
- On a periodic basis Finance Commercial review sessions are held, chaired by the CFO to review the Company balance sheet, income statement and net debt in detail, with relevant actions and mitigations agreed
- The Group's funding strategy is approved annually by the Board and includes maintaining appropriate levels of working capital. The Audit Committee reviews and approves annually the viability and going concern statements and reports into the Board
- There is a long-term funding framework in place for the pension deficit and there is ongoing communication and engagement with the Pension Trustees
- We have robust cost savings plans in place to offset the impact of operating cost inflation
- With regard to pensions, investment strategies are in place which have been developed by the pension trustees, in consultation with the Company, to manage the volatility risk of liabilities, to diversify investment risk and to manage cash

Health and safety – people and product

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.

Direct oversight – Group Safety Committee

Mitigations

- Clear policies and procedures are in place detailing the controls required to manage health and safety and product safety risks across the business and to comply with all applicable regulations
- These cover the end-to-end operations, from the auditing and vetting of construction contractors to the health and safety processes in place in our depots, stores and offices, and including the controls to ensure people and product safety
- In addition, established product testing programmes are in place to support rigorous monitoring of product traceability and provide assurance over product safety and integrity
- Supplier terms, conditions and product specifications set clear standards for product, raw material safety and quality with which suppliers are expected to comply
- Process compliance is supported by external accreditation and internal training programmes, which align to both health and safety laws and Sainsbury's internal policies
- In addition, resource is dedicated to manage the risk effectively, in the form of the Group Safety Committee and specialist safety teams

Political and regulatory environment

Risk

There is an increasing trend of regulation, together with enforcement action, across all areas of our business. This adds additional cost as we respond to the regulations and drives complexity into our business processes.

Direct oversight – Operating Board

Mitigations

- We complete a bi-annual regulatory risk assessment with key areas of the business to identify current and emerging regulation affecting the Group, so that we can respond appropriately
- Regulatory updates are regularly presented to our oversight boards and committees, including the Regulatory Pay Forum, which was established in 2019 to oversee National Living Wage and National Minimum Wage compliance across the Sainsbury's Group, with flexibility to support other areas of reward compliance if necessary
- To influence current and emerging regulatory requirements, we continue to engage actively with Government, industry and regulatory bodies
- We publicly communicate matters where we believe industry change is required, with a view to enabling fair competition that is beneficial to our customers

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Sainsbury's Bank

Risk

Sainsbury's Bank is exposed to a number of risks. These include operational risk, regulatory risk, credit risk, capital risk, funding and liquidity risk and market risk.

Direct oversight – Board of J Sainsbury plc and Sainsbury's Bank plc

Mitigations

— 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, 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 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

Group oversight is provided through:
— Membership of the Board of Sainsbury's Bank plc – one of J Sainsbury plc Executive Directors 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 where Sainsbury's Bank plc needs to obtain permission from J Sainsbury plc

Trading environment and competitive landscape

Risk

The sector outlook has been and is set to remain highly competitive. The trading environment, driven by ongoing competitive retail pricing combined with growing inflationary cost pressures, may adversely affect our performance. There is also an ongoing risk of supplier failure, with possible operational or financial consequences for the Group.

Direct oversight – Food Management Board, Sainsbury's Argos Management Board and Sainsbury's Bank Executive Committee

Mitigations

— We adopt a differentiated strategy with a continued focus on delivering quality products and services with universal appeal, at fair prices, helping our customers live well for less
— This is achieved through the continuous review of our product quality, key customer metrics, monitoring of current market trends and price points across competitors, active management of price positions, development of sales propositions and increased promotional and marketing activity
— We continue with our commitment to offer customers even better value with lower regular prices
— In delivering our strategic plan, including our price investment, we will maintain the strength of our balance sheet and have identified a series of measures to conserve cash in the business
— Through these measures, we will deliver sustainable operating cost savings
— Concerning supplier continuity, Sainsbury's maintains regular, open dialogue with key suppliers concerning their ability to trade

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 43. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 38 to 43. The Group manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of standby liquidity.

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 liquidity positions and forecast future funding requirements over three years, with a further two years of indicative movements. The most recent was signed off in November 2018, and refreshed in March 2019 as part of the normal budgeting process. This is reviewed by the Operating Board and ultimately by the plc Board. 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.

2 The assessment period

The Directors have determined that the three years to March 2022 is an appropriate period over which to provide its viability statement. This period is consistent with 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.

3 Assessment of viability

To make the assessment of viability, additional scenarios have been tested over and above those in the corporate plan, based upon a number of the Group's principal risks and uncertainties (as documented on pages 30 to 36). The scenarios were overlaid into the corporate plan to quantify the potential impact of one or more of these crystallising over the assessment period.

Whilst each of the risks on pages 30 to 36 has a potential impact and has been considered as part of the assessment, only those that represent severe but plausible scenarios were selected for modelling through the corporate plan. These were:

Scenario modelled	Link to principal uncertainties
Scenario 1 **Competitive price cutting/price matching** Given the challenging trading environment, driven by ongoing competitive retail pricing combined with growing inflationary cost pressures, additional price investment of £150 million per year has been modelled in each of the three assessment years	— Trading environment and competitive landscape
Scenario 2 **Data breaches** The impact of any regulatory fines has been considered. The biggest of these is the General Data Protection Regulation (GDPR) fine for data breaches, which was enacted in May 2018. Fines were considered both in isolation, and in conjunction with a fall in sales volumes as a result of any reputational brand damage in each of the assessment years.	— Data security
Scenario 3 **Legal breaches** Similar to the above, we considered the reputational impact of any legal or health and safety incidents, modelling a fall in sales volumes in each year of the assessment period. Falls in sales volumes were modelled in each year in isolation, as well as a sustained year-on-year two per cent reduction. We also considered regulatory fines such as those levied by the Groceries Supply Code of Practice (GSCOP)	— Health and safety, people and product — Political and regulatory environment
Scenario 4 **UK's withdrawal from the EU** Uncertainty around the UK's future relationship with the EU restricts the Group's ability to fully mitigate risks for customers, suppliers and colleagues. The impacts of a range of outcomes have been modelled and considered jointly on a reasonable worst case basis. Modelling has taken account of the likely disruption of goods entering the UK, sales reductions, margin pressures resulting from tariff increases, operational and labour cost increases and small supplier working capital considerations	— Financial and treasury risk — Brexit
Scenario 5 It was considered what level of sustained loss would be required in Sainsbury's Bank before its capital ratios were breached	— Sainsbury's Bank
Scenario 6 **Failure to deliver sustainable cost savings** The Group Corporate Plan assumes savings of £500 million over the next three years. A scenario has therefore been modelled in which all planned savings/synergies are not fully realised.	— Business strategy and change

A number of borrowing facilities mature during the three-year assessment period, including the £200 million bank loan due in 2019 and the first tranche of the revolving credit facility of £300 million (see note 28 to the accounts). The Group's £450 million convertible bonds also mature in 2019. In performing the above analysis, the Directors have made certain assumptions around the availability of future funding options and the ability to raise future finance. In doing so a variety of viable and scalable options available to refinance the upcoming maturities over the assessment period have been considered, with a prudent view taken that 50 per cent of these could be raised over the assessment period.

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 the case of these scenarios arising, various options are available to the Group in order to maintain liquidity so as to continue in operation. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses, as well as not paying dividends.

The results of the above stress testing showed that the Group would be able to withstand the impact of these scenarios occurring over the assessment period.

4 Viability statement

Taking into account the Group's current position 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 2022.

5 Going concern

The Directors also considered it appropriate to adopt the going concern basis in preparing the financial statements which are shown on pages 89 to 188.

Financial Review

2018/19 has been another year of progress against our strategic priorities which saw us deliver strong growth in underlying profit and retail free cash flow and a reduction in net debt ahead of expectations. During the year we completed the Argos integration programme and delivered the target synergies nine months ahead of schedule, consolidated the Nectar business following the acquisition in 2017/18 and completed a significant management reorganisation in Sainsbury's stores.

In a highly competitive market Sainsbury's underlying Group sales (including VAT) were up 2.1 per cent to £32,412 million. On a 52-week rolling basis Sainsbury's grocery market share (as measured by Kantar) declined 37 basis points, with the discounters and Co-op gaining share from the rest of the market largely as a result of new store openings. Argos sales grew, outperforming a declining and highly competitive general merchandise market (as measured by the British Retail Consortium, 'BRC'). *Tu* clothing held share as sales declined in line with the market whilst full price sales increased as a result of reduced promotional activity.

In 2018/19, retail underlying EBITDAR margin increased eight basis points to 7.52 per cent and retail underlying operating margin improved 19 basis points to 2.43 per cent. Underlying profit before tax (UPBT) increased by 7.8 per cent to £635 million (2017/18: £589 million) driven by strong retail underlying profit growth and reduced interest costs, partly offset by lower Financial Services profit. Profit after tax of £219 million (2017/18: £309 million) was down 29.1 per cent as a result of a £396 million charge recognised outside of underlying profit. This charge includes the restructuring charge for changes to Sainsbury's store operations implemented during the year, the final Argos integration costs, Sainsbury's Bank transition costs, Asda transaction costs and a £98 million pension provision following the guaranteed minimum pensions ruling.

£220 million of cost savings were delivered during the year to offset the impact of cost inflation and the increase in Sainsbury's colleague base rate of pay to a market leading £9.20 per hour. We have well developed plans in place to continue to deliver efficiencies to offset cost inflation in future years.

Financial Services underlying operating profits decreased to £31 million, as guided in May 2018 (2017/18: £69 million), primarily due to additional bad debt charges following the adoption of IFRS 9 as well as a more cautious approach to unsecured lending and higher costs. We have focused on growing our mortgage book and commission products and have seen Bank customer numbers grow by five per cent and customer lending increase by £1.3 billion, driven mainly by mortgage balance growth. Argos Financial Services customer numbers increased by six per cent.

The balance sheet remains strong with a further reduction in net debt. Net debt (including perpetual securities) was £1,636 million as at 9 March 2019 (10 March 2018: £1,858 million), a total decrease of £222 million in the year and a decrease of £162 million before fair value movements on derivatives, ahead of our guidance of £100 million reduction. The business generated retail free cash flow of £461 million which resulted in a dividend cash cover of 2.1. We will remain disciplined and focused on cash management, taking action to reduce net debt. We are aiming to reduce net debt by at least a further £600 million over the next three years. The Group has facilities of £3.6 billion with only £2.1 billion drawn at the end of the year.

The Group pension scheme IAS 19 accounting surplus (net of deferred tax) has improved to £743 million (2017/18: £261 million deficit) as at 9 March 2019 as a result of both experience and actuarial gains in relation to changes in mortality assumptions.

Underlying basic earnings per share increased 7.8 per cent to 22.0 pence (2017/18: 20.4 pence). Basic earnings per share decreased 31.6 per cent to 9.1 pence (2017/18: 13.3 pence) due to the £396 million charge recognised outside of underlying results.

The Board has recommended a final dividend of 7.9 pence (2017/18: 7.1 pence), resulting in a full-year dividend of 11.0 pence per share (2017/18: 10.2 pence per share), an increase of 7.8 per cent.

Kevin O'Byrne
Chief Financial Officer

Summary income statement	52 weeks to 9 March 2019 £m	52 weeks to 10 March 2018 £m	Change %
Underlying Group sales (including VAT)	**32,412**	31,735	2.1
Underlying Retail sales (including VAT)	**31,871**	31,220	2.1
Underlying Group sales (excluding VAT)[1]	**29,007**	28,453	1.9
Underlying Retail sales (excluding VAT)[2]	**28,466**	27,938	1.9
Underlying operating profit			
Retail	**692**	625	10.7
Financial Services	**31**	69	(55.1)
Total underlying operating profit	**723**	694	4.2
Underlying net finance costs[3]	**(96)**	(119)	19.3
Underlying share of post-tax profit from JVs[4]	**8**	14	(42.9)
Underlying profit before tax	**635**	589	7.8
Items excluded from underlying results	**(396)**	(180)	(120.0)
Profit before tax	**239**	409	(41.6)
Income tax expense	**(20)**	(100)	80.0
Profit for the financial period	**219**	309	(29.1)
Underlying basic earnings per share	**22.0p**	20.4p	7.8
Basic earnings per share	**9.1p**	13.3p	(31.6)
Dividend per share	**11.0p**	10.2p	7.8

1 2017/18 underlying Group revenue of £28,459 million, disclosed in note 4 of the accounts, includes £6 million of revenue consolidated post the acquisition of Nectar that is excluded from the underlying Group sales
2 2017/18 underlying retail revenue of £27,944 million, disclosed in note 4 of the accounts, includes £6 million of revenue consolidated post the acquisition of Nectar that is excluded from the underlying retail sales
3 Net finance costs including perpetual securities coupons before non-underlying finance movements
4 The underlying share of post-tax profit from joint ventures and associates (JVs) is stated before investment property fair value movements, non-underlying finance movements and profit on disposal of properties.

Group sales

Underlying Group sales (including VAT, including fuel) increased by 2.1 per cent year-on-year. Underlying retail sales (including VAT, including fuel) increased by 2.1 per cent. Retail sales (including VAT, excluding fuel) increased by 0.4 per cent driven by new space. Fuel sales grew 12.3 per cent, driven by both retail price inflation and volume growth.

Total sales performance by category	52 weeks to 9 March 2019 £m	52 weeks to 10 March 2018 £m	Change %
Grocery	19,453	19,330	0.6
General Merchandise	6,561	6,561	0.0
Clothing	953	961	(0.8)
Retail (exc. fuel)	**26,967**	**26,852**	**0.4**
Fuel sales	4,904	4,368	12.3
Retail (inc. fuel)	**31,871**	**31,220**	**2.1**

Grocery and General Merchandise sales grew in the first half, benefiting from the hot summer, with a more subdued performance in the second half of the year. Grocery sales grew by 0.6 per cent year-on-year driven by retail price inflation and improved sales mix, partly offset by volume decline. General Merchandise sales were flat year-on-year in a highly competitive market. Clothing sales declined by 0.8 per cent due to reduced promotional activity whilst full price sales increased

Convenience sales growth was nearly four per cent, primarily driven by like-for-like growth, with fewer new store openings than the prior year. Groceries Online sales growth was nearly seven per cent, driven by order growth. Supermarkets (including Argos stores in Sainsbury's) sales increased by one per cent, driven by supermarket space being repurposed to Argos.

Total sales performance by channel	52 weeks to 9 March 2019 %	52 weeks to 10 March 2018 %
Supermarkets (inc. Argos stores in Sainsbury's)[1]	**1.0**	2.1
Convenience	**3.7**	7.5
Groceries Online	**6.9**	6.8

1 Supermarkets channel now includes sales from Argos stores installed in a Sainsbury's supermarket with the comparative for the 52 weeks to 10 March 2018 adjusted to be presented on a consistent basis.

Retail like-for-like sales (excluding fuel) decreased by 0.2 per cent (2017/18: 1.3 per cent increase) mainly as a result of like-for-like sales declines in General Merchandise and Clothing.

Retail like-for-like sales performance	52 weeks to 9 March 2019 %	52 weeks to 10 March 2018 %
Like-for-like sales (exc. fuel)	**(0.2)**	1.3
Like-for-like sales (inc. fuel)	**1.5**	1.4

Space

In 2018/19 Sainsbury's opened three new supermarkets and closed three (2017/18: three new supermarkets opened and none closed). Sainsbury's opened 10 new convenience stores in the year and closed five (2017/18: 24 stores opened and 15 closed).

The 191,000 sq ft reduction in Sainsbury's supermarket space is mainly driven by 164,000 sq ft repurposed to Argos stores in Sainsbury's. During the year Argos opened 90 new stores in Sainsbury's and closed 46 standalone Argos stores. The number of Argos collection points in Sainsbury's stores increased to 317, with 169 openings partially offset by 44 closures replaced by Argos stores in supermarkets. As at 9 March 2019, Argos had 883 stores and 317 collection points of which 207 are within Sainsbury's convenience stores. Habitat continues to trade 16 stores.

Store numbers and retailing space	As at 10 March 2018	New stores	Disposals/ closures	Extensions/ refurbishments/ downsizes	As at 9 March 2019
Supermarkets	608	3	(3)	–	**608**
Supermarkets area '000 sq ft	21,296	158	(53)	(191)	**21,210**
Convenience	815	10	(5)	–	**820**
Convenience area '000 sq ft	1,913	29	(9)	1	**1,934**
Sainsbury's total store numbers	1,423	13	(8)	–	**1,428**
Argos stores	639	1	(46)	-	**594**
Argos stores in Sainsbury's	191	90		–	**281**
Argos in Homebase	14	-	(6)		**8**
Argos total store numbers	844	91	(52)	–	**883**
Argos collection points	192	169	(44)		**317**
Habitat	16	2	(2)	–	**16**

In 2019/20, Sainsbury's expects to open two new supermarkets and around 10 new convenience stores.

In 2019/20, Sainsbury's expects to open around 10 Argos stores in supermarkets (of which three are relocations) resulting in around 290 Argos stores in supermarkets.

Retail underlying operating profit

Retail underlying operating profit increased by 10.7 per cent to £692 million (2017/18: £625 million).

Retail underlying operating margin improved by 19 basis points year-on-year to 2.43 per cent (2017/18: 2.24 per cent), equivalent to a 21 basis point increase at constant fuel prices.

Retail underlying operating profit	**52 weeks to 9 March 2019**	52 weeks to 10 March 2018	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**692**	625	10.7%	
Retail underlying operating margin (%)[2]	**2.43**	2.24	19bps	21bps
Retail underlying EBITDAR (£m)[3]	**2,140**	2,078	3.0%	
Retail underlying EBITDAR margin (%)[4]	**7.52**	7.44	8bps	15bps

1 Retail underlying earnings before interest, tax and Sainsbury's underlying share of post-tax profit from joint ventures.
2 Retail underlying operating profit divided by underlying retail sales excluding VAT
3 Retail underlying operating profit before rent of £733 million (2017/18: £740 million) and underlying depreciation and amortisation of £715 million (2017/18: £713 million)
4 Retail underlying EBITDAR divided by underlying retail sales excluding VAT

In 2019/20, Sainsbury's expects cost inflation of around three per cent and will continue to deliver cost savings to offset the impact.

In 2019/20, Sainsbury's expects an underlying retail depreciation and amortisation charge of around £720 million (2018/19: £715 million).

Synergies arising from the acquisition of Argos

In 2018/19, Sainsbury's achieved the target £160 million cumulative EBITDA synergies (£150 million EBIT), of which £73 million (£68 million EBIT) were incremental to prior years. The three-year target £160 million was achieved nine months ahead of schedule.

Total exceptional costs of £276 million were incurred to deliver the synergies over the course of the integration programme, in line with guidance.

Financial Services

Financial Services results 12 months to 28 February 2019	**2019**	2018	Change
Underlying revenue (£m)	**541**	515	5%
Interest and fees payable (£m)	**(102)**	(64)	59%
Total income (£m)	**439**	451	(3)%
Underlying operating profit (£m)	**31**	69	(55)%
Cost:income ratio (%)	**71**	70	(100)bps
Active customers (m) – Bank	**2.02**	1.92	5%
Active customers (m) – AFS	**2.06**	1.95	6%
Net interest margin (%)[1]	**3.8**	4.9	(110)bps
Bad debt as a percentage of lending (%)[2]	**1.6**	1.3	(30)bps
Tier 1 capital ratio (%)[3]	**13.7**	14.1	(40)bps
Total capital ratio (%)[4]	**16.7**	17.1	(40)bps
Customer lending (£m)[5]	**6,987**	5,691	23%
Customer deposits (£m)	**(5,950)**	(4,980)	19%

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.
4 Total capital divided by risk-weighted assets.
5 Amounts due from customers at the Balance Sheet date in respect of loans, mortgages, credit cards and store cards net of provisions.

Financial Services total income decreased by three per cent, as higher interest and commission income was offset by increased interest payable. Financial Services underlying operating profit decreased by 55 per cent year-on-year to £31 million, in line with previous guidance, as a result of additional bad debt charges (largely due to IFRS 9 adoption), a more cautious approach to unsecured lending and higher costs.

Financial Services cost-income ratio has increased by 100 basis points due to an increase in administrative expenses. This was principally driven by higher operating expenses and amortisation relating to the new banking platforms brought into use as the Bank migrates away from Lloyds Banking Group. The number of active Bank customers increased by five per cent year-on-year to 2.02 million (2017/18: 1.92 million).

Net interest margin decreased by 110 basis points year-on-year to 3.8 per cent (2017/18: 4.9 per cent) driven by margin pressure and mix of business. This was largely due to the launch of mortgages and the issuance of Tier 2 loan notes in 2017/18. Bad debt levels as a percentage of lending increased to 1.6 per cent (2017/18: 1.3 per cent) primarily driven by the impact of IFRS 9 on the bad debt charge. However underlying arrears remain low relative to competitors and have remained stable year-on-year.

The CET 1 capital ratio decreased by 40 basis points year-on-year to 13.7 per cent (2017/18: 14.1 per cent), reflecting lending growth partially offset by the effect of additional funds contributed from the Parent in the prior financial year.

Customer lending increased by 23 per cent to £6,987 million, mainly due to growth in mortgages which were launched in 2017. Customer deposits increased by 19 per cent to £5,950 million

Transition costs of £70 million were £10 million lower than previous guidance of £80 million. Sainsbury's Bank transition costs in 2019/20 are expected to be around £30 million, £10 million of which is a result of the underspend in 2018/19.

Financial Services underlying operating profit is expected to be around £45 million in 2019/20, including a £10 million benefit as a result of a change in transfer pricing between Argos and Argos Financial Services.

Capital injections into the Bank are expected to be £80 million in 2019/20. This is to cover card and loan platforms, regulatory capital and growth in loan, card and mortgage balances.

Underlying net finance costs

Underlying net finance costs reduced by 19 per cent to £96 million (2017/18: £119 million), driven by the £568 million repayment in April 2018 of the securitised loan taken out in 2006.

Sainsbury's expects net finance costs in 2019/20 to be in line with 2018/19.

Joint ventures

Share of underlying profit from joint ventures was £8 million (2017/18: £14 million). The reduction is mainly driven by the previously reported Insight 2 Communication business now fully consolidated following the acquisition of Nectar, and reduced British Land profits due to property disposals during the year.

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 to the right.

Items excluded from underlying results	52 weeks to 9 March 2019 £m	52 weeks to 10 March 2018 £m
Sainsbury's Bank transition	**(70)**	(38)
Argos integration	**(40)**	(85)
Property-related	**(22)**	12
Restructuring costs	**(81)**	(85)
Asda transaction costs	**(46)**	
IAS 19 pension financing charge and scheme expenses	**(118)**	(5)
Other	**(19)**	21
Items excluded from underlying results	**(396)**	(180)

- Sainsbury's Bank transition costs of £70 million were part of the previously announced costs incurred in transitioning to a new, more flexible banking platform and will complete in the first half of 2019/20.
- Argos integration costs for the year of £40 million were part of the previously announced requirement over three years and are now complete.
- Property-related items of £22 million comprise losses on disposal of properties and investment property fair value movements.
- Retail restructuring costs in the year of £81 million relate to previously announced material changes to Sainsbury's management and store colleague structures and working practices.
- £46 million of transaction costs were incurred in relation to the proposed combination with Asda, and principally comprised deal preparation, integration preparation and financing.
- Following a High Court judgment in October 2018 relating to Lloyds Banking Group, Sainsbury's was required to recognise a guaranteed minimum pension provision of £98 million for the estimated cost of equalising historic pension benefits between men and women. The £98 million charge is non-cash and does not impact contractual pension contributions. In addition, £20 million was recognised in relation to pension scheme expenses and financing charges.
- Other includes the unwind of non-cash fair value adjustments arising on previous acquisitions of Sainsbury's Bank, Home Retail Group and Nectar acquisitions

In 2019/20 cash outflows as a result of items excluded from underlying results should not exceed £100 million.

Taxation

The tax charge was £20 million (2017/18: £100 million), with an underlying tax rate of 23.8 per cent (2017/18: 24.1 per cent) and an effective tax rate of 8.4 per cent (2017/18: 24.4 per cent).

The underlying tax rate was lower year-on-year, partly due to a reduction in the statutory tax rate.

The effective tax rate in 2018/19 decreased to 8.4 per cent, mainly due to prior year adjustments to current and deferred tax. This includes a prior year deferred tax credit of £50 million arising on the recognition of a previously unrecognised capital loss

In 2019/20, Sainsbury's expects the full-year underlying tax rate to be around 24 per cent.

Earnings per share

Underlying basic earnings per share increased to 22.0 pence (2017/18: 20.4 pence) driven by the increase in underlying earnings year-on-year. Basic earnings per share decreased to 9.1 pence (2017/18: 13.3 pence), mainly as a result of the £396 million charge for items excluded from underlying results (2017/18: £180 million charge), offset by a lower effective tax rate.

Dividends

The Board has recommended a final dividend of 7.9 pence per share (2017/18: 7.1 pence). This will be paid on 12 July 2019 to shareholders on the Register of Members at the close of business on 7 June 2019. In line with the Group's policy to keep the dividend covered two times by underlying earnings, this will result in an increased full-year dividend of 11.0 pence (2017/18: 10.2 pence).

Sainsbury's plans to maintain a full-year dividend covered two times by our full-year underlying earnings.

Net debt and retail cash flows

Group net debt includes the impact of capital injections into Sainsbury's Bank, but excludes Financial Services' own net debt balances. Financial Services balances are excluded because they are required for business as usual activities. As at 9 March 2019, net debt (including perpetual securities as debt) was £1,636 million (10 March 2018: £1,858 million), a decrease of £222 million.

Summary cash flow statement[1]	Retail 52 weeks to 9 March *2019* £m	Retail 52 weeks to 10 March *2018* £m
Adjusted retail operating cash flow before changes in working capital[2,3]	**1,264**	1,193
(Increase)/decrease in working capital	**(45)**	196
Cash generated from retail operations[4]	**1,219**	1,389
Pension cash contributions	**(63)**	(130)
Net interest paid[5]	**(89)**	(105)
Corporation tax paid	**(61)**	(72)
Net cash generated from retail operating activities	**1,006**	1,082
Cash capital expenditure before strategic capital expenditure[6]	**(512)**	(542)
Proceeds from disposal of property, plant and equipment	**64**	54
Bank capital injections	**(110)**	(190)
Dividends and distributions received from JVs net of capital injections	**13**	28
Retail free cash flow	***461***	*432*
Dividends paid on ordinary shares	**(224)**	(212)
Strategic capital expenditure Argos integration[5]	**(36)**	(80)
Acquisition of subsidiaries[5]	**–**	135
Repayment of borrowings including finance leases[5]	**(451)**	(174)
Other[5]	**(8)**	(2)
Net (decrease)/increase in cash and cash equivalents	**(258)**	99
Decrease in debt	**451**	174
Acquisition movements	**–**	(15)
Other non-cash and net interest movements[7]	**(31)**	(22)
Movement in net debt before fair value movements on derivatives	**162**	236
Fair value movements on derivatives	**60**	(123)
Movement in net debt	**222**	113
Opening net debt	**(1,364)**	(1,477)
Closing net debt	**(1,142)**	(1,364)
Closing net debt (inc. perpetual securities as debt)	**(1,636)**	(1,858)

1 See note 4 for a reconciliation between the Retail and Group cash flows
2 Excludes working capital and pension cash contributions
3 2017/18 adjustment of £21 million relating to non-cash pension scheme expenses previously included in retirement benefit obligations. No impact to net cash generated from retail operating activities
4 Excludes pension cash contributions
5 Refer to the Alternative Performance Measures on page 185 for reconciliation
6 Excludes Argos integration capital expenditure
7 Net interest excluding dividends paid on perpetual securities

Adjusted retail operating cash flow before changes in working capital increased by £71 million year-on-year to £1,264 million (2017/18: £1,193 million) due to higher retail underlying operating profit partially offset by retail one-off items. Working capital increased by £45 million (2017/18: £196 million decrease). Capital expenditure before strategic capital expenditure was £512 million (2017/18: £542 million) driven by a reduction in Sainsbury's core retail capital expenditure. Bank capital injections of £110 million were made in the year (2017/18: £190 million)

Retail free cash flow increased by £29 million year-on-year to £461 million (2017/18: £432 million). Free cash flow was used to fund dividends and repay debt. Dividends of £224 million were paid in the year, which are covered 2.1 times by free cash flow (2017/18: 2.0 times). Strategic capital expenditure, relating to Argos integration capital expenditure was £36 million, £44 million lower year-on-year (2017/18: £80 million) driven by the completion of the Argos integration programme.

Net debt before fair value movements on derivatives reduced by £162 million in the year (2017/18: £236 million reduction). Fair value movements on derivatives of £60 million were primarily driven by an increase in the value of US dollar foreign exchange derivatives held to mitigate the Group's exposure to fluctuations in US dollar denominated purchases. The weighted average hedge rate (WAHR) at 9 March 2019 was above the spot rate, generating an unrealised fair value gain (2017/18: unrealised loss as the WAHR at 10 March 2018 was below the spot rate).

As at 9 March 2019, Sainsbury's had drawn debt facilities of £2.1 billion including the perpetual securities (2017/18: £2.5 billion) and additional undrawn committed credit facilities of £1.4 billion. The Group also held £85 million of uncommitted facilities, which were undrawn as at 9 March 2019. In April 2018, Sainsbury's repaid debt of £568 million in relation to Commercial Mortgage Backed Securities.

Sainsbury's expects 2019/20 year-end net debt before fair value movements on derivatives to reduce by at least £200 million. Sainsbury's is targeting to reduce net debt by at least £600 million over the next three years.[1]

Sainsbury's is targeting adjusted net debt to EBITDAR (treating the perpetual securities as debt) to reduce to below three times in the medium term.[1]

Sainsbury's is targeting fixed charge cover of more than three times in the medium term.[1]

1 Stated before the impact of IFRS 16

Capital expenditure

Retail capital expenditure (including Argos integration capital expenditure) was £554 million (2017/18: £629 million), the decrease driven by the completion of the Argos integration programme and reduced new store development. Retail capital expenditure (excluding Argos integration) was £518 million (2017/18: £549 million). Retail capital expenditure net of proceeds was £490 million (2017/18: £575 million).

In 2019/20, Sainsbury's expects gross retail capital expenditure to be around £550 million. Proceeds from the disposal of property, plant and equipment are expected to be in line with 2018/19.

Gross retail capital expenditure is expected to be around £550 million per annum over the medium term.

Retail capital expenditure	52 weeks to 9 March 2019 £m	52 weeks to 10 March 2018 £m
Core capital expenditure	**(518)**	(549)
Strategic capital expenditure Argos integration	**(36)**	(80)
Gross capital expenditure	**(554)**	(629)
Proceeds from the disposal of property, plant and equipment	**64**	54
Net capital expenditure	**(490)**	(575)

Financial ratios

Key financial ratios[1]	As at 9 March 2019	As at 10 March 2018
Return on capital employed (%)[2]	**8.5**	8.4
Return on capital employed (exc. pension surplus) (%)[2]	**8.5**	7.7
Adjusted net debt to EBITDAR[3,4,5]	**3.2 times**	3.3 times
Interest cover[5]	**7.6 times**	5.9 times
Fixed charge cover[6]	**2.7 times**	2.5 times
Gearing[7]	**13.5%**	18.4%
Gearing (exc. pension surplus)[8]	**14.8%**	17.8%

Key financial ratios (with perpetual securities treated as debt)[9]		
Adjusted net debt to EBITDAR	**3.5 times**	3.6 times
Gearing	**20.5%**	26.9%
Gearing (exc. pension surplus)	**22.7%**	25.9%

Key financial ratios (with perpetual securities coupons excluded from net underlying finance costs)		
Interest cover[10]	**10.1 times**	7.4 times
Fixed charge cover[11]	**2.7 times**	2.6 times

1 These metrics have been prepared on a pre-IFRS 16 basis. IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. For Sainsbury's the first reported accounting period under IFRS 16 will be the 2019/20 financial year.
2 The 14 point period includes the opening capital employed as at 10 March 2018 and the closing capital employed for each of the 13 individual four-week periods to 9 March 2019.
3 Net debt of £1,142 million (2017/18: £1,364 million) plus capitalised lease obligations of £6,009 million (2017/18: £5,931 million), divided by Group underlying EBITDAR of £2,202 million (2017/18: £2,181 million), calculated for a 52-week period to 9 March 2019. Perpetual securities treated as equity.
4 2017/18 capitalised lease obligations of £5,931 million have been updated following a review of the lease cost profile. This does not impact total lease obligations of £10 billion.
5 Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
6 Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
7 Net debt divided by net assets. Perpetual securities treated as equity.
8 Net debt divided by net assets, excluding pension surplus/deficit. Perpetual securities treated as equity.
9 On a statutory basis, the perpetual securities are accounted for as equity on the Balance Sheet. Treating the perpetual securities, net of transaction fees, as debt increases net debt to £1,636 million (2017/18: £1,858 million), and reduces net assets to £7,962 million (2017/18: £6,917 million).
10 Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.
11 Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.

Property value

As at 9 March 2019, Sainsbury's estimated market value of properties, including its 50 per cent share of properties held within property joint ventures, was £10.4 billion (10 March 2018: £10.5 billion), the reduction due to a shift in the yield.

Since the year-end, Sainsbury's has agreed the sale of 12 supermarkets from the joint venture with British Land to Realty Income Corporation. This will reduce the value of the property portfolio by £0.2 billion.

Defined benefit pensions

At 9 March 2019, the net defined benefit surplus for the Group was £743 million (including the unfunded obligation and adjusting for associated deferred tax). The £1,004 million movement from deficit to surplus from 10 March 2018 was primarily driven by experience gains of £644 million and actuarial gains of £547 million in relation to changes in demographic assumptions, partially offset by a deferred income tax liability of £216 million. Both gains have been recognised within other comprehensive income.

The experience gains are as a result of updating the underlying membership data behind the actuarial calculations to that used for the September 2018 triennial valuation. The gain due to demographic assumptions reflects updating the mortality assumptions to the most recent available data as at the balance sheet date.

Under the Recovery Plans agreed as part of the 2015 triennial valuation process Sainsbury's is contracted to make contributions totalling £124 million in 2019/20 which includes the £19 million coupon from Sainsbury's Property Scottish Partnership. The 2018 triennial valuation is currently being agreed with the Trustee.

Retirement benefit obligations	Sainsbury's as at 9 March 2019 £m	Argos as at 9 March 2019 £m	Group as at 9 March 2019 £m	Group as at 10 March 2018 £m
Present value of funded obligations	**(7,654)**	**(1,202)**	**(8,856)**	(10,028)
Fair value of plan assets	**8,759**	**1,224**	**9,983**	9,884
Additional liability due to IFRIC 14	**–**	**(134)**	**(134)**	(78)
Pension surplus/(deficit)	**1,105**	**(112)**	**993**	(222)
Present value of unfunded obligations	**(20)**	**(14)**	**(34)**	(35)
Retirement benefit obligations	**1,085**	**(126)**	**959**	(257)
Deferred income tax (liability)/asset	**(241)**	**25**	**(216)**	(4)
Net retirement benefit obligations	**844**	**(101)**	**743**	(261)

IFRS 16 leases

The new IFRS 16 lease standard applies to the Group for the first time in 2019/20. The Group has chosen to adopt IFRS 16 on a fully retrospective basis and the first reporting under IFRS 16 (with restated comparatives) will be the Group's interim results as at 21 September 2019.

The new standard represents a significant change in the accounting and reporting for leases, impacting the income statement and balance sheet as well as statutory and other performance metrics used by the Group. The work is nearing completion and the Group estimates that adopting IFRS 16 will have the following impact on the consolidated balance sheet at 10 March 2018.

- Recognition of a right of use asset in the region of £5.1 billion.
- Recognition of a lease liability in the region of £5.9 billion.
- Other balance sheet adjustments of around £0.1 billion and an adjustment to opening reserves in the region of £0.9 billion (pre-tax)

These adjustments have no impact on cash and are not expected to have any impact on the Group's ability to continue to pay dividends to shareholders

The lease liability adjustment to the balance sheet is broadly consistent with the adjustment made in the Group's adjusted net debt to EBITDAR metrics. Following the adoption of IFRS 16, these metrics are therefore expected to remain unchanged[1].

Subject to the completion of our work, we expect restated 2018/19 underlying profit before tax to be in the region of £30 million lower than under the current accounting standards.

We will provide a full update on the IFRS 16 restatement impacts ahead of the 2019/20 interim results.

Further details of the impacts of IFRS 16 are included in Note 1 on page 101.

Kevin O'Byrne
Chief Financial Officer

1 Unless otherwise stated, all other forward guidance throughout this document is stated before the impact of IFRS 16

J Sainsbury plc Board of Directors

Martin Scicluna ✱
Chairman

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

Committee membership: Chair of the Nomination Committee.

Skills and experience: *Martin brings a breadth* of experience and leadership in both executive and non-executive roles. His previous roles include positions as the 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's.

Other current roles: Chairman of RSA Insurance Group plc.

Mike Coupe ♥
Group Chief Executive Officer

Date of appointment: 1 August 2007.
Mike has served as an Executive Director since 1 August 2007 and as Group Chief Executive Officer since 9 July 2014.

Committee membership: Corporate Responsibility and Sustainability Committee.

Skills and experience: Appointed Group Chief *Executive Officer on 9 July 2014, Mike has been* a member of the Operating Board since October 2004. Mike has vast retail industry experience in trading, strategy, marketing, digital and online as well as multi-site store experience. He joined Sainsbury's from Big Food Group where he was a board director of Big Food Group PLC and Managing Director of Iceland Food Stores. He previously worked for both Asda and Tesco PLC, where he served in a variety of senior management roles.

Other current roles: Non-Executive Director of Greene King plc.

Kevin O'Byrne
Chief Financial Officer

Date of appointment: 9 January 2017.

Skills and experience: Kevin brings to the Board a wealth of retail and finance experience. Kevin was previously Chief Executive Officer of Poundland Group Limited 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. He was previously 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.

Other current roles: Non-Executive Director and Chairman of the Audit Committee of Centrica plc from 13 May 2019.

John Rogers
Chief Executive Officer of Sainsbury's Argos

Date of appointment: 19 July 2010.
John served as Chief Financial Officer of J Sainsbury plc from 19 July 2010 until 5 September 2016 when he was appointed as Chief Executive Officer of Sainsbury's Argos.

Skills and experience: John has extensive experience in finance, strategy, digital, online, property and financial services. As Chief Financial Officer of J Sainsbury plc for six years, John had responsibility for finance, Group strategy, Sainsbury's online, business development, property, procurement and operational efficiency. He also held various senior management roles in the Company between 2005 and 2010. John is a member of the Sainsbury's Bank plc Board. Prior to Sainsbury's, John was Group Finance Director for Hanover Acceptances, a diversified corporation with wholly owned subsidiaries in the food manufacturing, real estate and agri-business sectors.

Other current roles: Non-Executive Director of Travis Perkins plc and Member of the Retail Sector Council.

Key to Committee members

- ● Audit Committee
- ♥ Corporate Responsibility and Sustainability Committee
- ✱ Nomination Committee
- ◆ Remuneration Committee
- ●♥✱◆ Denotes Chair of Committee

Retirement in 2018/19
David Tyler retired from the Board on 9 March 2019

Life President
Lord Sainsbury of Preston Candover KG

Matt Brittin ∗◆

Non-Executive Director

Date of appointment: 27 January 2011.

Committee membership: Nomination Committee and Remuneration Committee

Skills and experience: Matt has extensive experience of running a high profile, fast moving, innovative, digital business. Since 2015, he has been responsible for Google's business and operations in Europe, the Middle East and Africa and he's been in leadership roles at Google since 2007. Prior to that, Matt spent much of his career in media and marketing, with particular interests in strategy, commercial development and sales performance. This included commercial and digital leadership roles in UK media.

Other current roles: Google's President – Europe, Middle East and Africa; and Director of The Media Trust.

Brian Cassin ●∗

Non-Executive Director

Date of appointment: 1 April 2016.

Committee membership: Audit Committee and Nomination Committee

Skills and experience: Brian brings present day experience of running a FTSE 40 group and of big data and analytics – topics of key importance to Sainsbury's. 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.

Other current roles: Chief Executive Officer of Experian plc

Jo Harlow ♥∗◆

Non-Executive Director

Date of appointment: 11 September 2017.

Committee membership: Chair of the Corporate Responsibility and Sustainability Committee and member of the Nomination Committee and Remuneration Committee.

Skills and experience: Jo brings a wealth of experience in consumer-facing businesses and in the telecoms and technology industry, both in the UK and internationally. Jo spent 12 years in a variety of senior management roles with Nokia and Microsoft. Prior to this, she spent eight years at P&G and 11 years at Reebok in senior sales and marketing positions in both Europe and the US

Other current roles: Non-Executive Director of InterContinental Hotels plc; Non-Executive Director of Halma plc; and Member of the Supervisory Board of Ceconomy AG

David Keens ●∗

Non-Executive Director

Date of appointment: 29 April 2015.

Committee membership: Chair of the Audit Committee and a member of the Nomination Committee.

Skills and experience: David has extensive retail experience and knowledge of consumer facing businesses, together with his core skills in finance. David was formerly Group Finance Director of next plc from 1991 to 2015 and their Group Treasurer from 1986 to 1991. Previous management experience includes nine years in the UK and overseas operations of multinational food manufacturer Nabisco and, prior to that, seven years in the accountancy profession.

Other current roles: Non-Executive Director, Senior Independent Director and Chair of the Audit Committee of Auto Trader Group plc.

Dame Susan Rice ∗◆

Senior Independent Director

Date of appointment: 1 June 2013.

Committee membership: Chair of the Remuneration Committee and a member of the Nomination Committee.

Skills and experience: Susan has extensive experience as a Non-Executive Director, as well as in retail banking, financial services, leadership and sustainability. Her career in retail banking is particularly relevant to our ownership of Sainsbury's Bank. Previously, Susan was a member of the First Minister's Council of Economic Advisors, Managing Director of Lloyds Banking Group Scotland and was previously Chief Executive and then Chairman of Lloyds TSB Scotland plc. She has also held a range of other non-executive directorships including at the Bank of England and SSE plc.

Other current roles: Chair of Scottish Water and Business Stream; Chair of the Scottish Fiscal Commission; Non-Executive Director of the North American Income Trust, C. Hoare and Co.; and Senior Independent Director of the North American Income Trust.

Jean Tomlin ●♥∗

Non-Executive Director

Date of appointment: 1 January 2013.

Committee Membership: Audit Committee, Corporate Responsibility and Sustainability Committee and Nomination Committee

Skills and experience: Jean has extensive experience and breadth of skills in human resources and corporate responsibility. Jean was formerly Director of HR, Workforce and Accreditation for The London Organising Committee of the Olympic and Paralympic Games, where she set the strategic direction to ensure the mobilisation of the combined 200,000-strong workforce including paid staff, volunteers and contractors, which represented the recruitment and mobilisation of the largest peacetime workforce and set the industry standard for volunteering with the highly acclaimed Games. She was previously Group HR Director at Marks and Spencer Group Plc, HR Director and founder member of Egg plc and Sales & Operations Director of Prudential Direct.

Other current roles: Independent Board member of Capri Holdings Limited, Non-Executive Director of Hakluyt and Chief Executive Officer of Chanzo Limited.

J Sainsbury plc Operating Board

Mike Coupe ♥
Group Chief Executive Officer
See page 44.

Kevin O'Byrne
Chief Financial Officer
See page 44.

John Rogers
Chief Executive Officer of Sainsbury's Argos
See page 44.

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

Peter Griffiths, OBE
CEO of Sainsbury's Bank
Date of appointment: May 2014.
Skills and experience: Peter was appointed CEO of Sainsbury's Bank in November 2012 and joined the Operating Board in May 2014. Prior to joining Sainsbury's he was Group Chief Executive of Principality, the largest building society in Wales, growing it from the 13th largest building society in the UK to the 7th during his decade in charge. He previously worked for NatWest, and was Chief Operating Officer at Morgan Chambers Plc. He is former Chairman of the CBI Wales and the Building Societies Association, and is a Fellow of UWIC and The Chartered Institute of Management. Peter was awarded an OBE in the Queen's Birthday Honours 2010, in recognition of his support for the Financial Services Industry. Peter will be stepping down from the Operating Board and leaving the business in 2020.

Phil Jordan
Group 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 Advisor on Technology in the Investment & Retail Banking sector and is currently a Non-Executive Director of TalkTalk Telecom Group PLC and chairs its Cyber-Security Committee.

Paul Mills-Hicks
Food Commercial Director

Date of appointment: May 2014.

Skills and experience: Paul joined the Operating Board in May 2014 as Food Commercial Director having spent over ten years at Sainsbury's. He was closely involved in the formation and execution of the 'Making Sainsbury's Great Again' strategy. Following this he held a variety of roles in commercial, strategy and finance, most recently as Business Unit Director for Grocery. Prior to Sainsbury's, Paul was European Controller at Marks and Spencer Group Plc and a Director at UBS Warburg.

Clodagh Moriarty
Group Chief Digital Officer

Date of appointment: June 2018.

Skills and experience: Clodagh was appointed Group Chief Digital Officer in June 2018. Clodagh leads the delivery of a consistent and first-rate digital experience for customers across Sainsbury's, Argos and Sainsbury's Bank. Clodagh joined Sainsbury's in 2010 from Bain & Co management consultants, where she had gained experience working on a broad range of projects across multiple sectors and countries. Following two years as Head of Strategy at Sainsbury's, she moved into Food Commercial as Category Manager for Meal Solutions and then became Head of Online Trading, spanning Food, General Merchandise and Clothing, before being promoted to Director of Online in 2016. In this role Clodagh was instrumental in driving innovation within Groceries Online and launching new initiatives including SmartShop and Chop Chop.

Angie Risley
Group HR Director

Date of appointment: January 2013

Skills and experience: Angie was appointed Group HR Director and a member of the Operating Board in January 2013 with responsibility for human resources. Angie is also a Director of Sainsbury's Bank plc. Angie was most recently Non-Executive Director and Chairman of the Remuneration Committee of Serco plc, and prior to this was Group HR Director of Lloyds Banking Group and an Executive Director of Whitbread PLC with responsibility for HR and Corporate Social Responsibility. Angie is currently Non-Executive Director and Chair of the Remuneration Committee at Smith & Nephew plc.

Simon Roberts
Retail & Operations Director

Date of appointment: July 2017.

Skills and experience: Simon joined Sainsbury's and the Operating Board in July 2017 as Central Retail & Operations Director responsible for Stores, Central operation and Logistics. In his previous role he was Executive Vice President of Walgreens Boots Alliance, and President of Boots with responsibility for commercial and retail operations across the UK and Ireland. Prior to Boots, Simon was at Marks and Spencer Group Plc, where he held operational and customer leadership roles across stores, divisions and central operations. Simon is also the Non-Executive Chairman at the Institute of Customer Service.

Corporate Governance

Dear Shareholder

As I have said in my Chairman's letter at the start of this report, I am delighted to have joined Sainsbury's as your new Chairman. It is a great business with fantastic brands and a long and distinguished heritage, with a focus on customer service and very strong values.

I joined the Board as Chairman Designate on 1 November 2018 and would like to thank David Tyler not only for his effective leadership of the Board and his overall contribution to the business during his chairmanship, but also for ensuring a smooth transition until he stepped down at the end of the financial year. I'm pleased to have joined a strong and diverse Board with a mix of men, women and ethnic backgrounds, that takes governance very seriously. The Board has an open and honest culture, a strong relationship with our experienced management team, and good engagement with colleagues and other stakeholders.

Since I joined the Board I have had an extensive induction programme and this will continue in the year ahead. I have visited Sainsbury's and Argos stores and distribution centres, meeting colleagues at all levels of the business, and have been struck by their passion, engagement and focus on customer service. This will stand us in good stead at a time of significant change in the retail sector. Details of my induction, to date, are set out on page 53.

I have spoken in my Chairman's letter of the Board's disappointment in not being able to take the proposed merger with Asda Group Limited to a successful conclusion. The Board had been considering the benefits of combining the two businesses over an extended period and had taken decisive action to agree a merger that would have been in the interests of all our stakeholders.

The Board remains confident that we have the right strategy in place. Sainsbury's is a dynamic, multi-channel multi-product retailer with great assets, and a strong digital offer, complemented by Sainsbury's Bank, Argos and Argos Financial Services. With 178,000 engaged colleagues ensuring that we provide the very best service to our customers, we believe that we are well placed to address the challenges of a dynamic retail sector.

My priorities as Chairman will be to ensure that, with Mike Coupe and the experienced management team, we deliver our strategy and provide strong shareholder returns, a strengthened balance sheet and improved free cash flow. We will also continue engagement with our different stakeholders and our focus on increasing our diversity and inclusion at all levels of the business. More details on these important aspects of the Board's oversight are set out in this report.

Martin Scicluna
Chairman

Statement of Compliance

The Board considers that the Company has complied in full with the provisions of the UK Corporate Governance Code 2016 (2016 Code) for the financial year ended 9 March 2019. The 2016 Code can be found at **www.frc.org.uk**. The way the Company has applied the principles of the 2016 Code is set out in the following Governance Report.

With the publication in July 2018 of the new UK Corporate Governance Code 2018 (2018 Code), the Board has reviewed its governance initiatives and programmes. The 2018 Code applies to accounting periods beginning on or after 1 January 2019, and is applicable to the Company from the 2019/20 financial year. Whilst reporting on the Company's compliance with the 2016 Code, the Company has also reported where possible in the spirit of the 2018 Code particularly on stakeholder engagement and remuneration, and is well placed to report fully against the requirements of the 2018 Code in our next Annual Report.

Leadership and effectiveness

How we are governed

The Board is the principal decision-making body in the Company. To assist with carrying out its responsibilities, the Board has formally delegated certain governance responsibilities to Board Committees.

Role of the Board

The Board is collectively responsible for the long-term success of the Group and we achieve this through the creation and delivery of sustainable shareholder value. In addition to setting the Group's strategy and overseeing its implementation by management, we provide leadership to the business including on culture, values and ethics, monitoring the Group's overall financial performance, and ensuring effective corporate governance and succession planning. The Board is also responsible for ensuring that effective internal control and risk management systems are in place.

The Matters Reserved for the Board can be found on our website at **www.about.sainsburys.co.uk**.

Operating Board

Matters not specifically reserved for the Board have been delegated to the Operating Board which is chaired by Mike Coupe. The Operating Board concentrates on the day-to-day management of the Group and the execution of the strategy set out by the Board. Each Operating Board member has a range of responsibilities which are detailed in their biographies on pages 46 and 47. To support its work, the Operating Board has delegated certain powers to the Operating Board Committees, each of which has approved Terms of Reference setting out its areas of responsibility.

Sainsbury's Bank Executive Committee

The Sainsbury's Bank Executive Committee is governed by the Sainsbury's Bank plc Board, membership of which includes an independent Chairman and Non-Executive Directors. The Sainsbury's Bank Executive Committee is responsible for the day-to-day management of Sainsbury's Bank and executing the strategy set out by Sainsbury's Bank plc. Peter Griffiths, the Bank's Chief Executive Officer, is a member of the Operating Board and brings the Bank's priorities and perspective into the Group's overview.

Committees

Audit Committee

The Audit Committee reviews the integrity of financial information prior to publication, oversees the systems of internal control and risk management and approves the internal and external audit process. It carries out in-depth reviews of specific risks, particularly information security and data governance.

ⓘ More details on page 60.

Remuneration Committee

The Remuneration Committee recommends and reviews the Remuneration Policy, ensuring it is aligned to the long-term success of the Group. It also approves the remuneration and benefits of Executive Directors and the Operating Board, and broader remuneration principles throughout the business.

ⓘ More details on page 70.

Nomination Committee

The Nomination Committee reviews the balance of skills, knowledge, experience, independence and diversity of the Board, and succession plans at Board and senior management levels.

ⓘ More details on page 58.

Corporate Responsibility and Sustainability (CR&S) Committee

The CR&S Committee reviews the sustainability strategy and the Company's progress on the key corporate responsibility initiatives including our values, and colleague and customer engagement.

ⓘ More details on page 68.

Operating Board Committees

Food Management Board

The Food Management Board is responsible for managing the business of Sainsbury's Food and Grocery business, and developing and delivering its strategy.

Sainsbury's Argos Management Board

The Sainsbury's Argos Management Board has primary responsibility for Sainsbury's general merchandise and clothing businesses and the day-to-day management of the Argos and Habitat operations including the development and implementation of strategy.

Investment Board

The Investment Board has delegated authority to approve Group capital investment within agreed financial limits. This includes, but is not limited to, store, supply chain, property, new business activity, and digital and technology investments.

Group Data Governance Committee

The Group Data Governance Committee has oversight of the programmes that deliver compliance with Data Protection, Data Security and Payment Card Industry data security standards across the Group. The Committee monitors and aligns the work across the programmes to ensure consistency of approach and understanding of risk. It oversees effective information security throughout the Group.

Group Safety Committee

The Group Safety Committee is responsible for implementing food safety, health & safety and fire safety management systems and oversees Group standards for the management and monitoring of colleague and customer safety.

Group Diversity and Inclusion Steering Group

The Group Diversity and Inclusion Steering Group is made up of four Operating Board sponsors, each of whom champions a strand of diversity, and is chaired by our Group HR Director, Angie Risley. The Group met six times in the year to govern progress and drive our inclusion strategy.

Group Operational Resilience Committee

The Group Operational Resilience Committee has been established this year to set the operational resilience strategy, including business continuity and disaster recovery arrangements, for the Group and monitors implementation.

Division of responsibilities

Our Board comprises the Chairman, three Executive Directors and six independent Non-Executive Directors. Martin Scicluna joined the Board as a Non-Executive Director and Chairman Designate on 1 November 2018 and was appointed as Chairman on 10 March 2019, when David Tyler stood down from the role after nine years as Chairman. Each of their responsibilities are listed below.

Division of responsibilities

Chairman Martin Scicluna	Responsible for the leadership and effectiveness of the Board and for setting the Board agenda. Ensures effective communication so that the Board is aware of the views of shareholders and other stakeholders. Promotes a culture of openness and debate in the boardroom and constructive relations between Executive and Non-Executive Directors.
Group Chief Executive Officer Mike Coupe	Responsible for the day-to-day management of the Group and for executing the strategy agreed by the Board. Creates a framework of strategy, values, culture and objectives to ensure the successful delivery of results for the Group and allocates management responsibilities accordingly. Responsible for managing risk within the framework set by the Board and creating a framework of internal controls.
Executive Directors Kevin O'Byrne and John Rogers	Support the Group Chief Executive in implementing the Group's strategy and in the operational performance of the business. Their executive responsibilities are described on page 44.
Senior Independent Director Dame Susan Rice	Acts as a sounding board for the Chairman and a trusted intermediary for other Directors. Led the search for the Chairman as described on pages 58 and 59. Available to discuss with shareholders any concerns that cannot be resolved through the normal channels of communication with the Chairman or the Executive Directors. Leads the other Directors in the performance evaluation of the Chairman.
Independent Non-Executive Directors Matt Brittin Brian Cassin Jo Harlow David Keens Jean Tomlin	Responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision-making. Support and constructively challenge the Executive Directors using their wide and varied experience. Monitor delivery of the agreed strategy within the risk management framework set by the Board. Independent of management and are free from any business or other relationships that could compromise their independence.
Company Secretary and Corporate Services Director Tim Fallowfield	Advises and assists the Board and the Chairman, particularly in relation to governance, Board evaluations, induction, training and formulating the agenda for Board meetings. Ensures that Board procedures are effective and there is good information flow to the Board and its Committees.

How the Board operates

The Board and its Committees have a scheduled 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 us to focus on key matters relating to the business at the right time.

In addition to eight scheduled meetings in 2018/19, there were a number of informal meetings, often at short notice and very well attended by all Board members, including updates on the proposed merger with Asda. The Chairman and Non-Executive Directors also met without the Executive Directors being present; and the Non-Executive Directors, led by the Senior Independent Director, met without the Executive Directors or the Chairman being present.

Directors were made aware 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.

On the rare occasions that a Director is unavoidably unable to attend a meeting, they receive a briefing from the Chairman before the meeting so that their comments and input can be taken into account at the meeting and the Chairman provides an update to them after the meeting.

The following table shows the attendance of Directors at scheduled Board meetings:

Matt Brittin[1]	7(8)	Susan Rice	8(8)
Mike Coupe	8(8)	John Rogers	8(8)
Brian Cassin	8(8)	Martin Scicluna[2]	3(3)
Jo Harlow	8(8)	Jean Tomlin	8(8)
David Keens	8(8)	David Tyler[3]	8(8)
Kevin O'Byrne	8(8)		

Notes: The maximum number of meetings held during the year that each Director could attend is shown in brackets.
1 Matt Brittin was unable to attend a Board meeting due to a prior engagement.
2 Martin Scicluna joined the Board on 1 November 2018.
3 David Tyler stepped down from the Board on 9 March 2019.

Key areas of focus for the Board

The following pages summarise the Board's principal activities over the course of the year.

Strategy

- Agreed the strategic plan and reviewed implementation, focusing on the core supermarket strategy and the continued integration of Argos, Nectar and Sainsbury's Bank
- Considered potential strategic initiatives especially the proposed merger with Asda Group Limited
- Considered the Group's strategy and action plan in relation to Brexit
- Reviewed and approved the corporate plan and budget for the 2019/20 financial year
- Reviewed the material developments in the customer offer as well as the strategy for our digital business and data analytics
- Reviewed the implementation of change initiatives in Sainsbury's stores including a single, fair and consistent colleague contract and the creation of an efficient and effective management structure

Financial and operational performance

- Reviewed and discussed the business progress through the Group Chief Executive Officer's reports including market and trading updates
- Reviewed the performance of Sainsbury's, Argos and Sainsbury's Bank against key targets
- Reviewed reports on customer insights and on service standards
- Reviewed and implemented updated KPIs

  Reviewed and approved:
  - the annual budget and five-year corporate plan
  - the financing strategy
  - the Company's Preliminary and Interim results, trading statements and the Annual Report
  - the Group's Dividend, Treasury and Tax policies
- Received an update on the Group's defined benefit pension schemes and related governance

Governance and risk

- Reviewed the Group's risk framework and internal controls, and approved the Group's Principal risks and uncertainties

  Implemented actions agreed from the 2017/18 Board effectiveness review. A further Board effectiveness review was undertaken for the 2018/19 financial year, set out on pages 54 and 55
- Received regular updates on corporate governance developments and current litigation matters

  Reviewed and considered quarterly reports on safety (Health & Safety and Food)
- Reviewed and discussed reports from the main Board Committees – Audit, Nomination, Remuneration, and Corporate Responsibility and Sustainability
- Considered whistleblowing processes throughout the Group

Colleagues, values and culture

- Discussed the Board's oversight of the Group's culture
- Considered the Group's values and received updates on various initiatives
- Reviewed feedback from colleagues, particularly relating to the progress of change initiatives in Sainsbury's stores
- Reviewed feedback from customers, including on service standards and the overall customer offer

Cyber security and data governance

- Discussed the Group's approach to information security and data governance

  Reviewed systems, plans and processes to protect the Group's key information assets

Investor relations and other key stakeholder engagement

Received reports and updates at each meeting, on investor relations activities including on analyst consensus, and feedback from major shareholders and investor roadshows

The Board's programme of meetings allows a regular review of these activities. The following paragraphs add detail on some of the specific priorities and meetings.

Strategy conference
In October, a two-day conference for the Board and Operating Board was held, providing a key opportunity for an in-depth review of our strategy. The focus of the conference was on the retail landscape, consumers' changing shopping habits, our competitors, the proposed merger with Asda, the Group's digital vision and the five-year corporate plan. The conference was carefully structured to give the Board time to debate and challenge and to discuss the views of external analysts and investors. External advisers attended for part of the conference.

In-depth reviews and meeting the wider management team
The Board strongly believes that it is important to focus on key areas of the Group's strategy and to get to know the wider senior management team. During the year there were a number of opportunities for these key activities.

The Board looked closely at the impact on Sainsbury's store colleagues when agreeing the introduction of a single, fair and consistent colleague contract. In June the Board members discussed the colleague consultation process and reviewed the latest 'We're Listening' survey results, which reflect the feedback of every colleague on key engagement metrics. They have also been updated regularly on customer insights and certain aspects of supplier relationships.

Technology plays an increasingly important role in our customers' lives and the Board regularly monitors our progress in developing our digital offer across the business During the year they undertook an in-depth review of our current strategy and explored how the digital ecosystem could be developed in each part of the business.

The Board regularly holds meetings in different business locations in order to meet management teams and colleagues, review performance, discuss progress and agree key priorities for the short and medium term.

Sainsbury's Redhill Store, June 2018
This gave the Board members the opportunity to discuss strategy with the Food Management Board. They toured the store, which reopened earlier in the year following a major redevelopment, and covered areas such as new business relationships, concessions, the opening of Argos stores in Sainsbury's supermarkets and the digital offer for customers and future priorities. The Board was updated on the introduction of a single, fair and consistent contract for all Sainsbury's store colleagues and the creation of an efficient and effective management structure.

Sainsbury's Bank Head Office, Edinburgh, September 2018
The Board met the Bank's wider management team and discussed strategy in depth. There were presentations on a range of subjects including digital, marketing, colleague engagement and Group interaction.

Argos Regional Fulfilment Centre, Croydon, January 2019
Sainsbury's Argos Management Board updated the Board on the Argos business including an overview of the Argos distribution model and its plans for 2019/20. This was followed by a tour of the newly opened Fulfilment Centre in Croydon.

Building up knowledge of the Group is an ongoing process for the Board and will continue in 2019/20. A tour of Sainsbury's new store at Selly Oak is planned for June and the Board will visit Sainsbury's Bank Head Office again in September.

Director development

Induction

We have a comprehensive and tailored induction programme in place for Directors when they join the Board to enable them to gain an understanding of all aspects of the Group, including our strategy, culture, vision, values, sustainability, governance and the opportunities and challenges facing the business. Where a Director joins a Committee, the programme includes an induction to that Committee.

On joining the Board, Martin Scicluna met individually with each Board and Operating Board member, and also with senior management from key areas of the business, to give him insight into their specific areas of responsibility. The Company Secretary and Corporate Services Director briefed him on Group policies, Board and Committee procedures, and core governance practice. Martin visited our major business locations at Sainsbury's Argos in Milton Keynes, Sainsbury's Food Online Fulfilment Centre in Bromley-by-Bow as well as stores, distribution centres and Sainsbury's Archive. He attended the Group Strategy Conference, and the Audit and Remuneration Committee meetings as an observer. He also met with principal shareholders and key advisers. To support his induction, Martin received induction materials including recent Board and Committee papers and minutes, strategy papers, investor presentations, Matters Reserved for the Board, the Board Committees Terms of Reference, and Group policies.

Framework of Chairman's induction process

Understanding the business

- Business strategy and vision
- Overview of each business area and its opportunities
- Operating plans, current KPIs and targets
- Group structure
- Key business relationships and contracts
- Key people and succession plans
- Board and governance procedures
- Board effectiveness reviews and actions
- Main Board committees
- Finance, treasury and tax overviews
- Internal audit, risk and internal controls
- Group risk profile and approach
- Remuneration, reward and pensions

Understanding the sector and environment

- Customer trends
- Consumer and regulatory environment, including relevant consumer and industry bodies
- Brand perception and reputation
- Analyst and investor perspectives
- Key stakeholders

Meet the Sainsbury's internal team and advisers

- Directors
- Committee Chairs
- Company Secretary and Corporate Services Director
- Members of the Operating Board
- Senior management across the Group and in each business unit
- Members of the external audit team
- Remuneration consultants
- Joint brokers
- Legal and other advisers

Visit Group operations

- Store visits
- Sainsbury's Argos in Milton Keynes
- Online Fulfilment Centre in Bromley-by-Bow
- Sainsbury's Archives, Docklands

Continuing development

Non-Executive Directors continue to learn about the business by meeting with management, colleagues, suppliers and other stakeholders including in the ways described above. Other examples of continuing engagement with different aspects of the business are described below.

Jo Harlow joined the Board in September 2017 and became the new Chair of the Corporate Responsibility and Sustainability Committee from May 2018. In that capacity, she has built her understanding by visiting Sainsbury's suppliers. She also attended the Sainsbury's Farming Conference and pre-conference event to strengthen her understanding of the topical issues facing Sainsbury's supplier base, with a particular focus on sustainability. She met with the Chair and leaders of The Woodland Trust and discussed the current state of and opportunities for our long-term partnership with them. With the Board's focus on culture and stakeholder engagement, she participated in the London School of Economics event on Sainsbury's approach to culture and engagement and met with Sainsbury's colleagues at both a 'Talking Shop' event in Bristol and a listening session with Great Place to Work representatives. She continued to enhance her understanding of our business by meeting with senior leaders in our Food and Grocery business, Sainsbury's Argos, General Merchandise and Clothing, and Sainsbury's Bank.

As Audit Committee Chair, David Keens continued his oversight by meeting with teams across Group Finance to discuss aspects of internal controls. He reviewed business areas such as insurance, treasury funding and hedging with our internal audit team. He also attended disaster recovery tests of Sainsbury's Argos' systems in Coventry and held meetings with the Groceries Supplier Code Adjudicator.

Professional development and training

To ensure the Board updates and refreshes their 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. Both the Audit and Remuneration Committees received updates on relevant accounting and remuneration developments, trends and changing disclosure requirements from external advisers and management, and the Board received an update on the 2018 UK Corporate Governance Code. The Directors also had access to the advice of the Company Secretary and independent professional advice is available at the Company's expense, if necessary, in fulfilling their duties and responsibilities.

Director independence

The Chairman satisfied the independence criteria of the 2016 Code on his appointment to the Board and all the Non-Executive Directors are considered to be independent. The independence of the Non-Executive Directors is closely monitored by the Board and formed part of the Board effectiveness review.

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, and this is discussed by the Board before any appointment is made. In addition, the Board reviews, in advance, requests by Directors wishing to undertake new responsibilities or directorships and considers both the time commitments involved and any potential conflicts. There is also an annual review of the conflicts of interest register to ensure it is up to date and that there are no new conflicts to review. No changes were recorded during the year which would impact the independence of any of the Directors.

The Board supports Executive Directors having a non-executive directorship as part of their continuing development provided they have sufficient time to balance their commitments to the Group with any external role. Subject to Board approval, each Executive Director may have 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 good attendance records at scheduled meetings, and 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.

Board evaluation

We review our effectiveness as a Board on an annual basis, including an assessment of the Board and its Committees. The last external evaluation was carried out by Manchester Square Partners in 2016/17. The 2018/19 internal review was led by the Company Secretary and Corporate Services Director, Tim Fallowfield.

The review was conducted from December 2018 to February 2019 and continued to explore the themes that were raised for action in the 2017/18 review. Board members completed a questionnaire, based on last year's in order to be able to maintain continuity, which also incorporated recent developments in the business, strategy and governance practice. The Board reviewed its key decision-making processes during the year, particularly relating to the appointment of the new Chairman and the decision to merge with Asda. The Board also assessed its culture and engagement with stakeholders in line with the 2018 Code. Individual discussions were subsequently held with all Directors. The Company Secretary discussed the conclusions with the serving Chairman, David Tyler, and presented them to the Board. The Board discussed the key points and agreed certain actions.

Findings of the 2018/19 review

The Board concluded that it performs effectively and is well placed to lead the Company at a time of considerable change in the sector. There was strong alignment amongst the Directors on the key strategic issues facing the Group. The following were seen as particular strengths of the Board:

- Focus, shared understanding and purpose
- Board diversity
- Culture of openness and debate
- Chairman's leadership of the Board
- Group Chief Executive Officer's leadership
- Decision-making in key business projects
- Executive response to challenge by the Non-Executive Directors
- Strategic debate and engagement
- Risk management

The progress and actions can be found in the table on page 55.

Board evaluation cycle

Key areas of focus from 2017/18 review	Progress and actions implemented during 2018/19	Agreed actions for 2019/20
Culture and stakeholder engagement Whilst the Board and Committees were fully engaged with the Group's strong values and culture, the Board felt that it would benefit from an in-depth session to pull all aspects of culture together with particular emphasis on colleague feedback and metrics In addition, it would strengthen engagement with colleagues by meeting with the Great Place to Work Group twice a year to share some of the Board's priorities and to hear what the key issues are for colleagues. Non-Executive Directors would also be invited to the 'Talking Shop' sessions that Operating Board Directors hold with colleague groups. Other stakeholder engagement would continue to be reported to the Board on a regular basis.	The Board felt that good progress was being made on many aspects of engagement and it now has a deeper understanding of the Group's values and culture. The Board's activities on culture and engagement during the year are set out on pages 56 and 57	Continue to build on the current activities and the Board agenda to maintain oversight of the Group's culture and to further engage with stakeholders Determine the preferred method of engaging with colleagues, to comply with the 2018 Code, by learning more from the range of activities planned for the year
Business performance and strategic priorities In order to ensure the Board continues to provide appropriate oversight of the performance of each of the Group businesses, it would continue to focus on the KPIs by reviewing analyst reports and taking a broad perspective on the future of the sector. This would enable the Board to ensure that the KPIs reflect the key drivers of business performance in the sector going forward.	The Board focusses on key business performance indicators and reviews the retail market at each meeting Strategic in-depth reviews enable the Board to review emerging trends in detail At the annual Strategy Conference, the Board had in-depth discussions on the industry background, consumers' changing shopping habits and competitors, and considered the views of external analysts and investors	In a fast moving sector, the Board agreed to continue to focus on the KPIs of each business unit and the Group in the overall market, and to hold detailed discussions about the context and drivers of trading performance and value creation
Data security (new)		The Board felt that oversight of, and assurance over, the Group's plans and priorities for information security and data governance had progressed during the year, particularly as a result of the additional review sessions by the Audit Committee This would continue to be a priority for the Audit Committee for the year ahead.

Engaging with our stakeholders

The Board has always deeply engaged with the Group's vision, values and goals as described on pages 8 to 27, recognising that they underpin everything we do as a business and help us strengthen relationships with our key stakeholders. We have 178,000 colleagues, over 28 million customer transactions a week, 118,000 shareholders, and we source over 17,000 Sainsbury's branded products from more than 70 countries. Stakeholder considerations and culture are therefore an important part of the Board's discussions and decision-making. Various aspects of culture have been considered by the Board and Committees through the scheduled cycle of meetings for many years, supplemented by other engagement opportunities on an increasing basis.

The Board agreed in the 2017/18 Board evaluation exercise to conduct an annual review of the Group's culture and to expand its engagement with stakeholders, particularly with colleagues, in a year of significant change in the supermarket estate with the introduction of a single, fair and consistent contract for all Sainsbury's store colleagues and the creation of an efficient and effective management structure. At the Board meeting held at Sainsbury's Redhill store, the Board discussed how the vision, values and culture continue to differentiate Sainsbury's, and reviewed feedback from senior management on how deeply the values were being lived throughout the business. The Board also discussed recent colleague feedback, progress on inclusion targets and the new metrics of customer feedback. These reviews have continued at subsequent Board and Committee meetings, supplemented by formal and informal meetings between the Board and colleagues and other regular updates on stakeholder engagement.

See more about our values on pages 18 to 27.

Shareholders

Engagement with our institutional investors and private shareholders is an ongoing process. We connect with them through a variety of channels including face-to-face meetings, webcasts and online.

Institutional investors

Shareholder contact is the responsibility of Mike Coupe, Kevin O'Byrne and the Head of Investor Relations. David Tyler met with institutional shareholders and other large investors during the year, and Martin Scicluna has met key shareholders as part of his induction. As well as meeting with institutional shareholders and other large investors, senior management also met with sell-side research analysts, through regular post-results roadshows, ad-hoc meetings, conference attendances and site visits in the UK, US and Europe. A total of 192 shareholders and potential investors were met with in 182 meetings over the course of the year. Investors and analysts are also invited to participate in conference calls and presentations which are webcast and posted on our website, making them available to all investors.

Investor tours

In 2018/19, institutional investors and analysts were invited to our new Sainsbury's store in Redhill and to visit our fruit supplier in Kent, to help them gain a greater understanding of our Food business and sustainability within agricultural supply chains. Their views were fed back to the Board at subsequent Board meetings.

Investor perception study

The views of analysts and major investors are fed back to the Board on a regular basis. Once a year they receive an independent report from corporate advisory firm Makinson Cowell on major investor views, share price performance, the share register, and the Investor Relations programme. This allows the Board to monitor performance and increase focus in certain areas.

Annual General Meeting

The Annual General Meeting provides the Board with the opportunity to communicate with private and institutional investors and we encourage their participation at the meeting. Mike Coupe provides an update on the business performance and shareholders have the opportunity to meet and question the Board. This provides the Board with valuable feedback and helps them to understand the views of shareholders.

Colleagues

The Board is committed to making Sainsbury's a great place to work. Initiatives such as 'Great Place to Work' groups, 'Talking Shop' colleague listening sessions, our 'Yammer' social network site and regular store-based colleague meetings are all used to understand how colleagues are feeling. Identifying our colleagues' engagement levels is at the heart of how we continuously improve, adapt and evolve our culture. The feedback is shared with the Board and Committees in various ways described below.

Great Place to Work Groups

Our Great Place to Work Groups are made up of colleagues across the business elected by their peers to represent their views at meetings held on a regular basis to discuss diverse issues. Each store has its own group. This network reviewed and supported the introduction of a single, fair and consistent contract for all Sainsbury's store colleagues and was an important source of communication and feedback. In September, David Tyler and Jo Harlow met with our national Great Place to Work Group to hear their feedback on the major change programme taking place in Sainsbury's stores, and their views on the proposed merger with Asda. David Tyler and Jo Harlow found the meeting very informative and shared the key points with the Board at its next meeting. Susan Rice and Martin Scicluna will attend the next Great Place to Work meeting in May 2019.

'Talking Shop' listening sessions

These question-and-answer style listening sessions give store colleagues the opportunity to meet members of the Operating Board and discuss the issues that affect them. This year, Matt Brittin, Susan Rice and Jo Harlow each attended a 'Talking Shop' session with around 20 colleagues, representing each store in different regions, giving them the opportunity to hear, first-hand, how colleagues were feeling and what was on their minds.

We're Listening survey

We're Listening is our annual colleague engagement survey that invites every colleague from across our business to give honest feedback on what it's like to work for the Sainsbury's Group. The results of the confidential survey enable managers to produce local action plans designed to make their part of the business an even greater place to work. The survey results were presented to the Board during their review of culture in June, giving them insights into colleague engagement following the introduction of a single, fair and consistent contract for all Sainsbury's store colleagues and the creation of an efficient and effective management structure. Further information can be found on page 52.

Colleague pay and recognition

The Remuneration Committee regularly reviews pay throughout the business in fulfilling its oversight role. Our colleague recognition schemes are an important way of rewarding colleagues who live our values. The Board discussed the re-launched recognition programme at its June review.

Inclusion

Inclusion is regularly discussed at Board and Committee meetings. Please see pages 58 and 59 for more information.

Customers

The Board is regularly updated on consumer trends, which is of particular interest given the pace of change in the retail sector and the uncertainty caused by Brexit. The CR&S Committee reviews customer insight analysis which reflects views on the Sainsbury's and Argos brands and trust in the Group.

Customer feedback programme

In June, the Board was updated on Lettuce Know, the new customer feedback programme across the Sainsbury's Food and Grocery business. The new programme provides each store with real-time feedback from all stores on a range of service measures. Updates on the overall metrics are regularly reviewed by the Board. It also reviews Argos customer feedback.

Connected communities

At each meeting the CR&S Committee was updated on the community strategy which was refreshed during the year to ensure it makes an even greater impact in the communities we serve and contributes to our Value 'Making a positive difference to our community'. More information can be found on page 21.

Suppliers

The Board receives updates on trading strategy and supplier relationship management and we are committed to sourcing our products ethically and sustainably, establishing long-term, open and fair relationships with our suppliers.

Collaboration with suppliers

We engage with suppliers to address challenges and drive positive change through a range of collaborative working groups including Sainsbury's farmer and grower Development Groups and Crop Action Groups as well as through conferences and training sessions for suppliers. Jo Harlow and Martin Scicluna attended Sainsbury's annual Farming Conference to see these initiatives in action. For further information on how we engage with our suppliers, see 'Sourcing with integrity' on pages 22 and 23.

Treating our suppliers fairly

David Keens, in his capacity as Chair of the Audit Committee, meets the Grocery Code Adjudicator to take her feedback on how Sainsbury's complies with its obligations to treat suppliers fairly under the Groceries Supply Code of Practice. For further information, please see page 64.

The Sainsbury's Foundation

The Sainsbury's Foundation Advisory Board was set up in 2017 to oversee The Sainsbury's Foundation which aims to build closer relationships with our suppliers as well as offering them bespoke support. The Foundation focuses our resources on activities that will drive progress in the social, economic and environmental sustainability of farmers and workers and communities within our global supply chains. The Advisory Board's first mandate was to oversee the Sainsbury's Fairly Traded tea pilot scheme. Regular updates on progress were provided to the CR&S Committee. More details can be found in our 'Sourcing for sustainable development' report on our website.

Modern slavery

The Board is committed to identifying vulnerable workers and we will not tolerate any form of slavery or servitude in our business or supply chains. Our risk-based approach enables us to proactively tackle serious exploitation of workers and provide resources where they are most needed to protect workers. Further details can be found in our 2019 Modern Slavery Statement, which was reviewed by the Corporate Responsibility and Sustainability Committee and is available online.

Supplier insights

Over the next year, the CR&S Committee will be provided with regular updates on our Value, 'Sourcing with integrity', along with the Advantage Supplier Survey results. The survey details what our suppliers think of us and benchmarks us against our competitors.

Decision-making and Section 172, of the Companies Act 2006

The success of the Group depends on our ability to engage effectively with our stakeholders and this is consistent with the ethos of Section 172 of the Companies Act 2006 which sets out that a director should have regard to stakeholder interests when discharging their duty to promote the success of the Company.

Two key priorities for the Board during the year were the proposed merger with Asda, and the implementation of the change programme in Sainsbury's stores, affecting management and colleagues. The Board considered the impact of the proposed merger on all stakeholders and described how it would deliver a great deal for customers, colleagues, suppliers and shareholders of both businesses in the public documents relating to it. As explained on this page, the Board received regular updates on the implementation of the change programme in Sainsbury's stores including feedback from affected colleagues.

2018 UK Corporate Governance Code

The new 2018 Code recommends that companies should establish a method for gathering the view of the workforce and suggests one of three options. The Board currently shares this responsibility amongst the Non-Executive Directors so that each is able to benefit directly from hearing colleague feedback, for instance, through attendance at Great Place to Work and 'Talking Shop' meetings. However, it will continue to keep under review whether to continue this approach or if a designated Non-Executive Director should lead on colleague engagement.

Nomination Committee Report

Dear Shareholder

This has been a busy year for the Committee, with our particular focus on appointing a new Chairman to succeed David Tyler, in addition to our usual programme overseeing talent, succession, diversity and inclusion.

Principal role and responsibilities

The responsibilities of the Nomination Committee include reviewing the balance of skills, knowledge, experience, independence and diversity of the Board and its Committees, 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 Company, and the skills and expertise needed to ensure the long-term success of the Group.

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

We announced in April 2018 that we had started the Chairman succession process, which I led with the Nomination Committee, in my role as Senior Independent Director. We conducted a comprehensive search, in line with best practice, which led to the appointment of Martin Scicluna. This is described in detail later in this report.

The Committee's other priorities are to monitor our succession plans at Board, Operating Board and senior management level, review our progress on becoming a more diverse and inclusive business and oversee the Group's approach to resourcing the needs of the business, developing our colleagues and recruiting new talent. When the Board reviews the Group's strategy in October, we take the opportunity to have a comprehensive update from Angie Risley, our Group HR Director, and Mike Coupe on each of these important matters.

In a year of significant structural change, we are pleased that our senior leadership team has been stable and we are confident in the calibre of our management team. Appointments have been made throughout the business to support the delivery of our strategy, and our internal pipeline has further improved over the last year as a result of external recruitment and internal promotion.

The Board recognises the benefits of diversity, both on the Board and throughout the business, as part of the Company's objective of being 'the most inclusive retailer where people love to work and shop'. This is a key part of the Board and Committees' agendas, and at our October meeting we reviewed our progress in making the business more inclusive across each of our four inclusion streams of gender, ethnicity, LGBT and disability/carers. We reviewed the long list of actions that have been implemented to date and the opportunities for the year ahead, and are pleased to see that the gender and ethnicity balance of our senior population has improved year on year. The promotion of Clodagh Moriarty as Group Digital Director in June 2018 improved gender diversity on our Operating Board. We can also see that there is a strong list of activities to create a diverse pipeline of talent throughout the business, for both the shorter and longer term.

As part of the Board evaluation exercise, we reviewed the Committee's effectiveness. The Board considers that the Committee continues to be effective in its role of supporting the Board, and that the search for a new Chairman led to a very satisfactory outcome.

We were delighted to appoint Martin Scicluna as our new Chairman. He brings a wealth of experience and leadership to the Group at a pivotal time. He joined the Board as Chairman Designate and Non-Executive Director in November and has worked closely with the outgoing Chairman, David Tyler, the Board and the senior management team to ensure a smooth transition. He became Chairman on the first day of the 2019/20 financial year. I'm sure that shareholders will join the Board in wishing him every success in his role at Sainsbury's.

Dame Susan Rice
Senior Independent Director

The Committee held one scheduled meeting in the year, together with several other ad hoc meetings pertaining to the Chairman's search process and appointment.

Attendance at scheduled Nomination Committee meetings:

Martin Scicluna[1]	0(0)	David Keens	1(1)
Matt Brittin	1(1)	Susan Rice	1(1)
Brian Cassin	1(1)	Jean Tomlin	1(1)
Jo Harlow	1(1)	David Tyler	1(1)

The maximum number of meetings held during the year is shown in brackets.
1 Martin Scicluna joined the Board on 1 November 2018.

Committee membership

The Committee consists of independent Non-Executive Directors and all of the current Non-Executive Directors are members of the Committee The Chairman of the Board is also the Chair of the Committee and the Company Secretary acts as the Secretary of the Committee. Mike Coupe and Angie Risley, Group HR Director, attend meetings by invitation.

Succession planning

As part of its succession planning, the Committee oversaw the search and appointment of Martin Scicluna as successor to David Tyler, who reached his ninth anniversary on the Board in 2018. Martin Scicluna's recruitment was facilitated by Egon Zehnder, an independent executive search consultant which has no connection to the Company other than in assisting and facilitating in the search for senior management. The Committee held a number of additional unscheduled meetings as part of the appointment process as set out below:

Identify	With a detailed understanding of what was required for the role, Egon Zehnder identified an extensive and diverse list of potential candidates who were appraised by the Senior Independent Director against the agreed brief, key competencies and experience required for the role. This created a long list which was reviewed by the Committee to produce a shortlist The agreed brief included key attributes such as previous experience, cultural fit, managing complex shareholder relationships, and driving transformation.
Interview	The shortlisted candidates were interviewed by the Senior Independent Director and Group Chief Executive Officer and timings of the appointment and handover of the role were discussed. The preferred candidates met with all Non-Executive Directors, after which the Board and Nomination Committee members met to discuss feedback.
Select	Prior to the final selection and appointment, the Senior Independent Director obtained references from key stakeholders on the preferred candidate. The Committee was unanimous in its final selection and recommended to the Board that Martin Scicluna be appointed as Chairman given his breadth of experience and his fit to the key attributes in the agreed brief. It was also agreed that he be appointed to the Nomination Committee.
Considerations	Martin Scicluna's other roles were considered prior to his appointment and the Board agreed that there was no conflict which might impact his role at Sainsbury's. The Board also considered his other commitments from a time perspective, noting that he was Chairman at RSA Insurance Group plc, and that it had been announced that he would shortly be stepping down as Chairman of Great Portland Estates plc He stood down on 31 January 2019. The Board considered that he would have sufficient time to fulfil his responsibilities to both the Company and RSA Insurance Group plc on an ongoing basis.
Appoint	Martin Scicluna's appointment as a Non-Executive Director and Chairman-Designate took effect on 1 November 2018, with him being appointed as Chairman when David Tyler stepped down on 9 March 2019.

Diversity and inclusion

The Group's aspiration is to be the most inclusive retailer, and the Board is highly supportive of the initiatives in place to promote diversity and inclusion throughout the business. Clear leadership of our inclusion agenda is set by Mike Coupe and the Operating Board, with senior management being set annual objectives to drive progress through the business. The Group Diversity and Inclusion Steering Group is chaired by the Group HR Director and is also attended by three other Operating Board Directors who champion each inclusion stream (gender, ethnicity, LGBT and disability/carers) with other senior leads from the different business units.

The Board receives regular inclusion updates and both the CR&S Committee and the Nomination Committee receive detailed presentations on our inclusion priorities and the progress we are making throughout the year. More about these initiatives and the progress being made can be found on pages 26 and 27.

The Board believes there is a good balance of diversity amongst our Non-Executive Directors, with several having extensive experience of retail and consumer-facing businesses and other highly relevant skills derived from serving in a range of major executive and non-executive positions throughout their careers. The Board feels that diversity is one of its strengths and we will continue to appoint on merit whilst working hard to broaden the diversity of the talent pool.

Currently, female representation on the Board equates to 30 per cent. Female representation on the Operating Board has increased with the appointment of Clodagh Moriarty and is currently 20 per cent. The representation of female divisional directors and senior management is 31 per cent.

Audit Committee Report

Dear Shareholder

The challenge for every Audit Committee is to maintain vigilance over business as usual whilst paying appropriate attention to the wider specific and general risks that all businesses face. This is my fourth letter to you as Audit Committee Chair, and it sets out how the Committee has addressed both routine and emerging topics during the year.

Principal role and responsibilities

The Audit Committee assists the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders, the Company's systems of internal control and risk management, the internal and external audit process, the auditors, and the process for compliance with relevant laws and regulations.

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

The Committee operates a wide-ranging agenda which this year has included cyber security, data governance, the potential impact of Brexit and financial reporting standard changes.

Cyber security and data governance remain high risk areas and are important for every business which uses significant amounts of data for operational efficiency and product delivery. The Committee received regular reports and presentations on these topics during the year. These were supplemented by sessions with senior IT security and data managers to obtain greater insight into Company processes and procedures.

The direction and impact of Brexit remains uncertain. The Company has prepared for various scenarios, identifying where key risks lie and where appropriate mitigations are in place to reduce the impact on supply chains, customers and colleagues. The Committee will continue paying particular attention to potential Brexit impacts as the situation develops.

The Committee has continued to monitor the Company's financial performance and stress tested its ability to withstand potential shocks, such as from Brexit and other short-term risks. We have discussed medium- and long-term finance structures at meetings with Finance and Treasury managers (please refer to page 37 for our Statement of Viability). The Committee considers all accounting changes and approved the implementation of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Customer Contracts', and reviewed the approach to implementation of the new IFRS 16 'Leases'.

Specific activities apart, the Committee continued its 'business as usual' duties, which included the monitoring and review of internal and external auditor programmes, principal risks and the integrity of the Group's financial statements. As Chair, I also meet independently with the internal and external auditors, the Chief Financial Officer, and Tax, Treasury and Finance managers. I have an open and professional relationship with all of them and retain a high degree of confidence in their capability and integrity.

Committee members have individually or collectively visited various Group locations during the year including stores, distribution centres and the offices of Sainsbury's, Sainsbury's Argos and Sainsbury's Bank. These site visits give us invaluable understanding and insights into the Group's operations and risk management.

The Committee's effectiveness was considered as part of the Board evaluation process (please refer to pages 54 and 55). I am pleased to report that the Board considers that the Committee continues to be effective in its role supporting the Board.

I would like to thank members of the Committee and all the colleagues who have contributed to our work, for their time and valuable contributions during what has been another busy year.

David Keens
Chair, Audit Committee

Attendance at scheduled Audit Committee meetings:

David Keens	4(4)	Jean Tomlin	4(4)
Brian Cassin	4(4)		

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

Accountability

Committee membership

The members of the Committee are independent Non-Executive Directors who have competence relevant to the retail sector. They also bring with them extensive general business and management experience.

The Board has determined that David Keens has recent and relevant financial experience.

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

Committee activities

The Committee has undertaken the following key activities during the year in fulfilling its responsibilities.

Area of focus	Activity
Financial Reporting The integrity of the financial statements and any other formal announcement relating to financial performance.	The Committee reviewed the Annual Report, the Preliminary and Interim results and was provided with supporting information to assist it in this review.
Significant financial reporting issues and judgements contained in the financial statements.	See "Significant financial and reporting matters" on page 65.
Items excluded from underlying results.	
Implementation of accounting standards IFRS 9 and 15.	
Review the approach to implementation of the new accounting standard IFRS 16	
Pensions strategy and accounting.	
Treasury funding and liquidity and their impact on financial and operational capabilities.	The Committee assessed the Group's longer-term prospects and whether three years continues to be an appropriate timeframe over which to make the viability statement It was concluded that the current three-year assessment period remains appropriate. This was reviewed and adopted by the Board. The processes underpinning the assessment of the Group's longer-term prospects were reviewed. The Committee considered the work of the Brexit Steering Group, potential Brexit impacts and key risks, the modelled assumptions and scenarios, and the practical resolutions for implementation over the short and medium term. The Statement of Viability and the Committee's approach to assessing long-term viability can be found on page 37.
Assumptions and qualifications in support of the viability statement and going concern including stress testing against risk materialisation.	
Assessment of whether the Annual Report is fair, balanced and understandable.	The Board is required to confirm that the Annual Report and Financial Statements are fair, balanced and understandable (see page 90). To enable the Board to make this declaration, there is a year-end review process to ensure the Committee, and the Board as a whole, has access to all relevant information and, in particular, management's papers on significant issues faced by the business. The Committee received a summary of key factors considered in determining whether the Annual Report is fair, balanced and understandable. The Committee, and all other Board members, also received drafts of the Annual Report and Financial Statements in sufficient time to review and challenge the disclosures if necessary In addition, our auditors, EY reviewed the consistency between the reporting narrative of the Annual Report and the Financial Statements.
Risk Management and Internal Controls Risk management updates including reviews of principal risks and uncertainties.	See pages 30 to 36 and pages 66 to 67. The Committee also reviewed the captive insurance arrangements and the related retained risks overview.
Reports from the Audit and Risk Committees of Sainsbury's Bank, which included risks, and compliance and 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. The Sainsbury's Bank Executive Committee is responsible for the day-to-day management of the business. The Chairs of the Bank's Audit and Risk Committees and the Bank's Chief Financial Officer attend meetings of the Committee. The Board of the Bank has an independent Chairman and a majority of independent Non-Executive Directors. There is alignment between Sainsbury's Internal Audit function and its equivalent within Sainsbury's Bank. For further information see "Significant financial and reporting matters" on page 65.

Area of focus	Activity
External Audit Scope of the external audit plan and fee proposal.	The Committee reviewed EY's overall work plan, and approved their remuneration and terms of engagement.
Provision of non-audit fees.	The majority of the non-audit work undertaken by EY during 2018/19 related to services associated with the proposed Asda transaction. The total non-audit fees were £0.6 million. The audit fees for the year in respect of the Group and subsidiaries were £3.2 million. For a breakdown on the fees, please refer to note 6 of the consolidated financial statements.
Independence and objectivity of, our auditors, EY.	The independence and objectivity of the external audit function is a fundamental safeguard to the interests of the Company's shareholders. During the year, the EY partner responsible for our last three annual audits retired, and an alternative EY partner, who had not previously been involved in the Company's audit, was appointed. 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 by the subsequent meeting of the Committee. It recognises that there are some types of work where a detailed understanding of the Company's business is advantageous. The policy is designed to ensure that the auditor is only appointed to provide a non-audit service where it is considered to be the most suitable supplier of that service. The Committee received a report on the non-audit services being provided. The annual aggregate of non-audit fees is capped at 70 per cent of the annual average of the audit fees for the Group for the preceding three-year period. Following an effectiveness review, the Committee concluded that EY remained objective and independent in their role as external auditors and that they continue to challenge management effectively. The Committee has confirmed compliance with the provisions of the Statutory Audit Services Order 2014.
Quality and effectiveness of, our auditors, EY.	The Committee reviewed EY's effectiveness during the year, focusing on the audit partner and audit team, their approach to the audit, communications with the Committee, how EY supported the work of the Committee, and their independence and objectivity. The Committee review was supported by feedback from management which was compiled from questionnaires completed by Directors and managers in the business who were directly involved with the audit. The questionnaire covered the audit team, audit planning and audit communication and execution. The Committee concluded that EY provided audit services efficiently and effectively and to a high quality.
Recommendation of the reappointment of EY as auditor.	The Committee has made a recommendation to the Board to reappoint EY as the Company's auditor for the 2019/20 financial year. Accordingly, a resolution proposing their re-appointment will be tabled at the July 2019 AGM.
Tender of external auditor.	EY were appointed in July 2015 as the Company's external auditor following a tender which completed in January 2015. We do not currently plan to undertake another formal tender process until we are required to for the year to March 2025

Area of focus	Activity
Internal Audit Director of Internal Audit.	The Director of Internal Audit reports to the Committee Chair and has direct access to all members of the Committee and the Chair. The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter, which the Committee reviews annually.
Internal controls framework.	See page 66.
Management's responsiveness to Internal Audit's findings and recommendations.	The Committee was provided with updates on Internal Audit's findings and agreed actions at each meeting.
Scope of the Internal Audit Plan	The scope of the Internal Audit Plan and subsequent amendments to the plan were reviewed and approved by the Committee.
Effectiveness of the Internal Audit function.	The Committee reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of required actions. The Director of Internal Audit provides an annual overview of Internal Audit's performance to the Audit Committee, including performance against key performance indicators (KPIs) and stakeholder feedback. Areas of improvement are highlighted, together with actions to address these. These are used to assist in reviewing the effectiveness of Internal Audit. In 2017/18, an independent review of the function was completed by the newly-appointed Director of Internal Audit (in line with the requirements of the Institute of Internal Auditors), with external challenge and support provided by a suitably qualified external party. The Committee continues to monitor and review progress of key actions implemented from the review. The Committee concluded that Internal Audit continued to be effective.
Other Committee's effectiveness.	The review of the Committee's effectiveness formed part of the Board review. More details can be found on pages 54 and 55.
Significant issues raised through the whistleblowing process.	The Committee received updates at each meeting on significant whistleblowing incidents. The Committee Chair receives earlier notification of incidents 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 Committee reviewed and reported to the Board the consistency of whistleblowing arrangements across the Group and its application by the Company's suppliers. Each of the Business Unit Directors are responsible for rolling out process amendments where appropriate.
Updates on data governance and information security.	Updates on the Data Governance Programme were provided during the year covering process improvements, progress against the implementation of a single GDPR framework across the Group, increased use of Group data clinics, and the focus on culture and discipline over the next year. The Committee received updates from the Group Chief Information Security Officer on plans which covered strategic risks, third party assurance programmes, cyber security and mitigation initiatives. Separate sessions on data governance and information security were held during the year.

Area of focus	Activity
Other continued Company's compliance with the Groceries Supply Code of Practice.	In 2010, the Groceries Supply Code of Practice (GSCOP) was implemented following the recommendation of the Competition Commission. Where applicable, each grocery retailer had to appoint a Code Compliance Officer (CCO) whose duties include hearing disputes between suppliers and the relevant retailer. Sainsbury's has appointed the Director of Internal Audit as its CCO. GSCOP requires that each applicable grocery retailer delivers an annual compliance report to the Groceries Code Adjudicator (GCA), which has been approved by the Chair of the Audit Committee. A summary of the compliance report must be included in the Annual Report and Financial Statements, which is set out below. **Summary Annual Compliance Report** Sainsbury's compliance with the Code is based on clear policies and procedures, mandatory training and regular monitoring of compliance. Sainsbury's has dedicated internal resources to provide all relevant colleagues with day-to-day advice and guidance. The Trading Division's compliance team, in consultation with Group Legal and the CCO, continues to assess the adequacy of policies and procedures in place to support GSCOP awareness and compliance. Collaboration between the Trading Division's compliance team, Group Legal, Internal Audit and the CCO has been enhanced this year, helping to ensure that potential Code-related matters are identified promptly. Compliance results, including performance against KPIs, are reported to the Food Commercial Leadership Team quarterly. Additional assurance is provided by Internal Audit. A small number of potential breaches of GSCOP were received in the year. As at 9 March 2019, all but one of these had been resolved either within our Trading Division using standard escalation procedures or, in five of these cases, through discussions between the CCO and the supplier. Actions are in place to resolve the one case that is outstanding. None of these were pursued as formal Disputes with the CCO and none required referral to the GCA for Arbitration. Group Legal, the compliance team and the CCO review the root causes of the potential breaches to identify any areas for improvement and to agree actions with the business. The CCO and the Committee Chair meet with the GCA on a regular basis. Sainsbury's continues to work collaboratively and positively with the GCA to proactively identify and address any areas for improvement in terms of GSCOP compliance. Over the year, one of these meetings was attended by the Food Commercial Director and other senior stakeholders from supply chain and trading to facilitate collaboration. Areas of focus this year included working to align our processes with the GCA's forecasting best practice statement, refreshing our customer complaints process and reporting performance against a broader set of KPIs in relation to payments. Sainsbury's is currently reviewing the outcomes from the GCA's investigation into the Co-op to ascertain if any changes are required to achieve alignment.
Ongoing material litigation.	The Committee was updated at each meeting on all material litigation, and any potential impacts on financial reporting disclosures.
Business continuity management.	A number of desk top exercises were run during the year and lessons learnt were used to enhance the process. Crisis management sessions relating to data loss were held with the Operating Board.

Significant financial and reporting matters

The Committee considered the following significant financial and reporting issues during the year.

Impairment of financial and non-financial assets

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 2 of the consolidated financial statements). The Committee reviewed summary reports produced by management detailing the outcomes of the impairment assessment. No Group impairment triggers were identified in the year, however seven individual stores and one land bank site were impaired, totalling £3 million.

Items excluded from underlying results

Items excluded from underlying results are reviewed by the Committee, and the Committee is satisfied that the Group's presentation of these items is clear and that further disclosure is included where appropriate.

The Group continues to disclose additional information on all Alternative Performance Measures (APMs) used by the Group (see pages 185 to 187 of the financial statements).

Accounting standards implemented during the year

Management has implemented the following new accounting standards for the year commencing 11 March 2018:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Customer Contracts'

The Committee has reviewed impact assessments provided by management and the supporting disclosures. Additional disclosures are included in note 1 of the consolidated financial statements.

Accounting standards preparation – IFRS 16

Management are currently preparing for the implementation of new standard, IFRS 16 'Leases', for the year commencing 10 March 2019.

The Audit Committee received regular updates from management to ensure all necessary steps, to comply with the requirements of the new standard, were being taken.

The Committee has considered management's project approach and progress, including impact assessments. The Group intends to apply the fully retrospective approach on transition and will restate prior year comparatives. Additional disclosures are included in note 1 of the consolidated financial statements.

Pensions accounting

The Group's balance sheet shows a pension surplus of £959 million, which comprises £9,983 million of assets, and £(9,024) million of liabilities. This compares to a net deficit in the prior year of £(257) million (see note 30 of the consolidated financial statements).

The Committee reviewed a summary of the actuarial assumptions used in arriving at a valuation for the defined benefit pension scheme and was satisfied that they are reasonable.

Supplier arrangements

Supplier income is considered by the Committee. The majority is calculated through a formulaic process, and the Committee is satisfied with the controls in place to manage areas of judgement and estimation.

The Committee ensures the Group provides income statement and balance sheet disclosures in its financial statements (see note 5 of the consolidated financial statements).

Sainsbury's Bank reporting

The Committee receives updates on the key agenda items discussed at the Bank's Audit Committee. These include accounting judgements and estimates, important operating and regulatory matters such as liquidity, cash flows, capital adequacy and risk management processes. The Chairs of the Bank's Audit Committee and Risk Committee and the Bank's Chief Financial Officer attend meetings of the Committee.

During the year the accounting judgements and estimates reviewed by the Committee have included impairment assessments of the loans and advances due to Sainsbury's Bank customers under IFRS 9 and progress on the Bank's transition.

Other matters

The Committee has considered the risks associated with adjustments made to revenue and the IT environment within the External Audit Report. The Committee has concluded that the Group has appropriate procedures and controls in place not to include these as significant areas of judgement.

Internal controls framework

The internal controls framework encompasses all controls, including those relating to: financial reporting processes, preparation of consolidated Group accounts, operational and compliance controls, risk management processes, and controls over Sainsbury's interests in joint ventures.

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

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

Risk management and internal controls

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

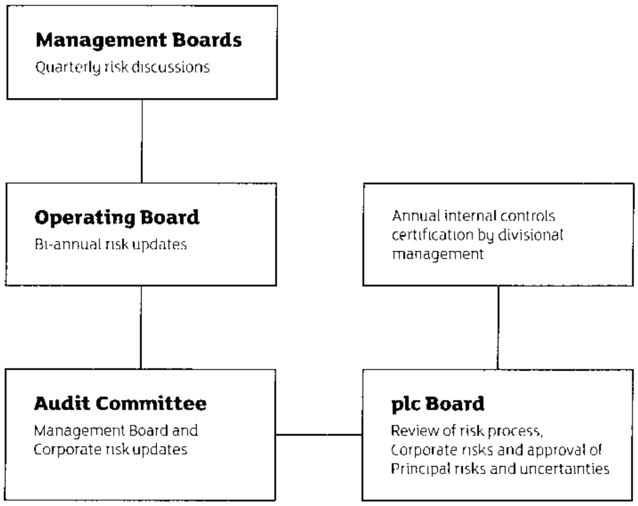
The risk management process and internal controls have been in place for the whole year, up to the date of approval of the Annual Report and Financial Statements and accord with the UK Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the 2016 Code.

The Board received updates on risk management and internal controls from the Chair of the Audit Committee (see page 61 for further details). All Committee papers and minutes were made available to the whole Board.

The Board also received reports on matters relating to safety, other relevant risks, controls and governance. Any significant matters which could have affected the Company's reputation were reported to the Board as they occurred.

The Audit Committee has reviewed the effectiveness of the internal controls and has ensured that any required remedial action, on any identified weaknesses has been, or is being, taken. The following diagram provides an overview of the key risk management activities undertaken by the Management Boards, Operating Board and Audit Committee that allow the Board to fulfil their obligations under the 2016 Code.

The annual risk management process concludes with the Board's robust assessment of the Company's Principal risks and uncertainties disclosure, including those that would threaten its business model, future performance, solvency or liquidity, and the completion of an annual internal controls certification. More detail on all of these key risk management activities is provided on page 67



Corporate risk management process

Accepting that risk is an inherent part of doing business, the risk management process is designed to identify key risks and to provide assurance that they are fully understood and managed in line with management's risk appetite. The Audit Committee reviews the effectiveness of the risk management process at least annually.

The Operating Board maintains an overall corporate risk map, which is reviewed twice a year by the Audit Committee and is formally discussed with the Board. The risk map captures the most significant risks faced by the business and identifies the potential impact and likelihood at both a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). The Operating Board discusses and agrees the level of risk that the business is prepared to accept for each key corporate risk. The target risk position is captured to reflect management's risk appetite where this differs to the current net position. The Operating Board also reviews the risk map twice a year. This enables the Operating Board to agree and monitor appropriate actions as required.

The risk management process is embedded at the Operating Board level and is supported by bottom-up risk processes and discussions within operating companies, Group functions and governance forums. Operating Board members certify annually that they are responsible for managing their business objectives and internal controls to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed.

Internal Audit provides the Audit Committee with a risk management update twice a year which includes the key risk activities undertaken at Management Board, Group Functions, Governance Forums, Divisional and Corporate levels.

The risk management process is illustrated in the following diagram. The specific risk management activities undertaken in the financial year to 9 March 2019 were as follows:

- Internal Audit facilitated risk workshops with the Management Boards, Group Functions, Governance Forums and each divisional leadership team to identify the key risks which may prevent the achievement of Board objectives. Each has produced and maintained a divisional risk map. The likelihood and impact of each key risk was evaluated at a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). Management's risk appetite was reviewed and further actions to mitigate the risk were identified if required.
- Management Boards, Group Functions, Governance Forums and Divisional management teams regularly review key risks and the effectiveness and robustness of the mitigating controls as part of their normal business activities. Independent assurance over the controls is also provided through the delivery of the Internal Audit risk-based plan
- the Operating Board reviewed and challenged the output of the bottom-up risk processes including new risks, risk movements and key risk themes. The corporate risk map was updated as appropriate.
- Internal Audit provided independent assurance to management and the Committee as to the existence and effectiveness of the risk management process.
- the Board reviewed the risk management process and corporate risks at the year end and approved the Company's Principal risks and uncertainties disclosure (as set out on pages 30 to 36).

	Management Boards	Group functions	Operating Board	Audit Committee	plc Board	Internal Audit
September	**Divisional risk workshops** (bottom-up risk identification)	**Group functions risk workshops** assess key risks to their business objectives	**Quarterly risk review**			
November	**Management Board risk workshops** assess key risks to their business objectives					
January			**Operating Board risk workshops** assessment of key corporate risks and risk appetite discussions update Principal risks and uncertainties			
February				**Audit Committee** review of risk process and approval of Principal risks and uncertainties		**Internal Audit** risk based half-year plan
April	**Management** annual certification that risks in their areas of responsibility are identified, evaluated and managed		**Quarterly risk review**		**plc Board** review of risk process, corporate risks and approval of Principal risks and uncertainties	
May						
July	**Horizon scanning and game-changer risk workshops** focus on external and unknown risks		**Quarterly risk review**			
September				**Audit Committee** risk management update		**Internal Audit** risk based half-year plan

Corporate Responsibility and Sustainability Committee Report

Dear Shareholder

Our vision is to be the most trusted retailer, where people love to work and shop. As one of the UK's largest retailers, with a global supply chain, we can make an important contribution to sustainable development in the UK and internationally.

This year I was delighted to become Chair of the Corporate Responsibility and Sustainability Committee, which oversees our sustainability strategy, taking into account our Group vision and strategy. Our approach addresses both traditionally understood sustainability issues, such as sustainable supply chains, global climate change and environmental impacts, and broader topics critical to the sustainability of our business, benefiting our customers, colleagues and communities.

Our Sustainability Plan is structured around our values empowering people to live healthier lives, sourcing with integrity, respecting our environment, making a positive difference to our community and providing our colleagues with a great place to work. The Committee fulfils its responsibilities by reviewing and reporting on the progress against our Sustainability Plan.

I am proud of the progress we have made this year on our Sustainability Plan. This includes a 35 per cent reduction in absolute carbon emissions against our 2005 baseline, achieving our 2020 goal early, and a record 87 per cent of stores having a community food partner, helping tackle food poverty in our communities and reducing food waste.

I would like to thank Jean Tomlin for her inspirational leadership and work chairing the Committee for the last six years. Looking forward, we are currently developing our post-2020 plan, in discussion with our colleagues, partners and experts. We will be launching our new Sustainability Plan in the coming year, driving further positive change and helping address global and local challenges.

Jo Harlow
Chair, Corporate Responsibility and Sustainability Committee

Attendance at scheduled Committee meetings. Meetings were also attended by David Tyler.

Jo Harlow	2(2)	Jean Tomlin	2(2)
Mike Coupe	2(2)		

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

Principal role and responsibilities

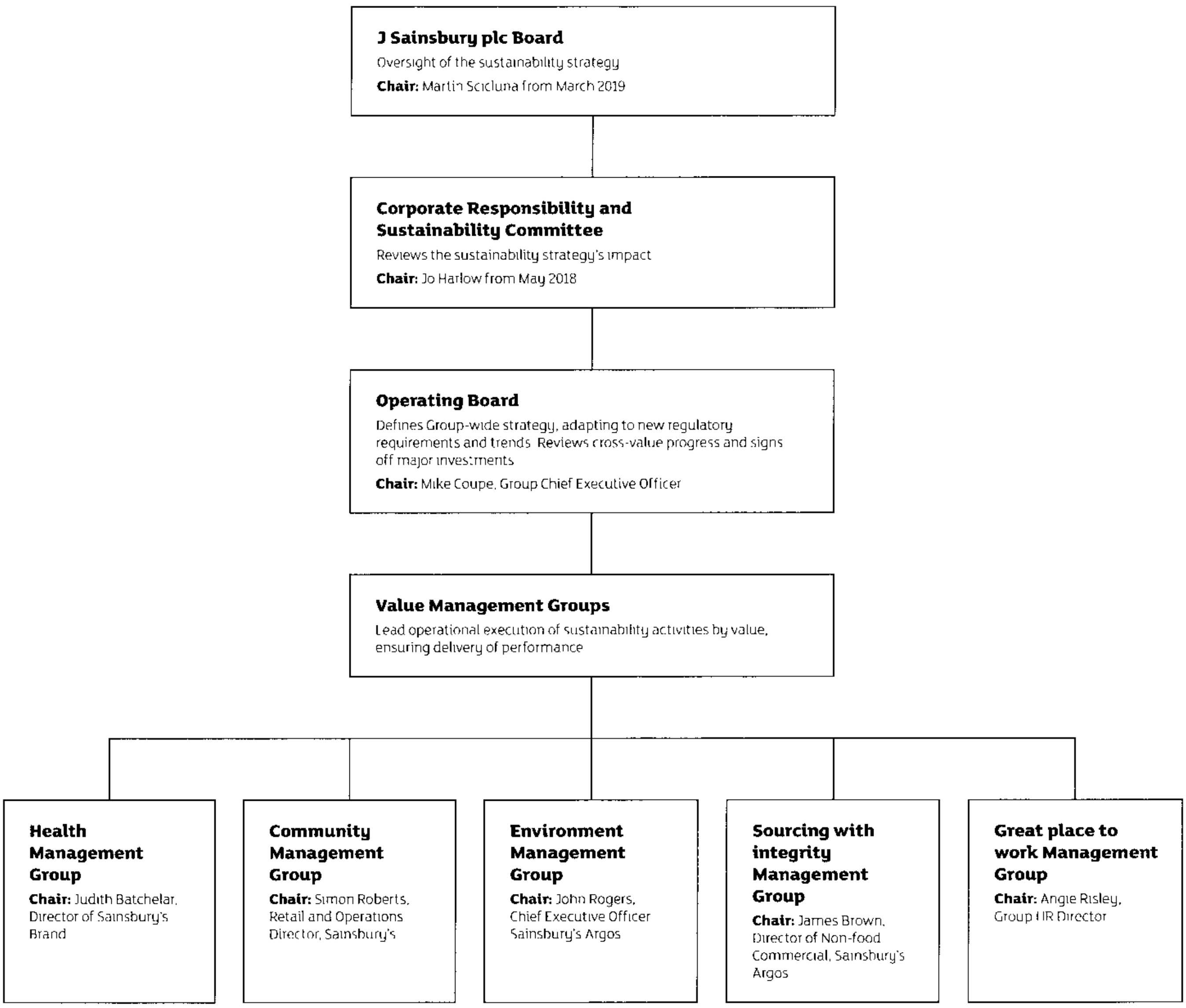
The Committee's principal role is to review the Group's sustainability strategy for alignment with the Group's culture, vision and strategy and assist the work of the Operating Board. With the Board, the Committee also plays a part in monitoring Group engagement with stakeholders, including customers, suppliers, communities and colleagues.

Principal activities in the year

This year we reviewed and refreshed the governance of our Sustainability Plan to align our approach across the Group and enable us to be more agile in a changing world. Updates included relaunching our Value Management Groups and giving colleagues a greater role. A new Sainsbury's Foundation Advisory Board was also established to oversee social, economic and environmental activities in our Fairly Traded producer communities.

Before each Committee meeting, members received insights on stakeholder views, including customers and colleagues, along with progress updates on each of our values and the overall Sustainability Plan. During meetings, we discussed our sustainability strategy and stakeholder engagement, reviewing our approach and receiving updates on key initiatives. Topics included our human rights approach, sustainability insight sessions for our colleagues across the Group, Sainsbury's Fairly Traded tea pilot, Active Kids scheme and community programme.

For more on sustainability progress, see Our values on pages 18 to 27.



Annual Statement from the Remuneration Committee Chair

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 9 March 2019. The Remuneration Committee remains committed to pay for performance and reviews executive pay in the context of Company results as well as having regard to pay throughout the business.

Over the last year the Company delivered an underlying profit before tax of £635 million, which represents growth of 7.8 per cent. By focusing on our strategy and increasing efficiencies, we exceeded our cost savings target and delivered synergies arising from the acquisition of Argos ahead of schedule. We also lowered net debt, improved our cash position and increased our dividend by 7.8 per cent.

In the context of a highly competitive market, the Remuneration Committee is pleased with the Company's results and believes the business is well placed to maximise opportunities for growth and to create value for all our stakeholders.

As part of the Remuneration Committee's remit of having oversight of pay arrangements across the Group, we were kept updated on the significant changes to remuneration for Sainsbury's store colleagues. As part of our 'Winning Teams' initiative, the business made an investment of over £100 million in pay for Sainsbury's store colleagues which took effect from September 2018. As well as introducing a single fair and consistent contract, giving us greater flexibility to ensure store colleagues are always in the right place at the right time for our customers, we made an industry-leading investment in pay, taking the base rate to £9.20 per hour, bringing the total increase to 30 per cent over the last four years.

In recognition of the great service Argos colleagues give to customers, we have also invested in the pay rates of our Argos store colleagues. The majority of colleagues received an increase from £8.00 to £8.50 in April 2019, bringing the increase to 18 per cent since we acquired Argos in September 2016.

In addition, during the year the Committee reviewed the Group's Gender Pay Report on behalf of the Board. We pay colleagues according to their role, not their gender, and the Board is committed to improving the representation of women at senior levels. In 2018, our mean gender pay gap reduced by 2.5 per cent to 12.1 per cent and our median gender pay gap reduced by 0.6 per cent to 3.8 per cent.

It is important that the pay for all our colleagues across the Group remains consistent with the principles of simplicity and fairness. For a number of years, Sainsbury's has emphasised how our values make us different and we seek to adopt a responsible approach to pay, that reflects our values, both across the Group and at more senior levels.

From an Executive Director perspective, no major changes to pay have been proposed for the coming year.

Our remuneration policy, which governs executive pay at Sainsbury's, was approved by 96 per cent of our shareholders at the 2017 AGM and the Committee considers that it continues to work well. Under the normal three-year renewal cycle, the policy will next be presented to shareholders for approval at the 2020 AGM. In the coming year we will be reviewing our approach to ensure that the policy continues to support the needs of the business as well as evolving market and best practice. This review will take place over the latter half of 2019 and we will seek to engage with our major shareholders regarding the conclusions of this review.

Remuneration in 2018/19

We remain committed to ensuring that rewards received by our executives reflect the underlying performance of the business. Total remuneration for the Chief Executive and Executive Directors has increased reflecting the progress made during the year.

- *Annual bonus* – Our Executive Directors were assessed against Group profit and individual annual operational objectives. The profit outcome was in the middle of the range set at the start of the year. The Directors also performed well against their objectives linked to individual strategic and customer and colleague metrics. In light of the overall results, the Committee determined an annual bonus of circa 56 per cent of maximum should be paid to the Executive Directors in respect of the year.
- *Deferred Share Award* – The Committee determined that awards under the DSA should be granted at 55 per cent of the maximum. This recognises the performance of the business against our internal targets, market expectations and our competitors in a highly competitive retail market and the achievements made on our strategic priorities. This award is deferred into shares. In response to shareholder feedback, we have enhanced the disclosure this year so that shareholders can better understand how outcomes have been determined. Details of financial and non-financial targets and achievements are set out on pages 78 and 79.
- *2016 Future Builder* – Reflecting our achievement against the five performance metrics, a performance multiplier of 2.2x (out of a maximum of 4.0) was applied to the core award for all participants resulting in vesting of 55 per cent of the maximum. For this award, one-fifth of the award was linked to the delivery of synergies relating to the acquisition of Argos, and we were pleased to deliver these ahead of schedule.

In line with the new Corporate Governance Code (the 2018 Code), the Committee reviewed the outcomes of the individual incentive plans as well as the overall levels of remuneration to ensure that they remained consistent with the underlying performance of the business. The Committee is satisfied that the total remuneration received by Executive Directors in respect of 2018/19 is a fair reflection of performance over the period.

Remuneration in 2019/20

As noted above, no major changes to remuneration are being proposed for the coming year. Key decisions in relation to remuneration for 2019/20 are set out below.

- *Salary* – We have awarded Mike Coupe, Kevin O'Byrne and John Rogers a salary increase of two per cent effective March 2019, which aligns with that awarded to other management colleagues. As noted above, other colleague populations received larger increases.
- *2019/20 annual bonus* – We will continue to operate the annual bonus for 2018/19 to reflect the approach we take for our management colleagues. 70 per cent of the maximum bonus opportunity will be based on Group profit and 30 per cent on business specific annual operational objectives.
- *2019/20 Deferred Share Award* – Executive Directors will participate in the DSA for 2019/20 on the same basis as 2018/19. They will be rewarded for the delivery of performance against a diverse range of key financial and strategic scorecard measures.
- *2019 Future Builder* – Our approach to the 2019 Future Builder awards will be broadly unchanged from 2018. Awards will be based on four equally weighted performance measures: return on capital employed, earnings per share, free cash flow and cost savings. We reviewed the targets to ensure they remain appropriately stretching and increased the free cash flow and cost savings targets to reflect our corporate plan. Following the three-year performance period, awards are subject to a further two-year holding period. Further details of the awards are set out on pages 80 and 81.

During the year the Committee has also considered how we will comply with the new 2018 Code that will apply to Sainsbury's for the 2019/20 financial year. As outlined above, the Remuneration Committee already spends significant time providing oversight of pay arrangements in the wider business and we have now formalised this practice in the Committee's Terms of Reference. We have also taken steps to strengthen some of our internal processes to ensure we can exercise suitable discretion in our incentive plans in line with the new 2018 Code. While we are well placed to comply with the majority of the 2018 Code, clearly there are certain aspects, such as our approach to pensions for any new Board appointments and our policy for post-employment shareholding, which will require further consideration. We will seek to address these matters as part of the new Remuneration Policy that will be presented at the 2020 AGM.

We hope that the disclosure provided in this report provides clear insight into the Committee's decisions and we look forward to receiving your support at the AGM.

Dame Susan Rice
Chair, Remuneration Committee

Attendance of Directors at scheduled Remuneration Committee meetings.

Susan Rice	4(4)	Jo Harlow	4(4)
Matt Brittin	4(4)		

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

Principal role and responsibilities

The specific responsibilities of the Committee include:

- Determining and agreeing with the Board the remuneration policy for the Chairman, Executive Directors and the Operating Board Directors;
- Setting individual remuneration arrangements for the Chairman, Executive Directors and Operating Board Directors;
- Reviewing and noting the remuneration trends and policies across the Company and taking these into account when determining executive pay;
- Approving the service agreements of each Executive Director, including termination arrangements; and
- Considering the achievement of the performance conditions under annual and long-term incentive arrangements.

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

Summary of 2018/19 remuneration decisions

Pay element	2018/19 decisions
Salary	— Mike Coupe – £962,297, Kevin O'Byrne – £637,500 and John Rogers £709,309 — Salary increase of two per cent for Executive Directors in March 2018, in line with other management and central colleagues.
Annual bonus **Awards of c. 56 per cent of maximum**	The 2018/19 bonus outturns were circa 56 per cent of the maximum for the Executive Directors. Key performance highlights: – Profit performance in line with expectations resulting in an outturn in the middle of the performance range. — Good performance against key individual annual operational objectives. — Full details of the bonus measures and achievements can be found on pages 76 and 77.
Deferred Share Award **Award of 55 per cent of maximum**	— Performance assessed taking into account financial performance, returns to shareholders, relative performance against peers and strategic priorities. — The majority of financial targets were met or exceeded. — Growth of 7.8 per cent in full-year dividend In year relative performance below expectations, following robust performance in prior years and within a highly competitive market. — Progress against strategic priorities, particularly in strengthening the balance sheet. — Details of targets and achievements can be found on pages 78 and 79.
LTIP/Future Builder **Vesting at 55 per cent of maximum**	— Future Builder, based on performance to March 2019, will vest at 55 per cent of the maximum. Full vesting was achieved under the cost savings and synergies elements, with partial vesting achieved under the cash flow element.

Total remuneration

		Mike Coupe £000		Kevin O'Byrne £000		John Rogers £000	
		2018/19	2017/18	**2018/19**	2017/18	**2018/19**	2017/18
Fixed pay	Salary	**962**	943	**638**	625	**709**	695
	Benefits	**17**	17	**17**	17	**85**	90
	Pension	**289**	283	**159**	156	**177**	174
Performance-related pay	Annual bonus	**593**	427	**316**	238	**357**	264
	Deferred Share Award	**582**	758	**316**	411	**351**	457
	LTIP/Future Builder	**1,438**	1,202	**787**	–	**848**	641
Total pay		**3,881**	3,630	**2,233**	1,447	**2,527**	2,321

Summary of remuneration for 2019/20

Pay element	Summary of policy	Approach for 2019/20
Salary **Increase in line with colleagues**	Salaries are set taking into consideration a range of internal and external factors. Increases are normally in line with those for the wider workforce.	The Executive Directors received a salary increase of two per cent effective from March 2019 in line with other management and central colleagues. The 2019/20 annual salaries are. — Mike Coupe £981,543 — Kevin O'Byrne – £650,250 — John Rogers – £723,496
Benefits	Range of benefits provided in line with market practice and reflecting individual circumstances.	No changes to current arrangements.
Retirement benefits	Participation in either the Company defined contribution plan and/or a cash salary supplement. The maximum value is 30 per cent of salary for existing Executive Directors. For new appointments the maximum value is 25 per cent.	No changes to salary supplement in lieu of pension for Mike Coupe (30 per cent of salary) and other Executive Directors (25 per cent of salary). During the course of 2019/20 the Committee will review the Directors' Remuneration Policy, including the policy for retirement benefits, in light of the updated 2018 Code.
Annual bonus **No change to quantum or performance measures**	Based on key financial and individual annual operational objectives measured over one year, with bonus payable in cash after the year-end Maximum opportunity of up to 125 per cent of salary per annum.	Performance is based on Group profit (70 per cent) and annual operational objectives (30 per cent) The maximum bonus for 2019/20 is: — Mike Coupe – 110 per cent of salary — Other Executive Directors – 90 per cent of salary
Deferred Share Award **No change to quantum and general structure**	Recognises and rewards for delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth. Performance measured over one year, after which award made as share awards, deferred for two financial years Maximum opportunity of up to 125 per cent of salary per annum.	Performance over the financial year is based on financial performance, returns to shareholders, relative performance against peers and strategic priorities. Financial performance and returns to shareholders account for half of the DSA. The maximum award for 2019/20 is — Mike Coupe – 110 per cent of salary Other Executive Directors – 90 per cent of salary
LTIP/Future Builder **No change to quantum or performance measures** **Reviewed target ranges**	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Awards dependent on performance measured over a period of at least three financial years. For awards granted from 2017 onwards, a two-year holding period applies following the end of the three-year performance 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 2019 awards are: — Mike Coupe – core award of 62.5 per cent of salary (max 250 per cent) — Other Executive Directors – core award of 50 per cent of salary (max 200 per cent) The targets for 2019 awards are below:

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
Return on capital employed (ROCE)	25%	8.0%	11.0%
Underlying basic earnings per share (EPS)	25%	23.0p	30.0p
Cumulative free cash flow (cash flow)	25%	£900m	£1,400m
Cumulative strategic cost savings (cost savings)	25%	£600m	£750m

Shareholding guidelines	The Executive Directors are required to build a significant shareholding in the Company. For the CEO this is 2.5 x salary, while for other Executive Directors this is 2.0 x salary. The shareholding guidelines are aligned with the maximum grant levels for Future Builder awards. During the course of 2019/20 the Committee will review the Directors' Remuneration Policy, including post-employment shareholding guidelines, in light of the updated 2018 Code and developing market practice.
Recovery provisions	The Executive Directors' incentive arrangements are subject to malus and clawback.

Annual Report on Remuneration

Remuneration principles

We want to have a fair, equitable and competitive total reward package which encourages colleagues to do the right thing for our customers. As a Group with multiple business units, the principles of fairness, equality and simplicity are important to us, and we aim for consistency in pay and benefits where appropriate. This overall reward strategy is the foundation for the remuneration policy for senior executives.

The over-arching objectives of the remuneration policy are to ensure rewards are fair, performance-based and encourage long-term shareholder value creation. The remuneration policy for our senior executives is based on the following principles.

Linked to our business strategy	Aligned to our values	Encourages the right behaviours to deliver long-term growth	Secures high calibre leaders	Enables share ownership

The Committee takes a rounded approach to pay and considers a variety of factors when determining, and subsequently implementing, the policy for senior management. 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.

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

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

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 9 March 2019, together with comparative figures for the 52 weeks to 10 March 2018.

		Mike Coupe £000		Kevin O'Byrne[5] £000		John Rogers £000	
	Notes	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18
Base salary		**962**	943	**638**	625	**709**	695
Benefits	1	**17**	17	**17**	17	**85**	90
Pension		**289**	283	**159**	156	**177**	174
Total fixed pay		***1,268***	*1,243*	***814***	798	***971***	*959*
Annual bonus	2	**593**	427	**316**	238	**357**	264
Deferred Share Award	3	**582**	758	**316**	411	**351**	457
LTIP/Future Builder	4	**1,438**	1,202	**787**	-	**848**	641
Total		**3,881**	3,630	**2,233**	1,447	**2,527**	2,321

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. For John Rogers this also includes an annual travel allowance of £6,500 and accommodation costs of £61,286 per annum in relation to a change of location to Milton Keynes following his appointment as CEO of Sainsbury's Argos. Mike Coupe's figure for 2017/18 and 2018/19 include a value for Sharesave options based on a 20 per cent discount on the savings in the year.

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

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

4 The Long-Term Incentive Plan value relates to the Future Builder award vesting in May following the end of the relevant financial year, which is the third year of the performance period. For 2015 and 2016 awards, 50 per cent of the shares are released in May after the end of the relevant performance period and the balance one year later. The figures include accrued dividends over the performance period. The 2017/18 values are based on the actual share price on the first date of vesting, £3.020. Awards were granted on 14 May 2015 at a share price of £2.762. The values shown above include the following amounts attributable to share price appreciation: £103k for Mike Coupe and £55k for John Rogers. The 2018/19 values are based on the average share price over the fourth quarter for 2018/19 of £2.669. Awards for Mike Coupe and John Rogers were granted on 12 May 2016 at a share price of £2.650. The award for Kevin O'Byrne was made on 26 January 2017 at a share price of £2.606. The values shown above include the following amounts attributable to share price appreciation: £10k for Mike Coupe, £19k for Kevin O'Byrne and £6k for John Rogers.

5 Kevin O'Byrne joined in January 2017. As part of his joining arrangements, he received a Future Builder award, which vests in part in May 2019. This is the first Future Builder vesting since he joined.

6 The Executive Directors are entitled to retain the fees earned from non-executive appointments outside the Company. Mike Coupe was appointed a Non-Executive Director of Greene King plc on 26 July 2011 and received £50,000 for his services during 2018/19 (2017/18: £50,000). John Rogers was appointed a Non-Executive Director of Travis Perkins plc on 1 November 2014 and received £57,363 for his services during 2018/19 (2017/18: £57,650). Kevin O'Byrne will be appointed a Non-Executive Director of Centrica plc effective from 13 May 2019, he received no fee during 2018/19.

Base salary

	Salary effective from 11 March 2018	Salary effective from 10 March 2019
Mike Coupe	£962,297	£981,543
Kevin O'Byrne	£637,500	£650,250
John Rogers	£709,309	£723,496

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. The salary review for management and central colleagues in March 2019 was generally two per cent. As outlined in the Remuneration Committee Chair's letter, we have invested heavily in both our Sainsbury's store and Argos store colleagues, resulting in higher increases in the standard base rates for colleagues compared to increases for management colleagues

For 2019/20 Mike Coupe, Kevin O'Byrne and John Rogers will receive a salary increase of two per cent effective March 2019, in line with other management colleagues.

Pension

In lieu of pension plan participation, Mike Coupe receives a cash pension supplement of 30 per cent of salary and Kevin O'Byrne and John Rogers receive 25 per cent of salary. No Director has any entitlement to a Sainsbury's defined benefit pension. All pension arrangements were implemented prior to the publication of the 2018 Code.

As communicated in last year's Remuneration Report, under the forward-looking policy, retirement benefits for any future appointments are capped at 25 per cent of salary, rather than the previous limit of 30 per cent. We will review this again, in light of the updated 2018 Code, as part of the 2020 Directors' Remuneration Policy review.

Benefits

For 2018/19 and 2019/20, benefits for Executive Directors include the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount. Benefits for John Rogers also include an annual travel allowance and accommodation costs, in relation to a change of location to Milton Keynes, following appointment as CEO of Sainsbury's Argos.

Performance-related pay

The Committee believes it is important that a significant portion of the Executive Directors' package is performance-related and that the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and the long-term sustainable success of the Company.

The specific metrics incorporated into the annual bonus, Deferred Share Award and Future Builder are built around the overall strategy and our key priorities.

Annual bonus
Short-term

Deferred Share Award
Medium-term

Future Builder
Long-term

1 **Differentiate food and grocery through quality, value and service**

2 **Grow General Merchandise and Clothing**

3 **Offer our customers easy access to financial services**

4 **Generate efficiencies to invest in our digital future**

5 **Strengthen the balance sheet**

Profit
Annual operational objectives

Financial performance
Returns to shareholders
Relative performance
Strategic priorities

ROCE
EPS
Free cash flow
Cost savings

The Board is of the opinion that the performance targets for the 2019/20 annual bonus and Deferred Share Award 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 is retrospectively disclosing the financial performance targets set for the 2018/19 annual bonus in order to provide greater transparency. Detailed disclosure is also provided in relation to the Deferred Share Award so that shareholders can understand the basis for payments. Targets for Future Builder awards have been disclosed on a prospective basis.

Annual bonus

2019/20 policy

We will follow the same, simplified approach as used for the 2018/19 annual bonus. The Board and senior management bonus will be based 70 per cent on Group profit and 30 per cent on annual operational objectives. We believe that Group profit is the most important measure for senior managers as it is the ultimate outcome of engaging our colleagues, providing great customer service, driving sales and managing costs.

The Group profit 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.

Annual operational objectives ensure that management continue to focus on operational priorities which contribute to the achievement of Group profitability over the short and long term. For Executive Directors, these objectives will be grouped around two equally weighted elements of individual strategic and customer and colleague. The individual strategic objectives will be based around our strategic priorities and will be specific to each Director (for example, John Roger's objectives will include Sainsbury's Argos performance). The customer and colleague element will include customer service, and colleague metrics based on engagement scores and inclusion.

The maximum annual bonus award opportunity for the Chief Executive is 110 per cent of base salary and for the other Executive Directors is 90 per cent of base salary. Historically the annual bonus has operated with a performance gateway whereby a minimum level of profit must be met before any payments under the annual bonus are made to Executive Directors. Taking into account the updated 2018 Code, from 2019/20 the performance gateway has been strengthened so that the Committee may adjust outcomes if it considers that they do not reflect the underlying financial or non-financial performance of the Executives or the Group. The annual bonus is paid in cash after the year-end.

2018/19 annual bonus outturn (audited information)

The performance measures for 2018/19 were Group profit and annual operational objectives. As the gateway level of profit was achieved, Executive Directors are eligible to be considered for a payment under the annual bonus for 2018/19.

Financial performance

The table below sets out the threshold and stretch profit and sales targets and the actual outturn for 2018/19.

	Threshold	Stretch	Actual
Profit[1]	£585m	£685m	£635m

1 Underlying profit before tax

The profit targets were robustly set at the start of the year reflecting both our internal and external forecasts at that time.

Our senior team, managers and colleagues throughout our business all shared a consistent focus to drive sales, control costs and deliver great products and services to our customers. This enabled us to deliver profit in line with expectations resulting in an outturn in the middle of the performance range.

Annual operational performance

The remainder of the bonus was focused on annual operational objectives split into two equally weighted elements, (i) individual strategic and (ii) customer and colleague.

The tables opposite set out the objectives and the Executive Directors' performance in relation to these objectives as assessed by the Remuneration Committee. The Executive Directors have specific individual strategic objectives but common customer and colleague objectives, although there is a greater emphasis on Sainsbury's Argos for John Rogers.

2018/19 annual bonus payments

Overall, the Committee is comfortable with the bonus outcomes, particularly when the broader context of the retail market performance is considered.

The table below shows the bonus payable as included in the single total figure table as well as a breakdown by element.

	Maximum opportunity	Outcome	
	Per cent of salary	Per cent of salary	Value £000
Mike Coupe			
Profit	77%	39%	£371
Annual operational objectives	33%	23%	£222
Total	**110%**	**62%**	**£593**
Kevin O'Byrne			
Profit	63%	32%	£201
Annual operational objectives	27%	18%	£115
Total	**90%**	**50%**	**£316**
John Rogers			
Profit	63%	32%	£224
Annual operational objectives	27%	19%	£133
Total	**90%**	**50%**	**£357**

Annual operational performance
Individual strategic objectives

Mike Coupe

Objectives	Achievements
Driving strategy Complete the delivery of the Argos acquisition plan, ongoing development of the business strategy	Argos integration plan delivered, major transformation in Sainsbury's stores; increased digital capability; developing Nectar data advantage; increased store trading intensity; continuing development of business strategy
Delivery for our shareholders — Build the financial strength of the organisation – increase ROCE, grow EPS to 22.2p and reduce net debt by £100m before fair value movements	ROCE increased from 8.43% to 8.46%, increased EPS by 7.8% to 22.0p (just short of target), £162m reduction in net debt before fair value movements (£222m after fair value movements)
Managing our cost base Deliver £200m in year of cost savings	Delivered £220m of cost savings

Kevin O'Byrne

Objectives	Achievements
Cost transformation — Deliver cost savings of £200m and undertake wider structural review	Delivered £220m of cost savings and commenced structural changes to reduce Group capital and operating expenditure
Cash flow · Deliver retail free cash flow in line with expectations and reduce net debt by £100m before fair value movements	Delivered strong retail free cash flow of £461m and £162m reduction in net debt before fair value movements (£222m after fair value movements), ahead of guidance
Capital discipline — Deliver improved returns and manage budget allocation and expenditure	Capital expenditure of £512m, below previous year and guidance, with improved returns delivered

John Rogers

Objectives	Achievements
Continue execution of Sainsbury's Argos strategy — Improve multi-channel customer experience to drive growth and support the Group strategy	£160m synergies delivered nine months ahead of schedule, continued transformation of store estate and development and launch of new commercial strategy
Build financial strength of Sainsbury's Argos — Deliver sales and other key financial metrics across Sainsbury's General Merchandise and Clothing and Argos	Grew Argos sales; General Merchandise sales flat; improvement in other key financial metrics
Accelerate digital transformation plan — Focus on improving our digital shopping experience; grow *Fast Track* delivery and *Fast Track* Click & Collect; grow digital and mobile participation	Increased digital revenues and digital and mobile participation; growth in *Fast Track* delivery (up 13%) and *Fast Track* Click & Collect (up 10%)

Customer and colleague objectives
These apply to each Executive Director.

Objectives	Achievements
Customer — Focus on customer experience and develop a new grocery satisfaction metric	Launched Lettuce Know programme in Sainsbury's during year, improving feedback trend Mike and John's performance was also reviewed in the context of Sainsbury's Argos – Argos increased customer satisfaction scores across physical and digital channels
Colleague – Focus on employee engagement maintain scores from prior year	Increase in colleague engagement scores across the Group, following major transformation in Sainsbury's stores John's performance was also reviewed in the context of Sainsbury's Argos increase in colleague engagement scores in Argos
Inclusion — Improve representation of women and BAME colleagues in leadership roles – aspirational target of 40% female and 10% BAME senior managers and departmental directors by 2021	At senior levels, female representation increased to 31.4% and BAME increased to 7.5% John's performance was also reviewed in the context of Sainsbury's Argos – 40% of Argos store managers are female and 7% are BAME

Deferred Share Award

2019/20 policy

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

The DSA covers broadly the top 50 senior leaders in the Company, including Executive Directors. Performance is assessed in the round based on the Committee's judgement of performance achieved against a number of measures within four broad categories. The categories and measures for 2019/20 are broadly similar to those disclosed for 2018/19.

As outlined in our remuneration policy, at least 50 per cent of the award will be based on the delivery of financial performance and returns to shareholders. In addition, in line with the annual bonus, from 2019/20 the performance gateway has been strengthened so that the Committee may adjust outcomes if it considers that they do not reflect the underlying financial or non-financial performance of the Executives or the Group

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

The maximum DSA award opportunity for the Chief Executive is 110 per cent of base salary and for the other Executive Directors is 90 per cent of base salary.

2018/19 Deferred Share Award (audited information)

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

The Committee reviews performance against expectations using the following assessment grid:

Rating	Performance
Outperformance	Delivers strong performance beyond expectations, raising the bar on expected results Clear evidence of raising strategic ambition/progression
Good	Demonstrates a good performance against all objectives and performance areas Is consistent with progression against the Company's strategic targets
On track	Delivers a solid rounded performance against most objectives and all critical performance areas
Partially met	Delivers against some objectives and most critical performance areas
Underperformance	Performance is low with important objectives and targets not achieved

During the year the Company met or exceeded the majority of its financial targets. The full-year dividend payment grew by 7.8 per cent and, while in-year relative performance was below expectations, this follows robust performance in prior years and is due to the highly competitive market and recovery in peer results. The Company also made progress against its strategic priorities, particularly driving efficiencies, which provides a solid foundation to maximise opportunities for growth and to create value for all stakeholders

The Committee, therefore, agreed that for 2018/19 awards would be made at 55 per cent of the maximum level, compared with 73 per cent last year. It also determined that the performance gateway for the plan was achieved. Although some of the specific measures and targets are commercially sensitive, the table on the following page presents a selection of performance highlights which the Committee took into account within each of the four categories.

The table below sets out details of the awards and these are the figures set out in the DSA row of the single total figure table. The share award is made after the end of the 2018/19 financial year and the shares vest in March 2021 subject to continued employment.

	Maximum opportunity	Outcome	
	Per cent of salary	Per cent of salary	Value £000
Mike Coupe	110%	61%	£582
Kevin O'Byrne	90%	50%	£316
John Rogers	90%	50%	£351

Category (weighting)	Metric	Expectation/target	Result	Achievement
Financial (30%)	Underlying Group sales	In line with expectations	Partially met – growth of 2.1 per cent	19% (out of 30%)
	UPBT	In line with expectations	On track – UPBT of £635m	
	Other	Hit budget for other financial metrics	Achieved or exceeded cost saving, synergies and operating margin targets; outperformed net debt target, with a reduction of £162m	
Return to shareholders (20%)	TSR	Growth and above median of peers	Good performance – growth and above median	12% (out of 20%)
	Dividend	Maintain dividend cover policy of 2x; competitive dividend payment	On track – dividend cover of 2x, full-year dividend increased by 7.8%	
Relative performance (20%)	Sales vs peers	Flat against IGD (Sainsbury's) and BRC (Argos)	Sainsbury's sales below index; Argos sales above index	5% (out of 20%)
	Profit vs peers	% of profit pool flat vs. 17/18	Decline due to recovery in performance of peers	
	Quality, price and service vs peers	Quality/price perception above peers, Win Grocer 33	Quality, price and service measures partially met Grocer 33 – decline on previous years	
Strategic priorities (30%)	Food and grocery	Remuneration Committee assessment in the round – key achievements summarised below	On track	19% (out of 30%)
	GM and Clothing		On track	
	Financial Services		On track	
	Generate efficiencies		Outperformance	
	Strengthen balance sheet		On track	
Overall outcome (% of max)				**55%**

Strategic priorities

1. Differentiate food and grocery through quality, value and service
- Grocery sales increased by 0.6 per cent
- Outperformed market in Convenience, grew sales by 3.7 per cent
- Groceries Online sales grew by 6.9 per cent

  Growth in premium, value-added ranges help us to invest in making our commodity ranges better value, but there is more work to do to grow sales
- Increased trading intensity of our stores
- Major transformation in our stores to meet challenges of today's retail environment

2. Grow General Merchandise and Clothing
- General Merchandise sales were flat in a declining market
- Argos sales grew and outperformed a highly competitive and very promotional market by 2.2 per cent
- Now have 281 Argos stores in Sainsbury's supermarkets, achieving our target of 280
- Industry-leading customer satisfaction levels in Argos with Net Promoter Score continuing to increase and ranked eighth in an independent UK-wide customer service survey
- *Tu* sales outperformed the market, even though sales declined, sixth largest clothing brand by volume

3. Offer our customers easy access to financial services
- Financial Services underlying operating profit decreased to £31m as previously guided
- Argos Finance Services grew, with 19 per cent of Argos sales on Argos Cards and balances up 11 per cent
- Growth in mortgages, general insurance and Travel Money, lower ATM transactions
- Increased customer numbers – five per cent at Sainsbury's Bank and six per cent in Argos Financial Services

4. Generate efficiencies to invest in digital our future
- Bringing Sainsbury's and Argos together delivered £160m of synergies, delivered nine months ahead of schedule
- Delivered £220m of cost savings in 2018/19, ahead of £200m target
- Using buying scale, product base and property portfolio to reduce costs
- Enhanced digital scale and capability – £4.7bn of our sales are generated online
- Nectar deepens our understanding of how customers are shopping across the Group – 18.5 million registered users

5. Strengthen the balance sheet
- Reduced net debt by £162m before fair value movements (£222m after fair value movements), exceeding the target of £100m
- Capital expenditure of £512m, remains low compared to previous years
- Delivered strong retail free cash flow of £461m

Long-term incentives

2019/20 policy

The Long-Term Incentive Plan operated at Sainsbury's is known as Future Builder. Around 275 senior managers across the business participate in this arrangement. Awards are granted under the Long-Term Incentive Plan approved by shareholders in 2016.

Future Builder awards have been granted under the same structure for a number of years. 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, historically, awards have been structured so that half of any awards vest following the end of the performance period, with the remaining half vesting after a further year. For awards granted to Executive Directors from 2017 onwards, awards will normally be subject to a two-year holding 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 Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting; vesting will be reduced if not. 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 plan and mitigates the risk of unwarranted vesting outcomes. This performance gateway assessment applies to all outstanding Future Builder awards.

2019 Future Builder awards (2022 vesting)

Award levels will remain unchanged for the coming year. In 2019 Mike Coupe will receive a core award of 62.5 per cent of salary (maximum 250 per cent of salary) and the other Executive Directors will receive core awards of 50 per cent of salary (maximum 200 per cent of salary).

The 2019 awards will be subject to four metrics: ROCE, EPS, free cash flow and cost savings.

The ROCE, EPS, free cash flow and cost savings targets have been reviewed, and the Committee increased the free cash flow and cost savings targets to reflect the corporate plan. The Committee is confident that the target ranges are stretching and reflect the current and future prospects of the business as well as the retail sector as a whole over the next three years.

The agreed measures, targets and weightings for 2019 awards are as follows:

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE	25%	8.0%	11.0%
Underlying basic EPS	25%	23.0p	30.0p
Cumulative free cash flow	25%	£900m	£1,400m
Cumulative strategic cost savings	25%	£600m	£750m

2019 Future Builder performance measures (definitions for other awards can be found in the relevant Annual Report)

ROCE

- ROCE reflects the returns generated for shareholders and measures the efficiency of capital use.
- It is based on the underlying profit before interest and tax for the whole business, with Sainsbury's Bank fully consolidated, including the underlying share of post-tax profit from joint ventures. The capital employed figure excludes the impact of movements in the IAS 19 pension deficit.

EPS

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

Free cash flow

- Free cash flow measures the total flow of cash in and out of the business as well as providing an assessment of underlying profitability.
- Free cash flow for these purposes is retail operating cash flow after changes in working capital, normal pension contributions, interest and corporate tax paid, normal net capex (for example, this would exclude strategic purchases and sale and leaseback of assets) and capital injections into the Bank. It is cumulative over the performance period.

Cost savings

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

2016 Future Builder (2016/17 to 2018/19 performance period) (audited information)

The 2016 Future Builder award was subject to ROCE, EPS, cash flow, cost savings and Home Retail Group (HRG) synergy targets. The 2016 Future Builder award was the first award following the acquisition of HRG and, to reflect the importance of delivering synergies to the deal, the Committee introduced HRG synergy targets as a fifth measure. In addition, a performance gateway had to be achieved before any element could vest

The Committee reviewed the formulaic outcome of the awards and determined that it was appropriate to make an adjustment to the calculation of underlying cash flow so that the costs associated with the structural changes made in stores were included as they were incurred as a result of management actions. This reduced the cash flow outcome for the purposes of the award and therefore resulted in the multiplier reducing from 2.3x to 2.2x. This multiplier is applied to the core award, i.e. 55 per cent of the maximum available award vested. The table below sets out the extent to which each performance measure was achieved (and shows the adjusted cash flow figure).

	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)	Achieved	Multiplier achieved (out of a maximum 4 0x)
ROCE[1]	20%	9 0%	12 0%	8.45%	0 0x
Underlying basic EPS	20%	23.0p	30.0p	22.0p	0.0x
Cumulative underlying cash flow from retail operations after capex[2]	20%	£3,500m	£5,150m	£4,718m	0 6x
Cumulative strategic cost savings	20%	£350m	£450m	£535m	0.8x
HRG acquisition synergies	20%	£100m	£150m	£200m	0.8x
Performance gateway	The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting.			Achieved	
			Total	**2.2x out of a maximum of 4.0x**	

1 Figure relates to Group ROCE including Argos excluding pension fund deficit.
2 Cumulative underlying cash flow from retail operations based on the reported cash flow generated from core retail operations over the performance period after adding back net rent and cash pension costs and adjusted for the cash impact of non-underlying items Only core retail operations are included in recognition of the differences in cash generation between the retail business and Sainsbury's Bank

Unvested Future Builder awards

The targets for Future Builder awards granted in 2017 and 2018 are set out in the table below

2017 Future Builder (2017/18 to 2019/20 performance period)	Weighting	Threshold target (1 0x core award)	Maximum target (4.0x core award)
ROCE	20%	8.0%	11 0%
Underlying basic EPS	20%	23.0p	30.0p
Cumulative underlying cash flow from retail operations after capex	20%	£3,500m	£5,150m
Cumulative strategic cost savings	20%	£450m	£550m
HRG acquisition synergies	20%	£160m	£200m

2018 Future Builder (2018/19 to 2020/21 performance period)	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE	25%	8.0%	11.0%
Underlying basic EPS	25%	23.0p	30.0p
Cumulative free cash flow	25%	£800m	£1,300m
Cumulative strategic cost savings	25%	£450m	£550m

Share awards made during the financial year (audited information)

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

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Number of shares	Performance period end date
Mike Coupe	Future Builder[1]	250% of salary	£2,405,742	25% of each element	800,260	6 March 2021
	DSA[2]	80.3% of salary	£757,571	N/A	252,003	N/A
Kevin O'Byrne	Future Builder[1]	200% of salary	£1,274,990	25% of each element	424,120	6 March 2021
	DSA[2]	65.7% of salary	£410,623	N/A	136,592	N/A
John Rogers	Future Builder[1]	200% of salary	£1,418,614	25% of each element	471,896	6 March 2021
	DSA[2]	65.7% of salary	£456,876	N/A	151,978	N/A

1 The performance conditions applying to 2018 Future Builder awards are set out in the previous section The basis of award shows the maximum value being four times the core award The award was made on 11 May 2018 and the number of shares has been calculated using the five-day average share price prior to grant (3 to 10 May 2018) of £3 0062 Subject to performance, the award will vest in May 2021 and will be released after a two-year holding period The award is structured as a nil-cost option with an exercise period of up to six years from grant
2 The DSA was made on 11 May 2018 based on performance over the 2017/18 financial year The award was made at 73 per cent of the maximum level (maximum of 110 per cent of salary for Mike Coupe and 90 per cent of salary for the other Executive Directors) The number of shares has been calculated using the five-day average share price prior to grant (3 to 10 May 2018) of £3 0062 No further performance conditions apply Awards become exercisable in March 2020. The award is structured as a nil-cost option with an exercise period of up to ten years from grant.

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 2018/19 financial year. Further details of the movements of the Executive Directors' share awards during the year are set out on page 85.

	Ordinary shares[1]			Scheme interests[3]			
	10 March 2018	9 March 2019	30 April 2019[2]	Deferred Share Awards[4]	Future Builder awards with performance period completed[5]	Future Builder awards with performance period outstanding[6]	SAYE
Mike Coupe	1,280,690	1,602,727	1,602,727	519,976	176,137	2,560,288	4,518
Kevin O'Byrne	180,000	180,000	180,000	136,592	n/a	1,371,804	n/a
John Rogers	750,843	938,059	938,159	313,588	93,940	1,509,752	n/a

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 John Rogers' total includes shares purchased under the Sainsbury's Share Purchase Plan between 9 March 2019 and 30 April 2019
3 Deferred Share Awards and Future Builder awards are structured as nil-cost options
4 Relates to 2016/17 and 2017/18 Deferred Share Awards
5 Relates to 2015 Future Builder awards
6 Relates to 2016, 2017 and 2018 Future Builder awards (maximum) where the performance period has not ended. As noted above, following the year-end, the 2016 award will vest at 55 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 6.1 million shares (2018: 0.35 million) held by the Trustees

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 were updated in the 2017 Directors' Remuneration Policy and require the Chief Executive to have a holding of 2.5 times salary and other Executive Directors to hold shares with a value of 2.0 times salary. Directors are required to build this shareholding within five years of appointment to the relevant role. In addition to shares held, share awards under the DSA and Future Builder awards where the performance period has ended count towards the guideline (on a net of tax basis).

Both Mike Coupe and John Rogers have shareholdings that meet and exceed the shareholding guideline. Kevin O'Byrne was appointed to the Board in January 2017 and will be expected to build his shareholding during the course of his tenure.

Under the existing remuneration policy Executive Director 'good leavers' will normally retain an interest in the Company's shares and be aligned with shareholders' interests post-cessation. The Company's Directors' Remuneration Policy expires in 2020 and in advance of this the Committee will consider the adoption of formal post-cessation shareholding guidelines in line with the updated 2018 Code.

Shareholding calculated using (i) salaries as at 9 March 2019, (ii) share total based on total of shareholding plus net of tax value (tax assumed to be 47 per cent) of share awards not subject to performance as at 9 March 2019 and (iii) the closing mid-market share price on 8 March 2019 of £2.238.

All-employee share plans

The Company encourages share ownership and operates two all-employee share plans for colleagues, namely the Savings-Related Share Option Plan (Sharesave) and the All-Employee Share Ownership Plan, of which the Sainsbury's Share Purchase Plan (SSPP) is a part. Participation in Sharesave is conditional on three months' service. Executive Directors may participate in these plans in the same way as all other colleagues. Mike Coupe participates in Sharesave and John Rogers currently participates in SSPP. As these are all-employee plans there are no performance conditions.

The 2013 Sharesave plan (five-year), with a £3.32 option price, and the 2015 Sharesave plan (three-year), with a £1.95 option price, came to an end on 1 March 2019 for over 10,000 colleagues. Colleagues could either take their savings or use the money to buy Sainsbury's shares at the option price. Using the market price on the date of the first exercise, the value of all the shares subject to the maturity was over £14.5 million. The Company currently has over 29,500 colleagues participating in Sharesave with around 57,643 individual savings contracts.

Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remain within best practice guidelines so that dilution from employee share awards does not exceed ten per cent of the Company's issued share capital for all-employee share plans and five per cent in respect of executive share plans in any ten-year rolling period. The Company monitors dilution levels on a regular basis and the Committee reviews these at least once a year. Up to 9 March 2019, an estimated 7.8 per cent of the Company's issued share capital has been allocated for the purposes of its all-employee share plans over a ten-year period, including an estimated 2.6 per cent over ten years in respect of its executive plans. This is on the basis that all outstanding awards vest in full.

Performance and CEO 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.

	CEO	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15[1]	2015/16	2016/17	2017/18	2018/19
Single figure remuneration £000	M Coupe:	–	–	–	–	–	1,507	2,802	2,354	3,630	3,881
	J King:	4,441	4,380	3,471	4,366	3,906	405	–	–	–	–
Bonus/DSA award as a percentage of maximum	M Coupe:	–			–	–	26%	78%	35%	57%	56%
	J King:	92%	65%	61%	84%	73%	0%	–	–	–	–
LTIP vesting percentage of maximum	M Coupe:	–	–	–			0%	0%	22.5%	42.5%	55%
	J King:	80%	48%	43%	44%	40%	0%				–

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

Percentage change in Chief Executive's remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2017/18 and 2018/19 compares with the percentage change in the average of each of those components of pay for all our colleagues.

	Salary % change	Benefits % change	Bonus % change
Chief Executive[1]	2.0%	0.0%	38.9%
All colleagues[2]	4.9%	4.1%	-3.3%

1 The bonus per cent change relates to the cash annual bonus.
2 Figures relate to average based on number of full-time equivalent colleagues. In September 2018 the base rate for Sainsbury's store colleagues increased and the bonus ceased, a partial year bonus was paid to this population. Therefore, the change in bonus for all colleagues is not on a like-for-like basis.

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 29 to the financial statements) and distributions to shareholders (being declared dividends).

Colleague pay			Distribution to shareholders		
2017/18 £m	2018/19 £m	% change	2017/18 £m	2018/19 £m	% change
3,134	3,170	1.1%	212	224	5.7%

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 9 March 2019 for each Non-Executive Director, together with comparative figures for the 52 weeks to 10 March 2018.

	2018/19			2017/18		
	Fees[1] £000	Benefits[2] £000	Total £000	Fees[1] £000	Benefits[2] £000	Total £000
David Tyler	510	1	511	505	1	506
Martin Scicluna[3]	84	0	84	–	–	–
Matt Brittin	68	0	68	66	–	66
Brian Cassin	68	0	68	66		66
David Keens	87	5	92	85		85
Susan Rice	107	15	122	98	10	108
Jean Tomlin	69	2	71	79	–	79
Jo Harlow[4]	79	2	81	34	2	36

1 Paid in relation to the year.
2 David Tyler received a non-cash benefit of private medical cover. The benefits for the other Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office.
3 Martin Scicluna was appointed to the Board on 1 November 2018.
4 Jo Harlow was appointed to the Board on 11 September 2017.

David Tyler received an annual cash fee of £510,000, private medical cover and a colleague discount card.

Martin Scicluna was appointed to the Board as Chairman-Designate on 1 November 2018. His fee as Chairman-Designate was £237,500. Following David Tyler's departure on 9 March 2019, Martin's fee as Chairman was set at £475,000. Martin receives no benefits other than a colleague discount card.

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

During the year, the Non-Executive Director fees were reviewed but no changes were made. Fees are therefore unchanged from last year as follows:

	Fees effective from 24 September 2017
Base fee	£67,500
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)	£13,500

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

	Ordinary shares[1]		
	10 March 2018	9 March 2019	30 April 2019
David Tyler	78,599	78,599	–
Martin Scicluna[2]	–	15,000	15,000
Matt Brittin	14,090	14,090	14,090
Brian Cassin	25,000	25,000	25,000
David Keens	100,000	100,000	100,000
Susan Rice	4,000	4,000	4,000
Jean Tomlin	4,415	4,415	4,415
Jo Harlow	–	8,000	8,000

1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.
2 Martin Scicluna was appointed to the Board on 1 November 2018.

Directors' appointment dates

Mike Coupe	1 August 2007 (appointment as Chief Executive 9 July 2014)
Kevin O'Byrne	9 January 2017
John Rogers	19 July 2010
David Tyler	1 October 2009 (Chairman from 1 November 2009 to 9 March 2019)
Martin Scicluna	1 November 2018 (Chairman from 10 March 2019)
Matt Brittin	27 January 2011
Brian Cassin	1 April 2016
David Keens	29 April 2015
Susan Rice	1 June 2013
Jean Tomlin	1 January 2013
Jo Harlow	11 September 2017

Governance – The Remuneration Committee

Committee membership

The Remuneration Committee during the year comprised Susan Rice (Chair), Matt Brittin and Jo Harlow. All members of the Committee are independent Non-Executive Directors.

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. David Tyler, Martin Scicluna, Mike Coupe, Angie Risley (Group HR Director), Deborah Dorman (Director of Corporate HR), Sarah Desai (Group Head of Reward) and Duncan Cooper (Director of Group Finance) are invited to attend Committee meetings. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. Individuals who attend Remuneration Committee meetings are not present when their own remuneration is being determined.

The Committee typically meets four times each year, or more 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. The key issues the Committee discussed during the year were remuneration arrangements in relation to changes on the Operating Board, enhancing the disclosure for the Deferred Share Award outturn to provide shareholders with more information on the performance assessment, and the proposed changes to the 2018 Code.

The Committee complies with relevant regulations and considers the UK Corporate Governance Code and best practice when determining pay and policy. The Committee is well placed to comply with the new Code given its historic practice of considering remuneration across the wider Group, to ensure that pay and incentives across the Company support the long-term success of the business.

Advisers to the Remuneration Committee

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was supported by its appointed advisers, Deloitte LLP (Deloitte). Deloitte were reappointed by the Committee as advisers in 2013 following a competitive tender. During the year they provided advice to the Committee on a range of topics including remuneration trends, corporate governance, incentive plan design, incentive plan rules and the remuneration policy. Their consultants attended all of the Committee meetings. In relation to their advice, Deloitte received fees of circa £80,000 (fees are based on hours spent). During the year, Deloitte provided the Company with unrelated advice and consultancy on transaction support and due diligence, information technology, organisational structure, data analytics and taxation.

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.

Statement of voting at general meeting

The table below sets out the votes on the Annual Report on Remuneration at the 2018 AGM and on the Directors' Remuneration Policy at the 2017 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 (2018 vote)	95.31% 1,586 million	4.69% 78 million	 57 million
Remuneration Policy (2017 vote)	95.60% 1,519 million	4.40% 70 million	– 57 million

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

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

Name	Award	Date of award	Share price at date of award (pence)	Option price (pence)	Number of options held at 10 March 2018	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)[4]	Number of options held at 9 March 2019
Mike Coupe	Long-Term Incentive Plan[1]	15/05/2014	333	Nil	67,471	12,522	79,993	–	301	04/05/2018	241	–
		14/05/2015	269	Nil	828,880	22,894	199,031	476,606	301	04/05/2018	599	176,137
		12/05/2016	253	Nil	876,936	–	–	–	–	–	–	876,936
		11/05/2017	265	Nil	883,092	–	–	–	–	–	–	883,092
		11/05/2018	307	Nil	–	800,260	–	–	–	–	–	800,260
	Deferred Share Award	12/05/2016	253	Nil	304,121	25,555	329,676	–	301	04/05/2018	993	–
		11/05/2017	265	Nil	267,973	–	–	–	–	–	–	267,973
		11/05/2018	307	Nil	–	252,003	–	–	–	–	–	252,003
	Sharesave[3]	11/12/2013	388	332	4,518	–	–	–	–	–	–	4,518
	Total				**3,232,991**	**1,113,234**	**608,700**	**476,606**	–	–	**1,833**	**3,260,919**
Kevin O'Byrne	Long-Term Incentive Plan[1]	26/01/2017	258	Nil	479,660	–	–	–	–	–	–	479,660
		11/05/2017	265	Nil	468,024	–	–	–	–	–	–	468,024
		11/05/2018	307	Nil	–	424,120	–	–	–	–	–	424,120
	Deferred Share Award[2]	11/05/2018	307	Nil	–	136,592	–	–	–	–	–	136,592
	Total				**947,684**	**560,712**	–	–	–	–	–	**1,508,396**
John Rogers	Long-Term Incentive Plan[1]	15/05/2014	333	Nil	40,426	7,500	47,926	–	301	04/05/2018	144	–
		14/05/2015	269	Nil	442,068	12,208	106,146	254,190	301	04/05/2018	319	93,940
		12/05/2016	253	Nil	517,112	–	–	–	–	–	–	517,112
		11/05/2017	265	Nil	520,744	–	–	–	–	–	–	520,744
		11/05/2018	307	Nil	–	471,896	–	–	–	–	–	471,896
	Deferred Share Award[2]	12/05/2016	253	Nil	183,410	15,410	198,820	–	301	04/05/2018	599	–
		11/05/2017	265	Nil	161,610	–	–	–	–	–	–	161,610
		11/05/2018	307	Nil	–	151,978	–	–	–	–	–	151,978
	Total				**1,865,370**	**658,992**	**352,892**	**254,190**	–	–	**1,062**	**1,917,280**

1 Details of the performance conditions applying to Future Builder awards are set out on pages 80 and 81. The LTIP share figures relate to the maximum that could be achieved
2 See pages 78 and 79 for details of the Deferred Share Award, including performance conditions
3 Sharesave is an all-employee share option plan and has no performance conditions as per HMRC Regulations
4 This is the notional gain on the date of exercise had all shares been sold

Consideration of shareholder views

The Annual Report on Remuneration will be put to an advisory vote at the AGM on 4 July 2019. The Directors confirm that this report has been prepared in accordance with the Companies Act 2006 and reflects the provisions of the Large and Medium-sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013.

Approved by the Board on 30 April 2019.

Susan Rice

Dame Susan Rice
Chair, Remuneration Committee

Additional statutory information

Dividends
Details of the payment of the final dividend can be found on page 41

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

Shares acquired through the Company's employee share plans rank pari passu with shares in issue and have no special rights. Where, under the Company's All Employee Share Ownership Plan, participants are beneficial owners of the shares but the Trustee is the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participants. The J Sainsbury Employee Benefit Trusts waive their right to vote and to dividends on the shares they hold which are unallocated. Total dividends waived by the Trustee during the financial year amounted to £272,718. Some of the Company's employee share plans include restrictions on transfer of shares while the shares are held within the plan.

At the AGM held in July 2018, the Company was authorised by shareholders to purchase its own shares, within certain limits and as permitted by the Articles of Association. The Company made no purchases of its own shares during the year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge.

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

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

Ordinary shares
Details of the changes to the ordinary issued share capital during the year are shown on page 127. As at 29 April 2019, 2,207,275,345 ordinary shares of $28^4/_7$ pence have been issued, are fully paid up and are listed on the London Stock Exchange.

Major interests in shares
As at 9 March 2019, the Company had been notified by the following investors of their interests in three per cent or more of the Company's shares These interests were notified to the Company pursuant to DTR5 of the Disclosure Guidance and Transparency Rules:

	Number of ordinary shares	% of voting rights
Qatar Holdings LLC	481,746,132	21.99
BlackRock, Inc.	109,699,242	5.01

No other changes to the above have been disclosed to the Company between 9 March 2019 and 30 April 2019.

Directors' interests
The beneficial interests of the Directors and their connected persons in the shares of the Company are shown in the Annual Report on Remuneration on pages 82 and 84.

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

Directors' indemnities
The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company has executed deeds of indemnity for the benefit of each Director in respect of liabilities which may attach to them in their capacity as Directors of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2018/19, which has been renewed for 2019/20. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

Research and development
In the ordinary course of business, the Company regularly develops new products and services.

Employment
Employment policies
The Company values the different perspectives and experiences of all our colleagues. We are proud of our diverse workforce because every colleague's unique viewpoint helps us to innovate and to understand and embrace different customers' needs. We are committed to providing equal opportunities for all colleagues and applicants from recruitment and selection, through to training, development and promotion.

A Great Place to Work strategy is in place, underpinned by well-developed policies for the fair and equal treatment of all colleagues. Training is provided which ensures that policies are understood throughout the organisation. We have a workplace adjustments process in place for our colleagues who are living with a disability or long-term health condition which operates through the Government's Access to Work scheme Workplace adjustments can be made at any point during a colleague's employment with us. See pages 26 to 27 for further information on our diversity strategy.

Colleague engagement
We communicate regularly with our colleagues to provide information about pay, benefits and career opportunities which matter to them. This helps to build trust in our corporate strategy, vision, values and enables our colleagues to do a good job. We are committed to delivering news and information to our colleagues in a clear and timely way, and communicating change sensitively. For more information see page 56.

Greenhouse gas emissions

In line with the Greenhouse Gas Protocol (GHG) Corporate Accounting and Reporting Standard (revised edition), we will be reflecting the performance of Sainsbury's, Argos and Habitat emissions separately as well as a combined J Sainsbury plc Group performance

Sainsbury's has measured our GHG footprint since 2005/06 (baseline) and we have set a challenging target to reduce our absolute emissions by 30 per cent by 2020, compared to our baseline (and 65 per cent relative to sales floor area).

Argos and Habitat also set a target to reduce emissions by 40 per cent relative to sales floor area by 2020.

Location-based emissions

Versus our 2005/06 baseline, our location-based emissions in 2018/19 have reduced as follows

— Group emissions reduced by 35 per cent absolute and 55 per cent relative

— Sainsbury's emissions reduced by 35 per cent absolute and 57 per cent relative

— Argos and Habitat emissions reduced by 34 per cent absolute and 35 per cent relative

Group (J Sainsbury plc)

		GHG emissions (tCO_2e)	
Emission source	2005/06	2017/18	2018/19
Total (tCO_2e)	**1,554,492**	**1,177,863**	**1,014,707**
Intensity measurement (tCO_2e/'000 sq ft)	89.77	46.22	40.04

Sainsbury's

		GHG emissions (tCO_2e)	
Emission source	2005/06	2017/18	2018/19
Combustion of fuel and operation of facilities (Scope 1)	536,694	517,024	480,190
Electricity, heat, steam and cooling purchased for own use (Scope 2)	833,787	526,897	412,418
Total	**1,370,481**	**1,043,922**	**892,608**
Intensity measurement (tCO_2e/'000 sq ft)	90.37	44.97	38.57

Argos and Habitat

		GHG emissions (tCO_2e)	
Emission source	2005/06	2017/18	2018/19
Combustion of fuel and operation of facilities (Scope 1)	101,563	78,732	82,833
Electricity, heat, steam and cooling purchased for own use (Scope 2)	82,448	55,210	39,266
Total	**184,011**	**133,942**	**122,099**
Intensity measurement (tCO_2e/'000 sq ft)	85.55	59.04	55.57

Market-based emissions

The market-based emissions method reflects the emissions from the electricity that a company is using, which may be different from emissions for the electricity that is generated as a UK average. For example, different electricity suppliers emit more or less greenhouse gases depending on the energy source or technology, and companies who have invested in their own renewable or low carbon energy generation by this method can show the actual emissions level for the energy used.

Versus our 2005/06 baseline, our market-based emissions in 2018/19 have reduced as follows:

— Sainsbury's Group emissions reduced by 39 per cent absolute and 58 per cent relative

— Sainsbury's emissions reduced by 39 per cent absolute and 60 per cent relative

— Argos and Habitat emissions decreased by 34 per cent absolute and 36 per cent relative

Group (J Sainsbury plc)

		GHG emissions (tCO_2e)	
Emission source	2005/06	2017/18	2018/19
Total (tCO_2e)	**1,554,492**	**1,055,062**	**950,116**
Intensity measurement (tCO_2e/'000 sq ft)	89.77	41.40	37.49

Sainsbury's

		GHG emissions (tCO_2e)	
Emission source	2005/06	2017/18	2018/19
Combustion of fuel and operation of facilities (Scope 1)	536,694	505,210	473,395
Electricity, heat, steam and cooling purchased for own use (Scope 2)	833,787	418,084	355,972
Total	**1,370,481**	**923,294**	**829,368**
Intensity measurement (tCO_2e/'000 sq ft)	90.37	39.77	35.84

Argos and Habitat

		GHG emissions (tCO_2e)	
Emission source	2005/06	2017/18	2018/19
Combustion of fuel and operation of facilities (Scope 1)	101,563	78,732	82,833
Electricity, heat, steam and cooling purchased for own use (Scope 2)	82,448	53,036	37,915
Total	**184,011**	**131,768**	**120,748**
Intensity measurement (tCO_2e/'000 sq ft)	85.55	58.08	54.95

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: six per cent of UK natural gas usage is covered by Green Gas Certification (100 per cent Renewable Gas Guarantee of Origin Contract), therefore six per cent of natural gas emissions have been reported at zero emissions. All other Scope 1 market-based emissions have been calculated using the UK Government's GHG Conversion Factors for Company Reporting 2018.

Scope 2: 16 per cent of electricity usage is covered by a Power Purchase Agreement, which meets all of the required quality criteria; therefore 16 per cent of electricity emissions have been reported at zero emissions. The remaining UK 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.

Electricity use

As a result of our ongoing investment in energy reduction initiatives:

- Sainsbury's Group absolute UK electricity consumption decreased year-on-year by four per cent and 17 per cent versus 2005/06 whilst adding 46 per cent more sales area
- Sainsbury's absolute UK electricity consumption decreased year-on-year by three per cent and 16 per cent versus 2005/06 whilst adding 53 per cent more sales area
- Argos and Habitat absolute UK electricity consumption decreased year-on-year by 17 per cent and 25 per cent versus 2005/06 whilst adding 2 per cent more sales area

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2018, and IEA 2015 for those offices overseas. The reporting period is the financial year 2018/19, 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.

Political donations

The Company made no political donations in 2018/19 (2017/18, £nil).

Essential contracts

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

Post balance sheet events

Events after the balance sheet are disclosed in note 38 on page 166 of the financial statements

Financial risk management and financial instruments

The financial risk management, financial instruments, and policies of the Group are disclosed in notes 24 and 25 on pages 130 to 149, of the financial statements.

Disclosure of information to the auditor

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

Directors' Report

The Directors' Report comprises pages 1 to 88 of this Annual Report and Financial Statements. The following information required by Rule 9.8.4R of the UK Listing Rules is also incorporated into the Directors' Report:

Information requirement	Location within Annual Report
Interest capitalised	See note 11 of the consolidated financial statement
Publication of unaudited financial information	See note 24
Details of any long-term incentive schemes	See Remuneration Report and note 31
Shareholder waiver of dividends	See note 23
Shareholder waiver of future dividends	See note 23

Other information requirements set out in LR 9.8.4R are not applicable to the Company.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
30 April 2019

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 International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and 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 IFRSs as adopted by the European Union and applicable UK 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 44 to 45, confirms that, to the best of their knowledge:

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

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
30 April 2019

Independent auditor's report to the members of J Sainsbury plc

Opinion

In our opinion:

- J Sainsbury plc's consolidated 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 9 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of J Sainsbury plc for the 52 weeks ended 9 March 2019 which comprise:

Group	Parent company
Consolidated income statement	Balance sheet
Consolidated statement of comprehensive income	Statement of changes in equity
Consolidated balance sheet	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies
Consolidated cash flow statement	
Consolidated statement of changes in equity	
Related notes 1 to 39 to the financial statements 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 below. We are independent of the Group and parent company 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 66 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity,
- the Directors' statement set out on page 37 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements,
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 37 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters

- Supplier arrangements
- Aspects of revenue recognition
- Transition impact on adoption of IFRS 16
- Financial Services customer receivables impairment
- IT environment

Audit scope

- We performed a full scope audit of the complete financial information of the following components: J Sainsbury plc, Sainsbury's Supermarkets Ltd, Argos Limited and Sainsbury's Bank plc. We performed audit procedures on specific balances of Argos Financial Services, Nectar, the property companies, the information systems company, material joint ventures and the insurance company due to the size and risk of certain individual balances within these components.
- The components where we performed full or specific scope audit procedures accounted for 98 per cent of Profit before tax before one-off items, 99 per cent of Revenue and 100 per cent of Total assets.

Materiality

- Overall Group materiality is £30.5 million which represents 5 per cent of profit before tax and before non-recurring Argos integration costs, Sainsbury's Bank transition costs, one-off pension costs and other one-off related costs (mainly Asda related costs and restructuring costs). A reconciliation has been provided below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Changes from the prior year

In the prior year, we included the Nectar acquisition as a key audit matter. In the current year, this risk is no longer assessed as a key audit matter on the basis that there were no significant adjustments in the finalisation of the purchase price allocation of the Nectar entities.

Due to the complexities involved in assessing the impact of transition to the new leasing standard (IFRS 16), we have included this as a key audit matter in the current year.

Risk

Supplier arrangements

Refer to the Audit Committee Report (page 60); Accounting policies (page 105); and note 5 of the Consolidated Financial Statements (page 112)

The Group receives material discounts from suppliers, referred to as supplier arrangements. The accounting for some of these supplier arrangements is complex since management applies judgement, processing is either manual or more complex and the quantum of agreements is high. We focused our audit procedures on these complex supplier arrangements.

Complex supplier arrangements recognised in the income statement for the financial year are £457 million (2017/18: £450 million).

Our response to the risk

- We walked through the controls in place within the supplier arrangements process. We were able to take a controls-reliance approach over certain aspects of the process, testing the key controls, although there are areas where we cannot, as the process for recording deals is manual
- We selected a sample of suppliers to whom we sent confirmations across all "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 and if settled, settlement of the arrangement.
- We tested the existence and valuation of balance sheet amounts recognised in accounts receivable and 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 to supplier arrangements to corroborating evidence.
- We tested deals recorded post period end and obtained the supplier agreement to validate that the deal was correctly recorded post period end.
- We read management's disclosure in respect of supplier arrangement amounts recorded in the income statement and balance sheet to confirm 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 disclosure in the financial statements is appropriate.

Risk

Aspects of revenue recognition

Refer to the Audit Committee Report (page 60); Accounting policies (page 108); and Note 4 of the Consolidated Financial Statements (page 108)

Our assessment is that the vast majority of the Group's revenue transactions are non-complex, with no judgement applied over the amount recorded. We focused our work on the manual adjustments that are made to revenue where the amount of the revenue recorded can be different than the amount of cash received.

Our procedures were designed to address the risk of manipulation of accounting records and the ability to override controls.

Our response to the risk

- We obtained a detailed understanding of these manual adjustments. Due to the manual nature of these adjustments, we performed substantive audit procedures.
- We used our computer-aided data analytics tools to identify those revenue journals for which the corresponding entry was not cash. These entries include Nectar points, coupons, vouchers and commission arrangements.
- We obtained corroborating evidence for such corresponding entries. For the Nectar points adjustment we obtained evidence that revenue is deferred appropriately based on the number of points issued and redeemed and the breakage assumption. For third party coupons and vouchers we obtained evidence of collection and settlement.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries impacting revenue, as well as other adjustments made in the preparation of the financial statements We considered unusual journals such as those posted outside of expected hours, or by unexpected individuals and for large or unusual amounts.

Key observations communicated to the Audit Committee

Adjustments to revenue have been appropriately recognised

Risk

Financial Services customer receivables impairment

Refer to the Audit Committee Report (page 60); Accounting policies (page 102); and Note 1 of the Consolidated Financial Statements (page 102)

Financial Services customer receivables relate to Sainsbury's Bank credit cards, loans and mortgages, and Argos store cards. Total amounts recognised at year-end are £7,234 million (2017/2018: £5,844 million). The provision for impairment is £281 million (2017/2018: £153 million).

The risk of collectability of Financial Services customer receivables, through either credit cards, loans, mortgages or Argos store cards, is significant. There is judgement in the assumptions applied to calculate the loan provisions against outstanding balances. Additionally, for the current year, management's provisioning methodology changed from an "incurred loss" model to an "expected loss" model following the adoption of IFRS 9 (Financial Instruments).

Our response to the risk

- The loan impairment methodology was reviewed, to confirm it was consistent with IFRS 9.
- We verified the completeness and accuracy of the data utilised from underlying systems that were used in the impairment models.
- We challenged the key assumptions used by management with reference to industry/peer benchmarks and our financial services risk management specialists.
- We tested that the key assumptions had been accurately reflected in the impairment models.
- We independently calculated a reasonable range of outcomes to assess the provision for high risk segments.
- We challenged the macro-economic scenarios, including Brexit scenarios, with the support of our economic modelling experts.

Key observations communicated to the Audit Committee
The provision for impairment of Financial Services receivables due from customers is appropriately recognised.

Risk

Transition impact on adoption of IFRS 16

Refer to the Audit Committee Report (page 60); Accounting policies (page 104); and Note 1 of the Consolidated Financial Statements (page 104)

The calculation of the impact of IFRS 16 is complex. The accounting is complex and requires a number of significant judgements. Further, the Group has a high volume of leases, some of which have been in place for a number of years.

Although the standard is being implemented in 2019/2020, disclosures on the impact are included in these financial statements.

Our response to the risk
- We assessed the completeness of the population of leases and validated that all leases had been appropriately uploaded onto the lease accounting IT application.
- We assessed the appropriateness of the incremental borrowing rates, with the support of our Corporate Treasury specialists.
- We challenged the key judgements and assumptions used by management, including those made in relation to the property portfolio.
- On a sample basis, we performed testing of lease data input into the lease accounting IT application.
- For a sample of leases, we independently modelled the impact of IFRS 16 using our own internally designed tool and compared the results to the Group's accounting IT application.
- We audited management's impairment assessment in relation to the right of use asset.
- We audited the disclosures provided in the financial statements on the impact of IFRS 16.

Key observations communicated to the Audit Committee
The right of use asset and lease liability as at 10 March 2018 have been appropriately calculated, with the disclosures correctly reflecting the balance sheet impact of adopting IFRS 16 as at 10 March 2018.

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.

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 additional substantive testing to mitigate the risk of material misstatement

Key observations communicated to the Audit Committee
We have not identified any misstatements in the financial statements due to the limitations of the IT environment.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity 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 entity.

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 76 reporting components of the Group, we selected 33 reporting components, which represent the principal business units within the Group.

Of the 33 components selected, we performed an audit of the complete financial information of eight components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 25 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.

Of the remaining balances, none are individually greater than five per cent of the Group's profit before tax excluding one-off items. For these accounts, 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.

The table below illustrates the coverage obtained from the work performed by our audit teams.

		% Group Profit before tax	% Group Profit before tax	% Group Revenue		% Total assets	
	Number	2019	2018	2019	2018	2019	2018
Full scope	8	42%	46%	99%	99%	75%	74%
Specific scope	25	56%	46%	0%	0%	25%	22%
Full and specific scope coverage	33	98%	92%	99%	99%	100%	96%
Remaining components	43	2%	8%	1%	1%	0%	4%
Total reporting components	76	100%	100%	100%	100%	100%	100%

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 network firms operating under our instruction. Of the full scope components, audit procedures were performed on the head office company, J Sainsbury plc, Sainsbury's Supermarkets Ltd and Argos Limited and consolidation of the Group by the primary team. The work at the specific scope locations was performed by EY components in Edinburgh, the Isle of Man and the primary team.

For Sainsbury's Bank plc and Argos Financial Services, the Senior Statutory Auditor visited these locations and held discussions with management. The team discussed the audit approach with the component team and significant issues arising from their work, reviewing key audit working papers on risk areas. The closing discussion was attended by the primary team. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.
For the insurance company, the team discussed the audit approach with the component team and interacted regularly with the component team where appropriate during various stages of the audit in order to understand the key audit findings.

Strategic Report
Governance Report
Financial Statements

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 £30.5 million, which is five per cent of profit before tax excluding the items described below. We believe that this materiality basis provides us with the best assessment of the requirements of the users of the financial statements. This is consistent with the approach taken in the prior period.

Starting basis	Profit before tax	£239m
Adjustments	One-off pension costs	£100m
	Argos related non-underlying costs	£40m
	Sainsbury's Bank transition costs	£70m
	Perpetual securities coupon	£(23m)
	Other (mainly Asda related and restructuring costs)	£185m
	Total	£372m
	Profit before tax and adjustments	**£611m**
Materiality	Materiality of £30.5m (5% of profit before tax and after making the adjustments noted above)	

We determined materiality for the Parent Company to be £150 million (2017/18: £155 million), which is two per cent (2017/18: two per cent) 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 approximately 75 per cent (2017/18: 75 per cent) of our planning materiality, namely £23 million (2017/18: £23 million). We have set performance materiality at this percentage due to our assessment that the risk of material misstatement is not high.

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 £5 million to £18 million (2017/18 : £4 million to £17 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 £1.5 million (2017/18: £1.5 million), which is set at five per cent 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 as set out on pages 1 to 88 other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 90 the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** set out on page 60 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 48 - the parts of the Directors statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 90, 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

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows.

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 the Group accounting policy, International Financial Reporting Standards (IFRS), the UK Companies Act 2006 and the UK Corporate Governance Code;
- those that relate to the payment of employees; 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 observing the oversight of those charged with governance, the culture of honesty and ethical behaviour and a strong emphasis placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

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 this understanding 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 fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of 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.

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 of the Audit Committee we were appointed by the Company at its Annual General Meeting on 8 July 2015. We have been the statutory auditor since that date.
- 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.
- 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.

John Flaherty
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 April 2019

Notes:

1 The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Consolidated income statement
for the 52 weeks to 9 March 2019

	Note	2019 £m	2018 £m
Revenue	4	**29,007**	28,456
Cost of sales		**(27,000)**	(26,574)
Gross profit		**2,007**	1,882
Administrative expenses	6	**(1,733)**	(1,415)
Other income	6	**38**	51
Operating profit		**312**	518
Finance income	7	**22**	19
Finance costs	7	**(99)**	(140)
Share of post-tax profit from joint ventures and associates	13	**4**	12
Profit before tax		**239**	409
Analysed as:			
Underlying profit before tax	3	**635**	589
Non-underlying items	3	**(396)**	(180)
		239	409
Income tax expense	8	**(20)**	(100)
Profit for the financial year		**219**	309

	Note	Pence	Pence
Earnings per share	9		
Basic earnings		**9.1**	13.3
Diluted earnings		**8.9**	12.7
Underlying basic earnings		**22.0**	20.4
Underlying diluted earnings		**20.3**	19.1

The notes on pages 101 to 172 form an integral part of these financial statements.

Consolidated statement of comprehensive income
for the 52 weeks to 9 March 2019

	Note	2019 £m	2018 £m
Profit for the financial year		**219**	309
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	30	**1,269**	592
Current tax relating to items not reclassified	8	**–**	19
Deferred tax relating to items not reclassified	8	**(216)**	(118)
		1,053	493
Items that may be reclassified subsequently to the income statement			
Currency translation differences		**1**	(4)
Movements on financial assets at fair value through other comprehensive income		**55**	14
Items reclassified from financial assets at fair value through other comprehensive income reserve		**(10)**	2
Cash flow hedges effective portion of fair value movements		**71**	(139)
Items reclassified from cash flow hedge reserve		**(45)**	50
Current tax on items that may be reclassified	8	**2**	–
Deferred tax relating to items that may be reclassified	8	**(15)**	13
		59	(64)
Total other comprehensive income for the year (net of tax)		**1,112**	429
Total comprehensive income for the year		**1,331**	738

The notes on pages 101 to 172 form an integral part of these financial statements.

Consolidated balance sheet
At 9 March 2019 and 10 March 2018

	Note	2019 £m	2018 £m
Non-current assets			
Property, plant and equipment	11	**9,708**	9,898
Intangible assets	12	**1,044**	1,072
Investments in joint ventures and associates	13	**205**	232
Financial assets at fair value through other comprehensive income	14	**645**	540
Other receivables	16a	**33**	44
Amounts due from Financial Services customers	16b	**3,349**	2,332
Derivative financial instruments	25	**9**	17
Net retirement benefit surplus	30	**959**	–
		15,952	14,135
Current assets			
Inventories	15	**1,929**	1,810
Trade and other receivables	16a	**661**	744
Amounts due from Financial Services customers	16b	**3,638**	3,360
Financial assets at fair value through other comprehensive income	14	**211**	203
Derivative financial instruments	25	**21**	10
Cash and cash equivalents	26	**1,121**	1,730
		7,581	7,857
Assets held for sale	17	**8**	9
		7,589	7,866
Total assets		**23,541**	22,001
Current liabilities			
Trade and other payables	18a	**(4,444)**	(4,322)
Amounts due to Financial Services customers and other deposits	18b	**(5,797)**	(4,841)
Borrowings	28	**(832)**	(638)
Derivative financial instruments	25	**(17)**	(53)
Taxes payable		**(204)**	(247)
Provisions	19	**(123)**	(201)
		(11,417)	(10,302)
Net current liabilities		**(3,828)**	(2,436)
Non-current liabilities			
Other payables	18a	**(340)**	(313)
Amounts due to Financial Services customers and other deposits	18b	**(1,804)**	(1,683)
Borrowings	28	**(950)**	(1,602)
Derivative financial instruments	25	**(17)**	(26)
Deferred income tax liability	8	**(397)**	(241)
Provisions	19	**(160)**	(166)
Net retirement benefit obligations	30	**–**	(257)
		(3,668)	(4,288)
Net assets		**8,456**	7,411
Equity			
Called up share capital	20	**630**	627
Share premium account	20	**1,147**	1,130
Merger reserve	20	**568**	568
Capital redemption reserve	21	**680**	680
Other reserves	21	**172**	121
Retained earnings	23	**4,763**	3,789
Total equity before perpetual securities		**7,960**	6,915
Perpetual capital securities	22	**248**	248
Perpetual convertible bonds	22	**248**	248
Total equity		**8,456**	7,411

The notes on pages 101 to 172 form an integral part of these financial statements.

The financial statements on pages 96 to 172 were approved by the Board of Directors on 30 April 2019, and are signed on its behalf by:

Mike Coupe
Chief Executive

Kevin O'Byrne
Chief Financial Officer

Consolidated cash flow statement
for the 52 weeks to 9 March 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit before tax		**239**	409
Net finance costs	7	**77**	121
Share of post-tax profit from joint ventures and associates	13	**(4)**	(12)
Operating profit		**312**	518
Adjustments for:			
Depreciation expense	11	**649**	659
Amortisation expense	12	**143**	72
Non-cash adjustments arising from acquisitions (excluding depreciation and amortisation)	3	**(2)**	1
Financial Services impairment losses on loans and advances	16c	**98**	68
Loss/(profit) on sale of properties	3	**17**	(11)
Loss on disposal of intangibles		**–**	2
Profit on disposal of joint ventures		**–**	(4)
Impairment charge of property, plant and equipment	11	**3**	–
Share-based payments expense	31	**39**	33
Non-cash defined benefit scheme expenses	30	**108**	(21)
Cash contributions to defined benefit scheme	30	**(63)**	(130)
Operating cash flows before changes in working capital		**1,304**	1,187
Changes in working capital			
Increase in inventories		**(118)**	(36)
Increase in current financial assets at fair value through other comprehensive income		**(97)**	(192)
Decrease/(increase) in trade and other receivables		**74**	(44)
Increase in amounts due from Financial Services customers and other deposits		**(1,480)**	(1,161)
Increase in trade and other payables		**94**	142
Increase in amounts due to Financial Services customers and other deposits		**1,077**	1,602
(Decrease)/increase in provisions and other liabilities		**(105)**	28
Cash generated from operations		**749**	1,526
Interest paid		**(63)**	(89)
Corporation tax paid		**(68)**	(72)
Net cash generated from operating activities		**618**	1,365
Cash flows from investing activities			
Purchase of property, plant and equipment		**(478)**	(561)
Purchase of intangible assets		**(116)**	(140)
Proceeds from disposal of property, plant and equipment		**64**	54
Proceeds from financial assets at fair value through other comprehensive income		**39**	–
Acquisition of subsidiaries, net of cash acquired	32	**–**	135
Investment in joint ventures	13	**(5)**	(9)
Interest received		**4**	14
Dividends and distributions received	13	**18**	37
Net cash used in investing activities		**(474)**	(470)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	20,23	**22**	12
Repayment of borrowings		**(593)**	(148)
Proceeds from borrowings		**135**	174
Purchase of own shares	23	**(30)**	(14)
Repayment of capital element of obligations under finance lease borrowings		**(32)**	(26)
Interest elements of obligations under finance lease payments		**(7)**	(7)
Dividends paid on ordinary shares	10	**(224)**	(212)
Dividends paid on perpetual securities	22	**(23)**	(23)
Net cash used in financing activities		**(752)**	(244)
Net (decrease)/increase in cash and cash equivalents		**(608)**	651
Opening cash and cash equivalents		**1,728**	1,077
Closing cash and cash equivalents	26	**1,120**	1,728

The notes on pages 101 to 172 form an integral part of these financial statements.

Consolidated statement of changes in equity
for the 52 weeks to 9 March 2019

	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 11 March 2018		**627**	**1,130**	**568**	**801**	**3,789**	**6,915**	**248**	**248**	**7,411**
Day 1 accounting adjustments (net of tax)[1]	23	–	–	–	–	(74)	(74)	–	–	(74)
Profit for the year	22,23	–	–	–	–	201	201	12	6	219
Other comprehensive income	21,23	–	–		59	1,053	1,112			1,112
Total comprehensive income for the year ended 9 March 2019		–	–	–	59	1,180	1,239	12	6	1,257
Transactions with owners:										
Dividends	10,23					(224)	(224)			(224)
Distribution to holders of perpetual securities (net of tax)	22							(12)	(6)	(18)
Amortisation of convertible bond equity component	21,23				(8)	8				–
Share-based payment (net of tax)	31				–	38	38			38
Purchase of own shares	23				–	(30)	(30)			(30)
Allotted in respect of share option schemes	20,23	3	17		–	2	22			22
At 9 March 2019		**630**	**1,147**	**568**	**852**	**4,763**	**7,960**	**248**	**248**	**8,456**
At 12 March 2017		625	1,120	568	873	3,190	6,376	248	248	6,872
Profit for the year	22,23	–	–	–	–	291	291	12	6	309
Other comprehensive (expense)/income	21,23	–	–	–	(64)	493	429	–	–	429
Total comprehensive (expense)/income for the year ended 10 March 2018		–	–	–	(64)	784	720	12	6	738
Transactions with owners:										
Dividends	10,23	–	–	–	–	(212)	(212)	–	–	(212)
Distribution to holders of perpetual securities (net of tax)	22	–	–	–		–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	21,23	–	–	–	(8)	8		–	–	
Share-based payment (net of tax)	31	–	–	–	–	33	33	–	–	33
Purchase of own shares	23	–	–	–	–	(14)	(14)	–	–	(14)
Allotted in respect of share option schemes	20,23	2	10	–	–	–	12	–	–	12
At 10 March 2018		627	1,130	568	801	3,789	6,915	248	248	7,411

1 This is comprised of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' day 1 adjustments. See note 1

The notes on pages 101 to 172 form an integral part of these financial statements.

Notes to the consolidated financial statements

1 Basis of preparation

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 9 March 2019 (prior financial year: 52 weeks to 10 March 2018). The consolidated financial statements for the 52 weeks to 9 March 2019 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.

Sainsbury's Bank plc and its subsidiaries have been consolidated for the 12 months to 28 February 2019 being the Bank's year-end date (prior financial year 28 February 2018). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

Nectar Loyalty Holding Limited and its subsidiaries have been consolidated from 1 March 2018 to 9 March 2019 (prior financial year: four weeks to 28 February 2018). Nectar's year-end date is now aligned with the Group

The Group's principal activities are Food, General Merchandise and Clothing retailing and Financial Services.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs

The financial statements are presented in sterling, rounded to the nearest million (£m) unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments, defined benefit pension scheme assets, investment properties and financial assets at fair value through other comprehensive income that have been measured at fair value.

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. Significant accounting policies have been applied consistently to all periods presented in the financial statements.

Basis of consolidation
The consolidated financial statements of the Group consist of the financial statements of the ultimate parent company J Sainsbury plc, all entities controlled by the Company and the Group's share of its interests in joint ventures and associates.

a) Subsidiaries
Subsidiaries are all entities (including structured entities) 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 and Insight 2 Communication 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.

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. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

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

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

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

Foreign currencies
The consolidated financial statements are presented in sterling, which is the ultimate parent company's functional currency.

a) Foreign operations
On consolidation, assets and liabilities of foreign operations are translated into sterling at year-end exchange rates. The results of foreign operations are translated into sterling at average rates of exchange for the year.

b) 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.

Amendments to published standards
Effective for the Group and Company in these financial statements:

The Group considered the following amendments to published standards that are effective for the Group for the financial year beginning 11 March 2018 and concluded that, with the exception of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', they are either not relevant to the Group or they do not have a significant impact on the Group's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- Amendments to IFRS 2 'Share-based Payment' on the classification and measurement of share-based payment transactions
- Amendments to IAS 40 'Investment Property' on the transfers of investment property
- IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- Annual Improvements Cycle 2014-2016 (issued in December 2016)
- IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

1 Basis of preparation continued

Further information on the impact of IFRS 9 and IFRS 15 is included below.

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

- IFRS 16 'Leases'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of material
- Amendments to IAS 19 'Employee Benefits' on plan amendments, curtailments or settlements
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' on long-term interests in associates and joint ventures
- Annual Improvements Cycle 2015-2017 (issued in December 2017)

The Group has considered the impact of the remaining above standards and revisions and have concluded that, with the exception of IFRS 16, they will not have a significant impact on the Group's financial statements. Further information on IFRS 16 is included below.

Transitional disclosures on adoption of new accounting standards
IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The main changes the new standard introduces are:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising impairments of financial assets; and
- changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.

The changes have been applied by adjusting the Consolidated Balance Sheet at 11 March 2018, the date of initial application, with no restatement of comparative information. In accordance with IFRS 9 transition guidance, comparative financial information in the primary financial statements remains compliant with the classification and measurement requirements of IAS 39.

a) Classification and measurement
IFRS 9 introduced a principles-based approach to the classification of financial assets. Financial assets are measured at fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI) or amortised cost. Classification is determined by the nature of the cash flows of the assets and the business model in which they are held. These categories replace the existing IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

An assessment of the Group's business models was made as at the date of initial application on 11 March 2018 and applied prospectively. The changes in classification resulted in no change in measurement as at 11 March 2018 and are not expected to result in a material impact going forward. A summary of the respective classifications under IAS 39 and IFRS 9 is presented below:

Balance sheet line	Periodicity	IAS 39	IFRS 9	11 March 2018 £m
Financial assets				
Financial assets at fair value through other comprehensive income	Non-current	Available for sale	Fair value through other comprehensive income	**540**
Financial assets at fair value through other comprehensive income	Current	Available for sale	Fair value through other comprehensive income	**203**
Other receivables	Non-current	Loans & receivables	Amortised cost	**44**
Trade and other receivables	Current	Loans & receivables	Amortised cost	**553**
Trade and other receivables	Current	Loans & receivables	Fair value through profit and loss[1]	**191**
Cash and cash equivalents	Current	Loans & receivables	Amortised cost	**1,580**
Cash and cash equivalents	Current	Loans & receivables	Fair value through profit and loss[1]	**150**
Amounts due from Financial Services customers	Non-current	Loans & receivables	Amortised cost[2]	**2,332**
Amounts due from Financial Services customers	Current	Loans & receivables	Amortised cost[2]	**3,360**
Derivative financial instruments	Non-current	Fair value through profit and loss	Fair value through profit and loss	**17**
Derivative financial instruments	Current	Fair value through profit and loss	Fair value through profit and loss	**10**

1 Travel money and cash in ATMs (including cash on order for ATMs) are considered separately from cash held in banks. With regard to travel money, the business model is 'held to sell foreign currency to customers' and the contractual cash flows are 'margin on foreign exchange rates'. With regard to cash in ATMs, the business model is 'held to sell ATM services' and the contractual cash flows are 'ATM fees'. Therefore, both assets are measured at FVPL.
2 The balances presented are consistent with those presented as at 10 March 2018. There is a day 1 adjustment to amounts due from Financial Services customers relating to the recognition of expected credit loss (ECL) provisions under IFRS 9. Further details presented below.

Balance sheet line	Periodicity	IAS 39	IFRS 9	11 March 2018 £m
Financial liabilities				
Trade and other payables	Current	Loans & receivables	Amortised cost	**(4,322)**
Other payables	Non-current	Loans & receivables	Amortised cost	**(313)**
Amounts due to Financial Services customers	Non-current	Loans & receivables	Amortised cost	**(1,683)**
Amounts due to Financial Services customers	Current	Loans & receivables	Amortised cost	**(4,841)**
Borrowings	Non-current	Loans & receivables	Amortised cost	**(1,602)**
Borrowings	Current	Loans & receivables	Amortised cost	**(638)**
Derivative financial instruments	Non-current	Fair value through profit and loss	Fair value through profit and loss	**(26)**
Derivative financial instruments	Current	Fair value through profit and loss	Fair value through profit and loss	**(53)**

1 Basis of preparation continued

Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value.

b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a three stage forward-looking expected credit loss (ECL) approach. As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit and loss and an impairment allowance is established (Stage 1) If the credit risk increases significantly (and the resulting credit quality is not considered to be low credit risk) full lifetime expected credit losses are provided for (Stage 2). Under both Stage 1 and Stage 2, interest income is recognised on the gross carrying value of the financial asset. Financial assets move into Stage 3 when they are considered to be credit impaired, i.e. when one or more events has occurred that has a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets continue to recognise lifetime expected impairment losses and interest income is recognised on the net carrying amount (i.e. gross amount less impairment allowance).

The impact of the above is to increase the impairment provisions held within the Financial Services business as at 11 March 2018 by £101 million, with a corresponding reduction to retained earnings of £84 million, net of deferred tax of £17 million. The net impact to retained earnings has been segregated within the Group statement of changes in equity.

The following table reconciles the aggregate opening movement of £101 million to the relevant line items on the balance sheet:

	IAS 39 closing balance	Re-measurement on transition to IFRS 9	IFRS 9 opening balance
	10 March 2018 £m	11 March 2018 £m	11 March 2018 £m
Gross advances	5,824	(15)	5,809
Impairment provision	(132)	(72)	(204)
Amounts due from Financial Services customers	5,692	(87)	5,605
Provisions for loan commitments (within Provisions)	–	(14)	(14)
Total day 1 impact of IFRS 9		(101)	

During the year, the Group has been refining its ECL models to better reflect information that was available at the transition date of 11 March 2018. The refinements made include:

- Amending economic scenarios included in the ECL models
- Updated cash recovery assumptions
- Calibrations of the model to reflect up to date data which was available at 11 March 2018

The above updates have been incorporated as at the transition date and as a result, the opening balance sheet adjustment of £101 million (£84 million net of tax) differs from that reported at the half year of £80 million (£66 million net of tax).

c) Hedge accounting

The Group has continued to apply the hedge accounting requirements of IAS 39 for its macro hedging relationships (applicable to the Financial Services business) and has adopted IFRS 9 in respect of its micro hedge accounting. Macro hedging concerns using instruments to address an entire balance sheet, whereas micro hedging focuses on a particular asset/liability risk. Although the micro hedge accounting requirements under IFRS 9 are generally less restrictive, this has not resulted in a material impact on the Group.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and is required for annual periods beginning on or after 1 January 2018. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer, and supersedes all current revenue recognition requirements of IFRS.

As reported in the Annual Report for the year ended 10 March 2018, the Group performed a detailed impact assessment, identifying all current sources of revenue and analysing the accounting requirements for each under IFRS 15. The Group has adopted IFRS 15 using the full retrospective transition option. Full retrospective adoption of IFRS 15 requires comparatives to be restated in order to present values on a consistent basis. However, having quantified the impact of IFRS 15, management has assessed this impact as immaterial and has chosen not to restate the primary statements. The disclosure below sets out the impact of IFRS 15 on prior periods.

Impact on the comparative statement of financial position on the adoption of IFRS 15:

	Adjustment	52 weeks to 10 March 2018 £m
Assets		
Right of return assets	(a)	3
Liabilities		
Provisions	(a)	(3)
Deferred revenue	(b)	10
Equity		
Retained earnings	(b)	(10)

Impact on the comparative statement of profit and loss on adoption of IFRS 15:

	Adjustment	52 weeks to 10 March 2018 £m
Revenue	(c)	7
Cost of sales	(c)	(7)

There is no impact on gross margin. IFRS 15 does not impact other comprehensive income, nor is there a material impact on the statement of cash flow. There is a nil impact to both basic and diluted EPS.

a) Right of return asset and provision

Under IFRS 15, the consideration received from a customer is variable because the contract allows the customer to return the products. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The impact upon adoption of IFRS 15 for the 52 weeks to 10 March 2018 is a £3 million increase in both the right of return asset and provision This is considered to be immaterial to the Group results and has not been restated within the comparatives on the statement of financial position.

b) Nectar

On 1 February 2018, the Group acquired the shares of Aimia Inc's UK business, enabling the full and independent operation of the Nectar Loyalty programme in the UK. From the point of acquisition, any points issued and redeemed in Sainsbury's and Argos were accounted for in line with IFRIC 13 'Customer Loyalty Programmes', meaning a portion of the transaction price was allocated to the loyalty programme using the fair value of points issued. There is an immaterial change to the loyalty programme accounting upon the adoption of IFRS 15

1 Basis of preparation continued

Under IAS 18 'Revenue', programme support fees (PSF) for Nectar were deferred and recognised in line with the issuances and redemption profile of Nectar points. However on application of IFRS 15, revenue is disaggregated against individual performance obligations. These fees are now recognised on a straight-line basis over the term of the agreement with the relevant party. Applying IFRS 15 retrospectively, the brought forward deferred revenue balance includes £10 million of PSF relating to prior periods. This balance has accumulated over many years, with the year-on-year impact considered immaterial to the Group. This restatement has been represented as a day 1 adjustment within the statement of changes in equity.

c) Agent vs principal
From time to time the Group enters into contracts with suppliers for which an assessment must be made to determine whether the Group is acting as principal or agent when selling the related goods to customers. In performing its analysis, the Group identified arrangements where there is a change in the agent/principal classification. The impact to revenue and cost of sales for the 52 weeks to 10 March 2018 is a £7 million reduction. This is immaterial to the Group results and has not been restated within the comparatives within the profit and loss statement.

IFRS 16 'Leases'
IFRS 16 'Leases' was issued in January 2016 and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will supersede the current lease guidance including IAS 17 'Leases' and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and will be adopted by Sainsbury's for the financial year commencing 10 March 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The current distinction of operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The standard represents a significant change in the accounting and reporting of leases, impacting the income statement and balance sheet as well as statutory and Alternative Performance Measures used by the Group.

The Group has chosen to adopt the fully retrospective approach to transition. The comparatives in the consolidated financial statements for the 52 weeks ending 7 March 2020 will be restated as if IFRS 16 had always applied. The first reporting under IFRS 16 (with restated comparatives) will be for the Group's interim results as at 21 September 2019.

The Group has performed an extensive review of all the Group's leasing arrangements in light of the new accounting standard. The work is nearing completion and the Group estimates that, had IFRS 16 been applied in the 52 weeks ended 10 March 2018, the impact on the consolidated balance sheet as at 10 March 2018 would have been:

- Recognition of a right-of-use asset in the region of £5.1 billion disclosed within non-current assets
- The recognition of a corresponding lease liability in the region of £5.9 billion
- Derecognition of other balance sheet items, including onerous leases, rent free accruals and fair value adjustments relating to acquired leases of around £0.1 billion
- The above results in an adjustment to opening retained earnings in the region of £0.9 billion (before adjusting for associated tax impacts)

The above adjustment to retained earnings causes no hindrance on the Group's ability to pay dividends to shareholders.

The right-of-use asset is initially measured at cost (being the initial lease liability plus any associated direct costs) and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

As a result, the profile of costs recognised in the consolidated income statement will materially change in comparison to IAS 17 as follows:

- Depreciation will increase due to the recognition of right-of-use assets
- Existing rental costs will reduce – the only rental costs that remain will relate to low value assets or short-term leases
- Finance costs will increase due to the unwinding of the discount on the discounted lease liability

Whilst the total cash outflow for leases will not change, the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing cash flows.

In preparing for the transition to IFRS 16, the Group has been developing new controls, policies and governance procedures in several areas that contribute to the calculation of the overall lease liability and right-of-use asset. These include the identification of any embedded leases, accounting for lease modifications, as well as electing to not apply IFRS 16 to short-term leases (less than a year) and low value assets in line with the practical expedients offered under IFRS 16.

Key judgements have also been addressed, including the assessment of how reasonably certain it is considered to be that a lease option (extension, termination or purchase) will be exercised, and the determination of an appropriate discount rate used to present value the lease liability and to initially measure the right-of-use asset. With regards to these, the Group has determined that the lease term will correspond to the duration of the contracts except in cases where the Group is reasonably certain that it will exercise contractual extension or break options. The historical discount rates applied have been based on the incremental borrowing rate where the implicit rate in the lease is not readily determinable.

All relevant accounting policies will be updated to reflect the changes under IFRS 16 in the consolidated financial statements for the 52 weeks ending 7 March 2020.

2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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:

a) Non-current assets and liabilities held for sale
At each balance sheet date management assesses whether any assets, whose carrying amount will be recovered through a sale transaction rather than continued use, meet the definition of held for sale. Where there is an active plan in place to locate a buyer, management considers such assets to meet the criteria to be classified as held for sale if they are available for immediate sale and the sale is highly probable.

For more information on the assets and liabilities held for sale, refer to note 17.

b) Operating lease commitments
The Group is party to commercial property leases on a number of its stores. At inception of each lease, the terms and conditions of the arrangements are evaluated to assess whether the lease terms constitute a major part of the economic life of the assets and whether the present value of the minimum lease payments amount to substantially all of the fair value of the commercial property. Where there is no evidence of this, management concludes that all the significant risks and rewards of ownership do not transfer to the Group and these leases are accounted for as operating leases. Further information about committed operating lease payments is included in note 33.

2 Significant accounting judgements, estimates and assumptions continued

c) Consolidation of structured entities
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. In making such an assessment, management considers the terms of the arrangement to assess who has responsibility for the management of the entity and its assets. Where the Group has this responsibility, it is deemed that the Group controls the entity and it is fully consolidated into the Group accounts. The structured entities applicable to the Group are Sainsbury's Property Scottish Partnership and Sainsbury's Property Scottish Limited Partnership.

d) Aggregation of operating segments
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. Four operating segments were identified as follows:

- Retail – Food
- Retail – General Merchandise and Clothing
- Financial Services
- Property Investment

Management has considered the economic characteristics, 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.

Estimates and assumptions
The areas where estimates and assumptions are significant to the financial statements are as described 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.

a) Impairment of non-financial assets
The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which it is allocated. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates, as disclosed in note 12. Actual outcomes could vary from these estimates.

Non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance.

b) Impairment of loans and advances
Impairment loss models involve the estimation of future cash flows of financial assets, based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. This will typically take into account the level of arrears, security, past loss experience and default levels. These calculations are undertaken on a portfolio basis using various statistical modelling techniques. Impairment models are continually reviewed to ensure data and assumptions are appropriate with the most material assumption being around expected loss rates.

c) Post-employment benefits
The Group operates one defined benefit scheme for employees, segregated into two sections – the Sainsbury's section and the Argos section. 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 applied which is derived from the expected yields on high quality corporate bonds over the duration of the Group's pension scheme. High quality corporate bonds are those which at least one of the main ratings agencies considers to be at least AA (or equivalent).

Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 30. The carrying value of the retirement benefit obligations will be impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate. Sensitivities to movements in the discount rate are included in note 30.

d) Provisions
Provisions have been made for onerous leases, onerous contracts, dilapidations, restructuring, insurance and long service awards. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events and market conditions. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. The carrying amount of provisions will be impacted by changes in the discount rate. Details of provisions are set out in note 19.

e) Determining fair values
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, overdrafts and payables are assumed to approximate to their book values.

f) Revenue recognition – 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. As points issued under the programme do not expire, such estimates are subject to uncertainty. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, and adjusted for changes to any terms and conditions that may affect members' redemption patterns.

If the breakage estimate used in determining the deferred revenue for the Group had been 0.5 per cent lower, the deferred points liability would have been £19 million higher. If the breakage estimate had been 0.5 per cent higher, the deferred points liability would have been £19 million lower.

g) 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. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset. A description of the different types of supplier arrangements, and their values for the year, are provided in note 5.

3 Non-GAAP performance measures

In order to provide shareholders with additional 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. These adjusted items are as follows:

	2019 £m	2018 £m
Underlying profit before tax	**635**	589
Property related		
(Loss)/profit on disposal of properties	**(17)**	5
Investment property fair value movements	**(2)**	7
Impairment and onerous contract charge	**(3)**	–
Argos		
Argos integration costs	**(40)**	(75)
Homebase separation	**–**	(10)
Sainsbury's Bank transition	**(70)**	(38)
Nectar		
Transaction costs relating to the acquisition of Nectar	**–**	(2)
Revaluation of previously held equity interest in Insight 2 Communication LLP	**–**	4
Asda transaction costs	**(46)**	–
Restructuring costs	**(81)**	(85)
Other		
Perpetual securities coupons	**23**	23
Non-underlying finance movements	**11**	(2)
Acquisition adjustments	**(53)**	(2)
Defined benefit pension expenses	**(118)**	(5)
Total adjustments	**(396)**	(180)
Profit before tax	**239**	409

Property related
- Loss on disposal of properties for the financial year comprised £(17) million for the Group (2018: profit of £11 million) included within other income and £nil million for the property joint ventures (2018: £(6) million) included within share of post-tax profit from joint ventures and associates.
- Impairment charges comprised £(3) million (2018: £nil million) within property, plant and equipment.

Argos
- Argos integration costs for the year were £(40) million which principally comprise property-related costs. The Argos integration programme is now complete.
- The Homebase separation and restructuring costs in the prior year of £(10) million were part of the revised anticipated total exceptional costs of £(45) million. There were no costs incurred during the current financial year.

Sainsbury's Bank transition
Sainsbury's Bank transition costs of £(70) million (2018: £(38) million) were incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme. New Bank Programme transition costs 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.

Nectar
- Acquisition-related costs (included in administrative expenses and recognised outside of underlying profit) amounted to £(2) million in the prior year (see note 32). In addition, an acquisition fair value gain of £4 million on the previously held equity interest in Insight 2 Communication LLP was recorded in other income in the prior year (and excluded from underlying profit before tax).

Asda transaction costs
Sainsbury's transaction costs relating to the proposed merger with Asda of £(46) million principally comprised fees incurred in relation to deal preparation, integration planning and transaction financing.

Restructuring costs
- Restructuring costs of £(81) million in the year have been recognised following announced transformational changes to the Group's in-store operating model, responding to changing customer shopping habits and reducing costs throughout the store estate. These costs mainly consist of people costs

3 Non-GAAP performance measures continued

Other

The coupons on the perpetual subordinated capital securities and the perpetual subordinated convertible bonds 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 before tax.

- Non-underlying finance movements for the financial year comprised £13 million for the Group (2018: £1 million) and £(2) million for the joint ventures (2018: £(3) million).
- Acquisition adjustments of £(53) million (2018: £(2) million) reflect the unwind of non-cash fair value adjustments arising from the Sainsbury's Bank, Home Retail Group and Nectar acquisitions and are split as follows

	2019				2018			
	Financial Services £m	**Argos £m**	**Nectar £m**	**Total Group £m**	Financial Services £m	Argos £m	Nectar £m	Total Group £m
Revenue	**–**	**–**	**–**	**–**	(3)	–	–	(3)
Cost of sales	**–**	**2**	**–**	**2**	–	2		2
Depreciation	**–**	**(13)**	**–**	**(13)**	–	(18)		(18)
Amortisation	**(1)**	**(16)**	**(25)**	**(42)**	(3)	22	(2)	17
	(1)	**(27)**	**(25)**	**(53)**	(6)	6	(2)	(2)

Defined benefit pension expenses comprise the pension financing charge of £(8) million (2018: £(26) million) and scheme expenses of £(10) million (2018: £(10) million) (see note 30). Also included are £(2) million of pension related expenses incurred directly by the Group.

- In addition there are £(98) million non-cash past service costs relating to Guaranteed Minimum Pension (GMP) equalisation. The prior year included a £31 million past service credit in relation to a Pension Increase Exchange (PIE) at retirement option introduced from 1 April 2018. See note 30 for more information.

Cash flow statement

The table below shows the impact of non-underlying items on the Group cash flow statement, where not already separately presented in the cash flow statement:

	2019 £m	2018 £m
Defined benefit pension expenses	**(10)**	(10)
Sainsbury's Bank transition	**(66)**	(38)
Business rationalisation	**–**	(1)
Argos integration costs	**(52)**	(32)
Homebase separation	**–**	(14)
Restructuring costs	**(152)**	(28)
Asda transaction costs	**(39)**	–
Cash used in operating activities	**(319)**	(123)
Proceeds from property disposals	**64**	54
Cash generated from investing activities	**64**	54
Net cash flows	**(255)**	(69)

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

4 Segment reporting

Background

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

- Retail – Food;
- Retail – General Merchandising and Clothing;
- Financial Services (Sainsbury's Bank plc and Argos Financial Services entities); and
- Property Investments (The British Land Company PLC joint venture and Land Securities Group PLC joint venture).

As discussed in note 2, the Food and General Merchandise and Clothing segments have been aggregated into a Retail segment in the financial statements.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. All material operations and assets are in the UK The financial year ended 9 March 2019 includes Nectar results from 1 March 2018 to 9 March 2019 (prior financial year: four weeks).

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.

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. 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. Further information on the impact of adopting IFRS 15 is included in note 1.

Accounting policies

Revenue

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, vouchers and sales made on an agency basis. 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. Commission income is recognised in revenue based on the terms of the contract.

b) Nectar points
Any points issued and redeemed in Sainsbury's and Argos are accounted for in line with IFRS 15 'Revenue from Contracts with Customers'. On issuance of Nectar points within the Group, a portion of the transaction price is allocated to the loyalty programme using the fair value of points issued and corresponding deferred revenue recognised in relation to points issued but not yet redeemed. The deferral is treated as a deduction from revenue. The fair value of the points awarded is determined with reference to the fair value to the customer and considers factors such as breakage and the money off that each point entitles a customer to. Deferred revenue is subsequently recognised when Nectar points are redeemed.

c) Other income
Other income generally consists of profits and losses on disposal of assets. Nectar revenue earned from non-Sainsbury's redemption partners is included within other income and recognised once points have been redeemed.

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

e) Financial Services fees and commissions
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 services are provided. Where in the case of insurance commissions the income comprises an initial commission and profit share, both are recognised on completion of the service to the extent reliably measurable. Where there is a risk of potential clawback, an appropriate element of the commission receivable is deferred and amortised over the clawback period. Where the relevant contract requires Financial Services to perform future services in respect of the income receivable, initial commission is recognised on completion of the service provided, with an element deferred to reflect services yet to be performed in future periods.

f) Financial Services other operating income
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 within other operating income.

Segment revenue presents a disaggregation of revenue from customers consistent with the Group's primary revenue streams.

4 Segment reporting continued

Income statement and balance sheet

52 weeks to 9 March 2019	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	**28,466**	–	–	**28,466**
Financial Services to external customers[1]	–	**541**	–	**541**
Underlying revenue	**28,466**	**541**	–	**29,007**
Revenue	**28,466**	**541**	–	**29,007**
Underlying operating profit	**692**	**31**	–	**723**
Underlying finance income	**3**	–	–	**3**
Underlying finance costs	**(99)**	–	–	**(99)**
Underlying share of post-tax profit from joint ventures and associates	–	–	**8**	**8**
Underlying profit before tax	**596**	**31**	**8**	**635**
Non-underlying expense (note 3)				**(396)**
Profit before tax				**239**
Income tax expense (note 8)				**(20)**
Profit for the financial period				**219**
Assets	**14,420**	**8,916**	–	**23,336**
Investment in joint ventures and associates	–	–	**205**	**205**
Segment assets	**14,420**	**8,916**	**205**	**23,541**
Segment liabilities	**(7,147)**	**(7,938)**	–	**(15,085)**
Other segment items				
Capital expenditure[2]	**585**	**44**	–	**629**
Depreciation expense[3]	**642**	**7**	–	**649**
Amortisation expense[4]	**127**	**16**	–	**143**
Net impairment and onerous contract charge	**3**	–	–	**3**
Share-based payments	**36**	**3**	–	**39**

1 Financial Services income includes £385 million recognised using the effective interest rate method
2 Retail capital expenditure consists of property, plant and equipment additions of £505 million and intangible asset additions of £80 million. Financial Services capital expenditure consists of property, plant and equipment additions of £8 million and intangible asset additions of £36 million
3 Depreciation within the Retail segment includes a £13 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar
4 Amortisation expense within the Retail segment includes a £41 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar. Amortisation expense within the Financial Services segment includes a £1 million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank

4 Segment reporting continued

52 weeks to 10 March 2018	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	27,944	–	–	27,944
Financial Services to external customers[1]	–	515	–	515
Underlying revenue	27,944	515	–	28,459
Acquisition adjustment fair value unwind[2]	–	(3)	–	(3)
Revenue	27,944	512	–	28,456
Underlying operating profit	625	69	–	694
Underlying finance income	14	–	–	14
Underlying finance costs[3]	(133)			(133)
Underlying share of post-tax profit from joint ventures and associates	4		10	14
Underlying profit before tax	510	69	10	589
Non-underlying expense (note 3)				(180)
Profit before tax				409
Income tax expense (note 8)				(100)
Profit for the financial period				309
Assets	13,897	7,872	–	21,769
Investment in joint ventures and associates	1	–	231	232
Segment assets	13,898	7,872	231	22,001
Segment liabilities	(7,694)	(6,896)	–	(14,590)
Other segment items				
Capital expenditure[4]	640	77	–	717
Depreciation expense[5]	651	8	–	659
Amortisation expense[6]	59	13		72
Share-based payments	30	3		33

1 Financial Services income includes £365 million recognised using the effective interest rate method
2 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.
3 The coupons on the perpetual capital securities and the perpetual convertible bonds 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 finance costs, as detailed in note 3
4 Retail capital expenditure consists of property, plant and equipment additions of £570 million and intangible asset additions of £70 million. Financial Services capital expenditure consists of property, plant and equipment additions of £8 million and intangible asset additions of £69 million.
5 Depreciation within the Retail segment includes an £18 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar.
6 Amortisation expense within the Retail segment includes £20 million income in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar. Amortisation expense within the Financial Services segment includes a £(3) million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

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.

4 Segment reporting continued

Cash flow

	APM reference	52 weeks to 9 March 2019 Retail £m	Financial Services £m	Group £m	52 weeks to 10 March 2018 Retail £m	Financial Services £m	Group £m
Profit/(loss) before tax[1]		**260**	**(21)**	**239**	382	27	409
Net finance costs		**77**	**–**	**77**	121		121
Share of post-tax profit from joint ventures and associates[1]		**(4)**	**–**	**(4)**	(12)		(12)
Operating profit/(loss)		**333**	**(21)**	**312**	491	27	518
Adjustments for:							
Depreciation/amortisation		**769**	**23**	**792**	710	21	731
Non-cash adjustments arising from acquisitions[2]		**(2)**	**–**	**(2)**	(2)	3	1
Financial Services impairment losses on loans and advances		**–**	**98**	**98**		68	68
Loss/(profit) on sale of properties		**17**	**–**	**17**	(11)	–	(11)
Loss on disposal of intangibles		**–**	**–**	**–**	–	2	2
Profit on disposal of joint ventures		**–**	**–**	**–**	(4)	–	(4)
Impairment charge of property, plant and equipment		**3**	**–**	**3**	–	–	–
Share-based payments expense		**36**	**3**	**39**	30	3	33
Non-cash defined benefit scheme expenses		**108**	**–**	**108**	(21)	–	(21)
Cash contributions to defined benefit scheme		**(63)**	**–**	**(63)**	(130)	–	(130)
Operating cash flows before changes in working capital		**1,201**	**103**	**1,304**	1,063	124	1,187
Changes in working capital							
(Increase)/decrease in working capital		**(45)**	**(510)**	**(555)**	196	143	339
Cash generated from/(used in) operations		**1,156**	**(407)**	**749**	1,259	267	1,526
Interest paid	a	**(63)**	**–**	**(63)**	(89)	–	(89)
Corporation tax paid		**(61)**	**(7)**	**(68)**	(72)	–	(72)
Net cash generated from/(used in) operating activities		**1,032**	**(414)**	**618**	1,098	267	1,365
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(434)**	**(8)**	**(442)**	(473)	(8)	(481)
Strategic capital expenditure	b	**(36)**	**–**	**(36)**	(80)	–	(80)
Purchase of property, plant and equipment		**(470)**	**(8)**	**(478)**	(553)	(8)	(561)
Purchase of intangible assets		**(78)**	**(38)**	**(116)**	(69)	(71)	(140)
Proceeds from disposal of property, plant and equipment		**64**	**–**	**64**	54		54
Proceeds from financial assets at fair value through other comprehensive income	d	**39**	**–**	**39**			–
Acquisition of subsidiaries	c	**–**	**–**	**–**	(33)	–	(33)
Cash acquired upon acquisition of subsidiaries	c	**–**	**–**	**–**	168	–	168
Investment in joint ventures	f	**(5)**	**–**	**(5)**	(9)		(9)
Interest received	a	**4**	**–**	**4**	14		14
Dividends and distributions received[3]	f	**18**	**–**	**18**	37		37
Net cash used in investing activities		**(428)**	**(46)**	**(474)**	(391)	(79)	(470)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	**22**	**–**	**22**	12	–	12
Repayment of borrowings	d	**(593)**	**–**	**(593)**	(148)	–	(148)
Proceeds from borrowings	d	**135**	**–**	**135**	–	174	174
Purchase of own shares	e	**(30)**	**–**	**(30)**	(14)	–	(14)
Repayment of capital element of obligations under finance lease payments	d	**(32)**	**–**	**(32)**	(26)	–	(26)
Interest elements of obligations under finance lease payments	a	**(7)**	**–**	**(7)**	(7)	–	(7)
Dividends paid on ordinary shares		**(224)**	**–**	**(224)**	(212)	–	(212)
Dividends paid on perpetual securities	a	**(23)**	**–**	**(23)**	(23)	–	(23)
Net cash (used in)/generated from financing activities		**(752)**	**–**	**(752)**	(418)	174	(244)
Intra group funding							
Bank capital injections		**(110)**	**110**	**–**	(190)	190	–
Net cash (used in)/generated from intra group funding		**(110)**	**110**	**–**	(190)	190	–
Net (decrease)/increase in cash and cash equivalents		**(258)**	**(350)**	**(608)**	99	552	651

1 Includes £4 million (2018: £8 million) relating to the Property Investment segment.
2 The total Group balance excludes a £(55) million acquisition adjustment unwind expense (2018: £(1) million expense) already included in depreciation and amortisation in this note.
3 Included within dividends and distributions received is £18 million (2018: £30 million) of dividends received from property investment joint ventures.

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5 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. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset. The four key types 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. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.
— 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 and requires estimates of the amount earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, agreements from suppliers are obtained to agree the value to be recognised at year-end, prior to it being invoiced. By aligning the agreements to the Group's financial year, where possible, the judgements required are minimised.
— Marketing and advertising income – relates to income which is directly linked to the cost of producing the Argos catalogue as well as advertising income from suppliers through the Group's subsidiary Insight 2 Communication (I2C). Income relating to the Argos catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Group, which is the point at which the catalogue costs are recognised. Advertising income within I2C involves a level of judgement to ensure amounts are recognised in the correct period.

Of the above categories, fixed amounts, supplier rebates and marketing and advertising income involve a level of judgement and estimation. The amounts recognised in the income statement for these three categories in the financial year are as follows:

	2019 £m	2018 £m
Fixed amounts	**281**	261
Supplier rebates	**69**	97
Marketing and advertising income	**107**	92
Total supplier arrangements	**457**	450

Of the above amounts, the following was outstanding and held on the balance sheet at the period-end:

	2019 £m	2018 £m
Within inventory	**(7)**	(7)
Within current trade receivables		
Supplier arrangements due	**39**	23
Accrued supplier arrangements	**39**	–
Within current trade payables		
Supplier arrangements due	**22**	23
Accrued supplier arrangements	**–**	14
Deferred income	**(1)**	
Total supplier arrangements	**92**	53

6 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:

	2019 £m	2018 £m
Employee costs (note 29)	**3,170**	3,134
Depreciation expense (note 11)[1]	**649**	659
Amortisation expense (note 12)[2]	**143**	72
Loss/(profit) on disposal of properties (note 3)	**17**	(11)
Operating lease rentals		
– land and buildings	**707**	706
– other leases	**88**	90
– sublease payments receivable	**(61)**	(54)
Foreign exchange (gains)/losses	**(12)**	22
IFRS 9 impairment losses on loans and advances[3]	**98**	68
Impairment and onerous contract charges (note 3)	**3**	

1 Depreciation expense includes £13 million (2018: £18 million) in relation to the unwind of acquisition adjustments.
2 Amortisation expense includes £41 million charge (2018: £20 million) in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar, and a £1 million charge (2018: £3 million charge) in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.
3 The prior year impairment charge is recognised in accordance with IAS 39.

	2019 £m	2018 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	**1.0**	1.0
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**2.2**	1.2
Audit related assurance services	**0.1**	0.2
Other non-audit fees	**0.5**	–
Total fees	**3.8**	2.4

7 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.

Interest paid and interest received for the purpose of the cash flow statement relates to retail only, with Financial Services interest paid and interest received included in the net operating cash flow.

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.

	2019			2018		
	Underlying £m	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m
Interest on bank deposits and other financial assets	**3**	**–**	**3**	14		14
Finance fair value movements	**–**	**19**	**19**	-	5	5
Finance income	**3**	**19**	**22**	14	5	19
Borrowing costs:						
Secured borrowings	**(55)**	–	**(55)**	(79)	–	(79)
Unsecured borrowings	**(19)**	–	**(19)**	(30)	–	(30)
Obligations under finance leases	**(7)**	–	**(7)**	(7)	–	(7)
Provisions – amortisation of discount (note 19)	**(1)**	**(6)**	**(7)**	(1)	(4)	(5)
	(82)	**(6)**	**(88)**	(117)	(4)	(121)
Other finance costs:						
Interest capitalised – qualifying assets (note 11)	**6**	–	**6**	7	–	7
IAS 19 pension financing charge (note 30)	**–**	**(8)**	**(8)**		(26)	(26)
Transaction financing costs	**–**	**(9)**	**(9)**		–	–
Perpetual securities coupon	**(23)**	**23**	**–**	(23)	23	-
	(17)	**6**	**(11)**	(16)	(3)	(19)
Finance costs	**(99)**	–	**(99)**	(133)	(7)	(140)

Finance fair value movements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship. In addition, £10 million of fair value gains recognised in other comprehensive income were recycled to the income statement on disposal of the related debt securities.

Transaction financing costs relate to the fees associated with the financing arrangements which would have been available to the Group if the proposed merger with Asda had completed. These have been written off to the income statement in full.

8 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.

8 Taxation continued

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

	2019 £m	2018 £m
Current year UK tax	**102**	121
Current year overseas tax	**5**	1
Over-provision in prior years	**(26)**	(15)
Total current tax expense	**81**	107
Origination and reversal of temporary differences	**(31)**	(13)
(Over)/under provision in prior years	**(30)**	5
Revaluation of deferred tax balances	**–**	1
Total deferred tax credit	**(61)**	(7)
Total income tax expense in income statement	**20**	100
Analysed as:		
Underlying tax	**151**	142
Non-underlying tax	**(131)**	(42)
Total income tax expense in income statement	**20**	100
Underlying tax rate	**23.8%**	24.1%
Effective tax rate	**8.4%**	24.4%

The effective tax rate of 8.4 per cent (2018: 24.4 per cent) is lower than (2018: higher than) the standard rate of corporation tax in the UK of 19 per cent. The differences are explained below:

	2019 £m	2018 £m
Profit before tax	**239**	409
Income tax at UK corporation tax rate of 19.00% (2018: 19.06%)	**45**	78
Effects of underlying items:		
Disallowed depreciation on UK properties	**28**	26
Under-provision in prior years	**5**	3
Revaluation of deferred tax balances	**3**	2
Other	**(6)**	(1)
Effects of non-underlying items:[1]		
(Loss)/profit on disposal of properties	**(5)**	1
Investment property fair value movements	**–**	(1)
Argos integration costs	**–**	7
Homebase separation	**–**	1
Sainsbury's Bank transition	**–**	(2)
Revaluation of previously held equity interest in Insight 2 Communication LLP	**–**	(1)
Asda merger	**7**	
Non-underlying finance movements	**1**	
Over-provision in prior years	**(61)**	(12)
Revaluation of deferred tax balances	**2**	(1)
Other	**1**	–
Total income tax expense in income statement	**20**	100

1 Disclosed where the tax on non-underlying items differs from the statutory rate

The over-provision in prior years includes a prior year deferred tax credit of £50 million that arose on the recognition of a UK capital loss which crystallised as part of transactions undertaken by the Group in 2015/16 to eliminate dormant/limited activity companies relating to the US business.

8 Taxation continued

The main rate of UK corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017. A further reduction in the corporation tax rate to 17 per cent, rather than 18 per cent, effective from 1 April 2020 was substantively enacted in a prior period, so its effect is reflected in these financial statements. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse.

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

	Share-based payments[2] £m	Retirement benefit obligations[1] £m	Fair value movements[1] £m	Perpetual security coupons[2] £m	IFRS 9 Transition[2] £m	Total £m
52 weeks to 9 March 2019						
Current tax recognised in equity or other comprehensive income	**(1)**	**–**	**(2)**	**(5)**	**(2)**	**(10)**
Deferred tax recognised in equity or other comprehensive income	**1**	**216**	**15**	**–**	**(15)**	**217**
Income tax charged/(credited)	**–**	**216**	**13**	**(5)**	**(17)**	**207**
52 weeks to 10 March 2018						
Current tax recognised in equity or other comprehensive income	–	(19)	–	(5)	–	(24)
Deferred tax recognised in equity or other comprehensive income	–	118	(13)	–		105
Income tax charged/(credited)	-	99	(13)	(5)		81

1 Recognised in other comprehensive income.
2 Recognised in equity

The current and deferred tax in relation to the Group's defined benefit pension scheme's remeasurements, financial assets at fair value through other comprehensive income fair value movements and perpetual securities coupons 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	Other £m	Total £m
At 11 March 2018	**(159)**	**35**	**(19)**	**(85)**	**(4)**	**10**	**(19)**	**(241)**
Prior year adjustment to income statement	**(1)**	**52**	–	–	–	–	**(21)**	**30**
Prior year adjustment to equity or other comprehensive income	–	–	**3**	–	–	–	–	**3**
Credit/(charge) to income statement	**16**	**7**	**(15)**	**1**	**4**	**6**	**17**	**36**
(Charge)/credit to equity or other comprehensive income	–	–	**(20)**	–	**(241)**	**(1)**	**15**	**(247)**
Rate change adjustment to income statement	**(2)**	**(1)**	**(1)**	–	–	**(1)**	–	**(5)**
Rate change adjustment to equity or other comprehensive income	–	–	**2**	–	**25**	–	–	**27**
At 9 March 2019	**(146)**	**93**	**(50)**	**(84)**	**(216)**	**14**	**(8)**	**(397)**
At 12 March 2017	(166)	31	(48)	(84)	124	8	(27)	(162)
Acquisition of subsidiaries	3	–	16	-	–		–	19
Prior year adjustment to income statement	(11)	5	–	(2)	–		3	(5)
Credit/(charge) to income statement	17	(1)	-	1	(11)	2	5	13
Credit/(charge) to equity or other comprehensive income	–	–	15	–	(132)	–	–	(117)
Rate change adjustment to income statement	(2)		–	–	1	–	-	(1)
Rate change adjustment to equity or other comprehensive income	–	–	(2)	–	14	–		12
At 10 March 2018	(159)	35	(19)	(85)	(4)	10	(19)	(241)

	2019 £m	2018 £m
Total deferred income tax liabilities	**(504)**	(286)
Total deferred income tax assets	**107**	45
Net deferred income tax liability recognised in non-current liabilities	**(397)**	(241)

Deferred income tax assets have been recognised in respect of all temporary differences and tax losses giving rise to deferred income tax assets because it is probable that these assets will be recovered. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority.

9 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Trusts (note 23), which are treated as cancelled. For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated convertible bonds (net of tax).

The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the number of shares that would be issued if all senior convertible bonds and 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 3. 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.

	2019 million	2018 million
Weighted average number of shares in issue	**2,197.6**	2,186.2
Weighted average number of dilutive share options	**42.1**	21.8
Weighted average number of dilutive senior convertible bonds	**148.1**	143.5
Weighted average number of dilutive subordinated perpetual convertible bonds	**80.8**	78.3
Total number of shares for calculating diluted earnings per share	**2,468.6**	2,429.8

	£m	£m
Profit for the financial year (net of tax)	**219**	309
Less profit attributable to:		
Holders of perpetual capital securities	**(12)**	(12)
Holders of perpetual convertible bonds	**(6)**	(6)
Profit for the financial year attributable to ordinary shareholders	**201**	291

	£m	£m
Profit for the financial year attributable to ordinary shareholders	**201**	291
Add interest on senior convertible bonds (net of tax)	**12**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted earnings for calculating diluted earnings per share	**219**	309

	£m	£m
Profit for the financial year attributable to ordinary shareholders of the parent	**201**	291
Adjusted for non-underlying items (note 3)	**396**	180
Tax on non-underlying items	**(131)**	(42)
Add back coupons on perpetual securities (net of tax)[1]	**18**	18
Underlying profit after tax attributable to ordinary shareholders of the parent	**484**	447
Add interest on convertible bonds (net of tax)	**12**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**502**	465

	Pence per share	Pence per share
Basic earnings	**9.1**	13.3
Diluted earnings	**8.9**	12.7
Underlying basic earnings	**22.0**	20.4
Underlying diluted earnings	**20.3**	19.1

1 Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities (note 22) are added back.

10 Dividends

	2019 Pence per share	2018 Pence per share	2019 £m	2018 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**7.1**	6.6	**156**	144
Interim dividend of current financial year	**3.1**	3.1	**68**	68
	10.2	9.7	**224**	212

After the balance sheet date on 30 April 2019 a final dividend of 7.9 pence per share (2018: 7.1 pence per share) was proposed by the Directors in respect of the 52 weeks to 9 March 2019. This results in a total final proposed dividend of £174 million (2018: £156 million), an increase of 11.5 per cent on the previous year. Subject to shareholders' approval at the Annual General Meeting, the dividend will be paid on 12 July 2019 to the shareholders on the register at 7 June 2019. The proposed final dividend has not been included as a liability at 9 March 2019.

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

Capital work in progress is not depreciated.

Gains and losses on disposal are determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and are recognised within operating profit

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Retail property, plant and equipment, the CGU is deemed to be each trading store, store pipeline development site or in the case of Argos a cluster of stores Non-store assets, including depots and IT assets, are reviewed separately, whilst Financial Services is deemed a separate CGU.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

Capitalisation of interest

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.

Leased assets

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

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

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

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

11 Property, plant and equipment continued

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 11 March 2018	**10,577**	**5,092**	**15,669**
Additions	**68**	**445**	**513**
Disposals	**(87)**	**(384)**	**(471)**
At 9 March 2019	**10,558**	**5,153**	**15,711**
Accumulated depreciation and impairment			
At 11 March 2018	**2,657**	**3,114**	**5,771**
Depreciation expense for the year	**188**	**461**	**649**
Impairment loss for the year	**2**	**1**	**3**
Disposals	**(42)**	**(378)**	**(420)**
At 9 March 2019	**2,805**	**3,198**	**6,003**
Net book value at 9 March 2019	**7,753**	**1,955**	**9,708**
Capital work-in-progress included above	**135**	**107**	**242**
Cost			
At 12 March 2017	10,445	5,084	15,529
Acquisition of subsidiaries (note 32)		3	3
Additions	189	389	578
Disposals	(56)	(384)	(440)
Transfer to assets held for sale	(1)	–	(1)
At 10 March 2018	10,577	5,092	15,669
Accumulated depreciation and impairment			
At 12 March 2017	2,494	3,029	5,523
Depreciation expense for the year	199	460	659
Disposals	(36)	(375)	(411)
At 10 March 2018	2,657	3,114	5,771
Net book value at 10 March 2018	7,920	1,978	9,898
Capital work-in-progress included above	250	78	328

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11 Property, plant and equipment continued

Interest capitalised

Interest capitalised included in additions amounted to £6 million (2018: £7 million) for the Group. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £336 million (2018: £340 million) for the Group. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.1 per cent (2018: 4.1 per cent).

Security

Property, plant and equipment pledged as security is as follows:

	2019		2018	
	Number of properties	**Net book value £bn**	Number of properties	Net book value £bn
Loan due 2018 and Loan due 2031	**48**	**0.9**	125	2.5
Revolving credit facility	**60**	**1.3**	60	1.3
Sainsbury's Property Scottish Partnership	**24**	**0.5**	24	0.6
Bank loans due 2019	**10**	**0.2**	10	0.2
Other	**6**	**0.1**	6	0.1
	148	**3.0**	225	4.7

Analysis of assets held under finance leases

	2019			2018		
	Land and buildings £m	**Fixtures and equipment £m**	**Total £m**	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost	**79**	**42**	**121**	82	16	98
Accumulated depreciation and impairment	**(35)**	**(6)**	**(41)**	(35)	(2)	(37)
Net book value	**44**	**36**	**80**	47	14	61

12 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.

c) Acquired intangible assets

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

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its 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.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

12 Intangible assets continued

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Total £m
Cost					
At 11 March 2018	**401**	**525**	**230**	**32**	**1,188**
Additions	**–**	**116**	**–**	**–**	**116**
Disposals	**(1)**	**(23)**	**–**	**–**	**(24)**
At 9 March 2019	**400**	**618**	**230**	**32**	**1,280**
Accumulated amortisation and impairment					
At 11 March 2018	**4**	**44**	**66**	**2**	**116**
Amortisation expense for the year	**–**	**100**	**23**	**20**	**143**
Disposals	**–**	**(23)**	**–**	**–**	**(23)**
At 9 March 2019	**4**	**121**	**89**	**22**	**236**
Net book value at 9 March 2019	**396**	**497**	**141**	**10**	**1,044**
Cost					
At 12 March 2017	254	429	218	–	901
Acquisition of subsidiaries (note 32)	147	13	12	32	204
Additions	–	139	–	–	139
Disposals	–	(56)	–	–	(56)
At 10 March 2018	401	525	230	32	1,188
Accumulated amortisation and impairment					
At 12 March 2017	4	50	44	–	98
Amortisation expense for the year		48	22	2	72
Disposals	–	(54)	–	–	(54)
At 10 March 2018	4	44	66	2	116
Net book value at 10 March 2018	397	481	164	30	1,072

Goodwill comprises the following:

	2019 £m	2018 £m
Jacksons Stores Limited	**46**	47
Home Retail Group	**119**	119
Sainsbury's Bank plc	**45**	45
Nectar	**147**	147
Bells Stores Limited	**16**	16
Other	**23**	23
	396	397

The goodwill balances above are allocated to the respective cash-generating units (CGUs) or group of CGUs within the Retail or Financial Services segments. The CGUs to which goodwill has been allocated and the level at which it is monitored in the retailing segment are deemed to be the respective acquired retail chains of stores, whilst Financial Services is a separate CGU. Home Retail Group and Nectar are considered separate cash-generating units. The goodwill arising on the purchases of Home Retail Group and Nectar have been allocated to the Retail segment.

The value of the goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU or group of CGUs with the carrying value of its goodwill. The calculation of the Retail CGU's value in use is calculated on the cash flows expected to be generated by the stores using the latest budget and forecast data. Estimates of sales and costs are based on past experience and expectations of future changes in the market. Board approved cash flow projections for five years are used and then extrapolated out assuming flat cash flows and discounted at a pre-tax rate of nine per cent (2018: nine per cent) over the earlier of a 25-year period (being the estimated average remaining useful life of a freehold store) or lease length for leasehold stores.

Goodwill balances relating to Financial Services, Home Retail Group and Nectar are calculated using Board approved cash flows discounted at a pre-tax rate of nine per cent (2018: nine per cent) over a four-year period and then into perpetuity.

12 Intangible assets continued

Based on the operating performance of the CGUs, an impairment of goodwill of £nil million was identified in the current financial year (2018: £nil million) The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill. Sensitivity analysis on the impairment tests for each group of cash-generating units to which goodwill has been allocated has been performed Management are satisfied that there are no changes to assumptions that would lead to an impairment.

Additions to acquired brands and customer relationships in the prior year arose from the acquisition of Nectar. The brand is amortised over five years whilst the customer relationships are amortised between one and five years. Historical additions to acquired brands arose from the acquisition of Home Retail Group and relates to the Argos brand. This is being amortised over ten years.

13 Investments in joint ventures and associates

Accounting policies

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

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

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

The Group's principal joint venture is:

	Statutory year-end	Share of ordinary allotted capital	Country of registration or incorporation
BL Sainsbury Superstores Limited (British Land property investment)	31 March	50%	England

A full list of the Group's joint ventures is included in note 39. Joint ventures with a different year-end date to the Group are reported to include the results up to 28 February 2019, 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.

	British Land £m	Other joint ventures £m	Total £m
At 11 March 2018	**187**	**45**	**232**
Additions	**–**	**5**	**5**
Disposals	**–**	**(5)**	**(5)**
Dividends and distributions received	**(18)**	**–**	**(18)**
Share of retained profit:			
Underlying profit/(loss) after tax	**9**	**(1)**	**8**
Investment property fair value movements	**–**	**(2)**	**(2)**
Finance fair value movements	**(2)**	**–**	**(2)**
Share of (loss)/profit on disposal of properties	**(3)**	**3**	**–**
Share of joint venture profit after tax	**4**	**–**	**4**
Disposals from the Group	**–**	**(13)**	**(13)**
At 9 March 2019	**173**	**32**	**205**
At 12 March 2017	205	32	237
Additions	-	9	9
Disposals		(2)	(2)
Dividends and distributions received	(30)	(7)	(37)
Share of retained (loss)/profit:			
Underlying profit after tax	10	4	14
Investment property fair value movements	(1)	8	7
Finance fair value movements	(3)	–	(3)
Share of (loss)/profit on disposal of properties	(7)	1	(6)
Share of joint venture (loss)/profit after tax	(1)	13	12
Disposals from the Group	13	-	13
At 10 March 2018	187	45	232

13 Investments in joint ventures and associates continued

In the prior year, on 1 February 2018, as part of the acquisition of Nectar the Group acquired an additional 50 per cent of the share capital of Insight 2 Communication LLP, previously a joint venture, making the company a wholly-owned subsidiary which has been consolidated within the Group's results from the date of acquisition onwards. The joint venture had a carrying value of £2 million and a fair value of £6 million, leading to a non-underlying gain of £4 million.

The total assets, liabilities, income and expenses of the Group's principal joint venture BL Sainsbury Superstores Limited are detailed below.

	2019 £m	2018 £m
Non-current assets	**488**	522
Current assets	**32**	80
Current liabilities	**(15)**	(21)
Non-current liabilities	**(172)**	(221)
Joint venture net assets	**333**	360
Group share of joint venture net assets (at 50%)	**167**	180
Goodwill	**5**	5
Unrealised loss on disposal of properties	**1**	2
Group share of joint venture net assets as disclosed above	**173**	187
Revenue	**32**	40
Other expenses	**(11)**	(28)
Interest expenses	**(12)**	(15)
Joint venture profit/(loss) before tax	**9**	(3)
Analysed as:		
Underlying profit before tax	**20**	24
Investment property fair value movements	**–**	(2)
Finance fair value movements	**(4)**	(6)
Loss on disposal of properties	**(7)**	(19)
	9	(3)
Underlying income tax expense	**(2)**	(4)
Non-underlying income tax credit	**–**	5
Joint venture profit/(loss) after tax	**7**	(2)
Total comprehensive income/(expense)	**7**	(2)

The joint venture had no other contingent liabilities nor capital commitments other than those disclosed in notes 34 and 36.

14 Financial assets at fair value through other comprehensive income (previously available-for-sale financial assets)

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. 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.

	2019 £m	2018 £m
Non-current		
Equity		
Other financial assets	**233**	177
Debt		
Interest bearing financial assets	**1**	40
Financial Services related investment securities	**411**	323
	645	540
Current		
Debt		
Financial Services related investment securities	**211**	203
	856	743

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14 Financial assets at fair value through other comprehensive income (previously available for sale financial assets) continued

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 0.6 per cent (2018: 0.6 per cent) and a weighted average cost of capital of nine per cent (2018: nine per cent). There were no disposals in the current year (2018: £1.6 million) and no impairment provisions in either the current or the previous financial year. Interest bearing debt securities with a fair value of £39 million matured during the financial year.

15 Inventories

Accounting policies

Inventories comprise goods held for resale and properties held for resale or in the course of development and are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

	2019 £m	2018 £m
Goods held for resale	**1,929**	1,810

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 9 March 2019 was £21,720 million (2018: £21,209 million).

16 Receivables

(a) Trade and other receivables

Accounting policies

Trade receivables are non-interest bearing and are on commercial terms. Other receivables include both non-interest and interest bearing receivables. Trade and other receivables are stated at their carrying amounts and are written off when management deems them uncollectable or forgiven.

	2019 £m	2018 £m
Non-current		
Other receivables	**25**	35
Prepayments and accrued income	**8**	9
	33	44
Current		
Trade receivables	**144**	117
Other receivables	**322**	470
	466	587
Prepayments and accrued income	**195**	157
	661	744

Current other receivables of £322 million (2018: £470 million), which include £182 million (2018: £213 million) of bank funds in the course of settlement, are generally non-interest bearing. The carrying amounts of trade and other receivables are denominated in sterling.

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

(b) Amounts due from Financial Services customers

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.

The accounting policies for impairment under IFRS 9 are detailed in note 25.

	2019 £m	2018 £m
Non-current		
Loans and advances to customers	**3,426**	2,373
Impairment of loans and advances	**(77)**	(41)
	3,349	2,332
Current		
Loans and advances to customers	**3,808**	3,451
Impairment of loans and advances	**(170)**	(91)
	3,638	3,360

16 Receivables continued

Loans and advances to customers accrue interest at the effective interest rate. Financial Services has pledged the rights to £1,476 million (2018: £1,519 million) of its personal loans book with the Bank of England as collateral for its funding facilities As at 9 March 2019 £950 million (2018· £950 million) of borrowings were drawn under the Term Funding Scheme and £75 million (2018 £nil) of borrowings were drawn under the Indexed Long Term Repo facility

Financial Services has assigned the beneficial interest in £334 million (2018· £379 million) of its personal loans book to a Special Purpose Entity for use as collateral in securitisation transactions, facilitating £275 million (2018: £312 million) of drawings.

Refer to note 24 for details on Financial Services credit risk

(c) Provision for impairment of loans and advances

	2019					2018
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Incurred loss £m	Total £m	Incurred loss £m
Opening provision	–	–	–	**(132)**	**(132)**	(89)
IFRS 9 opening balance adjustments	**(35)**	**(58)**	**(111)**	**132**	**(72)**	
Transfers between stages	**31**	**4**	**(35)**	–	–	-
Additional provisions less amounts recovered	**(8)**	**(10)**	**(2)**	–	**(20)**	(68)
Write-offs	–	**1**	**54**	–	**55**	26
Changes in credit risk during the year	**(22)**	**(1)**	**(55)**	–	**(78)**	(1)
Closing provision	**(34)**	**(64)**	**(149)**	–	**(247)**	(132)

(d) Major counterparties

The Group has one major counterparty totalling £30 million (2018: £67 million). No major counterparty balances are considered overdue or impaired.

17 Assets and liabilities held for sale

Accounting policies

Assets and liabilities 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 and liabilities are financial assets at fair value through other comprehensive income in their present condition. Assets held for sale are stated at the lower of the carrying amount and fair value less costs to dispose.

	2019 £m	2018 £m
Assets held for sale		
Retail segment properties	**8**	9

Of the Group's assets held for sale at 10 March 2018, £1 million were sold during the current financial year. For the remaining assets, the sale is still considered probable in the next financial year and so they remain classified as held for sale

18 Payables

(a) 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.

Accruals and deferred income/gains includes accounting for leases with fixed rental increases and lease incentives on a straight-line basis over the term of the lease.

	2019 £m	2018 £m
Current		
Trade payables	**3,044**	2,852
Other payables	**561**	598
Accruals and deferred income/gains	**839**	872
	4,444	4,322
Non-current		
Other payables	**10**	12
Accruals and deferred income/gains	**330**	301
	340	313

Foreign currency risk

The Group has net euro denominated trade payables of £50 million (2018: £35 million) and US dollar denominated trade payables of £209 million (2018 £56 million).

18 Payables continued

(b) 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.

	2019 £m	2018 £m
Current		
Customer accounts	**5,514**	4,667
Other deposits	**167**	49
Senior secured loan notes	**116**	125
	5,797	4,841
Non-current		
Customer accounts	**436**	313
Other deposits	**1,209**	1,183
Senior secured loan notes	**159**	187
	1,804	1,683

Sainsbury's Bank, via its subsidiary undertakings, has entered a £300 million (2018: £400 million) asset backed commercial paper securitisation of consumer loans. Of this facility, £275 million had been drawn as at 9 March 2019 (10 March 2018: £312 million). Interest on the notes is repayable at a floating rate linked to three-month LIBOR and their contractual repayment is determined by cash flows on the relevant personal loans included in the collateral pool

Other deposits of £1,376 million (2018: £1,232 million) relate to deposits from wholesale counterparties.

19 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 benefit 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.

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

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

The onerous lease provision covers residual lease commitments of up to an average of 34 years (2018: 34 years), after allowance for existing or anticipated sublet rental income.

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 is driven by the announced transformational changes to the Group's in-store operating model, responding to changing customer shopping habits and reducing costs throughout the store estate.

Financial services related provisions
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), and in respect of potential customer redress payable in relation to other customer conduct issues arising from a review of the governance and risk management framework. In addition, ECL provisions are included in relation to loan commitments not yet recognised on the balance sheet

With regards to PPI provisions, 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 and is expected to be fully utilised by August 2019 due to the claim deadline.

The remaining customer redress costs incorporate detailed calculations combined with historic experience, therefore elements of these estimates are inherently uncertain and the ultimate financial impact may be different from that provided The provision reflects management's best estimates and is expected to be utilised within one year.

Other provisions
Provisions for warranties and long service awards have been included within other provisions

19 Provisions continued

	Onerous leases and onerous contracts £m	Insurance provisions £m	Restructuring £m	Financial Services related provisions £m	Other provisions £m	Total £m
At 11 March 2018	**124**	**78**	**94**	**52**	**19**	**367**
IFRS 9 opening adjustment	–	–	–	**14**	–	**14**
Additional provisions	***30***	***29***	***67***	***10***	***18***	**154**
Unused amounts reversed	**(8)**	**(6)**	–	**(6)**	–	**(20)**
Utilisation of provision	**(40)**	**(30)**	**(139)**	**(13)**	**(17)**	**(239)**
Amortisation of discount	**7**	–	–	–	–	**7**
At 9 March 2019	**113**	**71**	**22**	**57**	**20**	**283**
At 12 March 2017	100	80	50	83	21	334
Additional provisions	60	35	81	–	12	188
Unused amounts reversed	(3)	(12)	–		(6)	(21)
Utilisation of provision	(38)	(25)	(37)	(31)	(8)	(139)
Amortisation of discount	5		–	–		5
At 10 March 2018	124	78	94	52	19	367

	2019 £m	2018 £m
Disclosed as:		
Current	**123**	201
Non-current	**160**	166
	283	367

20 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.

	2019 million	2018 million	2019 £m	2018 £m
Called up share capital				
Allotted and fully paid ordinary shares $28^4/_7$p	**2,206**	2,194	**630**	627
Share premium account				
Share premium			**1,147**	1,130

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 11 March 2018	**2,194**	**627**	**1,130**	**568**
Allotted in respect of share option schemes	**12**	**3**	**17**	–
At 9 March 2019	**2,206**	**630**	**1,147**	**568**
At 12 March 2017	2,188	625	1,120	568
Allotted in respect of share option schemes	6	2	10	–
At 10 March 2018	2,194	627	1,130	568

21 Capital redemption and other reserves

	Currency translation reserve £m	Financial assets at fair value through other comprehensive income £m	Cash flow hedge £m	Convertible bond reserve £m	Total other reserves £m	Capital redemption reserve £m
At 11 March 2018	**4**	**156**	**(52)**	**13**	**121**	**680**
Currency translation differences	**1**	–	–	–	**1**	–
Financial assets at fair value through other comprehensive income movements	–	**46**	–	–	**46**	–
Items reclassified from financial assets at fair value through other comprehensive income reserve	–	**(10)**	–	–	**(10)**	–
Cash flow hedges effective portion of fair value movements (net of tax)	–	–	**67**	–	**67**	–
Items reclassified from cash flow hedge reserve	–	–	**(45)**	–	**(45)**	–
Amortisation of convertible bond – equity component	–	–	–	**(8)**	**(8)**	–
At 9 March 2019	**5**	**192**	**(30)**	**5**	**172**	**680**
At 12 March 2017	8	143	21	21	193	680
Currency translation differences	(4)			–	(4)	–
Financial assets at fair value through other comprehensive income movements	–	11	–	–	11	–
Items reclassified from financial assets at fair value through other comprehensive income reserve	–	2	–		2	–
Cash flow hedges effective portion of fair value movements (net of tax)		–	(123)	–	(123)	–
Items reclassified from cash flow hedge reserve	–	–	50	–	50	–
Amortisation of convertible bond - equity component	–	–		*(8)*	*(8)*	–
At 10 March 2018	4	156	(52)	13	121	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 convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014.

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

22 Perpetual securities

Accounting policies and key information

Perpetual securities (perpetual capital securities and perpetual 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 and as a liability at the time it becomes obligated to pay the periodic return.* Any associated tax impacts are recognised directly in equity.

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 securities are perpetual with no fixed redemption date. Holders of the perpetual securities do not benefit from any put option rights; however the Group does have the right to call the perpetual subordinated capital securities at their principal amount on 30 July 2020, and the perpetual subordinated convertible bonds on 30 July 2021. The perpetual subordinated convertible bonds may be converted into ordinary shares of the Company at the option of the holders at any time up to 23 July 2021 at a conversion price of 307.9443 pence.

The Group has the right to defer coupons on the perpetual securities on any coupon payment date where the Company has not either paid a dividend on its ordinary shares or bought back ordinary shares (excluding shares bought to satisfy employee share schemes) within the previous 12-month period The coupon rate on the perpetual subordinated capital securities increases after the fifth anniversary and for the perpetual subordinated convertible bonds after the sixth anniversary.

22 Perpetual securities continued

The next coupon date on the perpetual securities is 30 July 2019. As the Company paid a dividend to ordinary shareholders in the 12 months prior to this date (in January 2019), the periodic distributions of £16 million (2018: £16 million) for the perpetual subordinated capital securities and £7 million (2018: £7 million) for the perpetual subordinated convertible bonds have been recognised in the financial year.

	Perpetual capital securities £m	Perpetual convertible bonds £m
At 11 March 2018	**248**	**248**
Distributions to holders of perpetual securities	**(16)**	**(7)**
Current tax relief on distributions to holders of perpetual securities	**4**	**1**
Profit for the year attributable to holders of perpetual securities	**12**	**6**
At 9 March 2019	**248**	**248**
At 12 March 2017	248	248
Distributions to holders of perpetual securities	(16)	(7)
Current tax relief on distributions to holders of perpetual securities	4	1
Profit for the year attributable to holders of perpetual securities	12	6
At 10 March 2018	248	248

23 Retained earnings

	Own shares £m	Profit and loss account £m	Total retained earnings £m
At 11 March 2018	**(6)**	**3,795**	**3,789**
Day 1 accounting adjustments (net of tax)	**–**	**(74)**	**(74)**
Profit for the year	**–**	**201**	**201**
Remeasurements on defined benefit pension schemes (net of tax)	**–**	**1,053**	**1,053**
Dividends paid	**–**	**(224)**	**(224)**
Amortisation of convertible bond – equity component	**–**	**8**	**8**
Share-based payment (net of tax)	**–**	**38**	**38**
Purchase of own shares	**(30)**	**–**	**(30)**
Allotted in respect of share option schemes	**17**	**(15)**	**2**
At 9 March 2019	**(19)**	**4,782**	**4,763**
At 12 March 2017	(11)	3,201	3,190
Profit for the year	–	291	291
Remeasurements on defined benefit pension schemes (net of tax)	–	493	493
Dividends paid	–	(212)	(212)
Amortisation of convertible bond – equity component	–	8	8
Share-based payment (net of tax)	–	33	33
Purchase of own shares	(14)	–	(14)
Allotted in respect of share option schemes	19	(19)	–
At 10 March 2018	(6)	3,795	3,789

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

The Group owns 7,240,112 (2018: 2,421,178) of its ordinary shares of $28^{4}/_{7}$ pence nominal value each. At 9 March 2019, the total nominal value of the own shares was £2.1 million (2018: £0.7 million).

All shares (2018: all shares) are held by Group trusts for the Executive Share Plans. All Group trusts waive the rights to the dividends receivable in respect of the shareholder under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 9 March 2019 was £16 million (2018: £6 million).

24 Financial risk management

The principal financial risks faced by the Group relate to liquidity risk, counterparty credit risk, foreign currency risk, interest rate risk, commodity risk and capital risk.

Financial risk management is managed by a central treasury department in accordance with policies and guidelines 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 The risks are more fully described in the Financial Services section on page 135

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.

Liquidity risk

Liquidity risk is the risk that the Group could 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 net debt over a rolling 12-month time horizon. The Group manages its* liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding contingent committed credit facilities.

In June 2018 the £1,450m RCF was extended by one year. The £1,450m facility is split into two facilities, a £300 million Facility (A) maturing in April 2024 and a £1,150 million Facility (B) consisting of three tranches; a £300 million tranche A maturing October 2021, a £400 million tranche B maturing October 2022 and a £450 tranche C maturing October 2023 As at 9 March 2019, £35 million had been drawn (2018: £nil).

In December 2018, a new £100 million uncommitted facility was agreed to provide an additional capacity to fund short-term working capital requirements. Drawdowns on this facility bear interest at a margin over LIBOR. The uncommitted facility was £100 million drawn at 9 March 2019 (2018: £nil).

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

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 9 March 2019				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2031[1]	**(71)**	**(73)**	**(236)**	**(619)**
Unsecured loans:				
Bank overdraft	**(1)**	–	–	–
Short-term borrowings	**(135)**	–	–	–
Bank loans due 2019[2]	**(199)**	–	–	–
Convertible bond due 2019	**(450)**	–	–	–
Finance lease obligations[2]	**(23)**	**(13)**	**(37)**	**(202)**
Trade and other payables	**(4,187)**	–	–	–
Amounts due to Financial Services customers and banks[5]	**(5,836)**	**(738)**	**(1,086)**	**(2)**
Derivative contracts – net settled				
Commodity contracts	**1**	–	–	–
Interest rate swaps in hedging relationships[1,4]	–	**1**	**7**	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	**(1,342)**	**(63)**	–	–
Foreign exchange forwards – inflow[3]	**1,351**	**64**	–	–
Commodity contracts – outflow	**(11)**	**(11)**	**(21)**	**(22)**
Commodity contracts – inflow	**11**	**11**	**20**	**26**

24 Financial risk management continued

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 10 March 2018				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	(575)	–		–
Loan due 2031[1]	(68)	(71)	(227)	(698)
Unsecured loans:				
Bank overdraft	(2)		–	
Bank loans due 2019[2]	(4)	(202)	–	
Convertible bond due 2019	(6)	(453)	–	–
Finance lease obligations[4]	(37)	(18)	(27)	(203)
Trade and other payables	(4,037)			
Amounts due to Financial Services customers and banks[5]	(4,841)	(722)	(1,205)	–
Derivative contracts – net settled				
Commodity contracts	1	–	–	–
Interest rate swaps in hedging relationships[1,4]	7	8	8	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	(1,366)	(69)	–	–
Foreign exchange forwards – inflow[3]	1,323	68	–	–
Commodity contracts – outflow	(15)	(26)	(25)	(4)
Commodity contracts – inflow	13	20	22	5

Assumptions:
1 Cash flows relating to debt and swaps linked to inflation rates have been calculated using an RPI of 4.0 per cent for the year ended 9 March 2019, 2.6 per cent for the year ending 9 March 2020 and 3.4 per cent for future years (2018: RPI of 2.6 per cent for the year ended 10 March 2018, 2.7 per cent for the year ending 9 March 2019 and 2.7 per cent for future years).
2 Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates as at 9 March 2019 and 10 March 2018.
3 Cash flows in foreign currencies have been translated using spot rates as at 9 March 2019 and 10 March 2018.
4 The swap rate that matches the remaining term of the interest rate swap as at 9 March 2019 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2018: 10 March 2018).
5 Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.

Further information relating to liquidity risk in Financial Services is more fully described in the separate section on Financial Services financial risk factors on page 35.

Counterparty credit risk

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of the Group's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers. The Group considers its maximum credit risk to be £9,485 million (2018: £8,814 million), equivalent to the Group's total financial assets and commitments, and of this amount £8,891 million relates to Financial Services (2018: £7,798 million).

The Group (excluding Financial Services) sets counterparty limits for each of its banking and investment counterparties based on their credit ratings. The minimum unsecured 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 2019 £m	Group 2018 £m
Financial institutions – Money market funds	AAAm/Aaa	–	299
Financial institutions – Money market deposits	AAAm/Aaa	**84**	30
Financial institutions – Money market deposits	AA+/Aa1 to A/A2	**120**	66
Deposits at central banks	AA+/Aa1	**308**	683

Management does not expect any losses arising from non-performance of deposit counterparties.

24 Financial risk management continued

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

Counterparty	Long-term rating	Group 2019 £m	Group 2018 £m
Interest rate swaps	AA+/Aa1 to A/A2	**10**	22
FX forward contracts	AA+/Aa1 to A/A2	**18**	2
FX forward contracts	A/A3- to BBB+/Baa1	**–**	1
Commodity forward contracts	AA+/Aa1 to A/A2	**2**	2

Further information relating to counterparty credit risk in Financial Services is more fully described in the section on Financial Services financial risk factors on page 135.

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 future 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 ten per cent movement in exchange rates against sterling is a reasonable measure of volatility. The impact of a ten per cent movement in the exchange rate of US dollar and euro versus sterling as at the balance sheet date, with all other variables held constant, is summarised in the table below:

Group	2019 Change in exchange rate impact on post-tax profit +/-10% £m	2019 Change in exchange rate impact on cash flow hedge reserve +/-10% £m	2018 Change in exchange rate impact on post-tax profit +/-10% £m	2018 Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	**(1)/1**	**(101)/123**	19/(19)	(98)/119
EUR/GBP	**1/(1)**	**(23)/28**	1/(1)	(19)/23

Interest rate risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates impacting on the Group's borrowing and investment portfolios. The Group's interest rate policy seeks to limit the impact of fluctuating interest and inflation rates by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

Interest on financial instruments is classified as fixed rate if interest re-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.

24 Financial risk management continued

The mix of the Group's financial assets and liabilities at the balance sheet date was as follows:

Group	Fixed £m	Floating £m	Variable capped £m	Total £m
At 9 March 2019				
Interest bearing financial assets at fair value through other comprehensive income	**174**	**449**	–	**623**
Amounts due from Financial Services customers	**4,461**	**2,526**	–	**6,987**
Cash and cash equivalents	**1,005**	**116**	–	**1,121**
Borrowings	**(621)**	**(335)**	**(704)**	**(1,660)**
Finance lease obligations	**(88)**	**(34)**	–	**(122)**
Amounts due to Financial Services customers and banks	**(1,124)**	**(6,477)**	–	**(7,601)**
Derivative effect:				
Interest rate swaps	**(4,106)**	**4,106**	–	–
Inflation-linked swaps	**540**	–	**(540)**	–
Total	**241**	**351**	**(1,244)**	**(652)**
At 10 March 2018				
Interest bearing financial assets at fair value through other comprehensive income financial assets	526	40	–	566
Amounts due from Financial Services customers	3,089	2,603	–	5,692
Cash and cash equivalents	583	1,147	–	1,730
Borrowings	(1,182)	(201)	(730)	(2,113)
Finance lease obligations	(87)	(40)		(127)
Amounts due to Financial Services customers and banks	(739)	(5,785)		(6,524)
Derivative effect:				
Interest rate swaps	(2,607)	2,607	–	–
Inflation-linked swaps	(590)	–	590	–
Total	(1,007)	371	(140)	(776)

Further information relating to interest rate risk in Financial Services is more fully described in the section on Financial Services financial risk factors on page 135

24 Financial risk management continued

(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:

	2019 Impact on post-tax profit £m	**2019 Impact on cash flow hedge reserve £m**	2018 Impact on post-tax profit £m	2018 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(7)/5**	**1/(1)**	(8)/5	10/(5)

(ii) Cash flow sensitivity for variable capped rate liabilities
The Group holds £704 million of capped inflation-linked borrowings (2018: £730 million) of which £540 million (2018: £590 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing April 2019 to 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:

	2019 Impact on post-tax profit £m	**2019 Impact on cash flow hedge reserve £m**	2018 Impact on post-tax profit £m	2018 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(1)/1**	**17/(17)**	(6)/6	20/(22)

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. The Group uses a combination of purchasing agreements and financial derivatives to hedge fuel exposures on a layered basis using contracts for difference.

The Group considers a ten per cent movement in commodity prices a reasonable measure of volatility.

	2019 Impact on cash flow hedge reserve £m	2018 Impact on cash flow hedge reserve £m
Change in the fair value of electricity, diesel and gas price +/-10%	**3/(3)**	2/(2)

Capital risk management

The Group defines capital as total equity plus net debt.

The Board's capital objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide optimal returns for shareholders and safeguard the Group's status as a going concern. There has been no change to capital risk management policies during the year.

The Board monitors a broad range of financial metrics including return on capital employed, balance sheet gearing and fixed charge cover.

The Board can manage the Group's capital structure by diversifying the debt portfolio, adjusting the size and timing of dividends paid to shareholders, recycling capital through sale and leaseback transactions, issuing new shares or repurchasing shares in the open market and flexing capital expenditure.

From time-to-time the Company purchases its own shares in the market for the purpose of issuing shares under the Group's share option programmes; however the Group does not operate a defined share buy-back plan.

Part of the Group's capital risk management is to ensure compliance with the general covenants included in the Group's various borrowing facilities. There have been no breaches of general covenants in the financial year ended 9 March 2019.

Information relating to Financial Services capital risk management is detailed on page 135.

24 Financial risk management continued

Financial Services

Sainsbury's Bank (including Argos Financial Services) has identified a set of primary risk types (see table) that are actively managed by the Sainsbury's Bank Board Risk Committee (BRC) and Executive Risk Committee (ERC) in line with the guiding risk principles and overall risk appetite approved by the Sainsbury's Bank Board.

Financial primary risk

Primary risk	How we manage the risk
Liquidity and funding risk The risk that the Bank is unable to meet its obligations as they fall due or can only do so at excessive cost. *How the risk may arise.* Loss of confidence in the Bank leading to a material and rapid outflow of savings deposits and/or difficulties in accessing wholesale funding markets	— Daily monitoring and reporting of key Liquidity and Funding EWIs, with triggers in place for escalation — Liquidity and funding targets built into our strategic planning and capital plans — The annual ILAAP review determines the adequacy of liquidity and funding plans — Liquidity Contingency Plan in place with identified management actions under stress conditions
Market risk The risk of loss as a result of the value of financial assets or liabilities (including off balance sheet instruments) being adversely affected by movements in market rates or prices. *How the risk may arise:* The Bank does not have a trading book, but is exposed to the impact of sudden changes in interest rates on its lending book as well as market risk in the assets held for liquidity purposes.	— A range of market risk limits are in place. Exposures are modelled and reported on a regular basis — Hedging risk management strategies used to reduce exposures to earnings volatility — Behavioural assumptions are applied to the treatment of non-interest bearing balances and expectations within the Bank's balance sheet
Retail credit risk Losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. *How the risk may arise:* Changes in the economic conditions in the UK may impact on the ability of our customers to repay their loans leading to an increase in levels of bad debt.	— We lend responsibly, considering the suitability of the product to meet our customers' needs and their ability to repay any debt — We have policies in place to support vulnerable customers and those in financial difficulties — Credit decisioning based on information from a number of credit related sources — Regular stress testing is undertaken using a variety of plausible stress scenarios
Wholesale credit risk Losses arising from institutional counterparties failing to meet their contractual cash flow obligations. *How the risk may arise.* Default or downgrades in the credit rating of counterparties.	— Counterparty limits and credit assessment processes are in place to control exposure levels — Key ratios are monitored and reported on a daily basis with triggers in place for escalation — Investment activity for liquid assets focused on a small set of asset classes with proven credit performance
Capital adequacy risk Holding insufficient capital to absorb losses in normal and stressed conditions or the ineffective deployment of capital. *How the risk may arise:* Changes in economic conditions or regulatory requirements may impact on the level of capital resources required.	— Target risk appetite range for level of capital held — Daily monitoring and reporting of capital position, with triggers in place for escalation — Projected capital position updated for any changes in business strategy or the external environment — Capital adequacy built in to our strategic planning and capital plans — The annual ICAAP review determines the adequacy of the level and type of capital resources held

Further detail on each of these risks is shown below:

Liquidity and funding risk

Liquidity risk is the risk that the Bank cannot meet its payment obligations as they fall due, or can only do so at extreme cost. We seek to ensure that we can meet our financial obligations 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 controls to mitigate liquidity risks.

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.

24 Financial risk management continued

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside cash flow and funding ratios. We prepare long-term and short-term forecasts 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 the 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 ALCO

Market risk

Market risk is the risk that the value of the Bank's assets, liabilities, capital and earnings are exposed to the adverse change of the market risk drivers. The Bank's market risks include Interest Rate Risk in the Banking Book (IRRBB) and foreign exchange (FX) risk. The Bank does not have a trading book.

a) Interest rate risk

IRRBB arises from interest rates movements which impact present value and timing of future cash flows resulting in changes the underlying value of a bank's assets, liabilities and off-balance sheet instruments 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.

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 LIBOR).
- 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.
- Swap spread risk: the Bank holds a portfolio of liquid assets that are hedged using interest rate swaps; there is a risk that the yield on the assets and the swaps do not move in line together resulting in loss.

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 under various interest rates shock scenarios, the Bank uses both economic value and earnings-based metrics. Market Value Sensitivity and Earnings at Risk. These metrics are monthly monitored and reported to the Asset and Liability Committee.

For interest rate risk measurement, products are allocated within re-pricing gap analysis based on their nearest re-pricing date (all non-maturing deposits are assumed to re-price in month one) and Personal Loans are allocated according to behavioural repayment profile.

b) Foreign exchange risk

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 daily basis.

Credit risk

Credit risk is central to the Bank's day to day activities and is managed in line with the Board approved risk appetite. Key developments over the course of the year have been the migration of the Credit Card portfolio from LBG to the New Bank programme systems and processes, and the extension of our Mortgage range to include Buy-to-Let and a First Time Buyer proposition. The Bank has also adopted the new IFRS 9 financial reporting standard, utilising the suite of models developed to support this. Compared to the prior year, the Bank's personal loan cut-offs have been raised as a precautionary measure against future economic variability.

Retail Credit Risk

Retail Credit Risk is the possibility of losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. Retail Credit utilise automated scorecards to assess the credit worthiness and affordability criteria of new applicants and ongoing behavioural characteristics of existing customers. The outcomes 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 provide 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.

Wholesale and derivative credit risk

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.

24 Financial risk management continued

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.

	2019 £m	2018 £m
Credit risk exposures relating to on balance sheet items		
Loans and advances to customers		
Unsecured	**5,546**	5,383
Secured	**1,441**	309
Cash and balances with central banks	**655**	1,005
Derivative financial instruments	**10**	18
Investment securities	**622**	526
Other assets	**290**	291
Credit risk exposures relating to off balance sheet items		
Loans commitment and other related liabilities	**323**	267
Total credit risk exposures	**8,887**	7,799

The commitments to lend disclosed in the above table do not include undrawn limits on credit cards and store cards. 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 in the following tables

An analysis by loan-to-value (LTV) ratio of the Banks 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.

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
At 28 February 2019				
Less than 70%	**779**	–	**4**	**783**
70% to 80%	**314**	–	–	**314**
80% to 90%	**229**	–	–	**229**
90% to 100%	**109**	–	–	**109**
Greater than 100%	**6**	–	–	**6**
Total mortgages	**1,437**	–	**4**	**1,441**

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
At 28 February 2018				
Less than 70%	203	1	1	205
70% to 80%	65			65
80% to 90%	33			33
90% to 100%	6			6
Greater than 100%	–			–
Total mortgages	307	1	1	309

The following table shows the maximum exposure to credit risk for commitments and balances measured at amortised cost along with the related amounts which are credit impaired at the reporting date.

	Maximum exposure to credit risk £m	Of which secured by collateral (residential property) £m
Loan commitments	**8,392**	**210**
Of which credit impaired at 9 March 2019	**35**	–
Financial assets measured at amortised cost – Retail lending	**7,235**	**1,441**
Of which credit impaired at 9 March 2019	**201**	**4**
Total credit risk exposures	**15,627**	**1,651**
Of which credit impaired at 9 March 2019	**236**	**4**

24 Financial risk management continued

Credit quality per class of financial asset
Loans and advances to customers are summarised as follows:

	2019 £m	2018 £m
Impaired	**201**	169
Past due but not impaired	**63**	55
Neither past due nor impaired	**6,971**	5,612
Gross	**7,235**	5,836
Less: allowance for impairment	**(247)**	(132)
Less: hedging fair value adjustment	**(1)**	(12)
Net book value	**6,987**	5,692

Credit quality analysis

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
9 March 2019				
Past due and impaired				
Less than three months, but impaired	–	–	**32**	**32**
Past due three to six months	–	–	**28**	**28**
Past due six to 12 months	–	–	**5**	**5**
Past due over 12 months	–	–	**1**	**1**
Recoveries	–	–	**135**	**135**
Total gross impaired loans	–	–	**201**	**201**
Past due less than three months but not impaired	**6**	**57**	–	**63**
Neither past due nor impaired	**6,207**	**764**	–	**6,971**
Total gross amount due	**6,213**	**821**	**201**	**7,235**

24 Financial risk management continued

	Unsecured lending £m	Secured lending £m	Total £m
10 March 2018			
Past due and impaired			
Less than three months, but impaired	2	1	3
Past due three to six months	22	–	22
Past due six to 12 months	–	1	1
Past due over 12 months	–	1	1
Recoveries	142	–	142
Total gross impaired loans	166	3	169
Past due but not impaired			
Past due less than three months but not impaired	53	2	55
Total gross past due but not impaired	53	2	55
Neither past due nor impaired			
Not impaired	5,307	305	5,612
Total gross neither past due nor impaired	5,307	305	5,612
Total gross amount due	5,526	310	5,836

Mortgages held over residential properties represent the only collateral held by the Bank for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired was £12 million (2018: £6 million). The fair value of collateral held against possession cases was £nil (2018: £nil).

Financial Services capital resources (unaudited)

The following table analyses the regulatory capital resources under CRD IV. From a prudential perspective, the 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 five-year period.

	Transitional 2019 IFRS 9 £m	Full impact 2019 IFRS 9 £m	2018 £m
Common Equity Tier 1 (CET 1) capital:			
Ordinary share capital	**866**	**866**	756
Allowable reserves	**66**	**66**	174
Regulatory adjustments	**(147)**	**(226)**	(205)
Tier 1 capital	**785**	**706**	725
Tier 2 capital (loan notes – listed)	**172**	**172**	155
Total capital	**957**	**878**	880

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV) as enacted in the UK. Common Equity Tier 1 (CET 1) capital includes ordinary share capital, other reserves, losses and regulatory deductions.

24 Financial risk management continued

The movement of CET 1 capital during the financial year is analysed as follows

	Transitional 2019 IFRS 9 £m	Full impact 2019 IFRS 9 £m	2018 £m
At 1 March 2019 and 1 March 2018	**725**	**725**	567
Share capital issued	**110**	**110**	190
IFRS 9 adjustment to retained earnings	**(84)**	**(84)**	
Verified profits/(losses) attributable to shareholders	**(24)**	**(24)**	23
Transitional adjustments	**79**	**–**	–
Other reserve movements	**–**	**–**	3
Movement in additional value adjustments	**(1)**	**(1)**	–
Increase in intangible assets	**(20)**	**(20)**	(58)
At 28 February 2019 and 28 February 2018	**785**	**706**	725

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 2019. The Bank's leverage ratio of 8.2 per cent exceeds the minimum Basel leverage ratio of 3 per cent

	Transitional 2019 IFRS 9 £m	Full impact 2019 IFRS 9 £m	2018 £m
Components of the leverage ratio			
Total assets as per published financial statements (Sainsbury's Bank plc)	**8,832**	**8,832**	7,765
Uplift on consolidation of subsidiary undertakings	**49**	**49**	61
Exposure value for derivatives and securities financing transactions	**18**	**18**	27
Off balance sheet exposures: unconditionally cancellable (10%)	**810**	**810**	716
Off balance sheet: other (100%)	**65**	**65**	54
Other adjustments	**(226)**	**(226)**	(205)
	9,548	**9,548**	8,418
Tier 1 capital	**785**	**706**	725
Leverage ratio	**8.2%**	**7.4%**	8.6%

Capital management

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. During the year to 28 February 2019, the Bank received further injections of £110 million of ordinary share capital from J Sainsbury plc. 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's tier 1 capital ratio of 13.7 per cent exceeds internal and regulatory thresholds.

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.

25 Financial instruments

Accounting policies

a) Financial assets

From 11 March 2018, 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 (FVPL). Before 11 March 2018, the Group classified its financial assets as loans and receivables, FVPL or available-for-sale financial assets in accordance with IAS 39.

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 (FVPL) or a combination thereof (FVOCI)

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, these are financial assets that are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group has no intention of trading these loans and receivables and they include amounts due from Financial Services customers and amounts due from other banks. 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 method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Financial assets at fair value through other comprehensive income

Financial assets that are held for both the purpose of collecting contractual cash flows and to sell are classified as FVOCI. Initial recognition is at fair value plus transaction costs, with subsequent movements in fair value being recognised through OCI. Interest income measured using the effective interest rate method and impairment gains and losses are recognised in the income statement.

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 'Financial instruments: Presentation' and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Gains and losses on these equity instruments are never recycled to the income statement. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

b) Impairment of financial assets

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a 3 stage forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECL for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

ECLs are based on the difference between the contractual 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 trade receivables and contract assets, the Group establishes provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9.

c) Financial Services loans and advances including impairment

For Financial Services portfolios of loans, such as credit card lending, storecard 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.

25 Financial instruments continued

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 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% probability of default) and interest income will be recognised on the net carrying amount (i.e. gross amount less impairment allowance).

In determining ECL allowances, expected future recoveries are discounted to the reporting date at the original effective interest rate of the relevant instrument.

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 has also chosen to adopt the rebuttable backstop presumption that credit risk has significantly increased if contractual payments are more than 30 days past due.

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.

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.

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.

d) Financial liabilities
The classification and measurement requirements of IFRS 9 are largely unchanged with all of the Group's financial liabilities recognised at amortised cost, and derivative financial liabilities classified as FVPL.

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 method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue.

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

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

25 Financial instruments continued

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 9 March 2019 and 10 March 2018. Further information relating to the changes in classification on adoption of IFRS 9 is included in note 1.

Group	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
At 9 March 2019						
Cash and cash equivalents	**929**	–	**192**	–	–	**1,121**
Trade and other receivables	**347**	–	**144**	–	–	**491**
Amounts due from Financial Services customers	**6,987**	–	–	–	–	**6,987**
Financial assets at FVOCI	–	**856**	–	–	–	**856**
Trade and other payables	–	–	–	–	**(4,187)**	**(4,187)**
Current borrowings	–	–	–	–	**(832)**	**(832)**
Non-current borrowings	–	–	–	–	**(950)**	**(950)**
Amounts due to Financial Services customers and banks	–	–	–	–	**(7,601)**	**(7,601)**
Derivative financial instruments	–	–	**1**	**(5)**	–	**(4)**
	8,263	**856**	**337**	**(5)**	**(13,570)**	**(4,119)**

Group	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
At 10 March 2018						
Cash and cash equivalents	1,730	–	–			1,730
Trade and other receivables	622	–	-			622
Amounts due from Financial Services customers	5,692	–	·			5,692
Available-for-sale financial assets	–	743	·	-	–	743
Trade and other payables	–	-		–	(4,037)	(4,037)
Current borrowings	–	–		-	(638)	(638)
Non-current borrowings	..		–	–	(1,602)	(1,602)
Amounts due to Financial Services customers and banks			–	–	(6,524)	(6,524)
Derivative financial instruments	–		(8)	(44)	–	(52)
	8,044	743	(8)	(44)	(12,801)	(4,066)

e) 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 are assumed to approximate their book values.

	Group Carrying amount £m	Group Fair value £m
At 9 March 2019		
Financial assets		
Amounts due from Financial Services customers[1]	**6,987**	**7,006**
Financial liabilities		
Loans due 2031	**(704)**	**(894)**
Short-term borrowings	**(135)**	**(135)**
Bank overdrafts	**(1)**	**(1)**
Bank loans due 2019	**(199)**	**(199)**
Convertible bond due 2019	**(445)**	**(452)**
Tier 2 Capital due 2023	**(176)**	**(177)**
Obligations under finance leases	**(122)**	**(122)**
Amounts due to Financial Services customers and other banks	**(7,601)**	**(7,577)**

25 Financial instruments continued

	Group Carrying amount £m	Group Fair value £m
At 10 March 2018		
Financial assets		
Amounts due from Financial Services customers[1]	5,692	5,736
Financial liabilities		
Loans due 2018	(572)	(575)
Loans due 2031	(730)	(980)
Bank overdrafts	(2)	(2)
Bank loans due 2019	(199)	(199)
Convertible bond due 2019	(436)	(452)
Tier 2 Capital due 2023	(174)	(184)
Obligations under finance leases	(127)	(127)
Amounts due to Financial Services customers and other banks	(6,524)	(6,514)

1 Included within a portfolio fair value hedging relationship with £4,734 million (2018: £3,391 million) of interest rate swaps

The fair value of financial assets as disclosed in the table above as at 9 March 2019 was £7,006 million (2018: £5,736 million). 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 was £9,557 million (2018: £9,033 million) of which £452 million (2018: £452 million) has been determined using market values and is within Level 1 of the fair value hierarchy. The remaining £9,105 million (2018: £8,581 million) has been calculated by discounting cash flows at prevailing interest rates and is 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).

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 9 March 2019				
Cash and cash equivalents	**192**	–	–	**192**
Trade and other receivables	**144**	–	–	**144**
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	–	**1**	–	**1**
Other financial assets	–	**13**	**220**	**233**
Investment securities	**622**	–	–	**622**
Derivative financial assets	–	**29**	**1**	**30**
Derivative financial liabilities	–	**(34)**	–	**(34)**
At 10 March 2018				
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets		40	–	40
Other financial assets		13	164	177
Investment securities	526	–	–	526
Derivative financial assets	–	27		27
Derivative financial liabilities	–	(70)	(9)	(79)

25 Financial instruments continued

Reconciliation of Level 3 fair value measurements of financial assets and liabilities.

52 weeks to 9 March 2019	Financial instruments at FVOCI £m	Commodity derivatives £m	Total £m
At 12 March 2018	**164**	**(9)**	**155**
In finance cost in the Group income statement	–	**10**	**10**
In other comprehensive income	**56**	–	**56**
At 9 March 2019	**220**	**1**	**221**

52 weeks to 10 March 2018	Financial instruments at FVOCI £m	Commodity derivatives £m	Total £m
At 12 March 2017	148	(15)	133
In finance cost in the Group income statement	–	6	6
In other comprehensive income	16	–	16
At 10 March 2018	164	(9)	155

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 0.6 per cent per annum (2018: 0.6 per cent) and a discount rate of nine per cent (2018: nine per cent), (see note 14). 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:

	2019 Change in growth rate +/-1.0% £m	2019 Change in discount rate +/-1.0% £m	2018 Change in growth rate +/-1.0% £m	2018 Change in discount rate +/-1.0% £m
Financial instruments at fair value through OCI	**13/(12)**	**(9)/9**	12/(12)	(8)/9

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial assets is £1 million (2018: £ (9) million) relating to these agreements. The Group values its Power Purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted 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.

	2019 Change in volume +/-20.0% £m	2019 Change in electricity forward price +/-20.0% £m	2018 Change in volume +/-20.0% £m	2018 Change in electricity forward price +/-20.0% £m
Derivative financial instruments	**(0)/0**	**9/(10)**	(2)/2	11/(12)

f) 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.

25 Financial instruments continued

The following table sets out the Group's financial assets and financial liabilities that are subject to counterparty offsetting or a master netting agreement. The master netting agreements regulate settlement amounts in the event either party defaults on their obligations.

	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	Net amounts recognised in the balance sheet £m	Amounts not offset in balance sheet: Balances subject to a contractual right of offset £m	Amounts not offset in balance sheet: Cash collateral pledged £m	Net amounts £m
At 9 March 2019						
Derivative financial assets	**30**	–	**30**	**21**	–	**51**
Derivative financial liabilities	**(34)**	–	**(34)**	**(21)**	**2**	**(53)**
Trade and other receivables	**524**	**(33)**	**491**	–	–	**491**
Cash and cash equivalents	**1,121**	–	**1,121**	–	–	**1,121**
Bank overdrafts	**(1)**	–	**(1)**	–	–	**(1)**
Trade and other payables	**(2,001)**	**33**	**(1,968)**	–	–	**(1,968)**
	(361)	–	**(361)**	–	**2**	**(359)**
At 10 March 2018						
Derivative financial assets	27		27	(37)		(10)
Derivative financial liabilities	(79)	–	(79)	37	(8)	(50)
Trade and other receivables	657	(35)	622		–	622
Cash and cash equivalents	1,730	–	1,730		–	1,730
Bank overdrafts	(2)	–	(2)	–	–	(2)
Trade and other payables	(1,712)	35	(1,677)	–	–	(1,677)
	621	–	621	–	(8)	613

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 9 March 2019, the Group held no collateral against financial derivative assets (2018: nil).

Financial Services has derivatives that are governed by the International Swaps and Derivatives Association and their associated credit support annex bilateral agreements whereby if the fair value exceeds a pre-agreed level, cash collateral is exchanged. As at 9 March 2019, Financial Services and its subsidiary undertakings had provided collateral of £2 million (2018: received collateral of £8 million) against the derivatives.

The Group also operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. As at 9 March 2019, the Group had £1 million (2018: £2 million) under this facility.

g) 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 finance income or costs 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:

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, as well as the 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.

25 Financial instruments continued

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

Fair value hedges
Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of a financial asset or liability due to movements in interest rates. The changes in fair value of the hedging instrument are recognised in the income statement. The hedged item is also adjusted for changes in fair value with the corresponding adjustment made in the income statement.

The effects of hedge accounting on the Group's financial position and performance

Amounts related to hedging instruments
The fair value of derivative financial instruments has been disclosed in the balance sheet as follows:

	2019 Asset £m	2019 Liability £m	2018 Asset £m	2018 Liability £m
Non-current	**9**	**(17)**	17	(26)
Current	**21**	**(17)**	10	(53)
Total	**30**	**(34)**	27	(79)

	2019				2018			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
At 9 March 2019								
Fair value hedges								
Interest rate swaps	**10**	**2,183**	**(11)**	**2,552**	18	2,559	(8)	942
Cash flow hedges								
Interest rate swaps	–	–	**(1)**	**100**	–	–	(2)	100
Inflation rate swaps	–	–	**(7)**	**540**	–	–	(7)	590
Foreign exchange forward contracts	**18**	**634**	**(15)**	**(708)**	3	227	(50)	1,080
Commodity contracts	**1**	**15**	–	–	2	22	–	–
Derivatives not in a formal hedging relationship								
Interest rate swaps	–	**53**	–	**119**	4	404	(3)	302
Commodity contracts	**1**	**13**	–	–			(9)	15
Total	**30**	**2,898**	**(34)**	**2,603**	27	3,212	(79)	3,029

25 Financial instruments continued

Amounts related to hedged items

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		Line item in financial statements	Balance in cash flow hedge reserve (net of tax)
	Assets £m	**Liabilities £m**	**Assets £m**	**Liabilities £m**	**£m**	**£m**
At 9 March 2019						
Fair value hedges						
Interest rate swaps	**4,734**	**–**	**(1)**	**–**	**Amounts due from Financial Services customers**	**N/A**
Interest rate swaps	**98**	**–**	**–**	**–**	**Financial assets at FVOCI**	
Interest rate swaps	**–**	**(176)**	**–**	**–**	**Borrowings**	
Cash flow hedges						
Interest rate swaps	**N/A**	**(100)**	**N/A**	**N/A**	**N/A**	**(1)**
Inflation rate swaps	**N/A**	**(540)**	**N/A**	**N/A**	**N/A**	**(7)**
Foreign exchange forward contracts	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**(23)**
Commodity contracts	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**1**

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		Line item in financial statements	Balance in cash flow hedge reserve (net of tax)
	Assets £m	Liabilities £m	Assets £m	Liabilities £m	£m	£m
At 10 March 2018						
Fair value hedges						
Interest rate swaps	3,391	–	(12)		Amounts due from Financial Services customers	N/A
Interest rate swaps	98	–	–		Available-for-sale financial assets	
Interest rate swaps		(174)	–	2	Borrowings	
Cash flow hedges						
Interest rate swaps	N/A	(100)	N/A	N/A	N/A	(2)
Inflation rate swaps	N/A	(590)	N/A	N/A	N/A	(6)
Foreign exchange forward contracts	N/A	N/A	N/A	N/A	N/A	(45)
Commodity contracts	N/A	N/A	N/A	N/A	N/A	1

25 Financial instruments continued

Amounts affecting income statement / other comprehensive income

	Hedge ineffectiveness recognised in profit or loss £m	Line item in income statement £m	Hedging gains/losses recognised in other comprehensive income £m	Amounts reclassified from cash flow hedge reserve £m	Line item to which recycling has occurred £m
At 9 March 2019					
Fair value hedges					
Interest rate swaps	**(1)**	**Finance costs**	**N/A**	**N/A**	**N/A**
Cash flow hedges					
Interest rate swaps	**–**	**–**	**–**	**1**	**Finance costs**
Inflation rate swaps	**–**	**–**	**(3)**	**2**	**Finance costs**
Foreign exchange forward contracts	**–**	**–**	**66**	**(44)**	**Inventory**
Commodity contracts	**–**	**–**	**4**	**(4)**	**Cost of sales/ admin expenses**

	Hedge ineffectiveness recognised in profit or loss £m	Line item in income statement £m	Hedging gains/ losses recognised in other comprehensive income £m	Amounts reclassified from cash flow hedge reserve £m	Line item to which recycling has occurred £m
At 10 March 2018					
Fair value hedges					
Interest rate swaps	1	Finance costs	N/A	N/A	N/A
Cash flow hedges					
Interest rate swaps	–	–	1	2	Finance costs
Inflation rate swaps	–	–	(4)	(1)	Finance costs
Foreign exchange forward contracts	–	–	(121)	51	Inventory
Commodity contracts	–	–	1	2	Cost of sales/ admin expenses

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.

Interest rate and foreign exchange swaps

Sainsbury's Bank and its subsidiaries hold a £172 million portfolio of interest rate swaps hedging mortgage pipeline offers that do not qualify for hedge accounting (2018: £156 million) with fair value movements accounted for in full through the P&L, with no effective offset. The fair value movement crediting the income statement for interest rate swaps economically hedging mortgage pipeline interest rate risk but not qualifying for hedge accounting was a cost of £2 million (2018: a credit of £1 million).

Commodity forward contracts

Commodity forward contracts at fair value through profit and loss relate to the Group's long-term fixed price power purchase agreements with independent producers

26 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 that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

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

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

	2019 £m	2018 £m
Cash in hand and bank balances	**609**	585
Money market funds and deposits	**204**	462
Deposits at central banks	**308**	683
Cash and bank balances	**1,121**	1,730
Bank overdrafts	**(1)**	(2)
Net cash and cash equivalents	**1,120**	1,728

Of the above balance, £49 million (2018: £38 million) was restricted as at year-end.

27 Analysis of net debt

The Group's definition of net debt includes the capital injections to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities.

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 changes		Non-cash changes		
	11 March 2018 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Other non-cash movements £m	Changes in fair value £m	9 March 2019 £m
Retail						
Financial assets at fair value through other comprehensive income[1]	**40**	**(39)**	–	–	–	**1**
Derivative assets	**9**	–	**(4)**	**2**	**13**	**20**
Derivative liabilities	**(72)**	–	**3**	**(1)**	**47**	**(23)**
Cash and cash equivalents	**725**	**(259)**	–	–	–	**466**
Bank overdrafts	**(2)**	**1**	–	–	–	**(1)**
Borrowings[2]	**(1,937)**	**458**	**60**	**(64)**	–	**(1,483)**
Finance leases	**(127)**	**32**	**7**	**(34)**	–	**(122)**
Retail net debt	**(1,364)**	**193**	**66**	**(97)**	**60**	**(1,142)**
Financial Services						
Financial assets at fair value through other comprehensive income[1]	**526**	**97**	–	–	**(1)**	**622**
Derivative assets	**18**	–	–	–	**(8)**	**10**
Derivative liabilities	**(7)**	–	–	**(1)**	**(3)**	**(11)**
Cash and cash equivalents	**1,005**	**(350)**	–	–	–	**655**
Borrowings[2]	**(174)**	–	–	–	**(2)**	**(176)**
Financial Services net debt	**1,368**	**(253)**	–	**(1)**	**(14)**	**1,100**
Group						
Financial assets at fair value through other comprehensive income[1]	**566**	**58**	–	–	**(1)**	**623**
Derivative assets	**27**	–	**(4)**	**2**	**5**	**30**
Derivative liabilities	**(79)**	–	**3**	**(2)**	**44**	**(34)**
Cash and cash equivalents	**1,730**	**(609)**	–	–	–	**1,121**
Bank overdrafts	**(2)**	**1**	–	–	–	**(1)**
Borrowings[2]	**(2,111)**	**458**	**60**	**(64)**	**(2)**	**(1,659)**
Finance leases	**(127)**	**32**	**7**	**(34)**	–	**(122)**
Group net debt	**4**	**(60)**	**66**	**(98)**	**46**	**(42)**

Other non-cash movements relate to interest accruals and new finance leases.

27 Analysis of net debt continued

		Cash changes		Non-cash changes			
	12 March 2017 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Acquisition movements £m	Other non-cash movements £m	Changes in fair value £m	10 March 2018 £m
Retail							
Financial assets at fair value through other comprehensive income[1]	39	–	(1)	–	1	1	40
Derivative assets	103	–	(20)	–	19	(93)	9
Derivative liabilities	(38)	–	17	–	(15)	(36)	(72)
Cash and cash equivalents	630	95					725
Bank overdrafts	(6)	4	–	–	–	–	(2)
Borrowings[2]	(2,067)	148	79	(15)	(87)	5	(1,937)
Finance leases	(138)	26	7	–	(22)	–	(127)
Retail net debt	(1,477)	273	82	(15)	(104)	(123)	(1,364)
Financial Services							
Financial assets at fair value through other comprehensive income[1]	333	192	–	–	–	1	526
Derivative assets	1	–	–	–	–	17	18
Derivative liabilities	(22)	–	–	–	–	15	(7)
Cash and cash equivalents	453	552	–	–	–	–	1,005
Borrowings	–	(174)	–	–	–	–	(174)
Financial Services net debt	765	570	–		–	33	1,368
Group							
Financial assets at fair value through other comprehensive income[1]	372	192	(1)		1	2	566
Derivative assets	104	–	(20)	–	19	(76)	27
Derivative liabilities	(60)	–	17	–	(15)	(21)	(79)
Cash and cash equivalents	1,083	647	–	–	–	–	1,730
Bank overdrafts	(6)	4	–	–	–	–	(2)
Borrowings[2]	(2,067)	(26)	79	(15)	(87)	5	(2,111)
Finance leases	(138)	26	7	–	(22)	–	(127)
Group net debt	(712)	843	82	(15)	(104)	(90)	4

1 Financial assets at fair value through other comprehensive income exclude equity related financial assets (see note 14) which predominantly relate to the Group's beneficial interest in a commercial property investment pool.
2 Borrowings exclude bank overdrafts and finance leases as they are disclosed separately

28 Borrowings

	2019 Current £m	**2019 Non-current £m**	**2019 Total £m**	2018 Current £m	2018 Non-current £m	2018 Total £m
Loan due 2018	**–**	**–**	**–**	572	–	572
Loan due 2031	**36**	**668**	**704**	33	697	730
Short-term borrowings	**135**	**–**	**135**	–	–	–
Bank overdrafts	**1**	**–**	**1**	2	–	2
Bank loans due 2019	**199**	**–**	**199**	–	199	199
Convertible bond due 2019	**445**	**–**	**445**	1	435	436
Sainsbury's Bank Tier 2 Capital due 2023	**–**	**176**	**176**	–	174	174
Finance lease obligations	**16**	**106**	**122**	30	97	127
Total borrowings	**832**	**950**	**1,782**	638	1,602	2,240

28 Borrowings continued

a) Loan due 2031

The secured loan is secured on 48 (2018: 48) supermarket properties (note 11) and consists of a loan from a finance company, Longstone Finance plc. This is an inflation-linked amortising loan from Longstone Finance plc with an outstanding principal value of £687 million (2018: £712 million) at a fixed 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 with a carrying amount of £704 million (2018: £730 million) with a final repayment date of April 2031.

The Group has entered into inflation swaps to convert £540 million (2018: £590 million) of the £687 million (2018: £712 million) loan due 2031 from RPI linked interest to fixed rate interest for periods maturing April 2019 to April 2023. These transactions have been designated as cash flow hedges (note 24).

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) Short-term borrowings

On 22 June 2018 the Group extended its syndicated committed revolving credit facility by one year. The facility of £1.45 billion has four, five and six-year tranches with a current final maturity for the longer dated tranche of April 2024. As at 9 March 2019, £35 million had been drawn (2018: £nil).

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

In December 2018, a new £100 million uncommitted facility was agreed to provide an additional capacity to fund short term working capital requirements. Drawdowns of this facility bear interest at a margin over LIBOR. The uncommitted facility was £100 million drawn down at 9 March 2019 (2018: £nil).

d) Bank loans due 2019

On 5 May 2015, the Group amended its £200 million unsecured bank loan due August 2019 into a secured corporate £200 million bank loan due August 2019 at a floating rate of interest. £100 million of this has been swapped into a fixed rate liability. The £100 million portion of the loan and associated interest rate swap has been designated as a cash flow hedge.

e) Convertible bond due 2019

In November 2014, the Group issued £450 million of unsecured convertible bonds due November 2019. The bonds pay a coupon of 1.25 per cent payable semi-annually. Each bond is convertible into ordinary shares of J Sainsbury plc at any time up to 21 November 2019 at a conversion price of 302.31 pence.

The net proceeds of the convertible bond have been split as at 9 March 2019 into a liability component of £445 million and an equity component of £5 million. The equity component represents the fair value of the embedded option to convert the bond into ordinary shares of the Company.

	2019 £m	2018 £m
Liability component brought forward	**436**	427
Interest expense	**14**	14
Interest paid	**(6)**	(6)
Other[1]	**1**	1
Liability component as at the end of the year	**445**	436

1 Other relates to fees.

f) 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.

28 Borrowings continued

g) Finance lease obligations

	Minimum lease payments 2019 £m	Minimum lease payments 2018 £m	Present value of minimum lease payments 2019 £m	Present value of minimum lease payments 2018 £m
Obligations under finance leases:				
Less than 1 year	**23**	37	**16**	30
Within 2 and 5 years inclusive	**50**	45	**27**	23
After 5 years	**202**	203	**79**	74
	275	285	**122**	127
Less: future finance charges	**(153)**	(158)		
Present value of lease obligations	**122**	127		
Disclosed as:				
Current	**16**	30		
Non-current	**106**	97		
	122	127		

Finance leases have effective interest rates ranging from 4.3 per cent to 8.5 per cent (2018: 4.3 per cent to 8.5 per cent). The average remaining lease term is 70 years (2018: 71 years).

h) Asda transaction financing

In June 2018, the financing of the consideration for the proposed Asda merger was arranged. Financing was in the form of Term Loans amounting to £3.5 billion, split over two Facilities. In addition, an upsize of £550 million to Facility B of the existing Revolving Credit Facility (RCF) was arranged in order to provide sufficient contingent funding to the Group. The Terms Loans and the RCF upsize were only available to the Group had the transaction completed.

29 Employee costs

	2019 £m	2018 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**2,822**	2,811
Social security costs	**189**	186
Pension costs – defined contribution schemes	**120**	104
Share-based payments expense (note 31)	**39**	33
	3,170	3,134

	2019 Number 000s	2018 Number 000s
The average number of employees, including Directors, during the year was:		
Full-time	**38.9**	52.8
Part-time	**141.0**	134.1
	179.9	186.9
Full-time equivalent	**116.4**	121.2

Details of key management compensation can be found in note 37 and within the Directors' Remuneration Report on pages 70 to 85.

30 Retirement benefit obligations

Accounting policies

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

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.

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.

Background

At 9 March 2019, all retirement benefit obligations related to the Sainsbury's Pension Scheme plus two unfunded pension liabilities relating to former senior employees of Sainsbury's and Home Retail Group

On 20 March 2018, the Home Retail Group Pension Scheme was merged into the Sainsbury's Pension Scheme The Sainsbury's Pension Scheme now has two sections, the Sainsbury's section which holds all the Scheme assets and liabilities prior to the merger, and the Argos section which holds all the assets and liabilities transferred into the Scheme from the Home Retail Group Pension Scheme. There have been no changes to members' benefits and each section's assets have been segregated by deed and ring fenced for the benefit of the members of each section. The Scheme has 11 Trustee Directors (including three from the Home Retail Group Pension Scheme). No further liabilities or assets remained in the Home Retail Group Pension Scheme and it was subsequently wound up on 31 August 2018

The retirement benefit obligations at the year-end have been calculated by KPMG, 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 valuations (see below) for known events and changes in market conditions as allowed under IAS 19 'Employee Benefits'. Assets are valued at bid price and are held separately from the Group's assets.

Sainsbury's section

The Sainsbury's section of the Scheme has three different benefit categories: final salary, career average and cash balance. For final salary and career average members, benefits at retirement are determined by length of service and salary For cash balance members, benefits are determined by the accrued retirement account credits.

The section was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. The Scheme is also used to pay life assurance benefits to current (including new) colleagues.

This section was subject to a triennial actuarial valuation, carried out by Willis Towers Watson for the Trustee, as at 14 March 2015 on the projected unit basis and a recovery plan was agreed. On the basis of the assumptions agreed, the actuarial deficit at 14 March 2015 was £740 million, an increase of £148 million from the March 2012 deficit.

The section continues to receive annual coupons from the Sainsbury's Property Scottish Partnership that was established in 2010 which are based on the average weighted discount rate used in the triennial valuation and so are effectively reset every three years. These coupons are £19 million a year.

The section has a well-defined investment strategy which has been agreed with the Company. This aims for it to be funded on a low risk basis by 2023 referencing investment returns by asset class and based on forward-looking assumptions.

Argos section

The section holds the assets and liabilities transferred from the Home Retail Group Pension Scheme, which was closed to new employees in 2009 and to future accrual in January 2013. Pension benefits were based on service and final salary.

The Home Retail Group Pension Scheme was subject to a triennial valuation, carried out by Willis Towers Watson for the Trustee, as at 31 March 2015 on the projected unit basis and a recovery plan was agreed. On the basis of the assumptions agreed, the actuarial deficit as at 31 March 2015 was £315 million, an increase of £157 million from the March 2012 deficit.

Following merger the section has defined its investment strategy which has been agreed with the Company. This aims for it to be funded on a low risk basis by 2025 referencing investment returns by asset class based on forward-looking assumptions

30 Retirement benefit obligations continued

Contributions to Scheme

Under the Recovery Plans agreed as part of the 2015 triennial valuation process the Group is contracted to make contributions totalling £124 million in 2019/20 which includes the £19 million coupon from Sainsbury's Property Scottish Partnership. The 2018 triennial valuation is currently being agreed with the Trustee

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.

IFRIC 14

IFRIC 14 is the interpretation that details when a company can recognise any pension surplus that exists Furthermore, if the company has a funding commitment in excess of the IAS 19 deficit, then IFRIC 14 requires recognition of this excess in those circumstances when the surplus that would result on fulfilling that commitment cannot be recognised A surplus may be recognised either because of an unconditional right to a refund to the company, or on grounds of a future contribution reduction where schemes are still open to future accrual.

For the Sainsbury's section, 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.

Based on the net deficit of the Argos section as at 9 March 2019 and the committed payments under the Schedule of Contributions signed on 2 September 2016, there is a notional surplus of £134 million.

Management is of the view that, based on the scheme rules, it does not have an unconditional right to a refund of surplus under IFRIC 14, and therefore an additional balance sheet liability in respect of a 'minimum funding requirement' of £134 million has been recognised.

a) Income statement
The amounts recognised in the income statement are as follows:

	2019 £m	2018 £m
Excluded from underlying profit before tax:		
Interest cost on pension liabilities[1]	**(279)**	(289)
Interest income on plan assets	**271**	263
Total included in finance costs (note 7)	**(8)**	(26)
Defined benefit pension scheme expenses	**(10)**	(10)
Past service (cost)/credit	**(98)**	31
Total excluded from underlying profit before tax	**(116)**	(5)
Total income statement expense	**(116)**	(5)

1 Includes interest of £1 million for the unfunded pension scheme (2018 £1 million) and £2 million in relation to interest on the minimum funding requirement

Past service amounts

On 26 October 2018, the High Court ruled in the landmark Lloyds Banking Group case on Guaranteed Minimum Pensions (GMPs). The judgment requires equalisation between men and women for the effect of unequal GMPs. The Group has worked with the Trustee of the Scheme and independent actuaries and estimated the cost of equalising benefits at £98 million for the Sainsbury's section and £3 million for the Argos section.

This cost for the Sainsbury's section has been recognised in the consolidated income statement as a non-underlying item for the 52 weeks ended 9 March 2019 (2018: £nil). The cost for the Argos section has been recognised as an experience loss in other comprehensive income due to GMP equalisation in 1997. Any subsequent changes to these amounts in future periods will be treated as a change in actuarial assumption, and as such will be recognised in other comprehensive income.

In the prior year, the past service credit of £31 million was in relation to a Pension Increase Exchange (PIE) option introduced in the Sainsbury's section of the Scheme from 1 April 2018, following a deed of amendment signed during the prior financial year.

30 Retirement benefit obligations continued

b) Other comprehensive income
Remeasurement of the retirement benefit obligations has been recognised as follows.

	2019 £m	2018 £m
Return on plan assets, excluding amounts included in interest	**212**	(57)
Actuarial gains/(losses) arising from changes in:		
Finance assumptions[1]	**(80)**	495
Demographic assumptions[2]	**547**	245
Experience	**644**	(13)
Total actuarial gains/(losses)	**1,111**	727
Additional liability due to minimum funding requirements (IFRIC 14)	**(54)**	(78)
Total remeasurements	**1,269**	592

1 Includes £nil million gain for the unfunded pension scheme (2018: £2 million gain).
2 Includes £1 million gain for the unfunded pension scheme (2018: £1 million gain).

As noted, the Group is currently in the process of agreeing the 2018 triennial valuation with the Trustee. As part of this, the membership data underlying the IAS 19 calculations has been updated from those used in the 2015 triennial valuation to be consistent with those used in the 2018 triennial valuation. This has resulted in experience gains of £644 million in the financial year.

Actuarial gains of £547 million have also been recognised as a result of updating mortality tables to reflect the latest experience in the scheme, as well as updating to the most up-to-date (as at the year-end) mortality improvement tables.

c) Balance sheet
The amounts recognised in the balance sheet are as follows:

	Sainsbury's 2019 £m	Argos 2019 £m	Group 2019 £m	Sainsbury's 2018 £m	Argos 2018 £m	Group 2018 £m
Present value of funded obligations	**(7,654)**	**(1,202)**	**(8,856)**	(8,744)	(1,284)	(10,028)
Fair value of plan assets	**8,759**	**1,224**	**9,983**	8,669	1,215	9,884
	1,105	**22**	**1,127**	(75)	(69)	(144)
Additional liability due to minimum funding requirements (IFRIC 14)	**–**	**(134)**	**(134)**		(78)	(78)
Retirement benefit surplus/(deficit)	**1,105**	**(112)**	**993**	(75)	(147)	(222)
Present value of unfunded obligations	**(20)**	**(14)**	**(34)**	(21)	(14)	(35)
Retirement benefit surplus/(deficit)	**1,085**	**(126)**	**959**	(96)	(161)	(257)
Deferred income tax (liability)/asset (note 8)	**(241)**	**25**	**(216)**	(38)	34	(4)
Net retirement benefit surplus/(deficit)	**844**	**(101)**	**743**	(134)	(127)	(261)

The retirement benefit obligation 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 obligation are as follows:

	2019 £m	2018 £m
As at the beginning of the year	**(257)**	(974)
Interest cost	**(8)**	(26)
Remeasurement gains	**1,269**	592
Pension scheme expenses	**(10)**	(10)
Contributions by employer	**63**	130
Past service (charge)/credit	**(98)**	31
As at the end of the year	**959**	(257)

30 Retirement benefit obligations continued

The movements in the retirement benefit obligations (including unfunded obligations) are as follows:

	2019 £m	2018 £m
As at the beginning of the year	**(10,141)**	(10,894)
Interest cost	**(279)**	(289)
Remeasurement gains	**1,111**	727
Additional liability due to minimum funding requirements (IFRIC 14)	**(54)**	(78)
Benefits paid	**430**	362
Past service (charge)/credit	**(98)**	31
Liabilities extinguished on settlement	**7**	–
As at the end of the year	**(9,024)**	(10,141)
Analysed as:		
Retirement benefit obligations	**(8,856)**	(10,028)
Unfunded obligations	**(34)**	(35)
Additional liability due to minimum funding requirements (IFRIC 14)	**(134)**	(78)

The movements in the fair value of plan assets are as follows:

	2019 £m	2018 £m
As at the beginning of the year	**9,884**	9,920
Interest income on plan assets	**271**	263
Pension scheme expenses	**(10)**	(10)
Remeasurement gains/(losses)	**212**	(57)
Contributions by employer	**63**	130
Benefits paid	**(430)**	(362)
Assets distributed on settlement	**(7)**	–
As at the end of the year	**9,983**	9,884

Risks associated with the Group's defined benefit pension scheme

The defined benefit scheme exposes the Group to a number of risks as detailed below:

Risk	Description	Mitigation
Asset volatility	Returns on assets that vary from the discount rate create funding level volatility. Both sections of the Scheme hold a significant proportion of growth assets such as equities and real estate. Whilst growth assets are expected to outperform corporate bond yields over the long term this might not always occur in the short term.	All equities are invested passively. The equity portfolio includes both emerging markets and smaller companies in order to track global economic growth by replicating global equity capitalisation. Asset volatility is therefore mitigated by investing in as many companies as possible. All other assets are invested actively and are widely diversified to reduce returns risk and enhance returns.
Currency	The Scheme's liabilities are sterling based whereas the majority of assets are denominated in foreign currencies.	Currency hedging programmes help dampen returns volatility caused by the fluctuation of sterling against other leading currencies.
Changes in bond yields	A decrease in bond yields, which in turn drive the discount rate, will increase the present value of the Scheme's liabilities for accounting purposes.	A significant proportion of assets are held in corporate bonds that provide a hedge against falling bond yields. Furthermore significant levels of interest rate hedging within the Scheme's liability hedging portfolios through interest rate derivatives serve to protect against falling bond yields. Buy-in policies transfer a proportion of interest rate risk to an insurer.
Inflation	The majority of the Scheme's liabilities are linked to UK price inflation indices (to a maximum of five per cent per year).	Liability hedging portfolios hedge significant proportions of inflation liabilities by holding index linked bonds and inflation rate derivatives. The Scheme's equity portfolio provides a natural hedge against inflation. Buy-in policies transfer a proportion of inflation risk to an insurer.
Longevity	Beneficiaries living longer than expected could increase the Scheme's liabilities.	Buy-in policies transfer some longevity risk to an insurer.
Operational	Poor administration of benefits may result in an increased defined benefit obligation in future years.	The Scheme's benefits administrators have agreed service level agreements and controls are carefully monitored.

30 Retirement benefit obligations continued

The major categories of plan assets are as follows:

	Quoted 2019 £m	Unquoted[1] 2019 £m	Quoted 2018 £m	Unquoted[1] 2018 £m
Equity				
Public[2]	**972**	**–**	1,422	–
Private	**–**	**322**	–	267
Bonds[3]				
Government bonds	**1,620**	**–**	1,269	
Corporate bonds	**3,950**	**(51)**	3,695	(35)
Emerging market bonds	**462**	**(6)**	444	–
Derivatives[4]	**278**	**743**	163	558
Alternatives				
Real estate	**67**	**591**	64	561
Private debt	**–**	**479**	–	404
Diversified growth	**–**	**–**	188	–
Insurance policies[5]	**–**	**306**	–	334
Cash and cash equivalents	**252**	**(2)**	558	(8)
	7,601	**2,382**	7,803	2,081

Notes
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 Quoted equities – circa 70 per cent of the Scheme's equities are invested in publicly quoted, highly liquid securities across developed markets. The remainder are invested in smaller companies and emerging markets.
3 Bonds – circa 93 per cent of the Scheme's bonds are invested in investment grade credit. The remainder are below investment grade.
4 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.
5 Insurance policies of £306 million (2018: £334 million) refers to buy-in policies held by the Argos section of the scheme. The income from these policies exactly matches the amount and timing of all of the benefits payable for the insured pensioner members. Therefore the fair value of the insurance policies have been calculated to be the present value of the related obligations.

Of the above assets, £3,418 million are denominated in sterling and £6,565 million are denominated in overseas currencies.

d) Assumptions

The principal actuarial assumptions used at the balance sheet date are as follows:

	2019 %	2018 %
Discount rate	**2.80**	2.80
Inflation rate – RPI	**3.20**	3.15
Inflation rate – CPI	**2.20**	2.15
Future pension increases	**2.00 – 3.05**	1.90 – 3.00

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements have been updated from CMI 2017 projections at 2018 year-end to CMI 2018 projections with a long-term rate of improvement of 1.25 per cent p.a. at 9 March 2019.

30 Retirement benefit obligations continued

The life expectancy for members aged 65 years at the balance sheet date is as follows:

	Sainsbury's section Main Scheme 2019 Years	Sainsbury's section Executive Scheme 2019 Years	Argos section 2019 Years	Sainsbury's section Main Scheme 2018 Years	Sainsbury's section Executive Scheme 2018 Years	Argos section 2018 Years
Male pensioner	**19.8**	**24.0**	**21.5**	21.3	24.4	22.3
Female pensioner	**23.5**	**25.1**	**23.9**	23.9	25.5	24.6

The life expectancy at age 65 for members aged 45 years at the balance sheet date is as follows:

	Sainsbury's section Main Scheme 2019 Years	Sainsbury's section Executive Scheme 2019 Years	Argos section 2019 Years	Sainsbury's section Main Scheme 2018 Years	Sainsbury's section Executive Scheme 2018 Years	Argos section 2018 Years
Male pensioner	**21.1**	**25.3**	**22.9**	22.7	25.7	23.7
Female pensioner	**25.0**	**26.5**	**25.4**	25.4	27.0	26.1

e) Sensitivities

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 change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

	Sainsbury's £m	Argos[1] £m	Total £m
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	**681**	**102**	**783**
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	**774**	**118**	**892**
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	**489**	**97**	**586**
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	**478**	**87**	**565**
An increase of one year to the life expectancy would increase the present value of funded obligations by	**283**	**28**	**311**

1 Changes in the 'insured' defined benefit obligations are matched by changes in the fair value of the buy-in policy and therefore the sensitivities above relate to the non-insured defined benefit obligations only.

f) Future benefit payments

Details of future committed payments are included in the Background section at the beginning of this note.

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):

	2019 £m
Within the next 12 months (next annual reporting period)	**193**
Between 2 and 5 years	**850**
Between 6 and 15 years	**3,422**
Between 16 and 25 years	**4,477**
Beyond 25 years	**7,961**
Total expected payments	**16,903**

31 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 or Monte Carlo). 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 £39 million (2018: £33 million) of employee costs (note 29) related to share-based payment transactions made during the financial year. Of these, £1 million (2018: £nil) were cash-settled.

The Group operates a number of share-based payment schemes as set out below:

a) Savings-Related Share Option Scheme (Sharesave)
The Group operates a Savings-Related Share Option Scheme, which is open to all UK employees with more than three months' continuous service. This is an approved HMRC scheme and was established in 1980. Under Sharesave, participants remaining in the Group's employment at the end of the three-year or five-year savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price. Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

A reconciliation of Sharesave option movements is shown below:

	2019 Number of options million	**2019 Weighted average exercise price pence**	2018 Number of options million	2018 Weighted average exercise price pence
Outstanding at the beginning of the year	**68.5**	**196**	66.5	210
Granted	**17.2**	**260**	23.7	184
Forfeited	**(13.6)**	**205**	(15.8)	230
Exercised	**(10.7)**	**205**	(5.9)	207
Outstanding at the end of the year	**61.4**	**211**	68.5	196
Exercisable at the end of the year	**5.6**	**224**	6.4	228
Exercisable price range		**184 to 332**		184 to 332

The weighted average share price for options exercised over the year was 272 pence (2018: 257 pence). The weighted average remaining contractual life of options outstanding at 9 March 2019 was 2.1 years (2018: 2.3 years).

31 Share-based payments continued

Options granted during the year were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations The fair value per option granted during the year and the assumptions used in the calculation are as follows:

		2019	2018
Share price at grant date (pence)		**300**	238
Exercise price (pence)		**260**	184
Expected volatility	– 3 year period (%)	**24.5**	27.2
	– 5 year period (%)	**26.9**	26.0
Option life	3 year period (years)	**3.2**	3.2
	5 year period (years)	**5.2**	5.2
Expected dividends (expressed as dividend yield %)		**3.5**	4.8
Risk-free interest rate	– 3 year period (%)	**0.9**	0.8
	– 5 year period (%)	**1.3**	1.3
Fair value per option	– 3 year period (pence)	**53**	51
	– 5 year period (pence)	**62**	49

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 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will then be released one year after the vesting date. Options granted to acquire the award of shares will expire 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:

	2019 million	2018 million
Outstanding at the beginning of the year	**7.2**	5.8
Conditionally allocated	**4.2**	3.2
Forfeited	**(0.4)**	(1.2)
Released to participants	**(2.1)**	(0.6)
Outstanding at the end of the year	**8.9**	7.2

The weighted average remaining contractual life of share options outstanding at 9 March 2019 was 1.4 years (2018: 1.6 years).

Details of shares conditionally allocated at 9 March 2019 are set out below:

Date of conditional award	2019 million	2018 million
15 May 2014 (2014 Future Builder)	**0.2**	0.9
14 May 2015 (2015 Future Builder)	**1.6**	1.6
12 May 2016 (2016 Future Builder)	**2.0**	2.0
11 May 2017 (2017 Future Builder)	**2.5**	2.7
11 May 2018 (2018 Future Builder)	**2.6**	–
	8.9	7.2

31 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:

	2019	2018
Share price at grant date (pence)	**301**	267
Option life (years)	**3 or 4**	4
Fair value per option (pence)	**301**	267

During the year, a total number of 2.1 million shares were exercised (2018: 0.6 million shares). The weighted average share price during the year for options exercised was 303 pence (2018: 266 pence).

c) Deferred Share Award
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:

	2019 million	2018 million
Outstanding at the beginning of the year	**3.4**	3.0
Granted	**2.2**	2.0
Forfeited	**(2.0)**	(0.7)
Exercised	**(0.1)**	(0.9)
Outstanding at the end of the year	**3.5**	3.4

The number of shares allocated at the end of the year is set out below:

	2019 million	2018 million
13 May 2016	–	1.8
12 May 2017	**1.5**	1.6
11 May 2018	**2.0**	
	3.5	3.4

The weighted average remaining contractual life of share options outstanding at 9 March 2019 was 0.6 years (2018: 0.5 years). The weighted average share price during the year for options exercised was 301 pence (2018: 260 pence).

31 Share-based payments continued

d) Bonus Share Award

The bonus arrangements for our senior managers and supermarket store managers include corporate and personal performance targets. A profit gateway is in place where a certain level of underlying profit before tax must be achieved before any bonus related to the corporate element of the bonus is released.

60 per cent of the bonus is paid in cash and 40 per cent awarded in shares. They are automatically released after three financial years. Shares are subject to forfeiture if the participant resigns or is dismissed.

Dividends accrue on these shares and are released at the end of the three-year retention period.

A reconciliation of the number of shares granted over the year is shown below:

	2019 million	2018 million
Outstanding at the beginning of the year	**10.2**	10.9
Granted	**5.1**	3.8
Forfeited	**(3.0)**	(3.4)
Exercised	**(0.9)**	(1.1)
Outstanding at the end of the year	**11.4**	10.2

The number of shares allocated at the end of the year is set out below:

	2019 million	2018 million
14 May 2015	**0.0**	2.2
13 May 2016	**4.4**	5.0
12 May 2017	**2.7**	3.0
11 May 2018	**4.3**	
	11.4	10.2

The weighted average remaining contractual life of share options outstanding at 9 March 2019 was 1.0 years (2018: 1.1 years). The weighted average share price during the year for options exercised was 246 pence (2018: 267 pence).

32 Acquisition of subsidiaries

Accounting policies for business combinations

The Group applies the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of identifiable assets transferred, the liabilities incurred and the equity interests issued by the Group at the acquisition date. Acquisition-related costs are expensed as incurred.

Acquisition of Nectar Loyalty scheme

On 1 February 2018, the Group acquired 100 per cent of the share capital of Nectar Loyalty Holding Limited, a United Kingdom registered private company which owns the Nectar loyalty scheme as well as the remaining 50 per cent share of the Group's joint venture Insight 2 Communication LLP. The acquisition enabled the full and independent operation of the Nectar Loyalty Programme in the UK.

Form of consideration	Consideration fair value at acquisition date £m
Cash	**33**
Acquisition-date fair value of the previously held equity interest	**6**
Total	**39**

None of the goodwill recognised of £147 million is expected to be deductible for income tax purposes. The goodwill was calculated as the difference between the fair value of consideration paid and the fair value of net assets acquired as set out in the following table.

32 Acquisition of subsidiaries continued

The assets and liabilities recognised as a result of the acquisition are as follows:

Fair value of net assets acquired	£m
Fixed assets	3
Intangible assets	57
Trade and other receivables	141
Deferred tax assets	19
Cash and cash equivalents	168
Total assets acquired	**388**
Trade and other payables	(228)
Deferred revenue	(268)
Total liabilities acquired	**(496)**
Net identifiable assets acquired at fair value	**(108)**
Goodwill arising on acquisition	147
Purchase consideration transferred	**39**

Intangible assets
Intangible assets of £57 million relate to the Nectar brand, customer relationships and reacquired rights in relation to existing contractual relationships with Sainsbury's, as well as acquired software assets.

Trade and other receivables
Trade and other receivables of £141 million includes £nil of provisions for doubtful debts.

Cash and cash equivalents
Cash acquired included cash left in the business to settle accounts payable balances owed to the Group.

Deferred revenue
£265 million of the deferred revenue relates to points issued by issuance partners (including Sainsbury's) but not yet redeemed and have been included within trade and other payables within the Group balance sheet

Cash impact of acquisition

	£m
Cash consideration	**(33)**
Cash acquired	**168**
Acquisition of subsidiaries, net of cash acquired (included in comparative cash flow statement)	**135**

Acquisition-related costs
Acquisition-related costs in the prior year (included in administrative expenses and recognised outside of underlying profit) amounted to £2 million (see note 3). In addition, an acquisition fair value gain of £4 million on the previously held equity interest in Insight 2 Communication LLP was recorded in other income (and excluded from underlying profit before tax).

33 Operating lease commitments

Accounting policies

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

a) Operating leases
Rental expenses for assets leased under operating leases are charged directly to the income statement on a straight-line basis over the lease term.

b) Sale and leaseback
A sale and leaseback transaction is one where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer.

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

c) Leases with predetermined fixed rental increases
The Group has a number of leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the term of the lease. Where future rental increases are non-predetermined, future increments are only included if they can be reliably estimated.

33 Operating lease commitments continued

d) Operating lease income
Operating lease income consists of rentals from sub-tenant agreements and is recognised as earned on a straight-line basis over the lease term.

The Group leases various retail stores, offices, depots and equipment under non-cancellable operating leases The leases have varying terms, escalation clauses and renewal rights

The table below sets out the Group's reasonably certain future lease payments:

	2019 £m	2018 £m
Aggregate future minimum lease payments:		
Within one year	**765**	743
In the second to fifth years inclusive	**2,559**	2,565
After five years	**6,774**	6,711
	10,098	10,019

Further analysis of the Group's future minimum lease payments after five years is as follows

	2019 £m	2018 £m
Aggregate future minimum lease payments:		
Greater than five years but less than ten years	**2,082**	2,073
Greater than ten years but less than 15 years	**1,484**	1,396
After 15 years	**3,208**	3,242
	6,774	6,711

The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index linked rent review (with a cap and collar). The timing of when rent reviews take place differs for each lease. The Group has pre-emption rights over a minor number of properties, which provides the Group with the right of first refusal to purchase the property in the event the landlord chooses to sell. The option price payable for the asset in each instance is normally referenced to current market value prevailing at the point of pre-emption.

The Group sublets certain properties:

	2019 Leased properties £m	**2019 Owned properties £m**	2018 Leased properties £m	2018 Owned properties £m
Aggregate future minimum lease receipts:				
Within one year	**23**	**20**	21	20
In the second to fifth years inclusive	**61**	**54**	56	57
After five years	**58**	**49**	62	57
	142	**123**	139	134

34 Capital commitments

At 9 March 2019, capital commitments contracted, but not provided for by the Group, amounted to £90 million (10 March 2018: £103 million) and £7 million for the property joint ventures (10 March 2018: £55 million).

35 Financial commitments

Sainsbury's Bank has off-balance sheet commitments to extend credit to customers of £323 million (2018: £267 million).

At the year-end, £18 million of expected credit loss provisions are recognised in respect of off-balance sheet loan commitments in line with IFRS 9.

36 Contingent liabilities

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 is not expected to materialise. In addition, the Group has a guarantee in relation to its beneficial interest in the property investment pool. The likelihood of a material claim against this guarantee is considered to be remote.

Along with other retailers, the Group is currently subject to approximately 2,000 claims brought by current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. Typically, claims of this nature can take many years to be determined. Given that the claims against the Group are still at a relatively early stage and the outcome of such claims is highly uncertain at this stage, the Group considers the likelihood of a material payout to be remote.

37 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:

	2019 £m	2018 £m
Short-term employee benefits	**11**	9
Post-employment employee benefits	**1**	1
Share-based payments	**10**	5
	22	15

Five key management personnel had credit card balances with Financial Services (2018: eight). These arose in the normal course of business and were immaterial to the Group and the individuals Three key management personnel held saving deposit accounts with Financial Services (2018: 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 9 March 2019, the Group entered into various transactions with joint ventures and associates as set out below:

	2019 £m	2018 £m
Management services provided	**–**	1
Income share received from joint ventures and associates	**–**	26
Dividends and distributions received	**18**	37
Repayment of loans from joint venture	**(5)**	–
Rental expenses paid	**(38)**	(46)

Year-end balances arising from transactions with joint ventures and associates

	2019 £m	2018 £m
Receivables		
Other receivables	**–**	6
Payables		
Other payables	**(5)**	–
Loans due to joint ventures	**–**	(5)

Insight 2 Communication LLP became a wholly owned subsidiary as at 1 February 2018; up until this point it was a joint venture All transactions up to the acquisition date have been included above. Outstanding balances as at 9 March 2019 have been excluded as it has now been fully consolidated.

Loans with joint ventures are interest bearing and repayable on demand.

c) Retirement benefit obligations

As discussed in note 30, the Group has entered into an arrangement with the Pension Scheme Trustee as part of the funding plan for the actuarial deficit in the Scheme. Full details of this arrangement are set out in note 30 to these financial statements.

38 Post balance sheet events

After the balance sheet date, in April 2019, Sainsbury's and joint venture partner The British Land Company PLC approved the sale of 12 properties to Realty Income Corporation for £429 million. The transaction is expected to complete during the first half of the financial year ending 7 March 2020, with Sainsbury's share of the net proceeds from the disposal expected to be £133 million. Sainsbury's interest in the properties is currently included within the Group's investment in joint ventures line item on the balance sheet. Sainsbury's will enter into deeds of variation and reversionary leases with Realty Income Corporation to operate from the stores.

39 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 Extra Limited	UK	100%	Indirect	33 Holborn
Argos Holdings Limited	UK	100%	Indirect	Avebury
Argos Limited	UK	100%	Indirect	Avebury
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 (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Home Retail (Hong Kong) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Home Retail Group (Cyprus) Limited	Cyprus	100%	Indirect	Michalaki Karaoli, 8
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 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
Insight 2 Communication LLP	UK	100%	Indirect	80 Strand
J Sainsbury Common Investment Fund Limited	UK	100%	Indirect	33 Holborn
J Sainsbury Distribution Limited	UK	100%	Direct	33 Holborn
J Sainsbury Limited	Ireland	100%	Direct	6th Floor, South Bank House
J Sainsbury Pension Scheme Trustees Limited	UK	100%	Direct	33 Holborn
J Sainsbury Trustees Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores 2002 Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores Limited	UK	100%	Direct	33 Holborn

*See full address on page 171

39 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Address*
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
Jungle Online	UK	100%	Indirect	33 Holborn
Jungle.com Holdings Limited	UK	100%	Indirect	33 Holborn
Jungle.com Limited	UK	100%	Indirect	33 Holborn
Nash Court (Kenton) Limited	UK	100%	Indirect	33 Holborn
Nectar EMEA Limited	UK	100%	Indirect	80 Strand
Nectar Loyalty Holding Limited	UK	100%	Direct	80 Strand
Nectar Loyalty Limited	UK	100%	Indirect	80 Strand
Premier Incentives Limited	UK	100%	Indirect	33 Holborn
Quarternate Holdings Limited	Jersey	100%	Indirect	44 Esplanade
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 Commercial Limited	Hong Kong	100%	Indirect	7/F Mapletree Bay Point
Sainsbury's Argos Asia Sourcing Limited	Hong Kong	100%	Indirect	7/F Mapletree Bay Point
Sainsbury's Argos Commercial Consulting (Shanghai) Limited	China	100%	Indirect	26/F, Tower 1
Sainsbury's Group Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Argos Asia Limited	Hong Kong	100%	Indirect	7/F Mapletree Bay Point
Sainsbury's Argos Asia Technical Limited	Hong Kong	100%	Indirect	7/F Mapletree Bay Point
Sainsbury's Bank plc	UK	100%	Direct	33 Holborn
Sainsbury's Commercial Consulting (Dongguan) Company Limited	China	100%	Indirect	Room 1813, 18/F, Block 2, Haide Plaza
Sainsbury's Convenience Stores Limited	UK	100%	Direct	33 Holborn
Sainsburys Corporate Director 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	No.2 Lochrin Square
Sainsbury's Manor GP Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Manor II Property Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Manor Property Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Planet Limited	UK	100%	Direct	33 Holborn
Sainsbury's Property Holdings Limited	UK	100%	Indirect	33 Holborn
Sainsbury's Rose LP Limited	UK	100%	Indirect	33 Holborn
Sainsbury's Supermarkets Limited	UK	100%	Direct	33 Holborn
Sainsbury's Thistle Scottish Limited Partnership	UK	100%	Indirect	3 Lochside Avenue
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 address on page 171

39 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	33 Holborn
Arcus FM Limited	UK	Preference Shares	Indirect	Enterprise House
Arcus Solutions Limited	UK	Preference Shares	Indirect	Enterprise House
BL Sainsbury Superstores Limited	UK	50%	Indirect	York House
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
Manor II Property Scottish Partnership	UK	0.01%	Indirect	Hurlawcrook Road
Manor Property Scottish Partnership	UK	0.01%	Indirect	Hurlawcrook Road
Manor Scottish Limited Partnership	UK	0.01%	Indirect	Hurlawcrook Road
PXS Limited	UK	85,000 B Shares	Indirect	One New Change
Sainsbury's Property Scottish Limited Partnership	UK	10%	Indirect	Hurlawcrook Road
Sainsbury's Property Scottish Partnership	UK	33%	Indirect	Hurlawcrook Road

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*
B.L.C.T. (10775) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (11546) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (20720) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (27255) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (38775) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (39214) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (39215) Limited	Jersey	50%	Indirect	47 Esplanade
BL Crawley	Jersey	50%	Indirect	47 Esplanade
BL Superstores (Funding) Limited	UK	50%	Indirect	York House
BL Superstores Finance PLC	UK	50%	Indirect	York House
BLS Non Securitised 2012 1 Limited	UK	50%	Indirect	York House
BLS Non-Securitised 2012 2 Limited	UK	50%	Indirect	York House
BLSSP (Cash Management) Limited	UK	50%	Indirect	York House
BLSSP (Lending) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1 2010) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1 2012) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1) Limited	UK	50%	Indirect	York House
BLSSP (PHC 10) Limited	UK	50%	Indirect	York House
BLSSP (PHC 12) Limited	UK	50%	Indirect	York House
BLSSP (PHC 14) Limited	UK	50%	Indirect	York House
BLSSP (PHC 16) Limited	UK	50%	Indirect	York House
BLSSP (PHC 19) Limited	UK	50%	Indirect	York House
BLSSP (PHC 2 2010) Limited	UK	50%	Indirect	York House
BLSSP (PHC 2) Limited	UK	50%	Indirect	York House
BLSSP (PHC 20) Limited	UK	50%	Indirect	York House
BLSSP (PHC 21) Limited	UK	50%	Indirect	York House
BLSSP (PHC 22) Limited	UK	50%	Indirect	York House
BLSSP (PHC 23) Limited	UK	50%	Indirect	York House
BLSSP (PHC 24) Limited	UK	50%	Indirect	York House
BLSSP (PHC 25) Limited	UK	50%	Indirect	York House
BLSSP (PHC 28) Limited	UK	50%	Indirect	York House
BLSSP (PHC 3) Limited	UK	50%	Indirect	York House

*See full address on page 171

39 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Address*
BLSSP (PHC 32) Limited	UK	50%	Indirect	York House
BLSSP (PHC 33) Limited	UK	50%	Indirect	York House
BLSSP (PHC 34) Limited	UK	50%	Indirect	York House
BLSSP (PHC 35) Limited	UK	50%	Indirect	York House
BLSSP (PHC 5) Limited	UK	50%	Indirect	York House
BLSSP (PHC 6) Limited	UK	50%	Indirect	York House
BLSSP Property Holdings Limited	UK	50%	Indirect	York House
British Land Superstores (Non-Securitised)	UK	50%	Indirect	York House
Clarendon Property Company	UK	50%	Indirect	York House
Harvest 2 Selly Oak Limited	UK	50%	Indirect	100 Victoria Street
Harvest Nominee No. 1 Limited	UK	50%	Indirect	100 Victoria Street
Harvest Nominee No. 2 Limited	UK	50%	Indirect	100 Victoria Street
Pencilscreen Limited	UK	50%	Indirect	York House
Selected Land and Property Company	UK	50%	Indirect	York House
Ten Fleet Place	UK	50%	Indirect	York House
Vyson	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	India	Indirect	Level 10, Simpletree Anarkali
Sainsbury's Argos Asia Limited – India Branch Office	India	Indirect	Unit No. 1, 1st Floor, Ambience Corporate Tower II
Sainsbury's Commercial Consulting (Dongguan) Company Limited – Shanghai Branch Office	China	Indirect	Suite 2202-2205, 22F., Raffles City

e) Companies in liquidation

Entity	Country of incorporation	Interest	Holding	Address*
JS Finance Corporation	Ireland	100%	Indirect	29 Earlsfort
Portfolio Investments Ltd	UK	100%	Indirect	Hill House
Maloney's Retail Stores (Shepperton) Limited	UK	100%	Indirect	1020 Eskdale Road
Netto Limited	UK	50%	Direct	33 Holborn
Stockdale Land (Bicester) Limited	UK	100%	Indirect	Hill House

*See full address on page 171

39 Details of related undertakings continued

Address	Full address
100 Victoria Street	100 Victoria Street, London, SW1E 5JL, United Kingdom
33 Holborn	33 Holborn, London, EC1N 2HT, United Kingdom
44 Esplanade	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands
47 Esplanade	47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands
50 Bedford Street	50 Bedford Street, Belfast, BT2 7FN, United Kingdom
80 Strand	80 Strand, 6th Floor, London, WC2R 0NN, United Kingdom
6th Floor, South Bank House	6th Floor, South Bank House, Barrow Street, Dublin 4
Avebury	Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW, United Kingdom
No.2 Lochrin Square	No.2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA, United Kingdom
Enterprise House	Enterprise House, 168-170 Upminster Road, Upminster, Essex, RM14 2RB, United Kingdom
Level 10, Simpletree Anarkali	Level 10, Simpletree Anarkali, 89 Gulshan Avenue Plet 03, Block – CWS(A), Dhaka – 1212 Bangladesh
One New Change	One New Change, London, EC4M 9AF, United Kingdom
Michalaki Karaoli, 8	Michalaki Karaoli, 8, Anemomylos Building, 4th Floor, Flat/Office 401, P.C 1504, Nicosia, Cyprus
Paradigm Wing A	Paradigm Wing A, 1st Floor, Mindspace, Malad (West), Mumbai, 400 064, India
Room 1813, 18/F, Block 2, Haide Plaza	Room 1813, 18/F, Block 2, Haide Plaza, No. 200, Hongfu Road, Nancheng District, Dongguan, People's Republic of China
Hurlawcrook Road	Scottish Commercial Office, Hurlawcrook Road, Langlands Park Industrial Estate, East Kilbride, G75 0QH, United Kingdom
Units C & D 5/F, D2 Place Two	Units C & D 5/F, D2 Place Two, No 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong
Unit 7, Ashbourne Retail Park	Unit 7 , Ashbourne Retail Park, Ballybin Road, Ashbourne, Republic of Ireland
Unit No. 1, 1st Floor, Ambiance Corporate Tower II	Unit No. 1, 1st Floor, Ambience Corporate Tower II, Ambience Island, NH-8, Gurgaon – 122011, Haryana, India
Suite 2202-2205, 22F., Raffles City	Suite 2202-2205, 22F., Raffles City, 268 Xi Zang Middle Road, Shanghai 200001, People's Republic of China
York House	York House, 45 Seymour Street, London, W1H 7LX, United Kingdom
Third Floor, St George's Court	Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Hill House	Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom
29 Earlsfort	Deloitte, 29 Earlsfort Terrace, Dublin 2
1020 Eskdale Road	1020 Eskdale Road, Winnersh, Wokingham, RG41 5TS
3 Lochside Avenue	3 Lochside Avenue, Edinburgh, EH12 9DJ, United Kingdom
7/F, Mapletree Bay Point	348 Kwun Tong Road, 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
PO Box 33, Dorey Court	PO Box 33, Dorey Court, Admiral Park, St Peter Port, Guernsey GY1 4AT

Five year financial record

Five year financial record

	2019	2018	2017	2016	2015
Financial results (£m)					
Underlying sales (including VAT, including fuel, including Financial Services)	**32,412**	31,741	29,112	25,829	26,122
Underlying operating profit					
Retail	**692**	625	626	635	720
Financial Services	**31**	69	62	65	62
	723	694	688	700	782
Underlying net finance costs[1]	**(96)**	(119)	(119)	(121)	(107)
Underlying share of post-tax profit from joint ventures	**8**	14	12	8	6
Underlying profit before tax[2]	**635**	589	581	587	681
Increase/(decrease) on previous year (%)	**7.8**	1.4	(1.0)	(13.8)	(14.7)
Retail underlying operating margin (%)[3]	**2.43**	2.24	2.42	2.74	3.07
Earnings per share					
Underlying (pence)	**22.0**	20.4	21.8	24.2	26.4
Increase/(decrease) on previous year (%)	**7.8**	(6.4)	(9.9)	(8.3)	(19.5)
Proposed dividend per share (pence)[4]	**11.0**	10.2	10.2	12.1	13.2

1 Net finance costs before non-underlying finance movements, IAS 19 pension financing charge but after accrued coupons on the perpetual securities
2 Profit before tax from continuing operations before non-underlying items as described in note 3
3 Retail operating profit margin based on retail sales excluding Value Added Tax, including fuel, excluding Financial Services
4 Total proposed dividend to ordinary shareholders in relation to the financial year

Company balance sheet
At 9 March 2019 and 10 March 2018

	Note	2019 £m	2018 £m
Non-current assets			
Property, plant and equipment	2	**220**	
Investments in subsidiaries	3	**6,161**	6,013
Investments in joint ventures and associates	4	**1**	6
Financial assets at fair value through other comprehensive income	5	**1**	40
Other receivables	6	**189**	219
Derivative financial instruments		**8**	7
		6,580	6,285
Current assets			
Trade and other receivables	6	**2,343**	2,656
Derivative financial instruments		**–**	4
Cash and cash equivalents		**60**	309
		2,403	2,969
Total assets		**8,983**	9,254
Current liabilities			
Trade and other payables	7	**(669)**	(824)
Borrowings	8	**(779)**	(1)
Derivative financial instruments		**(1)**	(3)
Provisions	9	**(1)**	(1)
Taxes payable		**(3)**	(33)
		(1,453)	(862)
Net current assets		**950**	2,107
Non-current liabilities			
Borrowings	8	**–**	(634)
Derivative financial instruments		**(8)**	(9)
Provisions	9	**(1)**	(1)
		(9)	(644)
Net assets		**7,521**	7,748
Equity			
Called up share capital	11	**630**	627
Share premium account	11	**1,147**	1,130
Merger reserve	11	**568**	568
Capital redemption reserve	11	**680**	680
Other reserves	11	**8**	23
Retained earnings	12	**3,992**	4,224
Total equity before perpetual securities		**7,025**	7,252
Perpetual capital securities		**248**	248
Perpetual convertible bonds		**248**	248
Total equity		**7,521**	7,748

The notes on pages 175 to 180 form an integral part of these financial statements.

The financial statements on pages 173 to 180 were approved by the Board of Directors on 30 April 2019, and are signed on its behalf by:

Mike Coupe
Chief Executive

Kevin O'Byrne
Chief Financial Officer

Company statement of changes in equity
for the 52 weeks to 9 March 2019

	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 11 March 2018		**627**	**1,130**	**568**	**703**	**4,224**	**7,252**	**248**	**248**	**7,748**
(Loss)/profit for the year	12	–	–			(54)	(54)	12	6	(36)
Other comprehensive expense	11	–	–		(7)		(7)			(7)
Total comprehensive (expense)/ income for the year ended 9 March 2019		–	–	–	(7)	(54)	(61)	12	6	(43)
Transactions with owners:										
Dividends	12		–	–	–	(224)	(224)	–	–	(224)
Distribution to holders of perpetual securities (net of tax)		–	–					(12)	(6)	(18)
Amortisation of convertible bond equity component	11,12		–	–	(8)	8	–	–	–	–
Allotted in respect of share option schemes	11,12	3	17	–	–	38	58	–	–	58
At 9 March 2019		**630**	**1,147**	**568**	**688**	**3,992**	**7,025**	**248**	**248**	**7,521**
At 12 March 2017		625	1,120	568	708	3,730	6,751	248	248	7,247
Profit for the year	12	–	–	–	–	665	665	12	6	683
Other comprehensive income	11			–	3	–	3	–	–	3
Total comprehensive income for the year ended 10 March 2018		–	–	–	3	665	668	12	6	686
Transactions with owners.										
Dividends	12	–	–	–	–	(212)	(212)	–	–	(212)
Distribution to holders of perpetual securities (net of tax)	11,12	–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	11,12	–			(8)	8		–	–	–
Allotted in respect of share option schemes		2	10	–	–	33	45	–	–	45
At 10 March 2018		627	1,130	568	703	4,224	7,252	248	248	7,748

The notes on pages 175 to 180 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 Accounting Standards, in particular 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 International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Company's transition date to FRS 101 was 13 March 2016. FRS 101 sets out amendments to IFRS as adopted by the European Union that are necessary to achieve compliance with the Companies Act and related regulations.

The financial year represents the 52 weeks to 9 March 2019 (prior financial year 52 weeks to 10 March 2018).

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 Group and Company in these financial statements:
The Company considered the following amendments to published standards that are effective for the Company for the financial year beginning 11 March 2018 and concluded that they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements. These standards and interpretations have been endorsed by the European Union.

- Amendments to IFRS 2 'Share-based Payment' on the classification and measurement of share-based payment transactions
- Amendments to IAS 40 'Investment Property' on the transfers of investment property
- IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- Annual Improvements Cycle 2014-2016 (issued in December 2016)
- IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

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

- IFRS 16 'Leases'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of material
- Amendments to IAS 19 'Employee Benefits' on plan amendments, curtailments or settlements
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' on long-term interests in associates and joint ventures
- Annual Improvements Cycle 2015-2017 (issued in December 2017)

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.

The loss after tax for the Company for the year was £36 million (2018: profit of £683 million).

2 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 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 properties – 50 years, or the lease term if shorter

Fixtures, equipment and vehicles -- three to 15 years

— Freehold land is not depreciated

Capital work in progress is not depreciated.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Retail property, plant and equipment, the CGU is deemed to be each trading store or store pipeline development site. Non-store assets, including depots and IT assets, are reviewed separately.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 11 March 2018	–	–	–
Additions	**213**	**7**	**220**
At 9 March 2019	**213**	**7**	**220**

No depreciation was charged during the year due to additions taking place at the end of the financial year.

3 Investments in subsidiaries

Accounting policies

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

	2019 £m	2018 £m
Shares in subsidiaries		
At the beginning of the year	**6,013**	5,757
Additions	**148**	256
At the end of the year	**6,161**	6,013

Additions in the current year predominantly relate to capital injections into Sainsbury's Bank of £110 million. Additions in the prior year predominantly relate to capital injections into Sainsbury's Bank of £190 million, as well as the acquisition of Nectar of £33 million.

4 Investments in joint ventures and associates

Accounting policies

Investments in joint ventures and associates are carried at cost less any impairment loss in the financial statements of the Company.

	Company shares at cost 2019 £m	Company shares at cost 2018 £m
At the beginning of the year	**6**	10
Provision for diminution in value of investment	**–**	(4)
Disposals	**(5)**	–
At the end of the year	**1**	6

5 Financial assets at fair value through other comprehensive income (previously available-for-sale financial assets)

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. 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 FVOCI equity instruments are recognised in the income statement when the entity's right to receive payment is established. Interest on FVOCI debt instruments is recognised using the effective interest method.

	2019 £m	2018 £m
Non-current		
Interest bearing financial assets	**1**	40

Interest bearing debt securities with a fair value of £39 million matured during the financial year.

6 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.

	2019 £m	2018 £m
Non-current		
Amounts owed by Group companies	**189**	219
Current		
Amounts owed by Group companies	**2,340**	2,642
Other debtors	**3**	14
	2,343	2,656

7 Trade and other payables

Accounting policies

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method

	2019 £m	2018 £m
Current		
Amounts owed to Group entities	**643**	794
Other payables	**26**	30
	669	824

8 Borrowings

	2019 Current £m	2019 Non-current £m	2019 Total £m	2018 Current £m	2018 Non-current £m	2018 Total £m
Bank loans due 2019	**199**	–	**199**	–	199	199
Short-term borrowings	**135**	–	**135**	–	–	–
Convertible bond due 2019	**445**	–	**445**	1	435	436
Total borrowings	**779**	–	**779**	1	634	635

9 Provisions

Accounting policies

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

	Onerous leases and onerous contracts £m	Disposal provision £m	Total £m
At 11 March 2018 and 12 March 2017	1	1	2
Additional provisions	–	–	–
Utilisation of provision	–	–	
At 9 March 2019 and 10 March 2018	1	1	2

	2019 £m	2018 £m
Disclosed as:		
Current	**1**	1
Non-current	**1**	1
	2	2

10 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 10 March 2018 and 9 March 2019	21	(21)	

	2019 £m	2018 £m
Total deferred income tax liabilities	**(21)**	(21)
Total deferred income tax assets	**21**	21
Net deferred income tax liability recognised in non-current liabilities	**–**	

11 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

	2019 million	2018 million	2019 £m	2018 £m
Called up share capital				
Allotted and fully paid ordinary shares 28 4/7p	**2,206**	2,194	**630**	627
Share premium account				
Share premium			**1,147**	1,130

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 11 March 2018	**2,194**	**627**	**1,130**	**568**
Allotted in respect of share option schemes	**12**	**3**	**17**	**–**
At 9 March 2019	**2,206**	**630**	**1,147**	**568**
At 12 March 2017	2,188	625	1,120	568
Allotted in respect of share option schemes	6	2	10	–
At 10 March 2018	2,194	627	1,130	568

11 Share capital and reserves continued

Capital redemption and other reserves

	Financial assets at fair value through other comprehensive income £m	Cash flow hedge reserve £m	Convertible bond reserve £m	Total other reserves £m	Capital redemption reserve £m
At 11 March 2018	11	(1)	13	23	680
Financial assets at fair value through other comprehensive income movements (net of tax)	2	–	–	2	–
Items reclassified from financial assets at fair value through other comprehensive income reserve	(10)		–	(10)	
Items reclassified from cash flow hedge reserve		1	–	1	–
Amortisation of convertible bond – equity component		–	(8)	(8)	–
At 9 March 2019	**3**	**–**	**5**	**8**	**680**
At 12 March 2017	10	(3)	21	28	680
Financial assets at fair value through other comprehensive income movements (net of tax)	1	–	–	1	–
Items reclassified from cash flow hedge reserve	–	2		2	–
Amortisation of convertible bond – equity component	–	–	(8)	(8)	–
At 10 March 2018	11	(1)	13	23	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 cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Company.

The convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014.

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

12 Retained earnings

	2019 £m	2018 £m
Beginning of the year	**4,224**	3,730
Profit for the year	**(54)**	665
Dividends paid	**(224)**	(212)
Allotted in respect of share option schemes	**38**	33
Amortisation of convertible bond – equity component	**8**	8
End of the year	**3,992**	4,224

13 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	6 June 2019
Record date	7 June 2019
Last date for return of revocation of DRIP mandates	21 June 2019
Q1 Trading Statement	3 July 2019
Annual General Meeting	4 July 2019
Payment date and DRIP share purchase	12 July 2019
Interim results announced	7 November 2019
Q3 Trading Statement	8 January 2020
Preliminary Results announced	29 April 2020*
Annual General Meeting	2 July 2020*

* provisional dates

The interim dividend was paid on 21 December 2018.

Shareholder profiles

End of year information as at 9 March 2019.

	2019	2018
Number of shareholders	**118,272**	124,464
Number of shares in issue	**2,206,007,678**	2,194,100,874

By size of holding

	Shareholders %		Shares %	
	2019	2018	**2019**	2018
500 and under	**68.80**	68.56	**0.40**	0.43
501 to 1,000	**10.98**	11.12	**0.44**	0.47
1,001 to 10,000	**18.37**	18.48	**2.70**	2.89
10,001 to 100,000	**1.36**	1.39	**1.81**	1.97
100,001 to 1,000,000	**0.34**	0.31	**6.41**	5.85
Over 1,000,000	**0.15**	0.13	**88.24**	88.39
	100	100	**100**	100

By category of shareholder

	Shareholders %		Shares %	
	2019	2018	**2019**	2018
Individuals	**96.83**	96.44	**4.31**	4.84
Insurance Companies	**0.00**	0.00	**0.00**	0.00
Banks and Nominees	**1.22**	1.26	**83.74**	81.39
Investment Trusts	**0.01**	0.01	**0.00**	0.01
Pension Funds	**0.00**	0.00	**0.00**	0.00
Other Corporate Bodies	**1.94**	2.29	**11.95**	13.76
	100	100	**100**	100

Annual General Meeting (AGM)
The AGM will be held at 11.00am on Thursday, 4 July 2019 at QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report.

Registrars
For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact:

Equiniti Registrars
Aspect House
Spencer Road
Lancing
BN99 6DA
Telephone: 0333 207 6557

Please remember to tell Equiniti if you move house or change bank details or if there is any other change to your account information.

You can view and manage your shareholding online at **www.shareview.co.uk**. You will require your 11 digit Shareholder Reference Number (SRN) to log in. It can be found on share certificates and dividend confirmations.

Dividends
Having your dividends paid directly into your bank or building society account is a more secure way than receiving your dividend by cheque. If you would prefer your dividends to be paid directly into your bank or building society account further information is available from Equiniti (address and telephone number above). You will still receive an annual dividend confirmation detailing each dividend to enable you to complete your tax return to HMRC.

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 26,173 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from the Registrars. Alternatively, you can elect to join the DRIP by registering for Shareview at **www.shareview.co.uk**.

Annual Dividend Confirmations
The Company sends out an Annual Dividend Confirmation (ADC) in relation to dividend payments. This means that those shareholders receiving their dividend directly into their bank account will receive an ADC once a year detailing all payments made throughout that year.

Shareholder communications website
J Sainsbury plc Interim and Annual Reports, and results announcements are available via the internet on 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 in order to reduce our impact on the environment and has set up a facility for shareholders to take advantage of electronic communications. The service allows you to:
- view the Annual Report and Financial Statements on the day it is published;
- receive electronic notification of the availability of future shareholder information (you must register your email address for this service);
- check the balance and current value of your shareholding and view your dividend history; and
- submit your vote online prior to a general meeting.

To register visit **www.shareview.co.uk**. You will need your 11 digit Shareholder Reference Number which can be found on your share certificate or recent dividend confirmation.

Shareholder security
Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company annual reports. If you receive any unsolicited investment advice, whether over the telephone, through the post or by email. You should:
- make sure you get the name of the person and organisation;
- check that they are properly authorised by the 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**.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website **www.scamsmart.fca.org.uk**.

Share dealing services
To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or a high street bank who will usually be able to assist you. Alternatively, you may consider using:

— The Share Centre Ltd who offer a postal dealing service and they can be contacted at The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone. 01296 414141 or Freephone 08000 282812 and quote Sainsbury's; or

Equiniti who offer a telephone and internet facility which gives shareholders the opportunity to trade at a known price. The telephone service is available from 8.00am to 4.30pm, Monday to Friday, excluding bank holidays, on telephone number 0345 6037 037 The internet share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting, **http://www.shareview.co.uk/4/Info/Portfolio/Default/en/Home/products/pages/buyandsellshares.aspx**.

Further information and detailed terms and conditions are available on request by calling either provider.

American Depository Receipts (ADRs)
The Company has a sponsored Level I ADR programme for which The Bank of New York Mellon acts as depositary. The ADRs are traded on the over-the-counter (OTC) market in the US under the symbol JSAIY, where one ADR is equal to four ordinary shares. All enquiries relating to ADRs should be addressed to:

Bank of New York Mellon
Shareholder Correspondence
PO Box 505000
Louisville
KY 40233-5000

Toll Free Telephone # for US domestic callers: 1-888-269-2377

International callers can call: +1-201-680-6825

Website. **www.mybnymdr.com**

Email: shrrelations@bnymellon.com

ShareGift
If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form may be obtained from Equiniti. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from **www.sharegift.org**.

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**.

Tax information – Capital Gains Tax (CGT)
For CGT purposes, the market value of J Sainsbury plc ordinary shares on 31 March 1982 adjusted for all capital adjustments was 91.99 pence and B shares 10.941 pence.

CGT information on historic Home Retail Group corporate actions can be found in the Investor Section on our website **www.about.sainsburys.co.uk/investors**.

Share capital consolidation
The original base cost of shares apportioned between ordinary shares of 28 4/7 pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding came into existence. The market value for CGT purposes of any share or security quoted on the Stock Exchange Daily Official List is generally the lower of the two quotations on any day plus one quarter of the difference between the values.

On Monday, 19 July 2004 the values were determined as follows

New ordinary shares 257.5 pence

B shares 35 pence

Historic share capital consolidation information relating to Home Retail Group can be found in the Investor Section on our website **www.about.sainsburys.co.uk/investors**.

Key contacts and advisers

General contact details

For general enquiries about Sainsbury's Bank call 0808 540 5060.

For any customer enquiries please contact our Sainsbury's Customer Careline by calling 0800 636 262 or Argos helpline by calling 0345 640 2020.

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London EC1N 2HT
Registered number 185647

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Head of Investor Relations
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1 More London Place
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Solicitors

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Stockbrokers

UBS
5 Broadgate
London
EC2M 2QS

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Cautionary statement

Certain statements included in this Annual Report are forward looking and are therefore subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied because they relate to future events. These forward-looking statements include, but are not limited to, statements relating to the Company's expectations. Forward-looking statements can be identified by the use of relevant terminology including the words: 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'plans', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses we operate. Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

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.

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Income statement			
Like-for-like sales	**No direct equivalent**	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 reallocation of Argos stores into Sainsbury's supermarkets is classified as new space, while the host supermarket is classified like-for-like. 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.	Retail like-for-like sales (excluding fuel) decreased by 0.2 per cent (2017/18: 1.3 per cent increase) mainly as a result of like-for-like sales declines in General Merchandise and Clothing. (See reconciliation table below.)
Underlying Group sales	**Revenue**	Total sales less acquisition fair value unwinds on Argos Financial Services. This is the headline measure of revenue for the Group. It shows the annual rate of growth in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying profit before tax	**Profit before tax**	Profit or loss before tax before any items recognised which, by virtue of their size and/or nature, do not reflect the Group's underlying performance.	A reconciliation of underlying profit before tax is provided in note 3 of the financial statements.
Retail underlying operating profit	**Profit before tax**	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying basic earnings per share	**Basic earnings per share**	Earnings per share using underlying profit as described above. This is a key measure to evaluate the performance of the business and returns generated for investors.	A reconciliation of the measure is provided in note 9 of the financial statements.
Retail underlying EBITDAR	**No direct equivalent/Profit before tax**	Retail underlying operating profit as above, before rent, depreciation and amortisation.	A reconciliation of the measure is provided on page 40 of the Financial Review.

Like-for-like sales reconciliation:

	2019	2018
Underlying retail like-for-like (exc. Fuel)	**(0.2)%**	1.3%
Underlying net new space impact	**0.6%**	0.3%
Underlying total retail sales growth (exc. fuel)	**0.4%**	1.6%
Argos consolidation and Pharmacy impact	–	8.4%
Underlying total retail sales growth (exc. fuel)	**0.4%**	10.0%
Fuel impact	**1.7%**	(1.2)%
Underlying total retail sales growth (inc. fuel)	**2.1%**	8.8%
Bank impact	–	0.2%
Underlying Group sales inc. VAT	**2.1%**	9.0%

APM	Closest equivalent IFRS measure	Definition/Purpose
Cash flows and net debt		
Cash flow items in Financial Review	**No direct equivalent**	To help the reader understand cash flows of the business, a summarised cash flow statement is included within the Financial Review As part of this a number of line items have been combined. The cash flow in note 4 of the financial statements includes a reference to show what has been combined in these line items.

Reconciliation

	Ref	2019 £m	2018 £m
Net interest paid	a	**(89)**	(105)
Strategic capital expenditure	b	**(36)**	(80)
Acquisition of subsidiaries	c	**–**	135
Repayment of borrowings	d	**(451)**	(174)
Other	e	**(8)**	(2)
Joint ventures	f	**13**	28

APM	Closest equivalent IFRS measure	Definition/Purpose
Retail free cash flow	**Net cash generated from operating activities**	Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure and after investments in joint ventures and associates and Sainsbury's Bank capital injections. This measures cash generation, working capital efficiency and capital expenditure of the retail business.

Reconciliation

Reconciliation of retail free cash flow	2019 £m	2018 £m
Cash generated from retail operations	**1,156**	1,259
Net interest paid (ref (a) above)	**(89)**	(105)
Corporation tax	**(61)**	(72)
Retail purchase of property, plant and equipment	**(470)**	(553)
Retail purchase of intangible assets	**(78)**	(69)
Retail proceeds from disposal of property, plant and equipment	**64**	54
Add back: Strategic capital expenditure	**36**	80
Dividends and distributions received	**18**	37
Investment in joint ventures and associates	**(5)**	(9)
Bank capital injections	**(110)**	(190)
Retail free cash flow	**461**	432

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Cash generated from retail operations (per Financial Review)	**Cash generated from operations**	Retail cash generated from operations after changes in working capital but before pension contributions and exceptional pension contributions. This enables management to assess the cash generated from its core retail operations.	The reconciliation between retail and Group cash generated from operations is provided in note 4 of the financial statements.

APM	Closest equivalent IFRS measure	Definition/Purpose
Core retail capital expenditure	**No direct equivalent**	Capital expenditure excludes Financial Services, after proceeds on disposals and before strategic capital expenditure. This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance. The reconciliation from the cash flow statement is included here.

Reconciliation

	2019 £m	2018 £m
Purchase of property, plant and equipment	**(434)**	(473)
Purchase of intangibles	**(78)**	(69)
Cash capital expenditure before strategic capital expenditure (note 4)	**(512)**	(542)
Strategic capital expenditure (ref (b) above)	**(36)**	(80)
Proceeds on disposal	**64**	54
Cash capital expenditure including strategic capital expenditure	**(484)**	(568)
Capitalised interest	**(6)**	(7)
Other (including strategic capital expenditure)	**36**	80
Total net retail core capital expenditure	**(454)**	(495)

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Cash flows and net debt			
Retail net debt	**Borrowings, cash, derivatives and financial assets at fair value through other comprehensive income, finance leases**	Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities. It is calculated as: financial assets at fair value through other comprehensive income (excluding equity investments) + net derivatives + net cash and cash equivalents + loans + finance lease obligations. This shows the overall strength of the balance sheet alongside the liquidity and its indebtedness and whether the Group can cover its debt commitments.	A reconciliation of the measure is provided in note 27 of the financial statements.
Gearing	**No direct equivalent**	Retail net debt divided by Group net assets. Gearing measures the Group's proportion of borrowed funds to its equity.	Retail net debt as per above and net assets as per the Group balance sheet.
Other			
Lease adjusted net debt/ underlying EBITDAR	**No direct equivalent**	Net debt plus capitalised lease obligations divided by Group underlying EBITDAR. This helps management measure the ratio of the business's debt to operational cash flow.	A reconciliation of this is provided in the Financial Review on page 43.
Return on capital employed	**No direct equivalent**	Return on capital employed is calculated as return divided by average capital employed. Return is defined as underlying profit before interest and tax. Capital employed is defined as net assets excluding net debt. The average is calculated on a 14 point basis. 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.	An explanation of the calculation is provided in the Financial Review on page 43.
Interest cover	**No direct equivalent**	Underlying operating profit, plus underlying share of post-tax profit from joint ventures and associates, divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs. This measures the ability of the Group to pay the interest on its outstanding debt. This measurement is used by creditors, lenders and investors to determine the risk of lending funds to the Group.	Underlying operating profit as per note 4 of the financial statements. Underlying share of post-tax profit from joint ventures and associates as per note 4 of the financial statements Underlying net finance costs as per note 7 of the financial statements.
Fixed charge cover	**No direct equivalent**	Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs. This helps assess the Group's ability to satisfy fixed financing expenses from performance of the business.	EBITDAR is reconciled in the Financial Review on page 40. Underlying net finance costs as per note 7 of the financial statements

Glossary

Active Kids – Our nationwide scheme to help inspire school children to take more exercise and to eat more healthily. Launched in 2005, Active Kids is open to all nursery, primary and secondary schools as well as Scouts and Girl Guides in the UK. **www.sainsburys.co.uk/activekids**

Annual General Meeting (AGM) – This year the AGM will be held on Thursday 4 July 2019 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am.

Argos Financial Services (AFS) – ARG Personal Loans Limited; Home Retail Group Card Services Limited; and Home Retail Group Insurance Services Limited.

basics – Sainsbury's entry level own-brand range of products.

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.

CMBS – Commercial Mortgage Backed Securities.

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.

FTSE4Good – The FTSE Group, an indexing company, runs the FTSE4Good index series to measure the performance of companies that meet corporate responsibility standards, and to facilitate investment in those companies **www.ftse.com/products/indices/FTSE4Good**

FVPL – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

FVOCI – Fair value through other comprehensive income. Method of valuing a financial instrument where changes in fair value are recognised in other comprehensive income.

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.

Real discount rate – Discount rate less inflation rate.

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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