

No 185647

J Sainsbury plc

ANNUAL REPORT AND
FINANCIAL STATEMENTS 2007

What we did this year...

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Notes

Underlying profit before tax: Profit before tax from continuing operations before any gain or loss on the sale of properties, impairment of goodwill, financing fair value movements and one off items that are material and infrequent in nature. In the current financial year, these one off items were the profit on part disposal of Sainsbury's Bank and past service gains on defined benefit schemes. In the prior financial year, these one off items were the Business Review costs, IT insourcing costs and debt restructuring costs.

Underlying basic earnings per share: Profit after tax from continuing operations attributable to equity holders before any gain or loss on the sale of properties, impairment of goodwill, financing fair value movements and one off items that are material and infrequent in nature, divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the ESOP Trusts, which are treated as cancelled.

Underlying cash: Cash flow after adjusting for significant one off items.

Like for like sales: Like for like sales are adjusted to take into account the timing of Easter falling on 16 April 2006 and 8 April 2007.

Underlying operating profit/(loss): Underlying profit before tax from continuing operations before finance income and finance costs.

Sales target: This is defined as retailing sales inc VAT ex fuel of which the non food element relates to general merchandise, health and beauty and clothing sales and the grocery element relates to food and household sales.

Certain statements made in this document are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward looking statements. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward looking statements, whether as a result of new information, future development or otherwise. Nothing in this document shall be regarded as a profit forecast.

Over the following pages we talk about just a few of the many things we did last year. Some big, some small, but together they have made a huge difference to improving the experience our customers have in our stores everyday.

Chairman's statement

Over the past year we delivered another strong performance and our recovery is ahead of plan. Since March 2005, we have grown sales by an additional £1.8 billion with over £1 billion delivered in the 2006/07 financial year. This means we are ahead of our target to grow sales by £2.5 billion by March 2008. I'm especially pleased that we are now also demonstrating that this strong sales performance is flowing through and is reflected in improved profits. Our underlying profit before tax for the year was up 42.3 per cent to £380 million.

The Board is recommending a final dividend of 7.35 pence per share, an increase of 25.6 per cent. This will take the full-year dividend to 9.75 pence per share, an increase of 21.9 per cent compared to last year, covered 1.5 times by underlying earnings which is in line with our previously stated minimum objective. Going forward we expect dividend cover to range between 1.5 and 1.75 times.

It is also encouraging that we can now look at expansion opportunities put on hold during the early stages of our recovery. Property has always been at the heart of our business and is closely aligned to our successful operation. Our estate still has considerable development potential which we believe will maximise both operational and freehold property value. As we move from recovery to growth we believe it is right to retain ownership of our properties.

We continue to review our capital structure on a regular basis. A year ago we refinanced our debt book with lower-cost property backed securities. We have again looked at structural financing opportunities in the light of our revised plans and believe that now is not the time for material change. We will, however, continue to review funding on a regular basis as the business cash flows improve.

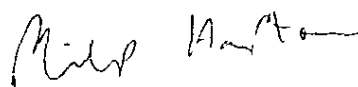
Our strong performance was delivered despite potential takeover speculation in the last quarter of the year. The Board received a number of proposals from a private equity consortium all of which were subject to a number of pre-conditions related to the consortium's proposed financing structure and which were outside the control of the Board. The consortium concluded they could not be satisfied and decided to withdraw. The Board did not receive a formal bid approach capable of being put to shareholders.

What was clear, however, was that the attention we received was due to our success. A resurgent Sainsbury's, with a strong brand, a substantial freehold asset base, a high quality store portfolio with development potential and a highly regarded management team, is proving it can deliver the right results in one of the most competitive markets I have encountered. This is clearly an attractive proposition for investors.

Another event during the past year has been the Competition Commission investigation into the supply of groceries by retailers in the UK. We established a separate team to deal with the work involved in this inquiry to ensure it did not distract us from continuing to improve our operations and serve customers in the best possible way. We are co-operating fully with this inquiry and have made our case clear. A summary of our thinking is available on our website www.j-sainsbury.co.uk.

We welcomed Val Gooding to the Board in January. Val has a wide business background with particular recent experience focusing on consumers and health. She is a great addition to the Board. Jamie Dundas stepped down as a Non-Executive Director in February after two three-year terms. I would like to thank him for his hard work and excellent contribution to the Board during a period of significant change for the company.

Our strong performance is a credit to the management team and colleagues throughout the company. As always, I thank them for their hard work and support in delivering a fundamentally more robust business for our shareholders.



The Business review

The purpose of this Business review is to provide information on Sainsbury's strategy and corporate objectives, the market in which it operates together with a review of progress during the year ended 24 March 2007. It includes an analysis of key performance indicators and an assessment of the key risks and uncertainties facing the Group.

Our business and its markets

J Sainsbury plc consists of Sainsbury's, a chain of 490 supermarkets and 298 convenience stores, and Sainsbury's Bank.

Sainsbury's Supermarkets is the UK's longest standing major food retailing chain and the Sainsbury's brand is built upon a heritage of providing customers with healthy, safe, fresh and tasty food. Today the company differentiates itself by offering a broad range of great products at fair prices with particular emphasis on fresh food. Products are improved and developed continually to ensure the company leads in terms of the ingredients used and the integrity of sourcing. A large Sainsbury's store offers around 30,000 products and many stores also offer complementary non-food products and services. 114 stores provide an internet-based home delivery shopping service. Sainsbury's Bank is jointly owned by J Sainsbury plc and HBOS plc. With access to over 16 million Sainsbury's customers each week, operating costs are low, enabling Sainsbury's Bank to offer excellent value products with extra benefits, all delivered in a simple, accessible way.

The UK grocery retail market

The UK grocery retailing market was valued at £123.5 billion in 2005/06¹ and is forecast to grow at an average annual increase of 2.8 per cent to £141.5 billion by 2011². Over the past year, Sainsbury's strengthened its overall market share position to over 14.9 per cent³ although the market can also be defined and market share divided in a number of different ways. Excluding non-food items, Sainsbury's has the number two position in the market.

¹ The Institute of Grocery Distribution (IGD)
² The IGD's mid-case scenario forecast
³ Measured by TNS' total market share

Continuing operations	2007	2006
Sales (inc VAT)	£18,518m	£17,317m
Sales (ex VAT)	£17,151m	£16,061m
Underlying operating profit	£431m	£342m
Underlying profit before tax	£380m	£267m
Profit before tax	£477m	£104m
Profit after tax	£324m	£58m
Underlying basic earnings per share	14.7p	10.5p
Basic earnings per share	19.2p	3.8p
Proposed dividend per share	9.75p	8.00p

Sainsbury's growth will be affected by general market issues such as the impact of regulatory and planning regimes on store development and economic factors such as the level of household disposable income. However, Sainsbury's strategy is aligned with factors such as customers' preferences for the products they buy. Sainsbury's is well positioned to anticipate and meet the increasing consumer focus on fresh, healthy quality foods. The development of our complementary non-food offer addresses our customers' desire to buy a greater range of non-food products along with their weekly grocery shop and the continued growth of our convenience stores also takes account of the faster pace of people's lifestyles and the trend towards more frequent top-up shopping trips. The Competition Commission ('CC') is also undertaking an investigation into the supply of groceries by retailers in the UK. The CC has stated its intention to report its findings in the early part of 2008.

14.9%

Total market share
Source: TNS

30,000

products in a large
Sainsbury's store

16 million

each week

Corporate objectives

Justin King
Chief Executive

Two and a half years ago we outlined our plan to Make Sainsbury's Great Again ("MSGA")

Our vision is simple, we are here to serve customers well with a choice of great food at fair prices and, by so doing, to provide shareholders with strong, sustainable financial returns. This has driven everything we have done since we outlined our recovery plan in October 2004.

The plan spans three years to March 2008 and as well as fixing a range of basics – such as product availability, supply chain, IT, and price – we committed to make hundreds of small changes every day to improve our customers' shopping experience.

To enable us to measure our progress we set some key three-year targets.

The targets we set

- **To grow sales (inc VAT ex fuel) by £2.5 billion, with grocery contributing sales of £1.4 billion, non-food products sales of £700 million and convenience stores sales of £400 million**
- **To invest at least £400 million in improving product quality and our price position relative to competitors and to find annual buying synergies of 100-150 basis points¹ to be reinvested in the customer offer**
- **To deliver operating cost efficiencies of at least £400 million**
- **To generate neutral underlying cash flow in 2005/06 and positive cash flow thereafter**

These were demanding targets and the business has had to challenge itself in every area in response.

Progress in 2006/07 – What have we achieved so far?

Against these clearly defined key performance indicators we made good progress this year.

- **We grew sales (inc VAT ex fuel) by over £1 billion, taking our total sales growth over the past two years of the recovery plan to £1.8 billion and ahead of plan**
- **The £400 million of investment in the customer offer was completed by December 2006 and additional funds were invested in early 2007, improving product quality and giving us our most competitive price position for many years**
- **We increased our cost savings target to £440 million following our in-sourcing of IT in April 2006 and we are on track to deliver this**
- **We achieved an underlying cash flow positive position earlier than expected – in 2005/06 – so we targeted a cash neutral position in 2006/07 and have again exceeded that target despite increased capital expenditure**

These achievements give us a strong foundation on which to build.

We believe now is the right time to look to the next stage of our recovery and to expand the business to drive growth for the longer term. So we have set ourselves new three-year targets that build on the strong progress we've made so far and move us from recovery to growth. As we are tracking ahead of our original MSGA goals, the new three-year targets start in the current financial year, with the first

year overlapping with the third and final year of our MSGA recovery plan and run until March 2010.

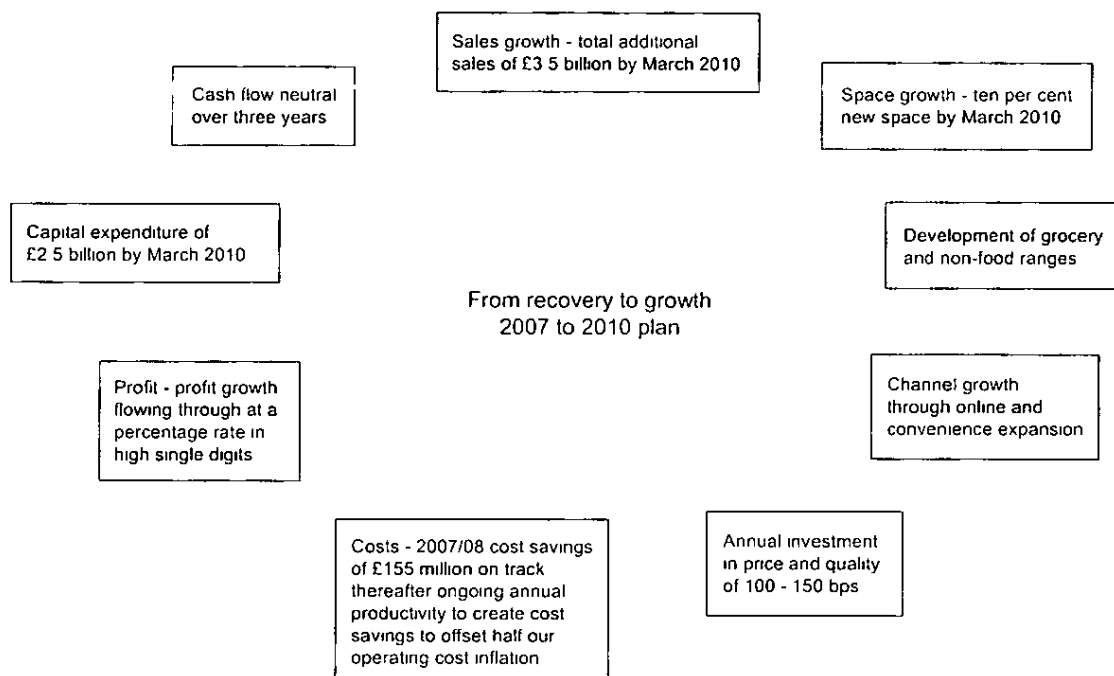
Whatever we do, we must keep building on and stretching our lead in food. It will always be the number one reason why customers visit our stores. We share our customers' passion for healthy, safe, fresh and tasty food and will continue to innovate and provide leadership in delivering quality products, sourced with integrity.

At the same time, we want to speed up the development of our complementary non-food offer to give customers a broader shopping experience in our stores. We will follow the same principles of quality, value and innovation as we continue to build our capability and refine our customer offer.

Our focus on driving sales continues with a target to deliver £3.5 billion of additional sales, split two thirds from grocery and one third from non-food ranges, from March 2007 to March 2010. Added to the £1.8 billion of sales growth already delivered, this new target, if achieved, would give a total sales growth of £5.3 billion over the five-year period March 2005 to March 2010.

Delivering great product at fair prices will stay at the heart of our business and we will continue to reinvest buying efficiencies (100-150 bps¹ per annum) in price and quality. We will also keep improving our operational efficiency so we can deliver an ever improving shopping experience for customers. We are on track to achieve our cost saving target of £155 million in the next financial year and have targeted savings thereafter to offset half our operating cost inflation.

¹ One basis point is equal to 1/100th of one per cent.



Our current store estate provides substantial development opportunities and we plan to extend a further 75 stores by March 2010. We're also actively seeking and developing a pipeline of new stores. Our target for growing sales space would take our total sales area to over 19 million square feet. That means we must increase our space by ten per cent over the next three years. The new space will be split equally across grocery and non-food ranges. This goal enables us to continue to develop a great food offer while also growing space for non-food ranges.

We're also extending the reach of the Sainsbury's brand. We plan to open 30 new supermarkets and 100 convenience stores over the next three years, and to extend our online home delivery service. We have significantly improved this service over the past two years and we will be increasing capacity in areas of high demand, almost doubling the number of

stores operating the service from just over 100 at the current time to 200.

The performance of Sainsbury's Bank has been stabilised and, working with our partner HBOS plc, it now has promising growth opportunities ahead. We are targeting profits of £40 million in the year ending March 2010. Under our new joint venture arrangements we would share half of this after tax.

To support these ambitious expansion plans we expect our total capital expenditure over the next three years to be £2.5 billion, funded by operational cash flows as we invest now for long-term growth and the creation of ongoing value. We expect to be broadly cash flow neutral over the three years.

These are ambitious plans that bring together the improvements we are making in operational efficiency and our customer offer together with sales growth and the addition of new space.

Sales momentum will build through our expansion and flow through to profit at a percentage rate in the high single digits. As new space matures and our other investments mature there will be a step up in profit conversion in future years.

The company is significantly stronger than it was when we launched our MSGA plan in 2004 and this has provided a firm base for future growth. Customers have become increasingly concerned with eating more healthily as well as the social and ethical consequences of their weekly shop. The Sainsbury's brand is well positioned and at the forefront of addressing these concerns. We have laid out plans for the next three years and we are confident that these provide Sainsbury's with substantial opportunity for further development of our business and value creation for our shareholders.

Operating review

Strong progress

We had a strong and sustained improvement in performance this year and this has added significant momentum to our recovery. Sales remain the purest measure of customer satisfaction in our business, so this year's 7.3 per cent total sales growth (excluding Sainsbury's Bank and including VAT) is a particularly important sign of progress.

Over the year we grew like-for-like sales, excluding fuel, by 5.9 per cent, despite limited maturing new space and extensions and the tougher comparatives of the previous year. We delivered our ninth consecutive quarter of increased sales in the last quarter of the 2006/07 financial year. This result represented growth on growth on growth and demonstrated continued improvement and momentum.

This strong sales performance is ahead of our own expectations. It's also our best for many years. It shows that our recovery is ahead of plan and that we've made substantial progress in addressing many of the challenges outlined in our recovery plan.

Throughout the year we have focused on maintaining our lead in product quality and remaining very competitive on price. We've stepped up the development of our complementary non-food offer with the introduction of more ranges in more stores and we are growing our presence in the convenience sector.

With 788 stores across the UK, Sainsbury's is a mainstream retailer and we've worked hard to restore universal appeal – our ability to appeal to all shoppers. We serve more than 16 million customers each week, on average, and believe we can continue to grow.

Our emphasis on fresh and healthy food continues to set Sainsbury's apart and contributed to this year's strong sales performance. Our heritage provides an ideal market position for our brand, as customers increasingly want healthy, safe, fresh and tasty food. Supporting our recovery is our 'goal' (see below), which demonstrates that our values and beliefs have never fluctuated despite an ever-changing and challenging market. We have focused single-mindedly on what our customers want, this has driven our recovery and will continue to do so.

The strong progress achieved over the year is built on lots of individual improvements, initiatives and actions within the business. The following pages provide a flavour of the many things we have done this year towards Making Sainsbury's Great Again and you can find more at www.j.sainsbury.co.uk.

The strength of our offer

The values at the heart of the Sainsbury's brand match the concerns and preferences of more and more people and that has helped to drive our sales growth. Five principles underpin our activities and these are detailed on page 21. The values that made Sainsbury's stand out in the past, such as buying healthy and wholesome food and respecting the environment, which have been a key focus of the MSGA recovery plan, have become increasingly important to customers. This has inspired us as we addressed our problems and worked to fix the basics of our operation.

“At Sainsbury's we will deliver an ever improving quality shopping experience for our customers with great products at fair prices. We will exceed customer expectations for healthy, safe, fresh and tasty food making their lives easier every day.”

Best for food

In October 2006 we were voted Supermarket of the Year at the Retail Industry Awards and in November we again achieved outstanding success at the industry's annual 'quality' awards, winning more than half of the 25 categories. We have made further investments in raising the quality of our food and, while we are always pleased to be given awards, the best recognition is that of customers buying more through their weekly shop.

During the past year more than 5,000 own brand products were new or have been improved. This included the work we did providing customers with clear and honest labelling, leading the way on ingredient standards and the way in which products are sourced.

In September 2006 we relaunched our Taste the difference premium range, which comprises nearly 1,400 products and is a £1 billion brand. These products meet strict quality standards and now contain no artificial colours, flavours or hydrogenated fats, a move we are completing on all own label products. This is a huge task given the sheer volume of products we sell.

In January 2007 we made a number of changes to our basics range to enable customers to make healthier choices. This included adding our Wheel of Health multiple traffic light label to around 200 food and drink products, lowering of salt, sugar and fat levels where possible, and removing unhealthy vegetable oils from the entire range of products over time. In April 2007 we became the first UK retailer to announce the intention to remove all artificial colours and flavourings from own-brand soft drinks and we will complete this work by June 2007. These are just a few of the many improvements we have made.

Customers value quality, fresh and seasonal food and we work with suppliers to source as many products as possible from the UK, celebrating the freshness and seasonality of British produce. We have continued to increase sales of organic food and we source all organic primary chicken, beef, pork, milk, eggs, and in-season lamb from the UK. We sell around 1,000 different organic products and there are now more than 400 products in the Sainsbury's SO organic range, our second largest sub brand.

and health

Eating a variety of foods is one of the most effective ways to achieve a healthy diet. Supermarkets can play an important role in helping people to balance their diet by providing a wide range of different products. Customers make up their own minds about what they eat, what they want is information to help them choose the right food for them. We believe our job is to provide clear and honest labelling about ingredients, cooking and nutrition.

As more retailers and manufacturers start labelling products, multiple traffic lights ('MTLs') – the system approved by the Government's Food Standards Agency – are emerging as the most effective and popular way to provide the 'at-a-glance' information customers need to make healthier choices when shopping. Sainsbury's was the first supermarket to put nutritional labels on the front of products when we introduced our Wheel of Health MTL label in January 2005 and 4,500 of our products now carry these labels. The body of consumer research into nutritional labels is building over time.

Research carried out among 17,000 people on behalf of Netmums in February 2007 showed that nearly 80 per cent of people preferred the MTL system to the alternative scheme, which details guideline daily allowances ('GDAs') on the front of packs. GDAs are useful and we have put them on the back of our packaging for many years. We were also the first retailer to provide specific GDAs for children, but MTL labels are even more effective because they give customers the simple 'at-a-glance' information they want as they shop in store.

Sainsbury's was the first major UK supermarket to set a date for the removal of Hydrogenated Vegetable Oils (HVOs) from its entire range of own brand food and drink. The company has been working on the removal of HVOs for over a year and to date has removed a minimum of 383 tonnes of HVOs from its cakes alone.

We were the first retailer to announce we will follow the Department of Health's proposed voluntary new guidelines on the labelling of alcohol on all own brand beers, wines and spirits.

Our 'Try something new today' tip cards aim to inspire customers to think beyond their normal range of products. The campaign provides simple ways to make small but significant changes to the food we buy and eat.

Sainsbury's launched the first ever 100% UK organic supermarket box scheme.

These products meet strict quality standards and now contain no artificial colours, flavours or hydrogenated fats.

A gathering of over 100 health experts and parents to discuss the barriers and issues to healthy eating overwhelmingly concluded that parents play the single most important role in helping their children lead a healthy lifestyle but they desperately need help and advice.

We were the first retailer to
provide specific GDAs for children

Sainsbury's began a partnership with MEND,
the UK's largest prevention and treatment
programme for overweight and obese children
and their families

In early 2007 customers who spent £10
or more in a single visit to Sainsbury's
received a Big 5 Drive peel and reveal
gamecard with a one in three chance to win
products containing at least one portion of
fruit or veg as an incentive to eat healthily

Sainsbury's was rated top for
health in a report published by
the National Consumer Council

80 per cent of people questioned
by Netmums preferred the
multiple traffic light system over
the alternative scheme which
details guideline daily allowances

Around 200 products in the
basics range now have no
artificial flavourings or additives

Sainsbury's is cleaning up its
soft drinks by removing all
artificial colours and flavourings
from its own brand soft drinks

Research from the Department of Health ("DoH") showed that, while people are aware of the concept of alcoholic units, they find it difficult to judge how many they are drinking. In February we became the first retailer to adopt the DoH's proposed voluntary guidelines on the labelling of alcohol. We have applied labelling on all our own brand beers, wines and spirits, encouraging sensible drinking by helping people better understand the effects of alcohol.

Our work on labelling was just one of the initiatives singled out last November by the National Consumer Council when it named Sainsbury's the 'healthiest supermarket'. We also organised and hosted an event called 'New Ideas for Health' in September 2006 to move forward the debate about food and health. Around 100 parents and professionals, including Caroline Flint, Minister for Public Health, joined us in this discussion. We are all increasingly aware of health issues but this event went further by trying to identify the barriers to addressing problems, looking at who should take responsibility for doing this and coming up with some solutions.

Following the event we pledged to keep the discussion going and began a three-year partnership with MEND, the UK's largest prevention and treatment programme for overweight and obese children and their families. The national partnership will see 450 MEND programmes rolled out over the next three years following a trial in eight areas.

The trial delivered significant improvements to the health, wellbeing and self-confidence of participants. This is the first programme of this scale sponsored by a private company. It is being run by fully trained Sainsbury's Food Advisors with the assistance of a local Youth Sport Trust colleague.

Competitive pricing

The £400 million investment in our customer offer outlined in our MSGA plan was completed by December 2006 and we have now invested additional funds in early 2007. In total we have now invested over £450 million in quality and price. We now guard our price position jealously and since January 2007 we have cut a further 5,000 prices, bringing the total since announcing our commitment to 20,000.

Ensuring we remain competitive on price was a key strand of our recovery plan and fundamental to making sure our brand appeals to the widest range of people. But what makes Sainsbury's different for our customers is our quality.

Bananas offer a good illustration of how we turn commitments into actions and provide customers with quality they value at competitive prices. They are also a great example of how our heritage and our customers' wishes have become increasingly aligned over the year. We've worked with banana growers in the Windward Isles for the last 50 years and our customers were already buying a large number of Fairtrade bananas.

In December 2006 we announced the decision to convert our entire banana range to 100 per cent Fairtrade by July 2007.

Our Fairtrade bananas cost the same as the conventional bananas available in other mass-market supermarkets and are around 25 pence a kilo cheaper than Fairtrade bananas generally available in some of our competitors' stores. We invested approximately £4 million in the supply chain – in the social premium that is paid to farmers – to achieve this value for money for our customers.

Every minute 1,000 bananas are sold in our stores and our customers are helping to make an enormous difference to Fairtrade farmers and their communities. This is the biggest conversion of its kind worldwide and we now sell more Fairtrade bananas than all of the other major supermarkets in the UK combined.

Strong supplier relationships – sourcing with integrity

We enjoy strong and balanced relationships with suppliers and share the same aim to deliver innovative, high quality products at fair prices for our customers. In November 2006 we announced an industry first with the launch of a new payment management system that makes it easier and quicker for suppliers to access account information and gain early payments. The system is in the early stages of a trial and will be rolled out during the current financial year. Suppliers can view their trading account online, including invoices,

debit notes, remittance advices and payment dates. This gives them much better visibility of their expected cash flow. Early cash settlements can also be made if suppliers opt to sell their invoices, via the new system, to a third party financial institution.

In May 2006 we launched our 'Supply something new' programme where managers meet new suppliers in the search for high quality and innovative locally produced food for customers to enjoy. Eight events have been held to date resulting in the appointment of over 20 new suppliers. This year we also appointed 12 regional managers who are responsible for developing our regional sourcing programme and supporting and expanding the 3,000 regional products we already sell.

In October 2006 we introduced the Sainsbury's Dairy Development Group, working with around 400 dairy farmers to supply all 420 million litres of conventional milk bought by our customers each year. We believe the market is best served by initiatives that connect farmers directly to consumers. For example, our Farm promise milk, launched in April 2006, gives farmers a fair premium and makes a contractual commitment to support farmers converting to organic milk production. Through this and other initiatives we will pay a £10 million premium directly to farmers each year.

We are extending this approach into other areas of agriculture. We set up a Lamb Partnership in Livestock scheme in September 2006. For example, and are

in the process of developing a similar approach with pork suppliers. In January 2007 we launched 'Farm Connections', a scheme that provides 700 Taste the difference beef farmers with computers, software and training. This means they can compete in the market and be better informed of industry matters and production costs. So far over 500 farmers have signed up.

We have built up innovative sustainability plans supported by the Marine Conservation Society, and we were the first retailer to sell Marine Stewardship Council ('MSC') cod from a sustainable source. This was just one of many industry firsts we have achieved in fish. We sell the largest range of MSC products and none of the fish we sell is 'red-rated' (based on a colour rating system). We are also working to achieve a green rating for all the fish sold in our stores. We started selling 100 per cent line caught cod and haddock this year and we are the largest retailer to do this. As one of the UK's leading fishmongers, taking the lead on such important issues has an enormous effect on the fish being eaten in the UK.

Complementary non-food

Food remains at the heart of our offer, but we also set a target for complementary non-food to deliver £700 million of our £2.5 billion sales growth target. Over the last 18 months new layouts, fixtures, fittings and ranges have been trialled in 15 stores to assess which non-food products and which types of presentation most

appeal to our customers. The successful elements have been introduced into 48 stores and in those being refurbished and extended. We will keep making improvements and applying new ideas in this area. The addition of sales space through both new store development and extensions is playing an important role as we accelerate the growth of these ranges.

As we continue to build our infrastructure and capability in non-food we opened offices in Hong Kong and Poland in 2005 to help us work directly with manufacturers in the development of higher quality better value products. Our reputation for quality value and innovation is just as relevant to our non-food ranges as it is to food. In 'branded' areas such as music and entertainment we focus on offering products at competitive prices and we have gained significant market shares of recent DVD and CD releases. In clothing and home ranges, innovation, design and value are all important to customers. In March 2007 we introduced a new premium homeware range under the 'Different by design' brand, which mirrors our premium 'Taste the difference' food offer.

TU, our own label clothing range, continues to be a star performer and underpins our non-food offer. In March 2006 we launched a range of clothing made from Fairtrade certified cotton. The range consists of 22 different styles across men's, women's and children's clothing and is designed by our own design team as part of our TU clothing collection.

In an industry leading initiative welcomed by the National Farmers Union (NFU), Sainsbury's will work directly with dairy farmers in a newly formed development group to strengthen links and improve transparency in the supply chain

Sainsbury's is the first of the big four supermarkets to sell only cage-free eggs ahead of 2012. This received a 'Good Egg' award from Compassion in World Farming for its commitment to the health and welfare of animals.

Justin King, along with Harriet Lamb, Director of the Fairtrade Foundation, visited the Windward Isles to meet Fairtrade banana farmers and to see first hand how developing countries can benefit from the social premium selling Fairtrade food can create.

'Sainsbury's is the leading fairtrade retailer, accounting for 40% of fairtrade bananas in the UK'

Sainsbury's switched the 22 million hot beverages it sells in its 230 in-store restaurants every year entirely to Fairtrade. This makes it the only supermarket serving Fairtrade tea, coffee and hot chocolate to customers.

Bumblebees are in serious decline in the UK according to research. To help reverse this problem, Sainsbury's is funding an exclusive project aimed at boosting bumblebee numbers by as much as 600 per cent.

Sainsbury's now offers a range of clothing made from Fairtrade certified cotton. The launch of Sainsbury's clothing range carrying the FAIRTRADE mark confirms the supermarket's commitment to the use of Fairtrade certified cotton.

The scheme known as Farm Connections will mean that key beef producers will be given computers, software and training so they can better operate and compete in the market and be informed of industry matters and production costs.

Sainsbury's has launched a new farming scheme which could pioneer the way British apples are grown and thus help secure the future of the British apple industry.

Just four weeks before small supplier Levi Roots met with Sainsbury's, he was cooking up batches of his Reggae Reggae sauce – a spicy jerk/BBO sauce based on Levi's secret family recipe – in the kitchen of his Brixton home. Following his appearance on TV's *Dragon's Den*, the sauce is now available at 607 Sainsbury's stores and is a hot seller.

Customers continue to enjoy the Jamie Oliver Taste the Difference range of 21 days extra mature beef which is hung for three weeks before being packed. It's good old fashioned, well looked after beef which provides extremely high quality and tasty meat.

Customers value quality, fresh and seasonal food and Sainsbury's worked with suppliers to source as many products as possible from the UK, celebrating the freshness and seasonality of British produce.

In partnership with Food from Britain, Sainsbury's is launching an innovative new scheme to make it easier for small and medium sized suppliers to gain business access to the retailer.

Availability

Our product availability is now the best it has been for many years. We have reorganised our depot network so that we can continue to improve the service to our stores. In line with our increase in sales, our depots now handle over a million more cases each week than in the previous year. Improved efficiencies have also reduced the cost per case and we now deliver an additional 50 million cases for the same costs achieved in the previous year.

We are opening a new distribution centre in Northampton later this year. This is an important step in ensuring we have enough capacity to match our growth expectations. This will create 750 new jobs. The depot will initially provide additional capacity this Christmas and will be fully operational by the middle of next year. Another sign of our increased sales performance is the extension of our Langlands depot in East Kilbride and a reconfiguration of our depot at Waltham Point in Hertfordshire will improve the capacity and reliability of the depot.

Corporate responsibility

Corporate responsibility principles are at the core of our business and our brand and have been since we opened our first store in 1869. Over the past year there has been a huge increase in the interest in social and ethical issues and Sainsbury's heritage has meant we have been well placed to address customer concerns. During the year most other retailers announced plans to address concerns over issues such as health and environmental impacts so our challenge is to keep leading, innovating and achieving great results.

Five principles underpin our activities (as detailed on page 21) and we already have stretching targets in place. In April 2007 we announced our 'Make the difference' plan. This reflects the fact that customers are increasingly concerned about social and ethical issues: they now expect companies to meet their responsibilities, but they also want to know what they can

do as well. This follows an association with the We Are What We Do ("WAWWD") global social change movement over recent years.

The plan takes policy out of the boardroom and puts us in partnership with our customers. Each month we are holding a 'Make the difference' day where we raise a specific issue and take action. And we show customers how they can take action too. With over 16 million customers each week, working together means we can really make the difference.

Our first 'Make the difference' day was on 27 April 2007. During that day we stopped issuing disposable plastic carrier bags and instead gave customers our 'Bag for Life'. This is made from 100 per cent recycled material and is typically used around 20 times. When it is worn out, customers can return it to us for a new bag and we will recycle their old one. These bags normally cost ten pence each but on this day we issued more than six million for free. It was a great example of working together – we can give customers the bags but they must re-use them to help us reduce the amount of disposable bags in circulation.

Respect for our environment

As a leading UK retailer we have a responsibility to minimise any potential adverse impacts of our operations. We've invested more than £15 million in energy efficiency projects since 2002 and Sainsbury's won the Carbon Management City of London Liveable City Award 2006 through our innovative projects to reduce emissions.

Much of our work is about good housekeeping and almost all our large supermarkets now have intranet linked, automated building controls to allow us to improve efficiency and manage power loads so we can further reduce our energy costs.

A big issue for customers is the amount of food packaging in use and its environmental impact. We've already reduced excessive packaging on many products. Take Easter eggs, since 2004 we have reduced the weight of packaging by up to 87 per cent with the vast majority of the remaining packaging now recyclable, re-usable or compostable.

In September 2006 we announced the removal of 3,550 tonnes of plastic from our output every year. We achieved this by replacing 150 million plastic trays and bags on 500 of our ready meal and organic food products with 'compostable packaging' – the friendliest form of

packaging for the environment according to the Women's Institute. Instead of plastic, the packaging uses maize, sugar-cane or starch so that it can break down naturally in a garden compost heap.

We share our customers' belief that plastic bags contribute to long term damage to the environment so in September we launched a new carrier bag to replace our previous free carrier. A third of the new orange bag is made from recycled material and it can, in turn, be recycled and made into a new bag. This has saved 17 billion old style carrier bags and 6,500 tonnes of plastic every year. We're still the only UK supermarket to offer customers a free carrier bag with a high proportion of recycled material, but we urge others to follow this lead and cut down on the use of plastic and materials sent to landfill.

We have promoted re-usable shopping bags since the mid 1990's and in November 2006 we teamed up with Arts Council England to produce limited edition re-usable bags designed by well known artists. The bags were incredibly popular and sold out in 12 weeks. We were also the obvious outlet for a similar environment friendly bag designed by leading accessories designer Anya Hindmarch in collaboration with WAWWD. The bags went on sale at the beginning of April and sold out within an hour.

By September 2008, 20 per cent of the supermarket's online deliveries will be made using electric vans saving 45 tonnes of CO₂ emissions in the first year

As well as selling 100 per cent recycled refuse sacks Sainsbury's now sells compostable garden refuse sacks, as well as caddy bin liners for the one in three people that now home compost in the UK. Both bags are made of starch fibre instead of plastic which means they can naturally break down in a garden compost heap.

In April 2007 Sainsbury's teamed up with designer Anya Hindmarch and global social change movement We Are What We Do to launch a re-usable shopping bag in all stores. 20,000 bags sold out across the UK in under an hour.

A third of the new carrier bag will be made from recycled material and what's more customers can recycle their bag and Sainsbury's will make it into a new one.

Sainsbury's gave a major boost to the world's forests by announcing that it will be the first to source all of its own brand tissue from sustainable sources. All of its tissue will either be FSC approved or recycled.

Sainsbury's first Make the difference day saw Sainsbury's become the first major UK supermarket to stop giving out free disposable carrier bags in its stores and instead gave over six million free re-usable Bags for Life (usually 10p) to customers for their shopping.

Sainsbury's SO organic jute shopping bag has proved popular with customers and as well as being carbon neutral it follows organic growing ideals including using low input non GM material rotation crops organic manures and avoidance of pesticides.

Research has shown that carbon emissions from Kenyan roses including air freight were 5.8 times lower than for Dutch roses. Results have provided a fresh challenge to current thinking on sourcing and the impact of air freight versus artificial heating and lighting for growing cut flowers.

Sainsbury's will be the first retailer in the UK to offer customers a Freepost battery and cell phone recycling service. This is going to be the only scheme of its kind and is expected to save 2,500 tonnes of batteries going to landfill every year.

During the Second World War we reduced the paper used for our labels. It's in our DNA to find ways to minimise our impact on the environment and make our labelling as clear as it can be.

Last year our customers recycled 100 million plastic bags at our recycling points at our stores. We have offered this service since July 2004.

We have been developing an industry leading assessment system that will ensure that the fish we sell are sourced from sustainable sources.

Packaging now gives clearer instructions for recycling, composting etc. such as 'Sorry not recyclable' or 'Please recycle' so that customers know what they can do when they've finished with the wrapping.

Sainsbury's and Arts Council England teamed up to produce limited edition re-usable shopping bags designed by well-known artists. The bags meant anyone could get a work of art for only 50p.

The amount of material our colleagues recycled in 2006 was equivalent to over 14,000 double-decker buses.

Sainsbury's is half-way through its plans to replace 150 million plastic trays and bags with compostable packaging. By the end of the year all ready meals and the majority of organic produce will be in compostable material, which can disappear on a garden compost heap or in a bin.

Making a positive difference to our community

Our stores are at the heart of the communities they serve and last year we invested £18 million in community initiatives, and a further £12 million from charity fundraising and donations in our stores. Our activities focus on areas that matter most to our colleagues and customers such as food, family, health and children.

Our Active Kids programme is a great example of this and 38,000 registrations have been received for the 2007 scheme. For the first time this year the nation's one million Scouts and Girl Guides are eligible to join. Customers earn Active Kids vouchers against spend in store and online which can then be redeemed by schools against activity and cookery equipment. Since the launch of Active Kids in 2005 we have donated £34 million of sports equipment, kit and coaching to over 26,000 UK schools and nurseries. Active Kids also aims to encourage healthy eating as customers earn a bonus voucher for buying fresh fruit, vegetables and salad, plus any of the 2,350 foods marked with the 'healthy apple stamp' such as milk, pasta, rice and fresh fish.

We also work with the Youth Sports Trust and English Schools Athletics Association as part of our commitment to support grass roots activities rather than national sporting teams or events. All the profit from our bags for life, £159,000 in 2006/07, goes directly into local community projects recommended by our store colleagues as part of our community grants programme.

Another great example of a scheme that supports our business, the community and the environment is our food donation scheme. This reduces the amount of surplus food past its sell-by date but not its use-by date we have to send to landfill. Instead we distribute this to charities across the country such as the Salvation Army and FareShare. In the year ending March 2007 we donated £3.4 million of food to homeless charities and 60 per cent of our stores are linked to local charities through the scheme. Our aim is to increase this to 100 per cent and we remain the only UK supermarket to donate food in this way all year round rather than just at peak trading periods.

Community involvement also goes beyond our stores such as our sponsorship of Comic Relief and Sport Relief. This year we raised over £7 million for Comic Relief through sales of Comic Relief merchandise and colleague activity. This represented 22 per cent of the total £32 million raised on the night.

Colleagues – a great place to work

The majority of our store colleagues live within the communities served by their store and many donate time and effort to a broad range of good causes outside work. Our Local Heroes programme is our own awards scheme, which recognises and encourages colleagues in stores, depots and offices who do this and we match all funds raised with awards of between £200 and £500. The scheme is now in its sixth year during which time we have donated around £750,000 to good causes. This year we donated around £250,000, an increase of 48 per cent over the previous year.

Our colleagues are vital to our success and over the past year we completed the delivery of leadership training to 9,000 managers throughout our business. We track how engaged colleagues are with our goals and values through our 'talkback' survey and last year saw marked improvements in both colleague engagement and our leadership skills.

The Tell Justin suggestion scheme was launched in September 2004. Nearly 17,000 ideas have been received since that time and ten per cent of suggestions are actioned.

This year we will pay our highest ever bonus to colleagues with 118,000 sharing £56 million in bonus payments in June 2007. Including this bonus, we will have paid £145 million in bonus scheme payments over the last three years. A just reward for the huge efforts of our colleagues.

Developing our stores

Having made such good progress in improving our performance we renewed our search last year for locations where we could introduce Sainsbury's to new communities. During the 2006/07 financial year we increased our space by 3.8 per cent, driven mainly by our ability to acquire more new space than planned. This was ahead of target primarily due to increased activity in the second half of the year.

During the year we opened 20 supermarkets and extended 18. A further 50 were refurbished, one was downsized and 48 benefited from investment in their non food offer. In our convenience operation, 20 stores opened, 22 were refurbished and 30 converted to our 'Sainsbury's @' format. Two convenience stores closed and two supermarkets were closed due to relocation to improved sites.

New space growth opportunities are now being developed as we plan a ten per cent growth in space over the next three years. We plan to open 30 new supermarkets and 100 new convenience stores and we are targeting the completion of 75 extensions and 190 refurbishments, with the large majority undertaken on our freehold and long leasehold estate.

We are actively managing our property portfolio. A specialist property team is building a pipeline of new stores and more than 50 per cent of our current estate will be developed by March 2010 and at least 60 stores will be over 55,000 square feet with over 15,000 square feet of non food ranges by March 2010. The pipeline will be developed to deliver space growth at five per cent each year from 2009/10.

The ownership of property is aligned to these operational plans and provides significant opportunity to maximise both operational and freehold property value from our portfolio.

Sainsbury's online

Our online operation has had an outstanding year. Sales grew by 49 per cent with a record Christmas performance. We now cover 83 per cent of UK postcodes and have 64,000 customers each week. New customers continue to be attracted to the service via recommendations from family and friends – the most powerful advocates we could have. We are the first grocery retailer to operate an Electric Zero Emission vehicle. By Autumn 2008, the 3.5 tonne van which is suitable for urban areas, will be responsible for the transport of 20 per cent of all our online orders and our

online drivers will continue to collect customers' unwanted Sainsbury's plastic carrier bags for recycling.

We believe there is significant growth potential in the online operation and we plan to increase capacity in areas of high demand. As a result the number of stores operating this service will reach 200 by March 2010 and we expect sales to more than double over the next three years.

Sainsbury's Bank

Sainsbury's Bank became a 50/50 joint venture operation in February 2007 when we announced the sale of five per cent of the business to our partner HBOS plc for £21 million. The Bank remains an important part of our Group and the new ownership structure reflects the shared commitment. Sainsbury's and HBOS plc has to growing the business.

The Bank has made good progress in stabilising its operations over the year and a tight focus on cost control and lighter risk management actions implemented over the past two years has more than offset what has been a worsening environment for consumer credit. In 2006/07 Sainsbury's Bank made an underlying operating profit of £2 million. It continues to offer growth opportunities and we are targeting profits of £40 million in the year ending March 2010, half of which will be reported after tax.

The number of graduates becoming food science experts has hit dangerously low levels in recent years, and to reverse the sharp decline Sainsbury's has launched a Gap Year scheme called 'Taste the World' to entice the best graduates to the food science industry

Being the best for food and health is a key priority for Sainsbury's as it has been since 1869. In 1922 tiles were used to ensure shop hygiene was kept to the highest standards

We launched a ground breaking green store in 1999 at Greenwich. The 35 000 sq ft store reduces energy consumption by up to 50% compared to a standard store of a similar size and operation

Shining Stars is a recognition programme designed to reward our colleagues by giving them points for doing a fantastic job

We've raised £31.5 million across all projects since we became supporters of Comic Relief in 1999. In 2007 we have raised over £7 million for Red Nose Day and we are still counting

FareShare works to relieve food poverty by providing quality food and other support to organisations working with homeless and disadvantaged people. Last year alone FareShare redistributed around 2 000 tonnes of fit for purpose surplus food, which contributed to around 3.3 million meals

Our commitment to the communities in which we operate

Corporate responsibility isn't new for us. When we opened our first store in 1869 the guiding principle was to offer good quality products to everyone, including those who had never had access to healthy and safe food before. Today, our commitment to the communities in which we operate is still every bit as important and the five principles below underpin our activities. Customers trust us to take care of their concerns, and that sets us apart from competitors as you will have seen in this review.

In many areas we already lead our industry, but we're committed to innovating and setting even higher standards. We've provided some examples of our activities but our full corporate responsibility report can be found at www.j-sainsbury.co.uk/cr

**The best for
food and health**

**Making a positive
difference to your
community**

Sourcing with integrity

A great place to work

**Respect for our
environment**

Financial review

Progress in year

The financial results for the 52 weeks to 24 March 2007 reflect strong progress on the MSGA plan. Sales (inc VAT) increased by 6.9 per cent to £18,518 million (2006: £17,317 million). Underlying profit before tax was up 42.3 per cent at £380 million (2006: £267 million). Underlying basic earnings per share increased to 14.7 pence

(2006: 10.5 pence). Profit before tax was £477 million (2006: £104 million). Basic earnings per share increased to 19.2 pence (2006: 3.8 pence). A final dividend of 7.35 pence per share is proposed (2006: 5.85 pence), making full year dividend of 9.75 pence (2006: 8.00 pence).

Darren Shapland
Chief Financial Officer

6.9% SALES GROWTH

(inc VAT) to £18,518 million

42.3% INCREASE

in underlying profit before tax to £380 million

40.0% INCREASE

in underlying basic earnings per share to 14.7 pence

21.9% GROWTH

in full year proposed dividend to 9.75 pence

Summary income statement

for the 52 weeks to 24 March 2007

	2007 £m	2006 £m	% change
Continuing operations			
Sales (inc VAT)			
Retailing - Supermarkets and Convenience	18,227	16,987	7.3
Financial services - Sainsbury's Bank ¹	291	330	(11.8)
Total sales (inc VAT)	18,518	17,317	6.9
Sales (ex VAT)			
Retailing - Supermarkets and Convenience	16,860	15,731	7.2
Financial services - Sainsbury's Bank ¹	291	330	(11.8)
Total sales (ex VAT)	17,151	16,061	6.8
Underlying operating profit			
Retailing - Supermarkets and Convenience	429	352	21.9
Financial services - Sainsbury's Bank ¹	2	(10)	120.0
Total underlying operating profit	431	342	26.0
Underlying net finance costs ²	(51)	(75)	32.0
Underlying profit before tax	380	267	42.3
Business Review operating costs	-	(51)	n/a
IT insourcing costs	-	(63)	n/a
Debt restructuring costs	-	(38)	n/a
Profit on sale of properties	7	1	600.0
Profit on part disposal of Sainsbury's Bank	10	-	n/a
Past service gains on defined benefit schemes	72	-	n/a
Financing fair value movements	8	(12)	166.7
Profit before tax	477	104	358.7
Income tax expense	(153)	(46)	(232.6)
Profit for the financial year	324	58	458.6
Underlying basic earnings per share	14.7p	10.5p	40.0
Basic earnings per share	19.2p	3.8p	405.3
Proposed dividend per share	9.75p	8.0p	21.9

¹ Sainsbury's Bank has been fully consolidated until the Group sold five per cent shareholding in February. Thereafter it has been equity accounted as a joint venture.

² Net finance costs pre-financing fair value movements (2006: pre-financing fair value movements and debt restructuring costs).

SALES (INC VAT EX FUEL)

5.9% LFL

EASTER ADJUSTED

Retailing sales (inc VAT) increased by 7.3 per cent to £18,227 million driven by good like-for-like growth and new space

In total, 639 000 square feet of net new space was added in the year, a space uplift

of 3.8 per cent which was ahead of target due to a high level of property development completed in the second half. In the next financial year the Group is targeting incremental space growth of around two per cent

Key retailing metrics

for the 52 weeks to 24 March 2007

	2007	2006
Like for like sales % (inc fuel) (Easter adjusted)	5.7	4.1
Easter adjustment % ¹	0.3	(0.4)
Implied impact of new space %	1.3	2.0
Total sales % (inc fuel)	7.3	5.7
Like for like sales % (ex fuel) (Easter adjusted)	5.9	3.7
Easter adjustment % ¹	0.3	(0.4)
Implied impact of new space %	1.5	2.1
Total sales % (ex fuel)	7.7	5.4
Grocery price inflation/(deflation) % ²	1.0	(1.5)
Retailing underlying operating profit (£m)	429	352
Year on year growth %	21.9	14.3
Retailing underlying operating margin % ³	2.54	2.24

¹ Easter adjustment takes into account the timing of Easter falling on 16 April 2006 and 8 April 2007² The Group is not intending to provide inflation data in future trading updates³ Retailing underlying operating profit divided by retailing sales ex VAT

Retailing store numbers and space summary	Supermarkets		Convenience		Total	
	Number	Area 000 sq ft	Number	Area 000 sq ft	Number	Area 000 sq ft
As at 25 March 2006 ¹	472	16 090	280	635	752	16,725
New stores	20	375	20	53	40	428
Closures	(2)	(34)	(2)	(5)	(4)	(39)
Extensions/downsizes/ refurbishments		249		1		250
As at 24 March 2007	490	16 680	298	684	788	17,364
Memorandum						
Extensions	18	272	-	-	18	272
Downsizes	1	(35)	-	-	1	(35)
Refurbishments/conversions	50	12	52	1	102	13
Complimentary non food	48	-	-	-	48	-
Total projects	117	249	52	1	169	250

¹ Reflects central supermarkets reclassified from Convenience to Supermarkets and other size adjustments

Retailing underlying operating profit increased by 21.9 per cent to £429 million (2006: £352 million) reflecting the strong sales performance and a 30 basis point improvement in retailing underlying operating margin (ex VAT) to 2.54 per cent for the year (2006: 2.24 per cent). Continued improvement in operational gearing has been driven from higher sales volumes and further cost savings. This helped to mitigate the impact of continued investment in price and product quality and higher energy prices in the second half.

Key areas of cost saving have been in supply chain, labour and IT costs and there continues to be a focus on managing central costs and improving stock loss although shrinkage challenges remain an issue as the external environment remains tough. Overall, the Group remains on track to achieve the £440 million cost savings over three years that underpin the MSGA recovery plan and supports investment in the customer offer.

SAINSBURY'S BANK

£2 million

UNDERLYING OPERATING PROFIT

Financial services – Sainsbury's Bank

The accounting for Sainsbury's Bank in the financial year reflects the sale of five per cent shareholding in Sainsbury's Bank to HBOS plc on 8 February 2007. Until 8 February 2007, Sainsbury's Bank performance has been fully consolidated into the Group results and contributed £2 million at an operating level. From this date the Group has accounted for its equity share (i.e. 50 per cent) of Sainsbury's Bank's post-tax profit, which delivered a break even result in the period up to 24 March 2007. Sainsbury's Bank expects to deliver a similar small profit in the next financial year as it focuses on investing for future activities.

Underlying net finance costs

Underlying net finance costs decreased by £24 million to £51 million (2006: £75 million), which comprised a £2 million increase in underlying finance costs and a £26 million increase in underlying finance income. The lower net finance costs reflected the £12 million benefit of lower financing rates following the debt restructuring announced on 24 March 2006 as well as a reduction in underlying net debt through cash flow improvements. The increase in return on pension assets offsets the additional interest cost from the pension contribution of £350 million. In the next financial year the Group expects underlying net finance costs to remain broadly level year on year.

Underlying net finance costs

for the 52 weeks to 24 March 2007

	2007 £m	2006 £m
Interest income	15	7
Net return on pension scheme assets	41	23
Underlying finance income¹	56	30
Interest costs	(117)	(115)
Capitalised interest	10	10
Underlying finance costs¹	(107)	(105)
Underlying net finance costs¹	(51)	(75)

¹ Pre-financing fair value movements (2006: pre-financing fair value movements and debt restructuring costs)**Profit on sale of properties**

Surplus assets were sold during the year generating a profit on sale of £7 million (2006: £1 million) and cash proceeds of £106 million (2006: £164 million) which was ahead of target. The Group will continue to dispose of surplus assets and expects the proceeds in the next financial year to be around £75 million.

Profit on part disposal of Sainsbury's Bank

On 8 February 2007, the Group sold five per cent shareholding in Sainsbury's Bank for £21 million to HBOS plc. This sale generated a profit on disposal of £10 million.

Past service gains on defined benefit schemes

Following changes introduced by the Finance Act effective from 6 April 2006, the defined benefit schemes have implemented revised terms to provide members with the option to surrender

a greater proportion of their pension for a tax-free cash lump sum payment. Accordingly, the Group revised its assumptions used in calculating the retirement benefit obligations in respect of this and certain minor changes in scheme rules and has recognised £72 million of past service gains in the Group income statement.

Financing fair value movements

Fair value movements for the Group resulted in a £8 million gain (2006: £12 million loss, of which £4 million loss related to Sainsbury's Bank).

Taxation

The income tax charge was £153 million (2006: £46 million), with an underlying rate of 34.8 per cent (2006: 35.5 per cent) and an effective rate of 32.2 per cent (2006: 44.2 per cent). The underlying rate exceeded the nominal rate of UK corporation tax principally due to the lack

of effective tax relief on depreciation of UK retail properties. This disallowable depreciation amounted to £73 million in the financial year and the Group expects it to remain at a similar level in the next financial year. With effect from 1 April 2008 the standard rate of UK corporation tax will reduce from 30 per cent to 28 per cent and as a result will reduce the underlying rate in the financial year ending March 2009.

Underlying basic earnings per share

Underlying basic earnings per share increased by 40.0 per cent from 10.5 pence to 14.7 pence, reflecting the improvement in underlying profit after tax attributable to equity holders, after adjusting for the minority interests at Sainsbury's Bank.

Dividends

A final dividend of 7.35 pence per share is proposed (2006: 5.85 pence) and will be

paid on 20 July 2007 to shareholders on the Register of Members at the close of business on 25 May 2007. The total proposed dividend for the year is therefore up 21.9 per cent to 9.75 pence (2006: 8.00 pence). Underlying dividend cover increased in the year to 1.5 times (2006: 1.3 times). Going forward the Group expects to achieve underlying dividend cover in the range of 1.5 times to 1.75 times.

Cash flow statement

Group net debt as at 24 March 2007 was £1,380 million (2006: £1,415 million). Adjusting for the impact of Sainsbury's Bank, which was consolidated in the prior year, net debt reduced by £156 million (2006: ex Sainsbury's Bank £1,536 million).

Within the overall cash flow movement for the year there were a number of significant one-off items. The significant cash outflows related to a £240 million

one-off pension contribution made in May 2006 and £90 million paid out in relation to one-off costs charged to the income statement in the prior year. These were offset by significant cash inflows relating to £93 million received in respect of property disposals and the sale of five per cent shareholding of Sainsbury's Bank, £81 million proceeds from issue of shares and around £150 million relating to year-end timing differences on working capital which are expected to reverse in the next financial year. After adjusting for these items, underlying cash flow for the year was £162 million favourable. In the next financial year the Group expects to deliver an underlying cash flow neutral position after adjusting for the reversal of the £150 million working capital timing differences.

NET DEBT

£1.4 billion

UNDERLYING CASH IMPROVEMENT OF

£162 million

Summary cash flow statement for the 52 weeks to 24 March 2007

	2007 £m	2006 £m
Cash generated from operations ¹	830	780
Net interest	(83)	(156)
Corporation tax received	9	3
Cash flow before appropriations	756	627
Purchase of non current assets	(788)	(561)
Disposal of non current assets/operations	93	151
Proceeds from issue of shares	81	22
Capital redemption	(2)	(9)
(Repayment of)/proceeds from borrowings	(75)	65
Debt restructuring costs	(2)	(22)
Dividends paid	(140)	(131)
Net (decrease)/increase in cash and cash equivalents	(77)	142
Decrease/(increase) in debt	79	(65)
IAS 32 and IAS 39 adjustments	-	(51)
Other non cash movements	33	-
Movement in net debt	35	26
Opening net debt	(1,415)	(1,441)
Closing net debt	(1,380)	(1,415)
Of which:		
Retailing	(1,380)	(1,536)
Financial services	-	121
Closing net debt	(1,380)	(1,415)

¹ Includes £240 million (2006: £180 million) of cash paid into the defined benefit pension schemes and £90 million cash outflow in relation to items charged to the income statement in prior years (2006: £68 million).

Financing

The Group's financing requirements are managed by pre-funding cash flow requirements and maturing debt obligations, maintaining a diversity of funding sources with an appropriate mix of fixed, floating and inflation-linked borrowings and by spreading debt repayments over a range of maturities

The Group's core funding takes the form of term loans secured over property assets. Short-term funds are raised on the wholesale money markets. Contingent liquidity is maintained through a new £400 million five-year revolving credit facility, entered into in February 2007. As at 24 March 2007 there were £nil drawings under this facility (2006: £nil drawings under 2006 bank facility). The Group's treasury policies are set out in note 29.

Capital expenditure

Capital expenditure increased in the year to £737 million (2006: £525 million). This included £308 million on new stores (2006: £203 million) of which £138

million (2006: £59 million) relates to acquisitions and freehold purchases and £368 million on extensions and refurbishments (2006: £233 million). Capital expenditure is forecast to be in the region of £750 million for the next financial year. This is an increase on previous guidance reflecting increased spend on the new store development pipeline, extensions and a larger refurbishment programme.

Balance sheet

Total equity as at 24 March 2007 was £4,349 million (2006: £3,965 million). Gearing reduced year on year to 32 per cent (2006: 36 per cent).

Freehold property valuation

The net book value of the Group's freehold and long leasehold properties is £5.2 billion. The Group estimates the current market value to be around 65 per cent higher based on an investment basis valuation carried out by independent surveyors as at 24 March 2007 giving a total value of £8.6 billion. The Group has 292 freehold and long

leasehold properties comprising 286 supermarkets, which account for 62 per cent of total supermarket space, and six depots.

Pensions

The defined benefit schemes were subject to a triennial valuation carried out by Watson Wyatt, the schemes' independent actuaries at March 2006, on the projected unit basis. The results of this valuation are expected to be approved by the schemes trustees in June 2007. The retirement benefit obligations as at 24 March 2007 have been calculated, where appropriate, in line with this draft valuation.

As at 24 March 2007, the retirement benefit obligations less the fair value of plan assets were £103 million (2006: £658 million). The net deficit after tax was £55 million (2006: £431 million). The movement reflects the assumptions changes set out in note 31, £240 million of the £350 million one-off cash contributions (£110 million was paid in the prior financial year) and favourable market conditions.

PENSION FUND DEFICIT
(NET OF TAX) REDUCED TO

£55 million

FROM

£431 million

Summary balance sheet

at 24 March 2007

	2007 £m	2006 £m
Non current assets	7,661	8,927
Inventories	590	576
Trade and other receivables	197	276
Amounts due from Sainsbury's Bank customers and other banks	-	1,940
Cash and cash equivalents	1,128	1,028
Debt	(2,508)	(2,443)
Net debt	(1,380)	(1,415)
Trade and other payables and provisions	(2,719)	(3,031)
Amounts due to Sainsbury's Bank customers and other banks	-	(3,308)
Net assets	4,349	3,965
Equity shareholders' funds	4,349	3,886
Minority interests	-	79
Total equity	4,349	3,965

Principal risks and uncertainties

Risk is an inherent part of doing business. The Group has a process for identifying, evaluating and managing the risks faced by the business as described in the Statement of corporate governance. The Board has identified the following factors as principal potential risks to the successful operation of the business.

Economic and market risks

The economic environment and competitor pricing position can affect the performance of the Group's businesses in terms of both sales and costs. Household disposable income is a driver of sales growth. Through development of our product ranges and investment in price and quality, the Group works to ensure that we deliver value for all our customers. As has been widely reported, external cost pressures on oil related costs and business rates have impacted our business although the Group has worked hard to mitigate the impact of these cost pressures on our customers and the Group's overall profitability through the delivery of cost savings.

Regulatory risk

The Group's operations are subject to a broad spectrum of regulatory requirements particularly in relation to planning, competition and environmental issues, employment, pensions and tax laws and in terms of regulations over the Group's products and services. The Group monitors regulatory developments and has a strong compliance regime. Regular reviews and audits are carried out in stores and depots to ensure compliance and training needs are regularly reviewed and addressed as required.

Business continuity and acts of terrorism

A major incident or terrorist event could impact on the Group's ability to trade. The Group has plans to maintain business continuity in the event of potentially disruptive events, which are regularly updated and tested.

IT systems and infrastructure

The Group is reliant on its IT infrastructure in order to trade. A failure in these systems could have a significant impact on our business. The Group has controls in place to maintain the integrity and efficiency of its systems which are regularly updated and tested.

Colleague engagement and retention

The Group employs around 150,000 colleagues who are key to the success of the business. Good relations with colleagues and investing in their training and development are essential to the efficiency and sustainability of the Group's operations. The Group's employment policies, remuneration and benefits packages are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities.

Products

The quality and safety of our products is of the highest importance and there is an associated risk if they are below standard. The Group has stringent product controls in place and regularly reviews health and safety policies. All suppliers are expected to conform to the Group's code of conduct for Socially Responsible Sourcing which was launched in 1998 and covers fair terms of trading, protection of children, worker health and safety, equal opportunities, freedom of association, freedom of employment, hours of work and wages.

Supply chain

Our stores are part of a complex supply chain and the Group works in partnership with our suppliers to manage the risk of any delays or interruptions in this supply, which may affect trade.


Pension risk

The Group operates a number of pension schemes which includes two defined benefit schemes. These schemes are subject to risks regarding the amount of the liabilities as a result of changes in life expectancy, inflation and future salary increases, risks regarding the value of investments and the returns derived from such investments. The pension trustees, in consultation with the Company, have commenced changes to the scheme's investment strategy to mitigate the volatility of liabilities and to diversify investment risk.


Treasury risks

The central treasury function is responsible for managing the Group's liquid resources, funding requirements and interest rate and currency exposures and the associated risks as set out in note 29.


J Sainsbury plc: Board of Directors

Philip Hampton 
Chairman

Appointed 19 July 2004. Philip Hampton was Group Finance Director of Lloyds TSB Group plc from 2002–2004. Group Finance Director of BT Group plc from 2000–2002. Group Finance Director of the BG Group plc (formerly British Gas plc) from 1995–2000. Group Finance Director of British Steel plc from 1990–1995. Executive Director of Lazard from 1981–1990. Non Executive Director of RMC Group plc 2002–2005. Currently he is a Non Executive Director of Belgacom (the Belgian telecom group) since 2004. Age 53.

Val Gooding 
Non-Executive Director


Appointed 11 January 2007. Currently Chief Executive of BUPA since August 1998. She joined BUPA from British Airways in 1996. She is also a Non Executive Director of Standard Chartered Bank plc. She is a member of the Council of Warwick University and of the Advisory Board of the Warwick Business School. She is a Trustee of the British Museum and a Non Executive Director of the Lawn Tennis Association. Age 56.

Dr John McAdam 
Senior Independent Director


Appointed 1 September 2005. Currently Chief Executive of ICI plc, having joined Unilever as a management trainee in 1974 where he held a number of senior positions in Birds Eye Walls Quest and Unichema before the sale of the Specialty Chemical Businesses to ICI in 1997. He is also a member of the University of Cambridge Chemistry Advisory Board. Formerly Non Executive Director of Severn Trent plc 2000–2005. Age 59.

Justin King 
Chief Executive

Appointed 29 March 2004. Chairman of the Operating Board. Formerly Director of Food Marks & Spencer. From 1994–2001 held senior positions at ASDA/Wal Mart in Trading, HR and Retail. Previously Managing Director of Haagen Dazs UK. Early career with Mars Confectionery and Pepsi International. Age 45.

Gary Hughes 
Non-Executive Director


Appointed 1 January 2005. Chief Executive of CMP Information – a division of United Business Media plc. Formerly Group Finance Director of Emap plc. Group Finance Director of SMG plc. Deputy Finance Director of Forte plc and prior to this held a number of senior management positions with Guinness plc in the UK and in North America. Age 45.

Anna Ford 
Non Executive Director

Appointed 2 May 2006. Retired from the BBC in April 2006 after 30 years of service. She has been a Trustee of the Royal Botanical Gardens in Kew, London. Is Chancellor of Manchester University, a Fellow of the Royal Geographical Society, a Trustee of Forum for the Future, an Honorary Bencher of Middle Temple and is on the Board of The Amazing Group. Age 63.







Darren Shapland
Chief Financial Officer

Appointed 1 August 2005. Deputy Chairman of Sainsbury's Bank plc. Formerly Group Finance Director of Carpetright plc 2002–2005 and Finance Director of Superdrug Stores plc 2000–2002. Between 1988–2000 carried out a number of positions at the Arcadia plc (formerly Burton Group) including Joint Managing Director, Arcadia Home Shopping, Finance Director of Arcadia brands, Finance Director, Top Shop/Top Man (Burton Group) and Director of Supply Chain Programme (Burton Group). Age 40.

Bob Stack 
Non Executive Director

Appointed 1 January 2005. Joined Cadbury Beverages in the US in 1990 and joined the Cadbury Schweppes plc Board in May 1996 as Group Human Resources Director. In March 2000 he was appointed Chief Human Resources Officer and took on responsibility for communication and external affairs in addition to HR. He is also a Visiting Professor at Henley Management College. Age 56.

Life President
Lord Sainsbury of Preston Candover KG

Key to Committee Members
 Remuneration Committee
 Audit Committee
 Nomination Committee
 Corporate Responsibility Committee
 *  Denotes Chairman of Committee

Note: Gary Hughes became Chairman of the Audit Committee on 10 July 2006 taking over from Justice Goudas.

Mike Coupe

Trading Director appointed to the Operating Board in October 2004. 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. Previously worked for both ASDA and Tesco plc.

Gwyn Burr

Customer Director joined the Operating Board in 2004. Director of Sainsbury's Bank plc. Gwyn has over 20 years business experience including five with Nestlé Rowntree and over 13 with ASDA/Wal-Mart. At ASDA she held various Board level positions across Own Brand, Marketing, Customer Service and Retail.

Darren Shapland See page 28

Justin King See page 28

Tim Fallowfield

Company Secretary since 2001. Tim joined from Exel plc (formerly NFC plc) the global logistics company where he was Company Secretary and Head of Legal Services (1994–2001). Prior to this worked at Clifford Chance and is a qualified solicitor.

Imelda Walsh

HR Director since October 2001 and appointed to the Operating Board when it was formed in May 2004. Before this was a member of the Board of Sainsbury's Supermarkets Ltd from March 2003. Director of Sainsbury's Bank plc. Prior to joining Sainsbury's worked as the HR Director for Barclays Retail Financial Services. Previous roles within the Barclays Group included Group Employee Policy and Planning Director, HR Director, Corporate Banking and Group HR Development Director. Previously worked for Coca-Cola and Schweppes Beverages.

Ken McMeikan

Retail Director appointed to the Operating Board in February 2005. Ken joined Sainsbury's from Tesco plc where he worked for 14 years. He was appointed Chief Executive for Tesco Japan having previously been appointed Chief Executive of Europa Foods (Admin Stores) following its acquisition by Tesco. Before joining Tesco he worked for Sears plc for four years.

Roger Burnley

Supply Chain Director appointed to the Operating Board in March 2006. Roger was previously Supply Chain Director at Matalan. He spent his early career in retail management and buying at B&Q before joining ASDA/Wal-Mart, where he held a number of positions before becoming Supply Chain Director in 2001.

Photo taken at the new Maidenhead store. From left to right: Ken McMeikan, Roger Burnley, Mike Coupe, Imelda Walsh, Darren Shapland, Justin King, Tim Fallowfield and Gwyn Burr.

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Directors' report

The Directors present their report and audited financial statements for the 52 weeks to 24 March 2007

Principal activities

The Company's principal activities are grocery and related retailing

Business review

The Business review sets out a comprehensive review of the development and performance of the business for the year ended 24 March 2007 and is set out on pages 3 to 27 of this report

Dividends

The Directors recommend the payment of a final dividend of 7.35 pence per share (2006: 5.85 pence) making a total dividend for the year of 9.75 pence per share (2006: 8.0 pence) an increase of 21.9 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting (AGM) the dividend will be paid on 20 July 2007 to shareholders on the register at the close of business on 25 May 2007

Changes to the Board

As previously reported, Anna Ford and Val Gooding joined the Board as Non Executive Directors on 2 May 2006 and 11 January 2007 respectively. Bridget Macaskill retired from the Board on 12 July 2006 following the AGM and Jamie Dundas left the Board on 2 February 2007

Re-election of Directors

In accordance with the Articles of Association, Val Gooding, who was appointed to the Board since the last AGM, will retire and seek election at this year's AGM. Justin King will also retire by rotation and seek re-election

Full biographical details of the current Directors are set out on page 28

Annual General Meeting

The AGM will be held on Wednesday 11 July 2007 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am. The Chairman's letter and the Notice of Meeting accompany this report, together with notes explaining the business to be transacted at the meeting

At the meeting, resolutions will be proposed to declare a final dividend to receive the Annual Report and Financial Statements and approve the Remuneration report, to elect Directors and to re-appoint PricewaterhouseCoopers LLP as auditors. In addition, shareholders will be asked to renew both the general authority of the Directors to issue shares and the authority to issue shares without applying the statutory pre-emption rights and to authorise the Company to make market purchases of its own shares. No such purchase has been made during the last financial year. Shareholders will also be asked to adopt new Articles of Association to allow the Company to take advantage of the new legislation on electronic communications with shareholders. Other resolutions propose the renewal of the authority to make political donations, as defined by The Political Parties Elections and Referendums Act 2000.

Share capital

Ordinary shares

Details of the changes to the ordinary issued share capital during the year are shown on page 70

B shares

At the Extraordinary General Meeting held on 12 July 2004, shareholders approved a Return of Capital to shareholders by way of a B Share Scheme. A total of 194,317,326 B shares were issued on 19 July 2004 of which 27,502,070 remain outstanding

The final redemption date for B shares is 18 July 2007

Major interests in shares

On 20 January 2007 the Companies Act 1985 provisions in respect of substantial shareholdings were repealed and the Disclosure and Transparency Rules of the Financial Services Authority came into force. As at 15 May 2007, the Company had been advised of the following notifiable interests in its voting rights:

Brandes Investment Partners L.L.C.	7.65%
Credit Suisse Securities (Europe) Limited	18.30%*
Judith Portrait (a trustee of various settlements including charitable trusts and executor)	5.97%
Legal and General Group plc	3.48%
Lord Sainsbury of Turville	7.75%
Vidacos Nominees Limited which holds the shares as a nominee for Razino Limited	5.07%

*Includes an economic exposure of 17.406 per cent acquired by Delta (Two) Limited through a Total Return Swap

Going concern

The Directors confirm that they are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown below. Options granted under the Company's employee share plans are shown in the Remuneration report on pages 42 and 43.

	Ordinary shares ¹ 25 March 2006	24 March 2007	15 May 2007 ⁴
Justin King	231,915	274,047	274,088
Darren Shapland	51,243	70,241	70,241
Anna Ford	–	1,000	1,000
Val Gooding	1,320	1,320	1,320
Philip Hampton	25,000	25,000	25,000
Gary Hughes	15,100	15,446	15,446
John McAdam	1,000	1,000	1,000
Bob Stack	2,800	2,800	2,800

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. As at date of appointment.

3. Held in the form of 700 American Depositary Receipts.

4. Includes shares purchased under the Sainsbury's Share Purchase Plan between 24 March 2007 and 15 May 2007.

5. The Executive Directors are potential beneficiaries of the Company's employee benefit trusts, which are used to hold shares issued to the Directors. As at 24 March 2007, the trusts held 23.5 million shares (2006: 23.8 million) held by the trusts.

The Company's Register of Directors' interests contains full details of Directors' interests, shareholdings and options over ordinary shares of the Company.

During the year, no Director had any material interest in any contract of significance to the Group's business.

Directors' indemnities

The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities.

Market value of properties

The Directors believe that the aggregate open market value of Group properties exceeds the net book value as set out in the Business review on page 26

Colleagues, corporate responsibility and the environment

Sainsbury's has a strong record in its commitment to corporate responsibility which is an everyday part of how the Company does business. Details of the Company's principal corporate responsibility initiatives and activities are set out on pages 20 to 21. The Company's Corporate Responsibility Report, which will be published in June 2007 (www.j.sainsbury.co.uk/crreport), provides a comprehensive statement on corporate responsibility and describes the Company's policies and activities in relation to its five corporate responsibility principles: Best for Food and Health, Sourcing with Integrity, Respect for Our Environment, Making a Positive Difference to Our Community and A Great Place to Work.

The Company has well developed policies for fair and equal treatment of all colleagues, employment of disabled persons and colleague participation. During employment the Company seeks to work with each individual taking into account their personal circumstances to enable them to reach and maximise their potential.

The Company also actively works with a number of organisations which seek to promote inclusion within the workplace. These include:

- Gold Card Members of the Employers' Forum on Disability
- Signatories to the 'two tick' policy which guarantees an interview to any disabled applicant meeting the minimum specification for the role
- Working with Shaw Trust, Remploy and Mencap

The Company's quarterly, interim and annual results are presented to all senior management and are communicated to all colleagues. Colleagues have always been encouraged to hold shares in the Company and over 43,500 colleagues are shareholders directly or through the Commitment Shares Plan Trust or the Sainsbury's Share Purchase Plan Trust.

Policy on payment of creditors

The policy of the Company and its principal operating companies is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms on the timely submission of satisfactory invoices. The Company is a holding company and therefore has no trade creditors. Statements on the operating companies' payment of suppliers are contained in their financial statements.

Donations

During the year, cash and in kind donations to charitable organisations and other community projects totalled £6.6 million (2006: £5.6 million). In addition, our Active Kids scheme donated £17.0 million worth of new activity equipment to over 26,000 schools and the Company made significant contributions to other community related initiatives. Sainsbury's colleagues, customers and suppliers raised £12.4 million (2006: £3.25 million) for charities through events supported by the Company, including Comic and Sports Relief, Home Start, which supports families in local communities across the UK, and CLIC Sargent, a charity caring for children with cancer.

The Company made no political donations.

Post balance sheet events

There have been no significant post balance sheet events except as referred to in note 21 to the financial statements (Deferred taxation).

Disclosure of information to auditors

Each of the Directors confirms that so far as he/she is aware, there is no relevant audit information of which the auditors are unaware. Each Director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

By order of the Board



Tim Fallowfield
Company Secretary
15 May 2007

Statement of corporate governance

The following sections explain how the Company applies the principles and supporting principles of the Combined Code on Corporate Governance (the Code)

The Board

The Board is chaired by Sir Philip Hampton. At 15 May 2007, the Board consisted of two Executive Directors and five Non Executive Directors. Dr John McAdam, Chief Executive of ICI plc, is the Senior Independent Director. Anna Ford was appointed to the Board as a Non Executive Director on 2 May 2006 and Val Gooding on 11 January 2007. Bridget Macaskill left the Board following the Annual General Meeting (AGM) in 2006 and Jamie Dundas stepped down on 2 February 2007.

Biographical details of the Directors are set out on page 28.

The Board held nine scheduled meetings during the year, including a two day strategy conference, one of them at the TU Clothing Store Support Centre and Distribution Facility at Coventry. The Board met on several other occasions outside of the formal schedule. The Non Executive Directors met during the year without the Executive Directors being present.

Division of responsibilities

There is a clear division of responsibilities between the Chairman and the Chief Executive which is set out in writing and has been approved by the Board. Philip Hampton is responsible for leadership of the Board, setting its agenda and monitoring its effectiveness. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates both the contribution of the Non Executive Directors and constructive relations between the Executive and Non Executive Directors. He ensures that the Chief Executive develops a strategy which is supported by the Board as a whole. Justin King is responsible for executing the strategy once agreed by the Board. He creates a framework of values, organisation and objectives to ensure the successful delivery of key targets and allocates decision making and responsibilities accordingly. He takes a leading role with the Chairman in the relationship with all external agencies and in promoting Sainsbury's.

Independence/Non-Executive Directors

The Chairman satisfied the independence criteria of the Code on his appointment and all the Non Executive Directors who have served during the year are considered to be independent according to the principles of the Code. Bob Stack is a Director of Cadbury Schweppes plc which supplies products to Sainsbury's, but neither the Board nor Cadbury Schweppes considers the relationship to be material in the context of their overall businesses.

The Non Executive Directors bring wide and varied commercial experience to Board and Committee deliberations. They are appointed for an initial three year term, subject to election by shareholders at the first AGM after their appointment, after which their appointment may be extended for a second term, subject to mutual agreement and shareholder approval.

The Board's role

The Board is focused on delivering sustainable added value for shareholders. It considers strategic issues, key projects and major investments and regularly monitors performance against delivery of the agreed key targets. It approves the corporate plan and the annual budget and reviews performance against targets at every meeting. These and other key responsibilities are formally reserved powers of the Board.

The Board considered a number of specific projects and initiatives during the year, including the proposals made by the private equity consortium, all of which were subject to a number of pre conditions related to the consortium's proposed financing structure. In addition, the Board considered and approved the new three year targets and the restructuring of the Group's interest in Sainsbury's Bank.

It continues to monitor the progress of the investigation by the Competition Commission into grocery retailing in the UK and reviews the Company's development, leadership and succession planning programmes.

The Board delegates certain responsibilities to its principal committees. The Corporate Responsibility (CR) Committee established during the year will advise the Board on broad CR policy, taking into account the Company's CR objectives and the overall strategic plan. Through the Audit Committee, the Directors ensure the integrity of financial information, the effectiveness of the financial controls and the internal control and risk management systems. The Remuneration Committee sets the remuneration policy for Executive Directors and determines their individual remuneration arrangements. The Nomination Committee recommends the appointment of Board Directors and has responsibility for evaluating the balance of the Board and for succession planning at Board level. Further details are set out below.

Attendance

During the year, the Directors attended the following number of scheduled meetings of the Board and its Committees (the number of meetings held whilst they were Directors is shown in brackets).

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings				
Anna Ford	9(9)	–	2(2)	4(4)
Val Gooding ¹	2(2)	–	1(1)	–
Philip Hampton	9(9)	–	2(2)	–
Gary Hughes	9(9)	4(4)	2(2)	–
Justin King	9(9)	–	–	–
John McAdam	9(9)	4(4)	2(2)	–
Darren Shapland	9(9)	–	–	–
Bob Stack	9(9)	–	2(2)	4(4)

¹ Appointed to the Board on 11 January 2007.

Directors who left the Board during the year

Bridget Macaskill	3(3)	–	1(1)	1(1)
Jamie Dundas	8(8)	3(3)	2(2)	3(3)

Information and development

The quality and supply of information provided to the Board is reviewed as part of the Board evaluation exercise. The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information.

There is an agreed procedure by which members of the Board may take independent professional advice at the Company's expense in the fulfilment of their duties. The Company has a programme for meeting Directors' training and development requirements. Newly appointed Directors who do not have previous public company experience at Board level are provided with appropriate training on their role and responsibilities. New Directors participate in a comprehensive and tailored induction programme including store and depot visits and meetings with members of the Operating Board, senior management and external advisors. Subsequent training is available on an ongoing basis to meet particular needs with the emphasis on governance and accounting developments. During the year, the Company Secretary, Tim Fallowfield, has provided updates to the Board on relevant governance matters, new legislation and on Directors' duties and obligations, whilst the Audit Committee regularly considers new accounting developments through presentations from management and the external auditors. The Board programme includes presentations from management which, together with site visits, increases the Non Executive Directors' understanding of the business and the sector.

Statement of corporate governance continued

All Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that Board procedures are followed and for governance matters. The appointment and removal of the Company Secretary is one of the matters reserved for the Board.

Performance evaluation

In March 2006 the Board undertook an extensive evaluation of its performance and effectiveness with the assistance of Egon Zehnder International, the international search consultancy. This confirmed that the Board was acting effectively and identified a number of action points for further consideration. The purpose of the internal evaluation exercise conducted in March 2007 was to review the progress that had been made during the year and identify any new issues. Having agreed the key objectives of this year's exercise with the Chairman, the Company Secretary met with each Director separately to discuss the Board's role and structure, process and relationships and any emerging issues and then presented the findings to the Board, identifying the key themes that were working well and areas which could be improved or approached differently. The Board concluded that it was satisfied with the progress that had been made during the year and that it was working effectively.

The Senior Independent Director received comments on the Chairman's performance and subsequently met with him to provide feedback to him. The Chairman separately reviewed the contribution of each of the Directors with them.

Operating Board

Day to day management of the Company is delegated to the Operating Board, which is chaired by Justin King. The Operating Board holds 10 formal meetings a year. Directors' responsibilities are set out on page 29. It has formal terms of reference setting out its key responsibilities. Minutes are copied to the Chairman and Non Executive Directors. Operating Board members regularly attend and present at Board meetings as well as the strategy conference.

The Operating Board has delegated certain powers to the Trading Board, which is responsible for ranging and sourcing product, price and promotions, advertising and marketing, to the Retail Board, which has responsibility for stores, service and availability and supply chain operations, and to the Investment Board, which is responsible for investment decisions. The Trading Board is chaired by Mike Coupe, Trading Director; the Retail Board is chaired by Ken McMeikan, Retail Director; and the Investment Board by Darren Shapland, Chief Financial Officer. The Corporate Responsibility Steering Group was established this year; it is chaired by Justin King and its membership comprises the five Operating Board Directors who represent each of the five CR principles (see below).

Board Committees

The Board has delegated certain responsibilities to the Nomination, Remuneration, Corporate Responsibility, and Audit Committees.

Nomination Committee

The Nomination Committee is chaired by Philip Hampton and comprises each of the Non Executive Directors. Justin King is not a member of the Committee although he is invited to attend meetings.

The Committee led the recruitment process for each of the Board appointments during the year, which has resulted in Anna Ford and Val Gooding being appointed. Search consultants were instructed by the Committee on the searches. The Committee considered the skills, knowledge, background and experience required for each role, and a job specification was prepared for each appointment. The Committee also specified the time commitment expected of the roles. Profiles of a shortlist of preferred candidates were prepared for the Committee and the potential composition and mix of the candidates were considered from a team perspective in order to ensure a complementary combination of

competencies and experience. Prior to each appointment the Committee considered a full range of references and the Non Executive Directors met the preferred candidate. The Committee is currently undertaking an extensive search for a further Non Executive Director.

The Committee's terms of reference are available on the website (www.j.sainsbury.co.uk/governance) and set out the Committee's responsibilities. The Committee meets when necessary and in 2006/07 met formally on two occasions and received further regular updates on the recruitment process.

Remuneration Committee

The Committee is chaired by Bob Stack who was appointed a Non Executive Director and Chairman of the Committee on 1 January 2005. The Remuneration report is set out on pages 37 to 43.

Corporate Responsibility Committee

As corporate responsibility has become an intrinsic part of the strategic agenda, the Board reviewed the CR governance structure during the year and established a new CR Committee. This is chaired by Anna Ford and Justin King and a Non Executive Director will be its members. It will meet twice a year and will report to the Board after each meeting.

Formal meetings are supported by CR strategic meetings hosted by Anna Ford and Justin King. Each meeting will be based around one of our five CR principles and key external stakeholders will be invited to attend. The first meeting was held in February 2007 relating to Sourcing with Integrity.

At operational level, Justin King is the overall CR champion and chairs the CR Steering Group, attended by the five Operating Board Directors who champion each of our five CR principles.

The Best for Food and Health	Gwyn Burr
Sourcing with Integrity	Mike Coupe
Respect for Our Environment	Darren Shapland
Making a Positive Difference to Our Community	Ken McMeikan
A Great Place to Work	Imelda Walsh

A summary of the Company's corporate responsibility priorities and activities are set on pages 20 to 21. This year's Corporate Responsibility Report will be published in June 2007.

The Association of British Insurers recommends that the Board considers material risks and control processes relating to corporate responsibility. The Audit Committee's review of the system of internal controls and risk management processes referred to below includes corporate responsibility and the Committee considers any major corporate responsibility or brand reputation risks identified by the process, to the extent any such exist. The induction programme for new Board Directors includes a full review of corporate responsibility.

Audit Committee

During the year, Gary Hughes was appointed Chairman of the Audit Committee with John McAdam and Jamie Dundas (until his retirement in February 2007) as its other members, all of whom are independent Non Executive Directors. Following Jamie Dundas' retirement, the Committee membership has comprised only two independent Non Executive Directors, but Philip Hampton, who has extensive financial experience, attends all meetings of the Committee. The Board is currently recruiting a new Non Executive Director who will also join the Committee and bring the membership to three. The Board has determined that Gary Hughes has recent and relevant financial experience. Philip Hampton, Justin King, Darren Shapland, Richard Chadwick, the Head of Internal Audit, other senior members of the Finance Division and the external auditors are invited to attend Committee meetings. The Company Secretary acts as secretary to the Committee.

Statement of corporate governance continued

During the year the Committee met on four occasions, the agendas being organised around the Company's reporting cycle. It monitored the integrity of the financial statements and any formal announcements relating to the Company's financial performance and reviewed any significant financial judgements contained in them. The Committee has also reviewed the effectiveness of the Company's financial controls and the internal control and risk management systems and has monitored progress to ensure that any required remedial action has been or is being taken on any identified weaknesses.

The Committee reviewed PricewaterhouseCoopers LLP's (PwC) overall work plan and approved their remuneration and terms of engagement and considered in detail the results of the audit. PwC's performance and independence and the effectiveness of the overall audit process. The Committee recommended PwC's re-appointment as auditors to the Board and this resolution will be put to shareholders at the AGM.

The Committee has implemented the Company's policy which restricts the engagement of PwC in relation to non-audit services. The policy is designed to ensure that the provision of such services does not have an impact on the external auditors' independence and objectivity. It identifies certain types of engagement that the external auditors shall not undertake and others (such as tax planning and mergers and acquisitions advice) that can only be undertaken with appropriate authority from the Committee Chairman or the Committee where non-audit fees will exceed pre-set thresholds. The Committee receives a report at each meeting on the non-audit services being provided and the cumulative total of non-audit fees. In the event that cumulative non-audit fees exceed the audit fee then all subsequent non-audit expenditure must be approved by the Committee Chairman. The majority of the non-audit work undertaken during 2006/07 related to Corporation Tax and VAT advice but work was also carried out on the performance conditions relating to the Company's long-term incentive plans and the restructuring of the Group's interest in Sainsbury's Bank (see page 19 and note 7 to the financial statements for details). The non-audit fees for the year were £0.5 million and the audit fee for the year in respect of the Group Company and its subsidiaries was £0.9 million.

The Committee has regularly reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of its recommendations, and overseen a formal external review of the department's effectiveness during the year. The Head of Internal Audit has direct access to the Committee Chairman and Philip Hampton. Gary Hughes has held separate meetings with him and PwC during the year. The Committee regularly met with PwC without management being present and may meet the Head of Internal Audit separately if it deems necessary.

The Committee has reviewed the Company's whistleblowing procedures which were strengthened during the year and confirmed that arrangements are in place to enable colleagues and suppliers to raise concerns about possible improprieties on a confidential basis.

During the year the Company introduced a new fraud policy and established a Serious Fraud Committee which convenes in the event of serious incidents to oversee case management and ensure preventative measures are taken. The Audit Committee receives an update at each meeting on all material frauds and the actions taken.

The Committee's terms of reference, which are available on the website (www.sainsbury.co.uk/governance), set out the Committee's responsibilities.

Internal control

The Board has overall responsibility for the system of internal controls including risk management, and has delegated certain of these responsibilities to the Audit Committee. The Audit Committee has reviewed the effectiveness of the system of internal control and ensured

that any required remedial action has or is being taken on any identified weaknesses. The system of internal controls 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. It includes all controls including financial, operational and compliance controls and risk management procedures.

The processes used to assess the effectiveness of the internal control systems are ongoing, enabling a cumulative assessment to be made and include the following:

- discussion and approval by the Board of the Company's strategic direction, plans and objectives and the risks to achieving them;
- review and approval by the Board of budgets and forecasts, including both revenue and capital expenditure;
- regular operational and financial reviews of performance against budgets and forecasts by management and the Board;
- regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- regular reviews by the Board and Audit Committee of identified fraudulent activity and any whistleblowing by colleagues or suppliers and actions being taken to remedy any control weaknesses;
- regular reviews by management and the Audit Committee of the scope and results of internal audit work across the Company and of the implementation of recommendations. The scope of the work covers all key activities of the Company and concentrates on higher risk areas, reviews of the scope of the work of the external auditors by the Audit Committee and any significant issues arising;
- reviews by the Audit Committee of accounting policies and levels of delegated authority; and
- consideration by the Board of the major risks facing the Group and by the Audit Committee of the procedures to manage them. These include health and safety, legal compliance, litigation, quality assurance, insurance and security and reputational, social, ethical and environmental risks.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place throughout the year and up to the date of approval of the Annual Report and Financial Statements and accords with the Turnbull guidance (2005). The effectiveness of the process is reviewed annually by the Audit Committee which then reports to the Board. The process consists of:

- formal identification by management of each division of the key risks to achieving their business objectives and the controls in place to manage them. The likelihood and potential impact of each risk is evaluated and actions necessary to mitigate them are identified. The risks and progress in mitigating them are regularly reviewed at divisional leadership team meetings as part of their normal business activities;
- certification by management that they are responsible for managing the risks to their business objectives and that the internal controls are such that they provide reasonable but not absolute assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed;
- reporting and review by the Operating Board of risk management activities and actions to improve their effectiveness;
- assurance from specialist functions and committees that legal and regulatory, health and safety, social, ethical and environmental risks are appropriately identified and managed; and
- independent assurance by Internal Audit as to the existence and effectiveness of the risk management activities described by management.

Statement of corporate governance continued

The system of internal control and risk management is embedded into the operations of the Company, and the actions taken to mitigate any weaknesses are carefully monitored

Investor relations

The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of the Chief Executive, Chief Financial Officer and Head of Investor Relations. The Chairman, Philip Hampton, is generally available to shareholders and meets with institutional investors as required.

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

To ensure that the Board understand the views of the major shareholders, Makinson Cowell provide investor relations consultancy services to the Company and reported to the Board on the views of institutional investors and sell-side analysts. Non Executive Directors also receive regular market reports and broker updates from the Company's Investor Relations department.

Shareholders have the opportunity to meet and question the Board at the AGM, which will be held on 11 July 2007. There will be a display of various aspects of the Company's activities and Justin King will make a business presentation. The Senior Independent Director and Chairmen of the Audit, Nomination, Remuneration and CR Committees will be available to answer questions. A detailed explanation of each item of special business to be considered at the AGM is included with the Notice of Meeting which will be sent to shareholders at least 20 working days before the meeting. All resolutions proposed at the AGM will be taken on a poll vote. This follows best practice guidelines and enables the Company to count all votes, not just those of shareholders who attend the meeting.

Information on matters of particular interest to investors is set out on page 92 and on the Company's website (www.j.sainsbury.co.uk/investors).

Compliance statement

During the year the Company has complied with the provisions of the Code with the exception that, as explained above, the Audit Committee currently only has two Non Executive Directors as members instead of three. This will be resolved once the existing search for a new Non Executive Director is successfully completed.

Remuneration report

This report is made by the Board on the recommendation of the Remuneration Committee. The first part of the report provides details of remuneration policy. The second part provides details of the remuneration, pensions and share interests of the Directors for the year ended 24 March 2007. The Directors confirm that this report has been drawn up in accordance with Schedule 7A of the Companies Act 1985.

A resolution will be put to shareholders at the Annual General Meeting (AGM) on 11 July 2007 asking them to approve this report.

Remuneration Committee

The Remuneration Committee is chaired by Bob Stack, Chief Human Resources Officer of Cadbury Schweppes plc. The Committee comprises Bob Stack, Anna Ford and Val Gooding, all of whom are independent Non-Executive Directors. Bridget Macaskill and Jamie Dundas were members of the Committee until leaving the Board on 12 July 2006 and 2 February 2007 respectively. The Committee met four times in 2006/07.

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. Philip Hampton, Justin King and Imelda Walsh, Human Resources Director, are invited to attend Committee meetings. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. They are not involved in discussions concerning their own remuneration.

The responsibilities of the Committee include:

- determining and agreeing with the Board the broad remuneration policy for the Chairman, Chief Executive, Chief Financial Officer and the Operating Board Directors;
- setting individual remuneration arrangements for the Chairman, Chief Executive and the Chief Financial Officer;
- recommending and monitoring the level and structure of remuneration for those members of senior management within the scope of the Committee, namely the Operating Board Directors, the Company Secretary and any other executive whose salary exceeds that of any Operating Board Director; and
- approving the service agreements of each Executive Director, including termination arrangements.

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

The Committee is authorised by the Board to appoint external consultants and advisers if it considers this beneficial. Over the course of the year the Committee was advised by Deloitte & Touche (Deloitte). During the year Deloitte also advised on unrelated tax matters and provided organisational consulting services to the Company. They attended three of the Committee meetings during the year and received copies of all papers submitted to the meetings. Towers Perrin provided comparative data which was considered by the Committee in setting remuneration levels. The Committee has also been advised by Linklaters, who also provided legal advice to the Company, whilst Total Shareholder Return (TSR) calculations are provided by UBS, who provided broking and banking services to the Company during the year.

Remuneration policy

It is the intention of the Committee that Executive and Operating Board Directors' remuneration should be competitive, both in terms of base salary and total remuneration, taking into account the individual Director's role, performance and experience. This approach is designed to promote the Company's short and long term success through securing and retaining high calibre executive talent.

Basic salary is targeted around the median of the market with an opportunity to earn above median levels of total reward in return for exceptional performance. A significant proportion of the total remuneration package is performance related, aligning management's and shareholders' interests. Remuneration policies and practices are aligned with the key corporate strategy targets and objectives and are designed to create long term value for shareholders.

In 2006, following an extensive consultation exercise with shareholders and institutions, the Committee formulated a new incentive framework (the 'Value Builder' framework) to support the business strategies over the medium to longer term. This was consistent with best practice and was approved by shareholders at the 2006 AGM.

The Value Builder framework is based upon a number of key principles, so as to:

- build on the sales led recovery plan announced in October 2004 by embedding key measures of financial and capital efficiency;
- support strong performance of the core business and delivery of shareholder value by generating quality earnings, growing profits and generating cash for future investments and/or return to shareholders;
- provide a common focus for the top 1000 managers (from Chief Executive to supermarket store managers) on critical business measures;
- retain and motivate talent for the longer term; and
- provide competitive reward opportunities for delivering exceptional performance.

The Value Builder framework remains a key part of the Company's total remuneration package and consists of two elements: a deferred annual bonus plan with a performance related share match and a long term incentive plan. These plans are described in detail below.

For 2007, the Committee is looking at ways of operating the existing remuneration framework in line with the following key principles:

- provide sufficient incentives to retain and motivate the management team during a period of change for the Company;
- fully utilise the existing best practice incentive framework and build on its success; and
- reward performance on a fair and equitable basis.

Set out in the relevant sections below is an overview of how the Committee intends to align the remuneration framework with these key principles over the next financial year.

Components of remuneration

The main remuneration components for the Chief Executive, Chief Financial Officer and Operating Board Directors are set out below:

1) Basic salary

Basic salary for each Executive Director is determined by the Committee, taking account of the Director's performance, experience and responsibilities. The Committee also reviews Operating Board Directors' salaries taking similar factors into account. The Committee considers salary levels in comparable companies by referring to the pay practices across the UK retail sector, in companies with an annual sales revenue over £5 billion and also in companies with a market capitalisation of between £3-£10 billion. This approach ensures that the best available benchmark for the Director's specific position is obtained. The Committee also has regard to economic factors, remuneration trends and level of salary increases throughout the Company when determining Directors' salaries.

Remuneration report continued

With effect from 25 March 2007 Justin King's base salary has been increased from £725,000 to £850,000 per annum. Since his appointment in March 2004, the Chief Executive has received pay increases in line with colleagues (3.7 per cent in 2005 and 3.6 per cent in 2006). However a recent salary review showed that his base pay had fallen significantly behind market median levels. The Remuneration Committee strongly believes that it is in the interests of shareholders to re-align his base salary with market competitive levels. Over a period of three years since his appointment this will represent an increase of approximately 8.0 per cent per annum. Similarly the base salary for Darren Shapland was increased from £450,000 to £500,000 per annum reflecting a move to bring his base pay in line with market competitive levels in the sector.

For 2007/08 the base rates of our non management store colleagues will increase by an average of 5.6 per cent which will be paid in two instalments during the year.

ii) Incentive arrangements

In addition to basic salary the Company currently operates incentive arrangements that comprise an annual bonus plan and long-term incentive plans. The Committee believes that incentive opportunities provided under these plans reflect an appropriate balance between personal and Group performance. As such they align the rewards of Directors with the Company's immediate business priorities and the longer term interests of shareholders.

The balance between the fixed (basic salary and pension) and variable (annual bonus and long term incentive plan) elements of remuneration changes with performance and the variable proportion of total remuneration increases significantly for increased levels of performance.

For median performance with the introduction of the new deferred annual bonus plan and long term incentive plan it is anticipated that between 50 and 60 per cent of total remuneration for Executive Directors will be performance related.

Incentive arrangements for Executive Directors and Operating Board Directors for the 2006/07 financial year consisted of the Deferred Annual Bonus Plan and the new Long Term Incentive Plan. Awards earned under each of the incentive plans are non pensionable. The following section describes those plans in detail together with the J Sainsbury plc Share Plan 2005 (known as the 'Making Sainsbury's Great Again Plan') which is now closed and no further grants will be made under it.

Annual Bonus Plan

All bonus plans across the Company are aligned under a set of shared common principles. The 2006/07 Board and management plans retained the same key targets based on profit, sales and product availability plus an element for personal performance. The Executive Directors, Operating Board Directors and all colleagues shared annual targets focused on sales and availability. Availability is measured across all stores on a regular basis by an independent third party conducting random and unannounced store visits.

The Committee reviewed the Directors' personal performance and achievement against the business related targets at the year end. A payment will be made in respect of the sales, profit, availability and personal targets. The first two targets were achieved in full.

The 2006/07 bonus plan for store colleagues was based on the achievement of availability and customer service targets measured in their individual stores and a corporate sales target. As a result of store and corporate performance in 2006/07 around 118,000 colleagues will receive a bonus payment in respect of the 2006/07 financial year totalling around £56.0 million.

For the 2007/08 year the maximum annual bonus opportunity will remain at 150 per cent of salary for the Chief Executive and 100 per cent for the Chief Financial Officer and Operating Board Directors. The Plan will retain the same elements as the 2006/07 Plan given that the key measures of profit, sales and availability remain vital to the continued delivery of the Company's plans.

Deferred Annual Bonus Plan 2006

At last year's AGM shareholders approved the Deferred Annual Bonus Plan 2006, which applies to the Executive Directors, Operating Board Directors and Departmental Directors comprising around 45 participants in total. The first deferral will take place in June 2007 in respect of the 2006/07 bonus awards.

The Committee believes that there should be a strong link between short term and long term performance both in terms of business targets and associated rewards. The Plan introduced a compulsory deferral of part of each participant's earned bonus into Company shares for a three year period. Subject to the Company's TSR performance against an industry comparator group, there will be an opportunity for those shares to be matched by up to two times, dependent upon the extent to which the TSR performance measure has been met. The Plan is consistent with the Company's remuneration policy is designed to support the achievement of both short term and long term performance targets. Introduces a further retention element and helps to promote share ownership among senior management.

Under the Plan a percentage of participants' earned gross annual bonuses is deferred into the Company's shares for a period of three years. The compulsory deferral for the Chief Executive is 25 per cent of his gross bonus with 20 per cent compulsory deferral for the Chief Financial Officer and Operating Board Directors and 10 per cent for Departmental Directors. In addition participants may elect to defer a further proportion of their gross annual bonus provided it does not exceed their compulsory deferral level. In respect of the 2006/07 bonus award Justin King decided to defer the maximum level of 25 per cent of his bonus on a voluntary basis. Darren Shapland deferred 20 per cent of his bonus the maximum allowed on a voluntary basis.

To create a greater alignment between the Company's and shareholders interests the Plan measures the Company's TSR performance over a three year period against a bespoke UK and European retail comparator group comprising Tesco, Morrisons, Alliance Boots, DSG International, Kingfisher, Home Retail Group, Marks & Spencer, Next, Aldi, Carrefour, Casino, Delhaize and Metro.

Up to two matched shares may be awarded for each share deferred depending on the extent to which the TSR measure is achieved. No shares are awarded for below median performance and the full match will only apply where the Company achieves first place within the comparator group. At median position the match will be 0.5 shares for each deferred bonus share and the share match will be pro-rated at every position between median and first place.

To the extent that the performance condition is met at the end of the three year performance period the matched shares will be added to the deferred bonus shares. The deferred bonus shares and half of the matched shares can be accessed immediately while the remainder will be held over for a further year. Dividends or their equivalents will accrue on shares that vest.

For awards in 2007 the Remuneration Committee has determined that in order to measure performance on a fair and equitable basis the opening TSR averaging period will be extended beyond the period of speculation and exceptional share price volatility following the CVC.

Remuneration report continued

consortium's conditional approach. The Committee decided it would be more appropriate to add six months to the three month averaging period immediately preceding the start of the 2007/08 financial year in order to smooth the distortion of the share price in the offer period. Our standard averaging period of three months will apply going forward assuming that no exceptional conditions apply at that time.

Long-Term Incentive Plan 2006

The top 1,000 managers in the Company participate in this Plan from the Chief Executive to supermarket store managers and share common performance measures.

Under the Plan a core award of shares in the Company is granted to all participants, calculated as a percentage of their salaries and scaled according to grade. In 2006/07 shares to the value of 45 per cent of salary were granted to Justin King, with Darren Shapland and the Operating Board Directors receiving grants equivalent to 35 per cent of their salaries. As set out below, dependent upon performance, core awards can grow by up to four times. No awards vest for performance below the threshold levels. For 2007, the Remuneration Committee has determined that, in light of the exceptional circumstances surrounding the Company in this year following the conditional approach by the CVC consortium, a core award of 62.5 per cent of salary will be made to Justin King and core awards of 50 per cent of salary will be made to Darren Shapland and members of the Operating Board.

This is above the normal award levels that will ordinarily be made under the Plan, but the Committee believes this will strongly align the interests of management with shareholders and retain talent following a period of unusual activity for Sainsbury's.

Awards vest based on the performance of two stretching co-dependent performance conditions: Return on Capital Employed (ROCE) and growth in cash flow per share, which will be measured over the three year performance period. There is no retesting.

These measures are designed to build on the sales-led recovery plan and focus on creating further shareholder value. ROCE measures the efficiency with which new cash is invested and through which existing capital delivers profit, driving both cost savings and operational efficiencies. Cash flow per share captures the Company's ability to generate cash for future investment or return to shareholders. In addition, the measures complement the sales, earnings and availability targets set under the annual bonus plan and the TSR targets attached to the bonus deferral. The Plan measures are key indicators of business success and therefore create a further direct link between the interests of management and shareholders.

The ROCE and cash flow per share targets are challenging. For the 2006/07 Plan, maximum vesting requires ROCE of at least 14 per cent and annual compound growth in cash flow per share of 18 per cent or more. Following a review by the Committee, the same targets will apply for the 2007/08 grant. No awards will vest unless threshold levels of ROCE and growth in cash flow per share are achieved. The performance measures will be reviewed by the Committee each year before a new grant is made to ensure that they remain relevant and stretching.

ROCE and cash flow per share measures are calculated based on shareholders' proportion of underlying operating profit for the business. The capital employed figure includes the net pension schemes deficit after deferred taxation but excludes the one-off impact of capital spend in the year the calculation is made. A normalised working capital figure is used in the calculation of cash flow and excludes the impact of cash contributions to the pension schemes. For awards made in 2006/07 the base ROCE and cash flow per share were 6.5 per cent and 38.3 pence respectively.

For the 2007/08 awards the base measures for ROCE and cash flow per share will be 8.6 per cent and 44.3 pence per share respectively.

Vesting is calculated by applying a performance multiplier to the core award on a sliding scale up to four times. The matrix is set out on page 86. Straight line vesting will apply if performance falls between two points.

Performance will be measured at the end of the three year performance period. If the required level of performance has been reached, 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will be released on the fourth anniversary of the date of grant. The Committee has discretion to make adjustments to the calculation of the performance measures (for instance for material acquisitions and disposals) to ensure it remains a true and fair reflection of performance. Dividends will accrue on the shares that vest in the form of additional shares.

J Sainsbury plc Share Plan 2005

The Business review in October 2004 concluded that a major sales-led recovery in profitability was needed. Accordingly, following extensive investor consultation, the J Sainsbury plc Share Plan 2005 (known as the 'Making Sainsbury's Great Again Plan') was designed to reward strong growth in sales and profitability. It is a one-off, self-funded incentive arrangement and was closed to new entrants on 25 March 2006.

Over 1,000 colleagues received conditional core awards under this Plan from the Chief Executive through to supermarket store managers, focused on identical targets. The levels of core award were scaled according to seniority, the maximum being 100 per cent of salary for the Chief Executive. In addition, all Executive Directors and Operating Board Directors committed to making a personal investment of 50 per cent of salary in the Plan - accordingly Justin King and Darren Shapland acquired 118,754 shares and 70,224 shares respectively.

Performance is measured over a four year period from the financial year ended 26 March 2005 until the year ending March 2009. Awards will vest if two stretching and co-dependent performance conditions are achieved: growth in sales and earnings per share (EPS).

The maximum award available under the Plan is targeted towards sales growth of £2.5 billion (using a base figure of £13,588 million) and compound annual growth in EPS of at least 21 per cent over a four year period. There is an opportunity for partial vesting of up to half the award if accelerated performance targets have been met at the end of year three (the year ending March 2008). No awards will vest unless threshold levels of growth in both sales and EPS are achieved.

The EPS base year and targets were originally set under the Plan in accordance with UK GAAP. However, following the introduction of IFRS, the Committee concluded that, in order to ensure that calculations were measured consistently and transparently and by reference to audited figures, the UK GAAP methodology should be replaced by IFRS. After considering various possible ways of restating the EPS base and target figures, the Committee agreed that the base year EPS should be updated to reflect IFRS. As a result, EPS is now measured with reference to underlying basic EPS. This reduced EPS for the base year from 8.6 pence per share to 8.3 pence per share. The 3rd and 4th year targets will also be reduced by the same amount of 0.3 pence per share to maintain them at the same levels.

Vesting is calculated by applying a performance multiplier to the core award and personal investment, this is on a sliding scale from one times to five times and is plotted in a matrix format as set out on page 85. Dividends will accrue on any shares that vest and will be released to participants in the form of additional shares at the point of vesting.

Remuneration report continued

In order to receive awards under the Plan, participants agreed to surrender options granted to them under the Company's Executive Share Option Plan in 2002, 2003 and 2004. Justin King surrendered a total of 1,007,607 share options granted to him at exercise prices of 261.50 pence and 274.75 pence.

The Committee is mindful of the requirement to retain and incentivise our key leaders beyond the vesting dates in May 2008 and May 2009 and will continue to monitor the effectiveness of the current incentive framework to this end.

iii) Other share plans

In order to encourage wider employee share ownership, the Company provides two all employee share plans for colleagues, namely the Savings Related Share Option Scheme (SAYE) and the All Employee Share Ownership Plan. Directors may participate in these plans in the same way as all other colleagues and Justin King is currently participating in both plans. Darren Shapland participates in the SAYE plan. As these are all employee plans there are no performance conditions.

The 2001 (five year) SAYE plan reached maturity on 1 March 2007. Over 3,500 colleagues could use their savings and tax-free bonus to buy Sainsbury's shares at the 302.0 pence option price. The 2003 (three year) SAYE plan matured at the same time and a further 4,700 colleagues could use their savings and tax-free bonus to buy Sainsbury's shares at the 241.0 pence option price. Nearly 7,000 of those colleagues with maturing Plans have so far exercised their options. Using the market price on the date of the first exercise, the value of all the shares subject to the maturity was in excess of £24.3 million.

We currently have over 23,610 colleagues participating in the SAYE plan with over 48,000 individual savings contracts.

iv) Pensions

The Company's Defined Benefit Pension Plan was closed on 31 January 2002 and neither Justin King nor Darren Shapland participate in it. Justin King no longer participates in any Company pension plan and receives a cash supplement in respect of his taxable pensionable earnings.

Darren Shapland is a member of the Executive Stakeholder Pension Plan, a defined contribution arrangement which is open to all senior management. He contributes five per cent of his salary to the level of the earnings cap (2006: £108,600) whilst the Company contribution is 12.5 per cent of salary up to the cap. To the extent that his basic salary exceeds the earnings cap, the Company pays him a cash supplement in excess of the cap.

During the year, the Committee considered external benchmark data and guidance from Deloitte and concluded that the current pensions supplements were not set at market competitive rates. Accordingly, with effect from the start of 2007/08, the salary supplement in respect of Justin King was increased to 30 per cent of his full pensionable earnings and, in respect of Darren Shapland and the participating Operating Board Directors, to 25 per cent of their over-cap pensionable earnings.

v) Benefits

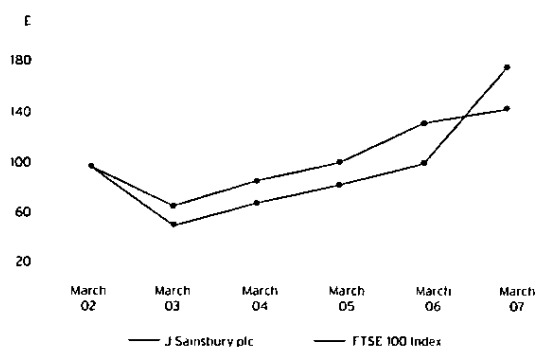
Other benefits for Directors may include the provision of company car benefits and free private medical cover.

Shareholding guidelines

To create greater alignment with the interests of shareholders and to be consistent with one of the objectives of the incentive framework, the Committee has proposed that all Executive Directors and Operating Board Directors should build up a shareholding in the Company over a five-year period starting from 2006/07 that is equal to their annual basic salary and maintain it thereafter. At the year end, Justin King held 274,047 shares in total and Darren Shapland held 70,241 shares, in addition to their share scheme grants. At this date, this represented 208 per cent and 86 per cent of salary respectively.

Performance graph

The graph below shows the TSR performance of an investment of £100 in J Sainsbury plc shares over the last five years compared with an equivalent investment in the FTSE 100 Index. This has been selected to provide an established and broad-based index.



Service contracts

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

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

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

Contract date

Justin King	29 March 2004
Darren Shapland	1 August 2005

Remuneration report continued

Chairman

The Chairman does not have a service contract. His letter of appointment became effective on 19 July 2004. He was appointed for an initial term of three years renewable on a 12 month rolling basis thereafter by mutual consent. His appointment may be terminated at any time upon six months written notice from either party. He devotes such time as is necessary to perform his duties. The Chairman's fees will not be increased in 2007/08 and have remained unchanged since his appointment in 2004.

The Chairman does not participate in any performance related incentive plans.

Non-Executive Directors

Non Executive Directors do not have service contracts. They are appointed for an initial three year period which may be extended for a further term by mutual consent. Their initial appointments and any subsequent re-appointments are subject to election or re-election by shareholders. Their appointments may be terminated on three months notice from either side.

Non Executive Directors are paid a basic fee in cash with additional fees being payable to the Senior Independent Director and to the Chairmen of the Audit, Remuneration and CR Committees. The fees are reviewed annually by a sub-committee of the Board, consisting of the Chairman and one or more Executive Directors, which takes into account market rates and the specific responsibilities and time commitments of the role within Sainsbury's. Non-Executive Directors' basic fees will increase by £5,000 for 2007/08 to keep them in line with comparable market rates. Non Executive Directors do not participate in any performance related plans.

The Non Executive Directors' letters of appointment became effective on the following dates:

	Appointment date
Anna Ford	2 May 2006
Val Gooding	11 January 2007
Gary Hughes	1 January 2005
John McAdam	1 September 2005
Bob Stack	1 January 2005

Remuneration report continued

The following section provides details of the remuneration, pension and share interests of the Directors for the year ended 24 March 2007 and has been audited.

ii) Directors' remuneration

The remuneration of the Directors for the year was as follows

	Note	Salary/fees £000	Bonus £000	Cash payment on joining £000	Pension supplement† £000	Benefits* £000	Total† 2007 £000	Total† 2006 £000
Justin King	1 10	725	960	-	181	55	1,921	1,471
Darren Shapland		433	405	-	65	16	919	619
Philip Hampton		395	-	-	-	1	396	398
Anna Ford	2	43	-	-	-	-	43	-
Val Gooding	3	10	-	-	-	-	10	-
Gary Hughes		54	-	-	-	-	54	45
John McAdam		55	-	-	-	-	55	31
Bob Stack		55	-	-	-	-	55	55
Directors who have left the Board during the year								
Jamie Dundas	4	40	-	-	-	-	40	55
Bridget Macaskill	5	14	-	-	-	-	14	45
Directors who left the Board before the start of the financial year including compensation for loss of office		-	-	-	-	-	-	173
Total 2007		1,824	1,365	-	246	72	3,507	
Total 2006		1,755	770	120	197	50		2,892

- 1 Highest paid Director
- 2 Appointed to the Board on 2 May 2006
- 3 Appointed to the Board on 11 January 2007
- 4 Left the Board on 2 February 2007
- 5 Left the Board on 12 July 2006
- 6 Includes performance bonuses earned in the period under review but not paid in the financial year ended 24 March 2007
- 7 Justin King is not a member of the Company pension schemes and received 25 per cent of his basic salary as a cash pension supplement. In addition to this supplement, £4,000 of interest has been earned on a notional fund provided in the prior year from his previous membership of the Executive Stakeholder Pension Plan. Darren Shapland is a member of the Executive Stakeholder Pension Plan. He received a cash pension supplement equal to 20 per cent of the amount by which his salary exceeded the earnings cap 2006 (£108,600).
- 8 Benefits include company car benefits and medical cover
- 9 The totals for 2006 (in the case of Justin King) and 2006 and 2007 (in the case of Darren Shapland) do not include deductions made from basic salary for Saving Money and Reducing Tax ("SMART") pensions
- 10 See Performance Share Plan below for details of the vesting of cash equivalent Performance Share Plan awards

ii) Pensions

Darren Shapland is a member of the Company's Executive Stakeholder Pension Plan. Contributions to the Stakeholder Plan by the Company in 2006/07 were £13,575 (2006: £15,088 including a contribution of £13,200 made in respect of Justin King, before he left the Plan).

iii) Long-term incentive plans

Performance Share Plan

Under the Plan, shares conditionally allocated to participants are released to them in the form of options if the performance condition is met at the end of the three-year performance period. The number of shares conditionally allocated in 2004 are shown below. No allocations are made from 2005/06 and the Plan is now closed.

	Number of shares conditionally allocated as at 25 March 2006	Lapsed during the year	Number of shares conditionally allocated during the year	Mid market price on date of conditional allocation pence	Options granted during the year under the Plan	Mid market price on day option granted pence	Number of shares conditionally allocated as at 24 March 2007	End of performance period
Justin King								
20 05 04	184 762	-	-	274 0	-	-	184 762	24 03 07

The above figures for the 2004 award show the maximum award that would be released provided that the Company achieves first position v the comparator group (namely Ahold, Alden Breda, Carrefour, Casino, DSG International, GUS, Kingfisher, Loblaws, Marks & Spencer, Morrisons, Next and Tesco), at the end of the three year performance period. Shares to the value of 30 per cent of salary will be released at median performance. Awards will be pro-rated at every position between the median and best position in the comparator group. The Company's relative performance is determined by reference to TSR being the increase in the value of a share including reinvested dividends over the three-year period. This measure was chosen to incentivise participants for maximising shareholder return over the medium term. Awards will vest in May 2007.

On joining the Company, Justin King received a cash equivalent award which was prorated on a pro-rata basis over the performance period, as if he had received a conditional award under the Performance Share Plan grants made in 2003. As previously disclosed, based on performance and prorated time, he received a cash award in respect of 65,789 shares at the end of May 2006 (£217,038).

Remuneration report continued

J Sainsbury plc Share Plan 2005

The table below shows the conditional awards granted under this Plan which would be released if the Company achieves maximum vesting

	Date of grant	Core share award	Personal investment	Maximum share award ¹	Share price at date of award pence	First exercise date ²	Last exercise date
Justin King	24 03 05	237,508	118,754	1 662,556	293 0	14 05 08	23 03 10
Darren Shapland	01 08 05	102 558	70 224	793 686	280 5	14 05 08	23 03 10

- 1 The maximum share award excludes the personal investment shares acquired by Justin King and Darren Shapland which must be held for the duration of the Plan it assumes full vesting
2 Depending on performance partial vesting may occur following the Preliminary Results announcement in 2008
3 The performance conditions attaching to the award are set out on page 85
4 The J Sainsbury plc Share Plan 2005 is a nil cost option plan

Long-Term Incentive Plan 2006

The table below shows the conditional awards granted under this Plan which would be released if the Company achieves maximum vesting

	Date of grant	Maximum share award ¹	Share price at date of award pence	First exercise date ²	Last exercise date
Justin King	13 07 06	390,424	334 0	15 05 09	17 07 11
Darren Shapland	13 07 06	188 480	334 0	15 05 09	17 07 11

- 1 The maximum share award assumes full vesting
2 Depending on performance partial vesting may occur following the Preliminary Results announcement in 2009
3 The performance conditions attaching to the award are set out on page 86
4 The Long Term Incentive Plan 2006 is a nil cost option plan

Restricted Share Plans 2004 and 2005

As previously disclosed Justin King and Darren Shapland gave up valuable entitlements arising from the Marks & Spencer Executive Incentive plans and the Carpetright Executive Incentive plans respectively when they joined the Company. The Committee agreed to compensate them for these lost entitlements and awards comprising cash payments and restricted shares were made. As the awards compensate them for lost entitlements there are no performance conditions.

Darren Shapland's outstanding award will be released on the vesting date if he remains an employee of the Company on the relevant date and will vest before the release date if his service contract is terminated by the Company other than for cause in the event of death or on a change of control unless the award is replaced by the acquiring company. If he leaves employment for any other reason the award will be forfeited.

	Number of restricted shares	Date of award	Date of release	Number of shares released	Number of shares lapsed	Notional gain on release at 319 0 pence per share £000	Vesting date
Justin King	70 746	27 03 04	31 05 06	70,746	–	225 7	–

Justin King retained 7170 shares arising out of the 2006 release. The remainder was used to fund the income tax and national insurance charge relating to the release.

	Number of restricted shares	Date of award	Date of release	Number of shares released	Number of shares lapsed	Notional gain on release at 352 0 pence per share £000	Vesting date
Darren Shapland	32 200	01 08 05	01 08 06	32 200	–	113 3	–
	32 200	01 08 05	–	–	–	–	01 08 07

Darren Shapland retained 18 998 shares arising out of the 2006 release. The remainder was used to fund the income tax and national insurance charge relating to the release.

iv) Savings Related Share Options ("SAYE") over ordinary shares

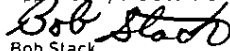
At the end of the year the Options Directors SAYE share options were as follows

	Number of options					Weighted average exercise price pence	Range of exercise prices pence	Date	
	25 March 2006	Granted during the year	Exercised during the year	Lapsed during the year	24 March 2007			From which exercisable	Of expiry
Justin King	6 969	–	–	–	6 969	231 0	231 0	01 03 11	31 08 11
Darren Shapland	–	2 881	–	–	2 881	328 0	328 0	01 03 10	31 08 10

The Savings Related Share Options Scheme is an incentive share option scheme and has no performance conditions as per Inland Revenue Regulations.

In the period from 25 March 2006 to 24 March 2007 the highest mid market price of the Company's share was 557 0 pence and the lowest mid market price was 311 0 pence and at 24 March 2007 was 549 5 pence.

Approved by the Board on 15 May 2007


Bob Stack

Chairman of the Remuneration Committee

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Company and the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRS as adopted by the European Union;

- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' report to the members of J Sainsbury plc

We have audited the Group and Company financial statements (the 'financial statements') of J Sainsbury plc for the 52 weeks to 24 March 2007 which comprise the Group income statement, the Group and Company Statements of recognised income and expense, the Group and Company Balance sheets, the Group and Company Cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, the Remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross-referred from the Business review section of the Directors' report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Statement of corporate governance reflects the Company's compliance with the nine provisions of the Combined Code (2003) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's statement, the Business review, the Directors' report, the Statement of corporate governance and the unaudited part of the Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

Opinion

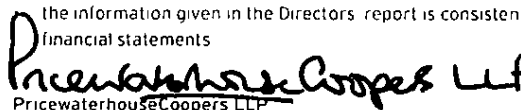
In our opinion

the Group financial statements give a true and fair view in accordance with IFRS as adopted by the European Union of the state of the Group's affairs as at 24 March 2007 and of its profit and cash flows for the 52 weeks then ended.

the Company financial statements give a true and fair view in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985 of the state of the Company's affairs as at 24 March 2007 and cash flows for the 52 weeks then ended.

the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and

the information given in the Directors' report is consistent with the financial statements.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
15 May 2007

Group income statement

for the 52 weeks to 24 March 2007

	Note	2007 £m	2006 £m
Continuing operations			
Revenue	3	17,151	16,061
Cost of sales		(15,979)	(14,994)
Gross profit		1,172	1,067
Administrative expenses		(669)	(839)
Other income --		17	1
Operating profit	4	520	229
Finance income	5	64	30
Finance costs	5	(107)	(155)
Profit before taxation		477	104
Analysed as			
Underlying profit before tax ¹		380	267
Profit on sale of properties	4	7	1
Financing fair value movements	5	8	(12)
One off items	7	82	(152)
		477	104
Income tax expense	8	(153)	(46)
Profit for the financial year		324	58
Attributable to			
Equity holders of the parent		325	64
Minority interests		(1)	(6)
		324	58
Earnings per share	9	pence	pence
Basic		19.2	3.8
Diluted		18.9	3.8

1. Profit before tax from continuing operations before any gain or loss on the sale of properties, impairment of goodwill, financing fair value movements, and one off items that are material and infrequent in nature. In the current financial year, these one off items were the profit on part disposal of Sainsbury's Bank and past service gains on defined benefit schemes. In the prior financial year, these one off items were the Business Review costs, IT insourcing costs and credit restructuring costs.

Statements of recognised income and expense

for the 52 weeks to 24 March 2007

	Note	Group		Company	
		2007 £m	2006 £m	2007 £m	2006 £m
Currency translation differences		-	2	-	-
Actuarial gains/(losses) on defined benefit pension schemes		179	(255)	-	-
Available for sale financial assets					
fair value movements		24	26	-	-
Cash flow hedges					
effective portion of fair value movements		-	1	-	-
transferred to income statement		-	(1)	-	-
Share based payment tax deductions recognised directly in equity	8	17	5	-	-
Deferred tax on items recognised directly in equity	8	(59)	68	-	-
Net income/(loss) recognised directly in equity		161	(154)	-	-
Profit for the financial year		324	58	190	153
Total recognised income/(expense) for the financial year		485	(96)	190	153
Attributable to					
Equity holders of the parent		486	(90)	190	153
Minority interests		(1)	(6)	-	-
		485	(96)	190	153
Effect of changes in accounting policy on adoption of IAS 32 and IAS 39					
for the 52 weeks to 25 March 2006					
Equity holders of the parent			(78)		(149)
Minority interests			-		-
			(78)		(149)

Balance sheets

at 24 March 2007 and 25 March 2006

	Note	Group		Company	
		2007 £m	2006 £m	2007 £m	2006 £m
Non-current assets					
Property plant and equipment	11	7,176	7 060	244	251
Intangible assets	12	175	191	-	-
Investments in subsidiaries	13	-	-	7,166	7 225
Investments in joint ventures	14	98	10	76	6
Available-for sale financial assets	17	137	113	-	-
Amounts due from Sainsbury's Bank customers	16b	-	1,473	-	-
Other receivables	16a	50	-	919	1 751
Deferred income tax asset	21	-	55	1	7
		7,636	8 902	8,406	9 240
Current assets					
Inventories	15	590	576	-	-
Trade and other receivables	16a	197	276	375	150
Amounts due from Sainsbury's Bank customers and other banks	16b	-	1,888	-	-
Available for sale financial assets	17	-	52	-	-
Cash and cash equivalents	27b	1,128	1,028	523	411
		1,915	3 820	898	561
Non current assets held for sale	18	25	25	-	-
		1,940	3,845	898	561
Total assets		9,576	12 747	9,304	9 801
Current liabilities					
Trade and other payables	19a	(2,267)	(2 094)	(4,474)	(5 119)
Amounts due to Sainsbury's Bank customers and other banks	19b	-	(2,299)	-	-
Short term borrowings	20	(373)	(253)	(269)	(233)
Derivative financial instruments	30	(2)	(10)	(2)	(10)
Taxes payable		(65)	(63)	18	9
Provisions	22	(14)	(91)	(2)	(2)
		(2,721)	(4 810)	(4,729)	(5 355)
Net current liabilities		(781)	(965)	(3,831)	(4 794)
Non-current liabilities					
Other payables	19a	(33)	(30)	(740)	(782)
Amounts due to Sainsbury's Bank customers and other banks	19b	-	(1 009)	-	-
Long term borrowings	20	(2,090)	(2 178)	-	-
Derivative financial instruments	30	(43)	(2)	(43)	(2)
Deferred income tax liability	21	(168)	-	-	-
Provisions	22	(69)	(95)	(30)	(31)
Retirement benefit obligations	31	(103)	(658)	-	-
		(2,506)	(3,972)	(813)	(815)
Net assets		4,349	3 965	3,762	3 631
Equity					
Called up share capital	23	495	489	495	489
Share premium account	23	857	782	857	782
Capital redemption reserve	24	670	668	670	668
Other reserves	24	143	(1)	-	-
Retained earnings	25	2 184	1 948	1,740	1 692
Equity shareholders' funds	26	4,349	3 886	3,762	3 631
Minority interests	26	-	79	-	-
Total equity	26	4,349	3 965	3,762	3 631

The financial statements were approved by the Board of Directors on 15 May 2007 and are signed on its behalf by

Justin King Chief Executive

Darren Shapland Chief Financial Officer

Cash flow statements

for the 52 weeks to 24 March 2007

	Note	Group		Company	
		2007 £m	2006 £m	2007 £m	2006 £m
Cash flows from operating activities					
Cash generated from operations	27a	830	780	(166)	3 116
Interest paid		(95)	(159)	(95)	(151)
Corporation tax received		9	3	-	20
Net cash from operating activities		744	624	(261)	2 985
Cash flows from investing activities					
Purchase of property plant and equipment		(778)	(549)	-	(14)
Purchase of intangible assets		(7)	(6)	-	-
Proceeds from disposal of property plant and equipment		106	164	11	151
Acquisition of and investment in subsidiaries net of cash acquired	33 13	(3)	(6)	(24)	(1,469)
Proceeds from part disposal of Sainsbury's Bank		21	-	21	-
Cash disposed on part disposal of Sainsbury's Bank		(33)	-	-	-
Cost of disposal of operations		(1)	(13)	(1)	(13)
Interest received		15	6	119	112
Dividends received		-	-	270	250
Net cash from investing activities		(680)	(404)	396	(983)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		81	22	81	22
Capital redemption		(2)	(9)	(2)	(9)
Repayment of short term borrowings		(53)	(348)	(53)	(174)
Repayment of long term borrowings		(22)	(1 701)	-	(1,701)
Proceeds from short term borrowings		-	50	-	50
Proceeds from long term borrowings		-	2 056	-	-
Debt restructuring costs		(2)	(22)	(2)	(22)
Repayment of capital element of obligations under finance lease borrowings		-	(1)	-	-
Interest elements of obligations under finance lease payments		(3)	(3)	-	-
Dividends paid	10	(140)	(131)	(140)	(131)
Issue of loan from minority shareholder		-	9	-	-
Net cash from financing activities		(141)	(78)	(116)	(1 965)
Net (decrease)/increase in cash and cash equivalents		(77)	142	19	37
Opening cash and cash equivalents		842	700	245	208
Closing cash and cash equivalents	27b	765	842	264	245

Notes to the financial statements

1 General information

J Sainsbury plc is a public limited company (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 24 March 2007 (prior financial year 52 weeks to 25 March 2006). The consolidated financial statements for the 52 weeks to 24 March 2007 comprise the financial statements of the Company and its subsidiaries (Group) and the Group's interests in associates and joint ventures.

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

2 Accounting policies

(a) Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The Company's financial statements have been prepared on the same basis and as permitted by Section 230(3) of the Companies Act 1985, no income statement is presented for the Company.

(b) Basis of preparation

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

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

New standards, interpretations and amendments to published standards

Effective for the Group in these financial statements

Amendment to IAS 39 Cash Flow Hedge Accounting of Forecast

Intragroup Transactions

Amendment to IAS 39 The Fair Value Option

Amendments to IAS 39 and IFRS 4 Financial Guarantee Contracts

IFRS 6 Exploration of and Evaluation of Mineral Resources

IFRIC 4 Determining whether an Arrangement contains a Lease

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

The above new standards, interpretations and amendments to published standards have had no material impact on the results or the financial position of the Group for the 52 weeks to 24 March 2007.

Effective for the Group for the financial year beginning 25 March 2007

Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures

IFRS 7 Financial Instruments Disclosure

IFRIC 8 Scope of IFRS 2

IFRIC 9 Re-assessment of embedded derivatives

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

Effective for the Group for future financial years

Amendment to IAS 23 Borrowing Costs

IFRS 8 Operating Segments

IFRIC 12 Service Concession Arrangements

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

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

Consolidation

The Group's financial statements include the results of the Company and all its subsidiaries, together with the Group's share of the post-tax results of its associates and joint ventures.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The results of subsidiaries are included in the Group 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.

Associates and joint ventures

Associates are entities that are neither subsidiaries nor joint ventures over which the Group has significant influence. Joint ventures are jointly controlled entities in which the Group has an interest. The Group's share of the results of its associates and joint ventures are included in the Group income statement using the equity method of accounting.

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

Investments in subsidiaries, associates and joint ventures are carried at cost, less any impairment loss in the financial statements of the Company.

Foreign currencies

Foreign operations

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

Exchange differences arising from the retranslation at year-end exchange rates of the net investment in foreign operations, less exchange differences on foreign currency borrowings or forward contracts which are in substance part of the net investment in a foreign operation, are taken to equity and are reported in the statement of recognised income and expense.

2 Accounting policies continued

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.

Revenue

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

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

Sales through retail outlets are shown net of the cost of Nectar reward points issued and redeemed, staff discounts, vouchers and sales made on an agency basis. Commission income is recognised in revenue based on the terms of the contract.

Sainsbury's Bank

Interest income is recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

This calculation takes into account interest received or paid, fees and commissions received or paid, that are integral to the yield as well as incremental transaction costs.

Fees and commissions that are not integral to the yield are recognised in the income statement as service is provided. Where there is a risk of potential claw back, an appropriate element of the insurance commission receivable is deferred and amortised over the expected average life of the underlying loan.

Cost of sales

Cost of sales consists of all costs to the point of sale including warehouse and transportation costs, all the costs of operating retail outlets and, in the case of Sainsbury's Bank, interest expense on operating activities calculated using the effective interest method.

Property, plant and equipment

Land and buildings

Land and buildings are stated at cost less accumulated depreciation and any recognised impairment loss. Properties in the course of construction are held at cost less any recognised impairment loss. Cost includes any directly attributable costs and borrowing costs capitalised in accordance with the Group's accounting policy.

Fixtures, equipment and vehicles

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised impairment loss.

Depreciation

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

Freehold buildings and leasehold properties - 50 years or the lease term if shorter

Fixtures, equipment and vehicles - 3 to 15 years

Freehold land is not depreciated

Land and buildings under construction and non-current assets held for sale are not depreciated.

Intangible assets

Pharmacy licences

Pharmacy licences are carried at cost less accumulated amortisation and any impairment loss and amortised on a straight line basis over their useful economic life of 15 years.

Computer software

Computer software is carried at cost less accumulated amortisation and any impairment loss. Externally acquired computer software and software licences are capitalised and amortised on a straight line basis over their useful economic lives of three to five years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria are met. When the software is available for its intended use, these costs are amortised over the estimated useful life of the software.

Goodwill

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

Impairment of non-financial assets

At each full year balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to sell and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. For tangible and intangible assets excluding goodwill, the CGU is deemed to be each trading store. For goodwill, the CGU is deemed to be each retail chain of stores acquired.

An impairment charge is recognised in the income statement in the year in which it occurs. Where an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

Capitalisation of interest

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

Non-current assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of the carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

Leased assets

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

2 Accounting policies continued

Finance leases

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

Operating leases

Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement.

Lease incentives

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

Leases with predetermined fixed rental increases

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

Operating lease income

Operating lease income consists of rentals from properties held for disposal or sub-tenant agreements and is recognised as earned.

Inventories

Inventories are valued at the lower of cost and net realisable value. Inventories at warehouses are valued on a first-in, first-out basis. Those at retail outlets are valued at calculated average cost prices. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand 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.

Deferred taxation

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

Deferred tax is recognised for all taxable 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 substantially 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, in which case the deferred tax is also dealt with in equity.

Provisions

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

Onerous leases

Provisions for onerous leases, measured net of expected rentals, are recognised when the property leased becomes vacant and is no longer used in the operations of the business.

Restructuring

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Employee benefits

Pensions

The Group operates various defined benefit and defined contribution pension schemes for its employees. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension plan under which the Group pays fixed contributions into a separate entity.

In respect of defined benefit pension schemes, the pension scheme deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method. Plan assets are recorded at fair value.

The income statement charge is split between an operating service cost and a financing charge, which is the net of interest cost on pension scheme liabilities and expected return on plan assets. Actuarial gains and losses are recognised in full in the period in the statement of recognised income and expense.

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

Long service awards

The costs of long service awards are accrued over the period the service is provided by the employee.

Share-based payments

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

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 the corresponding increase in equity.

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 adjustment made in equity.

2 Accounting policies continued

Financial instruments

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired.

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

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

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, these assets are recorded at amortised cost using the effective interest method. Income is calculated on an effective yield basis and is recognised in the income statement.

Available for sale (AFS) investments are those financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices. Subsequent to initial recognition, these assets are recorded at fair value, with the movements in fair value taken directly to equity until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on AFS equity instruments are recognised in the income statement when the entity's right to receive payment is established. Interest on AFS debt instruments is recognised using the effective interest method.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and AFS investments are recognised on trade date. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

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

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to 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.

Impairment of financial assets

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

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

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

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

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

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

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

Fair value estimation

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

Redeemable preference shares

Redeemable preference shares that meet the definition of a liability are recognised as a liability on the balance sheet. The corresponding dividends on these shares are recognised as finance costs through the income statement.

2 Accounting policies continued

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group principally uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The use of financial derivatives is governed by the Group's treasury policies, as approved by the Board. The Group does not use derivative financial instruments for speculative purposes.

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

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

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

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

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity 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 equity is transferred to the income statement for the period.

Offsetting financial instruments

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

(c) Judgements and estimates

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

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

Goodwill impairment

The Group is required to assess whether goodwill has suffered any impairment loss based on the recoverable amount of its CGUs. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates as disclosed in note 12. Actual outcomes could vary from these estimates.

Impairment of assets

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows which includes management assumptions and estimates of future performance.

Post-employment benefits

The Group operates various defined benefit schemes for its employees. The present value of the schemes' liabilities recognised at the balance sheet date is dependent on interest rates of high quality corporate bonds. The net financing charge recognised in the income statement is dependent on the interest rate of high quality corporate bonds and an expectation of the weighted average returns on the assets within the schemes. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 31.

Provisions

Provisions have been made for onerous leases and restructuring costs. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Income taxes

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

3 Segment reporting

The Group's primary reporting format is business segments, with each segment representing a business unit that offers different products and serves different markets.

The businesses are organised into two operating divisions:

- Retailing (Supermarkets and Convenience) and
- Financial services (Sainsbury's Bank)

All material operations are carried out in the UK.

Segment results: assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

3 Segment reporting continued

	Retailing £m	Financial services £m	Group £m
2007			
Segment revenue			
Sales to external customers	16,860	-	16,860
Services to external customers	-	291	291
Total revenue	16,860	291	17,151
Underlying operating profit¹	429	2	431
Profit on sale of properties	7	-	7
Profit on part disposal of Sainsbury's Bank	-	10	10
Past service gains on defined benefit schemes	72	-	72
Segment result	508	12	520
Finance income			64
Finance costs			(107)
Income tax expense			(153)
Profit for the financial year			324
Assets	9,478	-	9,478
Investment in joint ventures	10	88	98
Segment assets			9,576
Segment liabilities	5,227	-	5,227
Other segment items			
Capital expenditure	733	4	737
Depreciation expense	469	10	479
Amortisation expense	19	2	21
Impairment of amounts due from Sainsbury's Bank customers	-	89	89
2006			
Segment revenue			
Sales to external customers	15 731	-	15 731
Services to external customers	-	330	330
Total revenue	15 731	330	16 061
Underlying operating profit/(loss)¹	352	(10)	342
Profit on sale of properties	1	-	1
Business Review operating costs	(51)	-	(51)
IT insourcing costs	(63)	-	(63)
Segment result	239	(10)	229
Finance income			30
Finance costs			(155)
Income tax expense			(46)
Profit for the financial year			58
Assets	9 058	3 679	12 737
Investment in joint ventures	10	-	10
Segment assets			12 747
Segment liabilities	5 281	3 501	8 782
Other segment items			
Capital expenditure	518	7	525
Depreciation expense	442	7	449
Amortisation expense	19	2	21
Impairment of amounts due from Sainsbury's Bank customers	-	106	106

¹ Underlying profit before tax from continuing operations before finance income and finance costs

4 Operating profit

	2007 £m	2006 £m
Operating profit is stated after charging/(crediting) the following items		
Employee costs (note 6)	1,785	1,793
Depreciation expense	479	449
Amortisation expense (included within cost of sales)	21	21
Profit on sale of properties	(7)	(1)
Profit on part disposal of Sainsbury's Bank (note 7)	(10)	-
Impairment of amounts due from Sainsbury's Bank customers (included within administrative expenses)	89	106
Operating lease rentals - land and buildings	287	262
- other leases	45	31
- sublease payments received	(30)	(24)
Foreign exchange differences	6	-

Operating profit for the prior financial year included £51 million of Business Review costs and £63 million of IT insourcing costs of which £50 million is included in costs of sales and £64 million included in administrative expenses

Group	2007 £m	2006 £m
Auditors' remuneration		
Audit services		
Fees payable to the Company auditor for the audit of the Group and the Company financial statements	0.4	0.3
Non-audit services		
Fees payable to the Company auditor and its associates for other services as detailed below		
Audit of the Company's subsidiaries pursuant to legislation	0.4	0.4
Other services pursuant to legislation	0.1	0.1
Tax services	0.3	0.3
All other services	0.2	0.4
	1.4	1.5

The Company audit fee was £0.1 million (2006: £0.1 million)

5 Finance income and finance costs

	2007 £m	2006 £m
Interest on bank deposits	15	7
Net return on pension schemes (note 31)	41	23
Financing fair value gains ¹ - Retailing	8	-
Finance income	64	30
Financing fair value losses ¹ - Financial services	-	(4)
- Retailing	-	(8)
	-	(12)
Debt restructuring costs	-	(38)
Borrowing costs		
Bank loans and overdrafts	(2)	(3)
Other loans	(111)	(107)
B share preference dividends (note 20)	-	(1)
Obligations under finance leases	(3)	(3)
Provisions - amortisation of discount (note 22)	(1)	(1)
	(117)	(115)
Interest capitalised - qualifying assets	10	10
Finance costs	(107)	(155)

¹ Fair value gains/(losses) relate to fair value adjustments on derivatives relating to financing activities and hedged items in fair value hedges

Total interest income amounted to £213 million (2006: £217 million) including interest income attributable to Sainsbury's Bank of £198 million (2006: £210 million) included in revenue. Total interest costs amounted to £233 million (2006: £230 million) including interest costs attributable to Sainsbury's Bank of £116 million (2006: £115 million) included in cost of sales.

6 Employee costs

	2007 £m	2006 £m
Employee costs for the Group during the year amounted to		
Wages and salaries including bonus and termination benefits	1 583	1 565
Social security costs	122	101
Pension costs - defined contribution schemes	27	23
Pension costs - defined benefit schemes (note 31)	87	81
Pension costs - past service gains on defined benefit schemes (notes 7 and 31)	(72)	-
Share based payments expense (note 32)	38	23
	1,785	1 793
	Number 000's	Number 000's
The average number of employees, including directors during the year were		
Full time	48 8	49 2
Part time	98 1	104 1
	146 9	153 3
Full time equivalent	95 5	96 2

All employees were employed in the United Kingdom for the periods presented

7 One-off items

	2007 £m	2006 £m
One off items for the financial year comprised		
Business Review operating costs	-	(51)
IT insourcing costs	-	(63)
Debt restructuring costs (note 5)	-	(38)
Profit on part disposal of Sainsbury's Bank	10	-
Past service gains on defined benefit schemes (note 31)	72	-
	82	(152)

Profit on part disposal of Sainsbury's Bank

On 8 February 2007 the Company sold a five per cent shareholding in Sainsbury's Bank plc (the Bank) to the Bank of Scotland (a wholly owned subsidiary of HBOS plc) for a cash consideration of £21 million resulting in a profit on disposal for the Group of £10 million. This profit on disposal has been recognised as other income in the Group income statement. Consequently the Bank became a 50/50 joint venture between the Company and HBOS plc.

The results of the Bank have been fully consolidated into the Group results until 8 February 2007 with a corresponding minority interest shown for the minority share of these results. Following the sale on 8 February 2007 the Bank is treated as a joint venture and equity accounted in the Group financial statements.

At 24 March 2007 the assets and liabilities of the Bank have not been consolidated in the Group balance sheet but instead a joint venture investment of £88 million representing the Group's 50 per cent share of the Bank's net assets at that date (note 14) has been included. The Group has accounted for its equity share of the results of the Bank for the period from 8 February 2007 to 24 March 2007.

Past service gains on defined benefit schemes

Following changes introduced by the Finance Act effective from 6 April 2006 the defined benefit schemes have implemented revised terms to provide members with the option to surrender a greater proportion of their pension for a tax free cash lump sum payment. Accordingly the Group revised its assumptions used in calculating the retirement benefit obligations in respect of this and certain minor changes in scheme rules and has recognised £72 million of past service gains in the Group income statement.

8 Income tax expense

	2007 £m	2006 £m
Current tax expense		
Current year	2	38
Over provision in prior years	(25)	(2)
	(23)	36
Deferred tax expense		
Origination and reversal of temporary differences	158	15
Under/(over) provision in prior years	18	(5)
	176	10
Total income tax expense in income statement	153	46
Income tax expense on underlying profit ¹	132	95
Tax on items below		
Sale of properties	(3)	-
Financing fair value movements	2	(3)
Business Review operating costs	-	(15)
IT insourcing costs	-	(19)
Debt restructuring costs	-	(12)
Past service gains on defined benefit schemes	22	-
Total income tax expense in income statement	153	46

¹ Tax charge attributable to underlying profit before tax from continuing operations

The effective tax rate of 32.2 per cent (2006: 44.2 per cent) is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2007 £m	2006 £m
Profit before taxation	477	104
Income tax at UK corporation tax rate of 30% (2006: 30%)	143	31
Effects of:		
Disallowed depreciation on UK properties	22	21
Non deductible expenses	3	1
Non taxable income	(8)	-
Over provision in prior years	(7)	(7)
Total income tax expense in income statement	153	46
Income tax charged or credited to equity during the year is as follows:		
	2007 £m	2006 £m
Share based payment tax deductions recognised directly in equity		
Current tax payable	(2)	-
Deferred tax asset	(7)	(5)
Deferred tax losses associated with share based payment tax deduction	(8)	-
	(17)	(5)
Deferred tax on items recognised directly in equity		
Actuarial gains/losses on defined benefit pension schemes	52	(75)
Available for-sale financial assets - fair value movements	7	7
	59	(68)
	42	(73)

On 21 March 2007 the Chancellor announced that with effect from 1 April 2008 the standard rate of UK Corporation tax will reduce from 30 per cent to 28 per cent (note 21).

9 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year excluding those held by the Employee Share Ownership Plan trusts (note 25) which are treated as cancelled

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential 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

Underlying earnings per share is provided by excluding the effect of any gain or loss on the sale of properties, impairment of goodwill, financing fair value movements and one off items that are material and infrequent in nature. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance

All operations are continuing for the periods presented

	2007 million	2006 million
Weighted average number of shares in issue	1,691.3	1,679.0
Weighted average number of dilutive share options	28.5	13.2
Total number of shares for calculating diluted earnings per share	1,719.8	1,692.2
	£m	£m
Profit for the financial year attributable to equity holders of the parent	325	64
(Less)/add: profit on sale of properties, net of tax	(10)	(1)
financing fair value movements, net of tax	(6)	7
Business Review costs, net of tax	-	36
IT insourcing costs, net of tax	-	44
debt restructuring costs, net of tax	-	26
profit on part disposal of Sainsbury's Bank	(10)	-
past service gains on defined benefit schemes, net of tax	(50)	-
Underlying profit after tax	249	176
	pence per share	pence per share
Basic earnings	19.2	3.8
Diluted earnings	18.9	3.8
Underlying basic earnings	14.7	10.5
Underlying diluted earnings	14.5	10.4

10 Dividend

	2007 pence per share	2006 pence per share	2007 £m	2006 £m
Amounts recognised as distributions to equity holders in the year				
Final dividend of prior financial year	5.85	5.65	99	95
Interim dividend of current financial year	2.40	2.15	41	36
	8.25	7.80	140	131

After the balance sheet date, a final dividend of 7.35 pence per share (2006: 5.85 pence per share) was proposed by the Directors in respect of the 52 weeks to 24 March 2007, resulting in a total final proposed dividend of £126 million (2006: £99 million). The proposed final dividend has not been included as a liability at 24 March 2007.

11 Property, plant and equipment

	Group			Company
	Land and buildings £m	Fixtures and equipment £m	Total £m	Land and buildings £m
Cost				
At 26 March 2006	6 418	4 323	10 741	268
Additions	383	344	727	-
Disposals	(73)	(138)	(211)	(5)
Part disposal of Sainsbury's Bank	-	(49)	(49)	-
Transfer to assets held for sale	(9)	-	(9)	-
At 24 March 2007	6,719	4,480	11,199	263
Accumulated depreciation and impairment				
At 26 March 2006	970	2 711	3 681	17
Depreciation expense for the year	92	387	479	2
Disposals	(2)	(106)	(108)	-
Part disposal of Sainsbury's Bank	-	(29)	(29)	-
At 24 March 2007	1,060	2,963	4,023	19
Net book value at 24 March 2007	5,659	1,517	7,176	244
Capital work-in-progress included above	343	89	432	-
Cost				
At 27 March 2005	6,234	4,235	10 469	349
Additions	284	228	512	14
Acquisition of subsidiaries	4	-	4	-
Disposals	(79)	(140)	(219)	(95)
Transfer to assets held for sale	(25)	-	(25)	-
At 25 March 2006	6 418	4,323	10 741	268
Accumulated depreciation and impairment				
At 27 March 2005	922	2 471	3 393	19
Depreciation expense for the year	77	372	449	3
Disposals	(29)	(132)	(161)	(5)
At 25 March 2006	970	2 711	3 681	17
Net book value at 25 March 2006	5 448	1 612	7 060	251
Capital work-in-progress included above	309	44	353	-
	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
The net book value of land and buildings comprised				
Freehold land and building	4,339	4 166	65	70
Long leasehold	889	818	179	181
Short leasehold	431	464	-	-
	5,659	5 448	244	251

Interest capitalised

Interest capitalised included in additions amounted to £10 million (2006: £10 million) for the Group and £nil (2006: £nil) for the Company. Accumulated interest capitalised included in the cost total above amounted to £253 million (2006: £244 million) for the Group and £nil (2006: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.3 per cent (2006: 5.3 per cent).

11 Property, plant and equipment continued**Security**

Property, plant and equipment of 127 supermarket properties, with a net book value of £2 456 million (2006 £2 515 million) are pledged as security for the long term financing (note 20)

In addition property plant and equipment of a further six supermarket properties with a net book value of £74 million (2006 £75 million) has been pledged as security to underpin the residual value guarantee given by the Group with regards to 16 supermarket properties sold in March 2000 and ten supermarket properties sold in July 2000 (note 37)

Analysis of assets held under finance leases - Group

	2007 £m	2006 £m
Land and buildings		
Cost	53	55
Accumulated depreciation and impairment	(21)	(21)
Net book value	32	34

12 Intangible assets

	Goodwill £m	Pharmacy licences £m	Software £m	Total £m
Cost				
At 26 March 2006	109	36	120	265
Additions	-	-	7	7
Acquisition of subsidiaries (note 33)	3	-	-	3
Part disposal of Sainsbury's Bank	-	-	(12)	(12)
At 24 March 2007	112	36	115	263
Accumulated amortisation and impairment				
At 26 March 2006	-	14	60	74
Amortisation expense for the year	-	3	18	21
Part disposal of Sainsbury's Bank	-	-	(7)	(7)
At 24 March 2007	-	17	71	88
Net book value at 24 March 2007	112	19	44	175
Cost				
At 27 March 2005	106	35	115	256
Additions	-	1	5	6
Acquisition of subsidiaries	3	-	-	3
At 25 March 2006	109	36	120	265
Accumulated amortisation and impairment				
At 27 March 2005	-	12	41	53
Amortisation expense for the year	-	2	19	21
At 25 March 2006	-	14	60	74
Net book value at 25 March 2006	109	22	60	191

The goodwill balance above relates to the Group's acquired subsidiaries - Bells Stores Ltd, Jackson's Stores Ltd, JB Beaumont Ltd, SL Shaw Ltd and Culcheth Provision Stores Ltd - and is allocated to the respective cash generating units (CGUs) within the retail segment. The CGUs for this purpose are deemed to be the respective acquired retail chains of stores. The value of the goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU to the carrying value of its goodwill.

To calculate the CGU's value in use, Board approved cash flows for the following financial year are assumed to inflate at the long term average growth rate for the UK food retail sector and are discounted at ten per cent (2006 ten per cent). Based on the operating performance of the respective CGUs no impairment loss was deemed necessary in the current financial year (2006: £nil).

13 Investments in subsidiaries

	2007 £m	2006 £m
Shares in subsidiaries - Company		
Beginning of year	7 225	5 764
Investment in subsidiaries	21	1,463
Acquisition of subsidiaries	3	6
Part disposal of Sainsbury's Bank	(77)	-
Provision for diminution in value of investment	(6)	(8)
End of year	7,166	7 225

The Company's principal operating subsidiaries are

	Share of ordinary allotted capital and voting rights	Country of registration or incorporation
Bellis Stores Ltd	100%	England
Jacksons Stores Ltd	100%	England
JS Insurance Ltd	100%	Isle of Man
JS Information Systems Ltd	100%	England
Sainsbury's Supermarkets Ltd	100%	England
Swan Infrastructure Holdings Ltd	100%	England

All principal operating subsidiaries operate in the countries of their registration or incorporation and have been consolidated up to and as at 24 March 2007

14 Investments in joint ventures

	Group			Company
	Shares at cost £m	Group share of post acquisition reserves £m	Total £m	Shares at cost £m
At 26 March 2006	6	4	10	6
Addition of Sainsbury's Bank (note 7)	70	18	88	70
Share of retained profit	-	-	-	-
At 24 March 2007	76	22	98	76
At 27 March 2005	6	4	10	6
Share of retained profit	-	-	-	-
At 25 March 2006	6	4	10	6

The Group share of post acquisition reserves includes £18 million relating to 50 per cent of Sainsbury's Bank retained earnings as a subsidiary prior to it becoming a joint venture (note 7)

The holdings directly owned by the Company, of the Group's principal joint ventures are

	Year end	Share of ordinary allotted capital	Country of registration or incorporation
Hedge End Park Ltd (property investment - UK)	24 March	50%	England
Boutique Sainsbury SARL (food retailing - France)	31 December	50%	France
Sainsbury's Bank plc (financial services - UK)	31 March	50%	England

Management accounts for the joint ventures have been used to include the results up to 24 March 2007

14 Investment in joint ventures continued

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

	2007 £m	2006 £m
Non current assets	577	2
Current assets	1,140	9
Current liabilities	(1,376)	(1)
Non current liabilities	(243)	-
Net assets	98	10
Income	33	4
Expenses	(33)	(4)
Profit after tax	-	-

15 Inventories

	2007 £m	2006 £m
Goods held for resale	590	576

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 24 March 2007 was £12 801 million (2006: £11 875 million)

16 Receivables**(a) Trade and other receivables**

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Non-current				
Amounts due from Group entities	-	-	869	1 751
Other receivables	50	-	50	-
	50	-	919	1,751
Current				
Trade receivables	30	33	-	-
Amounts due from Group entities	-	-	374	148
Other receivables	65	54	1	2
	95	87	375	150
Prepayments and accrued income	102	189	-	-
	197	276	375	150

Trade receivables are non interest bearing and are on commercial terms. Current other receivables are generally non interest bearing.

Concentrations of credit risk with respect to trade and current other receivables are limited due to the Group's customer base being large and unrelated.

Non current other receivables of £50 million comprise £20 million of floating rate subordinated undated loan capital and £30 million of floating rate subordinated dated loan capital due from Sainsbury's Bank (note 34).

In the prior financial year Sainsbury's Bank plc was a subsidiary of the Group and the loan capital receivable of £55 million was eliminated on consolidation in the Group financial statements and included as part of 'Amounts due from Group entities' in the Company financial statements.

In the current financial year as part of the transaction on 8 February 2007 (note 7) £5 million of the Company's loan capital due from Sainsbury's Bank (£2 million of undated loan capital and £3 million of dated loan capital) was repaid by HBOS plc at par value.

16 Receivables continued

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

	2007 £m	2006 £m
Non-current		
Loans and advances to customers	-	1,487
Impairment of loans and advances	-	(14)
	-	1,473
Current		
Loans and advances to customers	-	1,049
Loans to other banks	-	996
Impairment of loans and advances	-	(157)
	-	1,888

Loans and advances to customers and other banks accrue interest at commercial borrowing rates

At 24 March 2007 Sainsbury's Bank plc is equity accounted for as a joint venture (note 7) and hence its assets and liabilities are no longer consolidated in the Group's balance sheet

17 Available-for-sale financial assets

	2007 £m	2006 £m
Non-current		
Unlisted equity investments	1	1
Other financial asset	136	112
	137	113
Current		
At fair value		
Treasury bills	-	47
Floating rate notes	-	5
	-	52

The other financial asset represents the Group's beneficial interest in a property investment pool

18 Non-current assets held for sale

Assets held for sale of £25 million (2006: £25 million) consist of properties held in the retail operations division. Sale of these assets is expected to occur in the next financial year beginning 25 March 2007

19 Payables

(a) Trade and other payables

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Current				
Trade payables	1,706	1 419	-	-
Amounts due to Group entities	-	-	4,463	5 074
Other payables	365	418	11	45
Accruals and deferred income	196	257	-	-
	2,267	2 094	4,474	5,119
Non-current				
Amounts due to Group entities	-	-	740	782
Accruals and deferred income	33	30	-	-
	33	30	740	782

The Group's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms on the timely submission of satisfactory invoices

Deferred income relates to the accounting for leases with fixed rental increases and lease incentives on a straight line basis over the term of the lease

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

	2007 £m	2006 £m
Current		
Customer accounts	-	2 299
Non-current		
Deposits by banks	-	1 009

Amounts due to Sainsbury's Bank customers and other banks are generally repayable on demand and accrue interest at commercial borrowing rates

At 24 March 2007 Sainsbury's Bank plc is equity accounted for as a joint venture (note 7) and hence its assets and liabilities are no longer consolidated in the Group's balance sheet

20 Borrowings

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Short-term borrowings				
Bank overdrafts	363	186	259	166
Bank loans	-	50	-	50
8% Irredeemable unsecured loan stock	-	5	-	5
B shares liability	10	12	10	12
	373	253	269	233
Long-term borrowings				
Secured loans				
12 year loan due 2018	1,142	1,186	-	-
25 year loan due 2031	897	895	-	-
Unsecured loans				
Loan from minority shareholder	-	45	-	-
Obligations under finance leases	51	52	-	-
	2,090	2,178	-	-
Total borrowings	2,463	2,431	269	233

Bank overdrafts and bank loans

Bank overdrafts are repayable on demand and bank loans have been repaid in the current financial year. Bank overdrafts (2006) and bank loans carry floating rates of interest.

Irredeemable unsecured loan stock

On 17 August 2006, the eight per cent irredeemable unsecured loan stock in an issue amount of £3 million was redeemed at a premium of £1.4 million.

B shares liability

Preference B shares were issued on 12 July 2004 as part of the return of share capital in that financial year. B shareholders have no voting rights except in a resolution for the winding up of the Company in the event of which they would be entitled to 35 pence per B share and the relevant proportion of the dividends outstanding.

A preference dividend calculated at the rate of 75 per cent of the six month LIBOR is paid in respect of outstanding B shares until their redemption which is fixed at 35 pence per B share. The redemption dates are 18 January and 18 July each year until 18 July 2007. The current preference dividend rate is 4.30 per cent (2006: 3.43 per cent).

Total preference dividend paid in respect of B shares amounted to £0.4 million (2006: £1 million).

A reconciliation of B shares liability for the 52 weeks to 24 March 2007 is shown below.

	2007 shares million	2006 shares million	2007 £m	2006 £m
Beginning of year	34	-	12	-
IAS 32 adjustment	-	382	-	133
Restated at beginning of year	34	382	12	133
B shares converted to deferred shares and subsequently cancelled	-	(320)	-	(112)
B shares redemption	(7)	(28)	(2)	(9)
End of year	27	34	10	12

20 Borrowings continued**Secured loans**

The Group's long term financing secured on 127 of its supermarket properties (note 11) comprises loans from two finance companies as follows

a fixed rate loan with an outstanding principal value of £1186 million (2006: £1203 million) at a weighted average rate of 4.97 per cent stepping up to 5.36 per cent from April 2013 (effective interest rate of 5.20 per cent and carrying amount of £1142 million (2006: £1186 million)) repayable over 11 years and

a loan with an outstanding principal value of £863 million (2006: £868 million) at a fixed rate of 2.36 per cent where principal and interest are uplifted annually by RPI with a cap at five per cent and floor at nil per cent (effective interest rate of 4.70 per cent and carrying amount of £897 million (2006: £895 million)) repayable over 24 years

The Group entered into three interest rate swaps to convert £782 million of the £1186 million (2006: £1203 million) loan from fixed to floating rates of interest. This transaction has been accounted for as a fair value hedge (note 30)

Loan from minority shareholder

At 24 March 2007 Sainsbury's Bank plc is equity accounted for as a joint venture (note 7) and hence the loan from minority shareholder is no longer reflected separately in the Group's balance sheet

Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2007 £m	2006 £m	2007 £m	2006 £m
Amounts payable under finance leases				
Within 1 year	3	3	–	–
Within 2 to 5 years inclusive	13	13	1	1
After 5 years	198	211	50	51
	214	227	51	52
Less: future finance charges	(163)	(175)		
Present value of lease obligations	51	52		
Disclosed as				
Current	–	–		
Non current	51	52		
	51	52		

Finance leases have effective interest rates of 4.30 per cent to 8.50 per cent (2006: 4.30 per cent to 9.00 per cent). The average remaining lease term is 7.8 years (2006: 9.9 years)

Borrowing facilities

In February 2007 the Group converted its existing £400 million 364 day revolving credit facility with a 12 month term out option into a new £400 million five year revolving credit facility. As at 24 March 2007 there were £nil drawings under this facility (2006: £nil drawings under 2006 bank facility)

21 Deferred taxation

The movements in deferred income tax assets and liabilities during the financial year prior to the offsetting of the balances within the same tax jurisdiction are shown below

Group	Accelerated tax depreciation £m	Fair value gains £m	Other £m	Total £m
Deferred income tax liabilities				
At 26 March 2006	(158)	(20)	(30)	(208)
Charge to income statement	(45)	–	(9)	(54)
Charge to equity	–	(7)	–	(7)
Part disposal of Sainsbury's Bank	–	–	(2)	(2)
Reclassification	3	(2)	2	3
At 24 March 2007	(200)	(29)	(39)	(268)
At 27 March 2005	(152)	(6)	(27)	(185)
IAS 39 adjustment	–	(7)	–	(7)
Restated at 27 March 2005	(152)	(13)	(27)	(192)
Charge to income statement	(6)	–	(3)	(9)
Charge to equity	–	(7)	–	(7)
At 25 March 2006	(158)	(20)	(30)	(208)

	Provisions £m	Retirement benefit obligations £m	Share-based payment £m	Tax losses £m	Total £m
Deferred income tax assets					
At 26 March 2006	22	227	13	1	263
(Charge)/credit to income statement	(5)	(127)	10	–	(122)
(Charge)/credit to equity	–	(52)	7	8	(37)
Part disposal of Sainsbury's Bank	–	–	–	(1)	(1)
Reclassification	(3)	–	–	–	(3)
At 24 March 2007	14	48	30	8	100
At 27 March 2005	22	161	1	–	184
(Charge)/credit to income statement	–	(9)	7	1	(1)
Credit to equity	–	75	5	–	80
At 25 March 2006	22	227	13	1	263
Net deferred income tax (liability)/asset					
At 24 March 2007					(168)
At 25 March 2006					55

21 Deferred taxation continued

Company	Fair value losses £m
Deferred income tax assets	
At 26 March 2006	7
Charge to income statement	(6)
At 24 March 2007	1
At 27 March 2005	–
IAS 39 adjustment	7
Restated at 27 March 2005	7
Charge to income statement or equity	–
At 25 March 2006	7

Deferred income tax assets have been recognised in respect of all income tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances on a net basis.

On 21 March 2007 the Chancellor announced that with effect from 1 April 2008 the standard rate of UK Corporation tax will reduce from 30 per cent to 28 per cent. Based on the reduced Corporation tax rate of 28 per cent the Group deferred tax liability at 24 March 2007 would reduce by less than £15 million.

22 Provisions

	Group				Company		
	Onerous leases £m	Restructuring and disposal provisions £m	Long service awards £m	Total £m	Onerous leases £m	Disposal provision £m	Total £m
At 26 March 2006	56	123	7	186	7	26	33
Charge to income statement							
- Additional provisions	8	–	–	8	–	–	–
- Unused amounts reversed	(5)	–	–	(5)	–	–	–
Utilisation of provision	(14)	(80)	–	(94)	–	(1)	(1)
Transfer to retirement benefit obligations (note 31)	–	(13)	–	(13)	–	–	–
Amortisation of discount	1	–	–	1	–	–	–
At 24 March 2007	46	30	7	83	7	25	32

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Disclosed as				
Current	14	91	2	2
Non current	69	95	30	31
	83	186	32	33

The onerous lease provision covers residual lease commitments of up to 27 years (2006: 28 years) after allowance for existing or anticipated sublet rental income.

The restructuring provisions of £5 million (2006: £97 million) relate to the Business Review and IT insourcing costs and are expected to be utilised in the financial year beginning 25 March 2007. The disposal provisions of £25 million (2006: £26 million) relate to indemnities arising from the disposal of subsidiaries, the timing of utilisation of which is uncertain.

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

23 Called up share capital and share premium account

	2007 million	2006 million	2007 £m	2006 £m
Group and Company				
Authorised share capital				
Ordinary shares of 28 ⁴ / ₇ pence each (2006 28 ⁴ / ₇ pence)	2,450	2,450	700	700
Preference B shares of 35 pence each (2006 35 pence)	2,100	2 100	735	735
Called up share capital				
Allotted and fully paid - ordinary shares	1,734	1 711	495	489
Share premium account				
Share premium			857	782

The movements in the called up share capital and share premium account are set out below

	Ordinary shares million	B shares million	Ordinary shares £m	B shares £m	Share premium £m
At 26 March 2006	1,711	-	489	-	782
Allotted in respect of share option schemes	23	-	6	-	75
At 24 March 2007	1,734	-	495	-	857
At 27 March 2005	1 702	382	487	133	761
IAS 32 adjustment	-	(382)	-	(133)	1
Restated at 27 March 2005	1 702	-	487	-	762
Allotted in respect of share option schemes	9	-	2	-	20
At 25 March 2006	1 711	-	489	-	782

In the prior financial year B shares were reclassified as short term borrowings (note 20) on adoption of IAS 32 Financial Instruments Disclosure and Presentation

24 Capital redemption and other reserves

	Group and Company			Group		
	Capital redemption reserve £m	Currency translation reserve £m	Actuarial gains/ (losses) £m	Available for sale assets £m	Cash flow hedge reserve £m	Total other reserves £m
At 26 March 2006	668	(1)	(90)	90	-	(1)
B shares redemption	2	-	-	-	-	-
Actuarial gains on defined benefit pension schemes	-	-	127	-	-	127
Available for sale financial assets fair value movements	-	-	-	17	-	17
At 24 March 2007	670	(1)	37	107	-	143
At 27 March 2005	547	(3)	90	-	-	87
IAS 39 adjustment	-	-	-	71	-	71
Restated at 27 March 2005	547	(3)	90	71	-	158
B shares redemption	121	-	-	-	-	-
Currency translation differences	-	2	-	-	-	2
Actuarial losses on defined benefit pension schemes	-	-	(180)	-	-	(180)
Available for sale financial assets fair value movements	-	-	-	19	-	19
Cash flow hedges						
effective portion of fair value movements	-	-	-	-	1	1
transferred to income statement	-	-	-	-	(1)	(1)
At 25 March 2006	668	(1)	(90)	90	-	(1)

25 Retained earnings

	Group			Company
	Own shares £m	Profit and loss account £m	Total retained earnings £m	Retained earnings £m
-				
At 26 March 2006	(84)	2 032	1 948	1 692
Profit for the year	-	325	325	190
Dividends paid	-	(140)	(140)	(140)
Share based payment	-	55	55	-
B shares redemption	-	(2)	(2)	(2)
Shares vested	1	-	1	-
Allotted in respect of share option schemes	-	(3)	(3)	-
At 24 March 2007	(83)	2,267	2,184	1,740
At 27 March 2005	(85)	2 097	2 012	1,696
IAS 32 and IAS 39 adjustments	-	(17)	(17)	(17)
Restated at 27 March 2005	(85)	2 080	1 995	1 679
Profit for the year	-	64	64	153
Dividends paid	-	(131)	(131)	(131)
Share based payment	-	28	28	-
B shares redemption	-	(9)	(9)	(9)
Shares vested	1	-	1	-
At 25 March 2006	(84)	2 032	1 948	1 692

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

The Group owned 23 567 107 (2006 24 224 676) of its ordinary shares of 28⁴/₇ pence nominal value each. At 24 March 2007 the total nominal value of the own shares was £6.7 million (2006 £6.9 million).

43 450 (2006 404 228) of the own shares are held by an ESOP trust on behalf of certain Directors and senior employees under the Group's Performance Share Plan. The remaining 23 523 657 shares (2006 23 820 448) are held by an ESOP trust for the Executive Share Option Plan. The ESOP trusts waive the rights to the dividends receivable in respect of the shareholder under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 24 March 2007 was £129.5 million (2006 £80.1 million).

26 Reconciliation of movements in equity

Group	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Equity shareholders funds £m	Minority interests £m	Total equity £m
At 26 March 2006	489	782	667	1 948	3,886	79	3 965
Profit for the year	-	-	-	325	325	(1)	324
Dividends paid	-	-	-	(140)	(140)	-	(140)
Share based payment	-	-	-	55	55	-	55
Part disposal of Sainsbury's Bank	-	-	-	-	-	(78)	(78)
Actuarial gains on defined benefit pension schemes	-	-	127	-	127	-	127
Available for sale financial assets							
fair value movements	-	-	17	-	17	-	17
B shares redemption	-	-	2	(2)	-	-	-
Shares vested	-	-	-	1	1	-	1
Allotted in respect of share option schemes	6	75	-	(3)	78	-	78
At 24 March 2007	495	857	813	2,184	4,349	-	4,349
At 27 March 2005	620	761	634	2 012	4 027	85	4 112
IAS 32 and IAS 39 adjustments	(133)	1	71	(17)	(78)	-	(78)
Restated at 27 March 2005	487	762	705	1,995	3 949	85	4 034
Profit for the year	-	-	-	64	64	(6)	58
Dividends paid	-	-	-	(131)	(131)	-	(131)
Share based payment	-	-	-	28	28	-	28
Currency translation differences	-	-	2	-	2	-	2
Actuarial losses on defined benefit pension schemes	-	-	(180)	-	(180)	-	(180)
Available for sale financial assets							
fair value movements	-	-	19	-	19	-	19
Cash flow hedges							
effective portion of fair value movements	-	-	1	-	1	-	1
transferred to income statement	-	-	(1)	-	(1)	-	(1)
B shares redemption	-	-	121	(9)	112	-	112
Shares vested	-	-	-	1	1	-	1
Allotted in respect of share option schemes	2	20	-	-	22	-	22
At 25 March 2006	489	782	667	1 948	3 886	79	3 965
Company	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m			Total equity £m
At 26 March 2006			489	782	668	1 692	3 631
Profit for the year			-	-	-	190	190
Dividends paid			-	-	-	(140)	(140)
B shares redemption			-	-	2	(2)	-
Allotted in respect of share option schemes			6	75	-	-	81
At 24 March 2007			495	857	670	1,740	3,762
At 27 March 2005			620	761	547	1 696	3 624
IAS 32 and IAS 39 adjustments			(133)	1	-	(17)	(149)
Restated at 27 March 2005			487	762	547	1 679	3 475
Profit for the year			-	-	-	153	153
Dividends paid			-	-	-	(131)	(131)
B shares redemption			-	-	121	(9)	112
Allotted in respect of share option schemes			2	20	-	-	22
At 25 March 2006			489	782	668	1 692	3 631

27 Notes to the cash flow statements

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

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Operating profit	520	229	6	48
Adjustments for				
Depreciation expense	479	449	2	3
Amortisation expense	21	21	-	-
Profit on sale of properties	(7)	(1)	(5)	(50)
Profit on part disposal of Sainsbury's Bank	(10)	-	(11)	-
Provision for diminution in value of investment	-	-	6	-
Foreign exchange differences	6	-	-	(30)
Share based payments expense	38	23	-	-
Operating cash flows before changes in working capital	1,047	721	(2)	(29)
Changes in working capital				
Increase in inventories	(12)	(17)	-	-
(Increase)/decrease in current available for sale financial assets	(45)	38	-	-
(Increase)/decrease in trade and other receivables	(50)	7	624	1,337
Decrease/(increase) in amounts due from Sainsbury's Bank customers and other banks	188	(805)	-	-
Increase/(decrease) in trade and other payables	314	83	(788)	1,808
(Decrease)/increase in amounts due to Sainsbury's Bank customers and other banks	(198)	819	-	-
Decrease in provisions and other liabilities ¹	(414)	(66)	-	-
Cash generated from operations	830	780	(166)	3,116

¹ Includes £240 million (2006: £110 million) of cash paid into the defined benefit pension schemes (note 31)

(b) Cash and cash equivalents

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

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Cash and cash equivalents	1,128	1,028	523	411
Bank overdrafts (note 20)	(363)	(186)	(259)	(166)
	765	842	264	245

28 Analysis of net debt

	26 March 2006 £m	Cash flow £m	Disposals £m	Other non-cash movements £m	24 March 2007 £m
Current assets					
Cash and cash equivalents (excluding Sainsbury's Bank)	862	266	-	-	1,128
Sainsbury's Bank cash and cash equivalents	166	(166)	-	-	-
	1,028	100	-	-	1,128
Current liabilities					
Bank overdrafts	(186)	(177)	-	-	(363)
Borrowings	(67)	57	-	-	(10)
Derivative financial instruments	(10)	-	-	8	(2)
	(263)	(120)	-	8	(375)
Non-current liabilities					
Borrowings	(2,081)	22	-	20	(2,039)
Finance leases	(52)	-	-	1	(51)
Loan from minority shareholder	(45)	-	45	-	-
Derivative financial instruments	(2)	-	-	(41)	(43)
	(2,180)	22	45	(20)	(2,133)
	(2,443)	(98)	45	(12)	(2,508)
Total net debt	(1,415)	2	45	(12)	(1,380)

Net debt incorporates the Group's borrowings (including accrued interest), bank overdrafts, fair value of derivatives and obligations under finance leases less cash and cash equivalents.

At 24 March 2007 Sainsbury's Bank plc is equity accounted for as a joint venture (note 7) and hence its net debt is not included within Group net debt.

Reconciliation of net cash flow to movement in net debt

	2007 £m	2006 £m
(Decrease)/increase in cash and cash equivalents	(77)	142
Decrease in debt	79	91
Loan disposed of with part disposal of Sainsbury's Bank	45	-
Repayment of finance leases	-	1
Other non-cash movements	(12)	(5)
Decrease in net debt before impact of IAS 32 and IAS 39	35	229
IAS 32 and IAS 39 adjustments to net debt	-	(203)
Decrease in net debt in the year	35	26
Opening net debt at the beginning of the year	(1,415)	(1,441)
Closing net debt at the end of the year	(1,380)	(1,415)

29 Financial risk management

Treasury management

Treasury policies are reviewed and approved by the Board. The Chief Executive and Chief Financial Officer have joint delegated authority from the Board to approve finance transactions up to £300 million.

The central treasury function is responsible for managing the Group's liquid resources, funding requirements and interest rate and currency exposures. Group policy permits the use of derivative instruments but only for reducing exposures arising from underlying business activity and not for speculative purposes.

Financial instruments

The Group holds or issues financial instruments to finance its operations and to manage the interest rate and currency risks associated with its sources of finance. Various other financial instruments e.g. trade receivables and payables also arise out of the Group's commercial operations.

The Group finances its operations by a combination of secured loans from finance companies, unsecured bank loans, share capital and cash generated by operating subsidiaries. The Group borrows in sterling at fixed floating and inflation linked rates of interest, using swaps and options where appropriate to generate the desired interest rate profile. The main risks arising from the Group's use of financial instruments include interest and foreign exchange rate risk, liquidity risk and credit risk.

Interest rate risk

The Group's exposure to interest rate fluctuations is managed through the use of interest rate swaps and options. The Group's objectives are to match the interest rate profiles of its borrowings to that of its revenues to minimise interest expense and reduce rate volatility by holding an appropriate mix of borrowings at fixed, floating and inflation linked rates of interest. Group policy provides that the relative proportion of fixed floating and inflation linked borrowings may be varied within defined bands around neutral benchmarks.

Currency risk

The Group incurs currency exposure in respect of overseas trade purchases made in currencies other than sterling. The Group uses a programme of rolling forward contracts to reduce the exchange rate risk associated with these purchases, which may be either contracted or not contracted. Gains and losses on these contracts are deferred in equity when the transaction qualifies for hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Liquidity risk

The Group's exposure to liquidity risk is managed by pre-funding cash flow requirements and maturing debt obligations, maintaining a diversity of funding sources and spreading debt repayments over a range of maturities.

The Group's core funding takes the form of term loans secured over property assets. Short-term funds are raised on the wholesale money markets. Contingent liquidity is maintained through a new £400 million five-year revolving credit facility entered into in February 2007. As at 24 March 2007 there were £nil drawings under this facility (2006: £nil drawings under 2006 bank facility).

Credit risk

The Group's exposure to credit risk is managed by limiting credit positions to banks or financial institutions carrying A1/P1 credit ratings. Counterparty exposures are monitored on a regular basis and dealing activity is controlled through the use of dealing mandates and the operation of standard settlement instructions.

Fair value estimation

The fair values of short-term deposits, receivables, overdrafts, payables and loans of a maturity of less than one year are assumed to approximate to their book values.

The fair value of interest rate swaps is based on the market price of comparable instruments at the balance sheet date if they are publicly traded. The fair value of the forward currency contracts has been determined based on market forward exchange rates at the balance sheet date.

In the case of bank loans and other loans due after more than one year, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of the other financial asset is based on the market values of the underlying property portfolio.

30 Financial instruments

	Group		Company	
	2007 £m	2006 £m	2007 £m	2006 £m
Derivative liabilities				
Current				
Interest rate swaps - non designated hedges	(2)	(10)	(2)	(10)
Non-current				
Interest rate swaps - fair value hedge	(43)	(2)	(43)	(2)

Interest rate swaps - non-designated hedges

The Group maintains two interest rate swaps that convert floating rate borrowings into fixed rates of interest. Under the terms of the first swap the Group pays a fixed rate of 4.09 per cent and receives three month LIBOR on £150 million to November 2030. The counterparty may exercise an option to cancel this swap on quarterly dates through to August 2030. Under the terms of the second swap the Group pays a fixed rate of 6.40 per cent and receives a fixed spread above six month LIBOR on £100 million to July 2008. The counterparty may exercise an option to cancel this swap in July 2007.

Interest rate swaps - fair value hedge

The Group has entered into three interest rate swaps to convert a total of £782 million of the fixed rate secured loan due in 2018 to floating rates of interest (note 20). Under the terms of the swaps the Group receives fixed interest at rates varying from 4.86 per cent to 5.22 per cent and pays floating rate interest at fixed spreads above three month LIBOR. The notional principal amount of one of the interest rate swaps amortises from £421 million to £221 million from April 2016 to April 2018.

Foreign exchange forward contracts - cash flow hedges

At 24 March 2007 the Group held a portfolio of foreign exchange forward contracts with a fair value of £(0.4) million (2006: £0.2 million) to hedge its exposure to foreign exchange rate risk on its future highly probable trade purchases. The Group has purchased €110 million (2006: €136 million) and sold sterling at rates ranging from 0.68 to 0.71 (2006: 0.69 to 0.70) with maturities from April 2007 to January 2008 (2006: April to November 2006) and purchased US\$66 million (2006: US\$48 million) and sold sterling at rates ranging from 1.79 to 1.98 (2006: 1.72 to 1.79) with maturities from April 2007 to February 2008 (2006: April to November 2006).

At 24 March 2007 an unrealised loss of £0.1 million (2006: gain of £0.2 million) is included in equity in respect of these contracts. These losses will be transferred to the income statement over the next 11 months from balance sheet date.

Interest rate risk

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument. The other financial instruments of the Group and Company that are not included in the tables below are non interest bearing and are therefore not subject to interest rate risk.

The following tables set out the carrying amount by maturity of the financial instruments that are exposed to interest rate risk.

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Group					
2007					
Floating rate					
Cash and cash equivalents	1,128	-	-	-	1,128
Other receivables	-	-	20	30	50
Bank overdrafts	(363)	-	-	-	(363)
B shares liability	(10)	-	-	-	(10)
Secured loan due 2031 ²	(5)	-	(25)	(867)	(897)
Interest rate swaps on secured loan due 2018	-	-	-	(782)	(782)
Other interest rate swaps ¹	-	100	-	150	250
Fixed rate					
Secured loan due 2018	(35)	(25)	(85)	(997)	(1,142)
Interest rate swaps on secured loan due 2018	-	-	-	782	782
Other interest rate swaps ¹	-	(100)	-	(150)	(250)
Finance lease obligations	-	-	(1)	(50)	(51)

1. Other interest rate swaps cancellable at the option of the counterparty.

2. Principal redemption profile of inflation linked loan based on RPI projections at balance sheet date.

30 Financial instruments continued

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m	Total £m
Group					
2006					
Floating rate					
Cash and cash equivalents	1 028	-	-	-	1 028
Amounts due from Sainsbury's Bank customers and other banks	754	-	-	198	952
Bank overdrafts	(186)	-	-	-	(186)
Bank loan	(50)	-	-	-	(50)
B shares liability	(12)	-	-	-	(12)
Secured loan due 2031	(7)	(7)	(29)	(852)	(895)
Interest rate swaps on secured loan due 2018	-	-	-	(782)	(782)
Other interest rate swaps ¹	-	-	100	150	250
Loan from minority shareholder	-	-	(18)	(27)	(45)
Amounts due to Sainsbury's Bank customers and other banks	(2 299)	-	-	-	(2 299)
Fixed rate					
Available for sale financial assets	52	-	-	-	52
Amounts due from Sainsbury's Bank customers and other banks	1 408	339	590	72	2 409
Irredeemable unsecured loan stock	(5)	-	-	-	(5)
Amounts due to Sainsbury's Bank customers and other banks	(404)	(483)	(122)	-	(1 009)
Secured loan due 2018	(17)	(27)	(89)	(1 053)	(1 186)
Interest rate swaps on secured loan due 2018	-	-	-	782	782
Other interest rate swaps ¹	-	-	(100)	(150)	(250)
Finance lease obligations	-	-	(1)	(51)	(52)
Company					
2007					
Floating rate					
Cash and cash equivalents	523	-	-	-	523
Amounts due from Group entities	50	-	-	-	50
Other receivables	-	-	20	30	50
Bank overdrafts	(259)	-	-	-	(259)
B shares liability	(10)	-	-	-	(10)
Amounts due to Group entities	(3,763)	-	-	-	(3,763)
Interest rate swaps on amount due to Group entity in 2018	-	-	-	(782)	(782)
Other interest rate swaps ¹	-	100	-	150	250
Fixed rate					
Amounts due from Group entities	209	-	-	869	1,078
Amount due to Group entity in 2018	-	-	-	(740)	(740)
Other payables	(5)	-	-	-	(5)
Interest rate swaps on amount due to Group entity in 2018	-	-	-	782	782
Other interest rate swaps ¹	-	(100)	-	(150)	(250)
2006					
Floating rate					
Cash and cash equivalents	411	-	-	-	411
Amounts due from Group entities	47	-	22	33	102
Bank overdrafts	(166)	-	-	-	(166)
Bank loan	(50)	-	-	-	(50)
B shares liability	(12)	-	-	-	(12)
Amounts due to Group entities	(5 024)	-	-	-	(5 024)
Interest rate swaps on amount due to Group entity in 2018	-	-	-	(782)	(782)
Other interest rate swaps ¹	-	-	100	150	250
Fixed rate					
Amounts due from Group entities	-	314	-	1 382	1 696
Amount due to Group entity in 2018	-	-	-	(782)	(782)
Irredeemable unsecured loan stock	(5)	-	-	-	(5)
Interest rate swaps on amount due to Group entity in 2018	-	-	-	782	782
Other interest rate swaps ¹	-	-	(100)	(150)	(250)

¹ Other interest rate swaps cancellable at the option of the counterparty

Notes to the financial statements continued

30 Financial instruments continued

Foreign currency risk

The Group has net euro denominated trade creditors of £12 million (2006 £5 million) and US dollar denominated trade creditors of £(5) million (2006 £4 million)

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all financial instruments that are carried in the financial statements at other than fair values. The fair values of short term deposits, receivables, overdrafts, payables and loans of a maturity of less than one year are assumed to approximate to their book values and are excluded from the analysis below

	Group		Company	
	Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
2007				
Financial assets				
Amounts due from Group entities	-	-	869	869
Other receivables	50	50	50	50
Financial liabilities				
Amounts due to Group entities	-	-	(740)	(740)
Secured loans ¹	(2,039)	(2,088)	-	-
Obligations under finance leases	(51)	(51)	-	-
2006				
Financial assets				
Amounts due from Sainsbury's Bank customers	1,473	1,473	-	-
Amounts due from Group entities	-	-	1,751	1,751
Financial liabilities				
Amounts due to Sainsbury's Bank customers and other banks	(1,009)	(1,009)	-	-
Amounts due to Group entities	-	-	(782)	(782)
Secured loans ¹	(2,081)	(2,081)	-	-
Loan from minority shareholder	(45)	(45)	-	-
Obligations under finance leases	(52)	(52)	-	-

¹ Includes £782 million accounted for as a fair value hedge

31 Retirement benefit obligations

Retirement benefit obligations relate to two funded defined benefit schemes: the J Sainsbury Pension and Death Benefit Scheme (JSPDBS) and the J Sainsbury Executive Pension Scheme (JSEPS) and an unfunded pension liability relating to senior employees. The defined benefit schemes were closed to new employees on 31 January 2002. The assets of these schemes are held separately from the Group's assets.

The defined benefit schemes were subject to a triennial valuation carried out by Watson Wyatt, the schemes' independent actuaries, at March 2006 on the projected unit basis. The results of this valuation are expected to be approved by the schemes' trustees in June 2007. The retirement benefit obligations at 24 March 2007 have been calculated, where appropriate, on a basis consistent with this draft valuation.

The unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

As part of the £350 million one-off contribution to the defined benefit schemes, the Group made the second tranche payment of £240 million on 19 May 2006 (2006: £110 million paid on 24 March 2006).

The amounts recognised in the balance sheet are as follows:

	2007 £m	2006 £m
Present value of funded obligations	(4,395)	(4,361)
Fair value of plan assets	4,298	3,710
	(97)	(651)
Present value of unfunded obligations	(6)	(7)
Retirement benefit obligations	(103)	(658)
Deferred income tax asset	48	227
Net retirement benefit obligations	(55)	(431)

The retirement benefit obligations and the associated deferred income tax asset are shown within different line items on the face of the balance sheet.

31 Retirement benefit obligations continued

The amounts recognised in the income statement are as follows

	2007 £m	2006 £m
Current service cost - funded schemes	(76)	(68)
Current service cost - unfunded scheme	-	(1)
Past service cost	(11)	(12)
Included in employee costs (note 6)	(87)	(81)
Past service gains on defined benefit schemes (note 6)	72	-
Total included in employee costs	(15)	(81)
Interest cost on pension scheme liabilities	(212)	(190)
Expected return on plan assets	253	213
Total included in finance income (note 5)	41	23
Total income statement income/(expense)	26	(58)

Of the expense recognised in operating profit £11 million (2006 £65 million) is included in cost of sales and £4 million (2006 £16 million) is included in administrative expenses

The actual return on pension scheme assets net of expenses was £342 million (2006 £644 million)

The amounts recognised in the statement of recognised income and expense are as follows

	2007 £m	2006 £m
Net actuarial gains/(losses) recognised during the year	179	(255)
Cumulative actuarial gains/(losses) recognised	52	(127)

The movements in the funded retirement benefit obligations are as follows

	2007 £m	2006 £m
Beginning of year	(4,361)	(3,503)
Current service cost	(76)	(68)
Past service cost	(11)	(12)
Past service gains (note 7)	72	-
Interest cost	(212)	(190)
Contributions by plan participants	(11)	(8)
Actuarial gains/(losses)	90	(683)
Benefits paid	127	103
Transfer from provisions (note 22)	(13)	-
End of year	(4,395)	(4,361)

The movements in the fair value of plan assets are as follows

	2007 £m	2006 £m
Beginning of year	3,710	2,976
Expected return on plan assets	253	213
Actuarial gains	89	428
Contributions by employer	362	188
Contributions by plan participants	11	8
Benefits paid	(127)	(103)
End of year	4,298	3,710

31 Retirement benefit obligations continued

The principal actuarial assumptions used at the balance sheet date are as follows

	2007 %	2006 %
Discount rate	5.3	4.9
Expected return on plan assets	6.6	6.6
Future salary increases	3.00	2.85
Future pension increases	2.35-3.00	2.50-2.85

A movement of 0.5 per cent in the discount rate would increase or decrease the retirement benefit obligations by £500 million

The combined life expectancy for both the schemes operated at the balance sheet date for a pensioner at normal retirement age is as follows

	2007 years	2006 years
Male pensioner	21.4	19.3
Female pensioner	22.9	21.7

In line with the scheme's experience and the generally observed trend amongst the population, a greater allowance for future longevity has been adopted in respect of the current mortality of pensioners. The effect of this change is to assume that a typical pensioner will live a further 0.9 years from normal retirement age. This allowance has had the impact of increasing the retirement benefit obligations by £196 million compared to using the previous mortality assumptions.

The profile of members and the salary and pension increase assumptions have been updated from the last triennial valuation. The impact of these changes is to reduce the retirement benefit obligations by £59 million. Movements in financial assumptions have resulted in a reduction in retirement benefit obligations of £108 million with a further actuarial gain on plan assets of £89 million.

Based on past experience, the Group has made the assumption that 80 per cent of the schemes' members will elect to surrender one quarter of their pension for a cash lump sum payment. The impact of this commutation assumption is to reduce the retirement benefit obligations by £119 million.

These items have been recognised in the Group statement of recognised income and expense.

In addition, following changes introduced by the Finance Act effective from 6 April 2006, the defined benefit schemes have implemented revised terms to provide members with the option to surrender a greater proportion of their pension for a tax-free cash lump sum payment. The impact of this change and other minor changes to scheme rules has been to reduce retirement benefit obligations by £72 million. This change has resulted in past service gains of £72 million being recognised in the income statement (note 7).

The major categories of plan assets as a percentage of total plan assets are as follows

	2007 %	2006 %
Equities	52	62
Bonds	37	33
Property	4	4
Other	7	1
	100	100

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking view of the financial markets (as suggested by the yield available) and the views of investment organisations.

The history of experience adjustments on the plans for the current and previous financial years is as follows

	2007 £m	2006 £m	2005 £m
Present value of retirement benefit obligations	(4,401)	(4,368)	(3,512)
Fair value of plan assets	4,298	3,710	2,976
Deficit	(103)	(658)	(536)
Experience loss on plan liabilities	(236)	(27)	(6)
Experience gain on plan assets	89	428	134

The expected contributions to defined benefit schemes for the next financial year beginning 25 March 2007 are £105 million.

32 Share-based payments

The Group recognised £38 million (2006 £23 million) of employee costs (note 6) related to share based payment transactions made during the financial year

National insurance contributions are payable in respect of certain share based payments transactions and are treated as cash settled transactions. At 24 March 2007 the carrying amount of national insurance contributions payable was £14 million (2006 £4 million) of which £2 million (2006 £1 million) was in respect of vested grants

The Group operates various share based payment schemes as set out below

(a) Savings Related Share Option Scheme ("SAYE")

The Group operates a Savings Related Share Option Scheme, which is open to all UK employees with more than three months continuous service. This is an approved HMRC Scheme and was established in 1980. Under the SAYE scheme participants remaining in the Group's employment at the end of the three year or five year savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price. Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

At 24 March 2007 UK employees held 21,833 five year savings contracts (2006 24,033) in respect of options over 20.5 million shares (2006 21.6 million) and 24,919 three year savings contracts (2006 23,265) in respect of options over 14.1 million shares (2006 13.8 million).

A reconciliation of option movements is shown below

	2007		2006	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	35.4	237	33.2	248
Granted	9.1	328	13.2	231
Forfeited	(4.3)	236	(4.4)	239
Exercised	(4.4)	272	(3.6)	264
Expired	(1.3)	278	(3.0)	288
Outstanding at end of year	34.5	256	35.4	237
Exercisable at end of year	3.4	247	1.7	278

The weighted average share price during the period for options exercised over the year was 510 pence (2006 317 pence).

Details of options at 24 March 2007 are set out below

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2007 million	2006 million
28 November 2000 (5 year period)	31 August 2006	299	–	1.1
20 December 2001 (5 year period)	31 August 2007	302	0.4	2.6
3 January 2003 (3 year period)	31 August 2006	239	–	0.6
3 January 2003 (5 year period)	31 August 2008	239	3.0	3.3
17 December 2003 (3 year period)	31 August 2007	241	0.4	2.6
17 December 2003 (5 year period)	31 August 2009	241	3.0	3.3
15 December 2004 (3 year period)	31 August 2008	217	3.5	4.1
15 December 2004 (5 year period)	31 August 2010	217	4.3	4.8
15 December 2005 (3 year period)	31 August 2009	231	5.3	6.6
15 December 2005 (5 year period)	31 August 2011	231	5.6	6.4
15 December 2006 (3 year period)	31 August 2010	328	4.8	–
15 December 2006 (5 year period)	31 August 2012	328	4.2	–
			34.5	35.4

32 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:

	2007	2006
Share price at grant date (pence)	409	306
Exercise price (pence)	328	231
Expected volatility - 3 year period (%)	18.0	23.9
- 5 year period (%)	25.5	27.3
Option life - 3 year period (years)	3.2	3.2
- 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	2.3	2.7
Risk free interest rate - 3 year period (%)	4.2	4.2
- 5 year period (%)	4.2	4.2
Fair value per option - 3 year period (pence)	105	91
- 5 year period (pence)	132	103

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) Colleague Share Option Plan ("CSOP")

The Colleague Share Option Plan operates under the rules of the HMRC Approved Discretionary Share Option Scheme. Under the CSOP, participants are granted options to purchase shares of the Company at a stated exercise price. The exercise of options is conditional upon participants remaining in the employment of the Group for a three year period after date of grant. Colleagues leaving employment for certain reasons have six months from their leaving date to exercise their options.

At 24 March 2007, a total of 17,793 UK employees (2006: 54,817) participated in the plan and held options over 5.7 million shares (2006: 18.6 million). Options have been exercised in respect of 7.9 million (2006: 32,058) ordinary shares during the year. Options are exercisable between three and ten years from the date of the grant of option. It is intended that there will be no further options granted under this plan.

A reconciliation of option movements is shown below:

	2007		2006	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	18.6	366	21.9	366
Forfeited	(4.8)	363	(3.3)	365
Exercised	(7.9)	369	-	-
Expired	(0.2)	371	-	-
Outstanding at end of year	5.7	365	18.6	366
Exercisable at end of year	5.7	365	18.6	366

The weighted average share price during the period for options exercised over the year was 500 pence (2006: 310 pence).

Details of options at 24 March 2007 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2007 million	2006 million
2 August 1999	1 August 2009	378	5.0	16.6
2 June 2000	1 June 2010	272	0.7	2.0
			5.7	18.6

32 Share-based payments continued**(c) Executive Share Option Plan ("ESOP")**

Under the Executive Share Option Plan participants were granted options to purchase shares in the Company at a stated exercise price. The maximum annual option award was two times basic salary and the grants were agreed by the Remuneration Committee according to the assessed performance and potential of participants.

The exercise of options is conditional upon a performance target based on the growth in the Company's underlying earnings per share (EPS) relative to inflation over a three year period. EPS is measured against a fixed starting point over the performance period beginning with the year in which the option was granted. To the extent that the condition is not satisfied in full after three years, it will be retested on a fixed point basis over four and then five financial years. To the extent the condition is not met after five financial years the option will lapse.

Once the options vest participants remaining in the Group's employment or leaving for certain reasons are entitled to exercise the options between vesting date (normally at the end of the three year performance period) and the option expiry date which is ten years from date of grant. It is intended that there will be no further options granted under this plan.

A reconciliation of option movements is shown below.

	2007		2006	
	Number of options million	Weighted average exercise price pence	Number of options million	Weighted average exercise price pence
Outstanding at beginning of year	36.8	358	93.9	313
Forfeited	(0.5)	400	(50.2)	278
Exercised	(11.5)	356	(4.9)	265
Expired	(4.4)	343	(2.0)	475
Outstanding at end of year	20.4	362	36.8	358
Exercisable at end of year	12.2	420	26.0	393

The weighted average share price during the period for options exercised over the year was 460 pence (2006: 296 pence).

Details of options at 24 March 2007 are set out below.

Date of grant	Date of expiry	Exercise price pence	Options outstanding	
			2007 million	2006 million
20 May 1997	19 May 2007	367	0.7	2.2
11 November 1997	10 November 2007	489	0.1	0.1
10 November 1998	9 November 2008	545	2.4	2.9
2 August 1999	1 August 2009	378	1.8	4.2
24 November 1999	23 November 2009	320	—	0.1
2 June 2000	1 June 2010	272	1.1	5.0
7 June 2001	6 June 2011	427	2.9	5.5
26 July 2001	25 July 2011	407	3.2	6.1
25 July 2002	24 July 2012	287	3.7	5.3
22 May 2003	21 May 2013	257	3.1	4.0
20 May 2004	19 May 2014	275	1.4	1.4
			20.4	36.8

32 Share-based payments continued**(d) Performance Share Plan ("PSP")**

The Performance Share Plan is a long term incentive scheme through which shares are awarded to senior managers on a conditional basis. Under the PSP participants remaining in the Group's employment or leaving for certain reasons are entitled to receive a grant of options after a performance period of three years to acquire the shares awarded to them at any time during the ten years following the date of grant.

The participant's entitlement to receive the grant depends on the Company's Total Shareholder Return (TSR) - being the increase in the value of a share, including reinvested dividends, compared with a peer group of 12 companies (namely Ahold, Alliance Boots, Carrefour, Casino, DSG International, GUS, Kingfisher, Loblaws, Marks & Spencer, Morrisons, Next and Tesco) over the three year performance period.

If the median performance of the TSR against the comparator group is not achieved at the end of the three year performance period, the entitlement to receive the grant of options will lapse. At median level, shares to the value of 30 per cent of salary will be released and the award will be pro-rated at every position between the median and first position in the comparator group. The maximum allocation for Directors is a conditional grant of shares equal to 75 per cent of salary. No further allocations will be made under this plan.

A reconciliation of the number of shares conditionally allocated is shown below.

	Number of shares	
	2007 million	2006 million
Outstanding at beginning of year	2.2	3.7
Forfeited	(0.2)	(1.5)
Released to participants	(0.6)	-
Lapsed	(0.5)	-
Outstanding at end of year	0.9	2.2

Details of shares conditionally allocated at 24 March 2007 are set out below.

Date of conditional allocation	Shares conditionally allocated	
	2007 million	2006 million
22 May 2003	-	1.1
20 May 2004	0.9	1.1
	0.9	2.2

Conditional awards of shares that have fulfilled all conditions at the end of the performance period are represented by options granted to participants to acquire the shares awarded to them. Details of the options outstanding at year end are set out below.

Date of grant ¹	Date of expiry	Exercise price pence	2007		2006	
			Options	Shares in respect of options granted	Options	Shares in respect of options granted
29 May 2002 ¹	28 May 2012	100	-	-	1	15,857
17 May 2006 ²	16 May 2016	-	1	13,187	-	-
			1	13,187	1	15,857

1. Options granted in respect of shares conditionally allocated on 26 July 1999.

2. Options granted in respect of shares conditionally allocated on 22 May 2003.

(e) All Employee Share Ownership Plan

In June 2003, under the All Employee Share Ownership Plan, free shares were awarded to UK employees with more than 12 months' continuous service. The free shares are being held in a trust on behalf of participants and will be forfeited if participants cease to remain in the Group's employment for a period of three years. Shares are released to participants within the first three years for certain reasons. After the three year period, the shares continue to be held by the trust for a further holding period of two years, unless they are released to participants upon cessation of employment with the Group.

A reconciliation of shares held in the trust is shown below.

	Number of shares	
	2007 million	2006 million
Outstanding at beginning of year	1.7	1.9
Forfeited	(0.1)	(0.2)
Released to participants	(0.1)	-
Outstanding at end of year	1.5	1.7

32 Share-based payments continued**(f) J Sainsbury plc Share Plan 2005**

Under the J Sainsbury plc Share Plan 2005, shares were awarded to participants on the conditional basis that the performance targets are achieved within the four year performance period from the financial year beginning 27 March 2005 until the financial year ending March 2009. The levels of awards are scaled according to seniority and there is an opportunity for Executive Directors and eligible Operating Board members to make a personal investment of up to 50 per cent of salary in the plan.

The awards will vest if stretching sales and earnings per share (EPS) targets are achieved as shown in table 1 below. The relevant performance multiplier which is on a sliding scale up to a maximum of five times, will be calculated and applied to the core award of shares as well as the personal investment of shares i.e. shares acquired by Executive Directors and eligible Operating Board members. Further there is an opportunity for partial vesting of up to half the award, if the accelerated performance targets have been met at the end of year three (i.e. financial year ending March 2008) as shown in table 2. No awards will vest unless threshold levels of growth in both sales and EPS are achieved.

Once performance targets have been achieved, options will be granted to participants remaining in the Group's employment or leaving for certain reasons to acquire the shares awarded to them at nil cost. The options will expire within a year after the end of the four year performance period. Dividends will accrue on the shares that vest in the form of additional shares.

In order to participate in the plan, participants agreed to surrender options granted to them under the Company's Executive Share Option Plan in 2002, 2003 and 2004.

Table 1 - Maturity vesting (multiplier applied to the shares)

Sales growth in £ billion	4 year EPS growth (compound annual)					
	<5%	5%	10%	14%	17%	21%
2.50	0.0	1.0	2.0	3.0	4.5	5.0
2.25	0.0	1.0	1.5	2.5	4.0	5.0
2.00	0.0	0.0	1.5	2.0	3.0	4.5
1.75	0.0	0.0	1.5	2.0	2.5	4.0
1.50	0.0	0.0	1.0	1.5	2.0	3.0
1.25	0.0	0.0	0.0	1.0	1.5	2.5
1.00	0.0	0.0	0.0	0.0	1.0	2.0

Table 2 - Interim vesting (multiplier applied to 50% of the shares)

Sales growth in £ billion	3 year EPS growth (compound annual)					
	<5%	5%	10%	15%	20%	25%
2.50	0.0	1.0	2.0	3.0	4.5	5.0
2.25	0.0	1.0	1.5	2.5	4.0	5.0
2.00	0.0	0.0	1.5	2.0	3.0	4.5
1.75	0.0	0.0	1.5	2.0	2.5	4.0
1.50	0.0	0.0	1.0	1.5	2.0	3.0
1.25	0.0	0.0	0.0	1.0	1.5	2.5
1.00	0.0	0.0	0.0	0.0	1.0	2.0

A reconciliation of the number of shares conditionally allocated is shown below.

	Number of shares	
	2007 million	2006 million
Outstanding at beginning of year	7.0	-
Conditionally allocated	-	7.0
Forfeited	(0.5)	-
Outstanding at end of year	6.5	7.0

Details of shares conditionally allocated at 24 March 2007 are set out below.

Date of conditional award	Shares conditionally allocated	
	2007 million	2006 million
13 July 2005	6.5	7.0

32 Share-based payments continued

Options to acquire the conditional award of shares were valued using the Black Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

	2007	2006
Share price at grant date (pence)	-	286
Exercise price (pence)	-	-
Expected volatility (%)	-	29.0
Option life (years)	-	4.1
Expected dividends (expressed as dividend yield %)	-	-
Risk-free interest rate (%)	-	4.3
Fair value per option (pence)	-	286

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.

(g) Long-Term Incentive Plan 2006

Under the Long Term Incentive Plan 2006, shares were conditionally awarded to the top 1,000 managers in the Company, from the Chief Executive to the supermarket store managers. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

The awards will vest if the threshold levels of two co-dependent performance conditions – Return on Capital Employed (ROCE) and growth in cash flow per share, are achieved over the three year performance period. As set out in table 3 below, the core award can grow by up to four times, dependent on the level of performance. Straight line vesting will apply if performance falls between two points.

Performance will be measured at the end of the three year performance period. If the required level of performance has been reached, the awards vest and 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will be released on the fourth anniversary of the date of award. Options granted to acquire the award of shares will expire two years from vesting date. Dividends will accrue on the shares that vest in the form of additional shares.

Table 3 - Level of awards

	3 year cash flow per share (compound annual)				
ROCE	6%	9%	12%	15%	>18%
>=14%	1.5	2.5	3.0	3.5	4.0
13%	1.0	1.5	2.0	3.0	3.5
12%	0.5	1.0	1.5	2.0	3.0
11%	0.0	0.5	1.0	1.5	2.5
10%	0.0	0.0	0.5	1.0	1.5

Details of shares conditionally awarded at 24 March 2007 are set out below:

Date of conditional award	Shares conditionally awarded million
13 July 2006	2.5

Options to acquire the award of shares were valued using the Black Scholes option pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

	2007
Share price at grant date (pence)	335
Exercise price (pence)	-
Expected volatility (%)	29.0
Option life (years)	4.1
Expected dividends (expressed as dividend yield %)	-
Risk-free interest rate (%)	4.7
Fair value per option (pence)	335

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.

33 Acquisition of subsidiary

On 30 June 2006 the Group acquired 100 per cent of the shares in Culcheth Provision Stores Ltd for a total cash consideration of £3 million net of cash acquired (note 12)

34 Related party transactions

Group

(a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc Board of Directors and the Operating Board

The key management personnel compensations is as follows

	2007 £m	2006 £m
Short term employee benefits	7	8
Post employment employee benefits	1	1
Share-based payments	7	6
	15	15

Details of transactions in the normal course of business with the key management personnel are provided below. For this purpose key management personnel include Group key management personnel and members of their close family

	Credit card balances		Savings deposit accounts	
	Number of key management personnel	£000	Number of key management personnel	£000
At 26 March 2006	4	9	2	(1)
Amounts advanced/(received) ¹	4	115	1	(769)
Interest earned/(paid)	1	-	2	(3)
Amounts (repaid)/withdrawn ²	4	(116)	1	486
At 24 March 2007	4	8	2	(287)
At 27 March 2005	5	11	4	(487)
Amounts advanced/(received) ¹	6	249	3	(97)
Interest earned/(paid)	3	1	4	(18)
Amounts (repaid)/withdrawn ²	6	(252)	3	601
At 25 March 2006	4	9	2	(1)

¹ Includes existing balances of new appointments

² Includes existing balances of resignations

(b) Joint ventures

In the current financial year the Company sold a five per cent shareholding in Sainsbury's Bank plc (the Bank) to the Bank of Scotland (a wholly owned subsidiary of HBOS plc) and consequently the Bank became a 50/50 joint venture between the Company and HBOS plc (note 7)

Transactions with joint ventures

For the 52 weeks to 24 March 2007 the Group entered into various transactions with joint ventures as set out below

	2007 £m	2006 £m
Services and loans provided to joint ventures		
Sales of inventories	4	3
Management services provided	3	-
Services and loans provided by joint ventures		
Management services received	-	(1)

34 Related party transactions continued**Year-end balances arising from transactions with joint ventures**

	2007 £m	2006 £m
Receivables		
Other receivables	4	1
Loans due from joint ventures		
Floating rate subordinated undated loan capital ¹	20	–
Floating rate subordinated dated loan capital ²	30	–
Payables		
Loans due to joint ventures	(5)	(5)

1 The undated subordinated loan capital shall be repaid on such date as the Financial Services Authority shall agree in writing for such repayment and in any event not less than five years and one day from the dates of draw down. In the event of a winding up of Sainsbury's Bank plc the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 1.0 per cent per annum for the duration of the loan.

2 No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Financial Services Authority. In the event of a winding up of Sainsbury's Bank plc the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 0.6 per cent per annum for the duration of the loan.

(c) HBOS plc group

In the prior financial year and up to 8 February 2007 of the current financial year Sainsbury's Bank plc was a subsidiary of the Company and had as shareholders the Company and Bank of Scotland (part of the HBOS plc group) which held 55 per cent and 45 per cent respectively of the issued share capital.

Transaction with the HBOS plc group

Companies within the HBOS plc group provided both management and banking services to Sainsbury's Bank. Sainsbury's Bank also entered into financial transactions with, and earned commission from, companies within the HBOS plc group, all under normal commercial terms.

	2007 £m	2006 £m
Loans given to, and commission received from HBOS plc group		
Total loans and advances made during the year	5,589	8,961
Net interest received in respect of interest rate swaps, loans and advances	40	16
Commission income earned	18	7
Services and loans provided by HBOS plc group		
Management and banking services	(40)	(52)
Interest expense paid in respect of subordinated loan capital	(2)	(3)
Deposits by banks		
Short term borrowing	–	(66)
Fixed term borrowing	(79)	(1,007)
Subordinated undated loan capital ¹	–	(9)
Net interest paid in respect of interest rate swaps, loans and advances	(36)	(21)

Year-end balances arising from transaction with the HBOS plc group

	2007 £m	2006 £m
Receivables		
Current account	–	7
Loans and advances	–	996
Interest receivable	–	4
Commission receivable	–	1
Payables		
Management and banking services	–	(18)
Interest payable	–	(5)
Deposits by banks		
Fixed term borrowing	–	(1,009)
Subordinated liabilities due		
Floating rate subordinated undated loan capital ¹	–	(18)
Floating rate subordinated dated loan capital ²	–	(27)

1 The undated subordinated loan capital shall be repaid on such date as the Financial Services Authority shall agree in writing for such repayment and in any event not less than five years and one day from the dates of draw down. In the event of a winding up of Sainsbury's Bank plc the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 1.9 per cent per annum for the duration of the loan.

2 No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Financial Services Authority. In the event of a winding up of Sainsbury's Bank plc the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 0.75 per cent per annum for the duration of the loan.

34 Related party transactions continued**Company****(a) Key management personnel**

The key management personnel of the Company comprise members of the J Sainsbury's plc Board of Directors. The Directors do not receive any remuneration from the Company (2006: £nil) as their emoluments are borne by subsidiaries. The Company did not have any transactions with the Directors during the financial year (2006: nil).

(b) Subsidiaries

The Company enters into loans with its subsidiaries at both fixed and floating rates of interest on a commercial basis. Hence the Company incurs interest expense and earns interest income on these loans and advances. The Company also received dividend income from its subsidiaries during the financial year.

Transactions with subsidiaries

	2007 £m	2006 £m
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	69	1,399
Loans and advances repaid by subsidiaries	(802)	(3,104)
Loans and advances disposed of with part disposal of Sainsbury's Bank	(50)	–
Interest income received in respect of interest bearing loans and advances	127	110
Dividend income received	270	270
Loans and advances received from subsidiaries		
Loans and advances received	(1,559)	(3,448)
Loans and advances repaid	2,167	1,650
Interest expense paid in respect of interest bearing loans and advances	(224)	(154)

Year end balances arising from transactions with subsidiaries

	2007 £m	2006 £m
Receivables		
Loans and advances due from subsidiaries	1,243	1,899
Payables		
Loans and advances due to subsidiaries	(5,203)	(5,856)

(c) Joint ventures

In the current financial year, the Company sold a five per cent shareholding in Sainsbury's Bank plc (the 'Bank') to the Bank of Scotland (a wholly owned subsidiary of HBOS plc) and consequently the Bank became a 50/50 joint venture between the Company and HBOS plc (note 7).

Year end balances arising from transactions with joint ventures

	2007 £m	2006 £m
Receivables		
Other receivables	1	–
Loans due from joint ventures		
Floating rate subordinated undated loan capital ¹	20	–
Floating rate subordinated dated loan capital ²	30	–
Payables		
Loans due to joint ventures	(5)	(5)

¹ The undated subordinated loan capital shall be repaid on such date as the Financial Services Authority shall agree in writing for such repayment and in any event not less than five years and one day from the dates of draw down. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 10 per cent per annum for the duration of the loan.

² No repayment of dated subordinated debt prior to its stated maturity may be made without the consent of the Financial Services Authority. In the event of a winding up of Sainsbury's Bank plc, the loan is subordinated to ordinary unsecured liabilities. Interest is payable three months in arrears at LIBOR plus a margin of 10 per cent per annum for the duration of the loan.

35 Operating lease commitments

The Group leases various retail stores, offices, depots and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

	Land and buildings		Other leases	
	2007 £m	2006 £m	2007 £m	2006 £m
Commitments under non cancellable operating leases payable as follows				
Within 1 year	291	283	42	29
Within 2 to 5 years inclusive	1,125	1,113	82	62
After 5 years	4,679	4,817	7	-
	6,095	6,213	131	91

The Group sublets certain leased properties and the total future minimum sublease payments to be received under non cancellable subleases at 24 March 2007 are £262 million (2006: £267 million).

The Company does not have any operating lease commitments (2006: nil).

36 Capital commitments

During the current financial year, the Group entered into contracts of £305 million (2006: £477 million) for future capital expenditure not provided for in the financial statements.

The Company does not have any capital commitments (2006: nil).

37 Contingent liabilities and financial commitments

Contingent liabilities

Operating lease commitments (note 35) include payments in respect of 26 supermarket properties sold (16 supermarket properties sold in March 2000 for £325 million and ten supermarket properties sold in July 2000 for £226 million) and leased back to Sainsbury's Supermarkets for a period of 23 years. Under the arrangement, the Company has provided a residual value guarantee of £170 million for the 16 supermarket properties and £39 million for the ten supermarket properties at the end of the lease period.

In view of the relatively low amount of the guarantees when compared to the present market value of the freehold interests, the Directors believe that the likelihood of the guarantees being invoked is remote; therefore no provision has been recognised in these financial statements.

Financial commitments

The financial commitments of Sainsbury's Bank plc, a 50 per cent joint venture of the Group, are set out below.

Sainsbury's Bank

The amounts noted below indicate the volume of business outstanding at the balance sheet date in respect of undrawn commitments to lend on credit cards, mortgages and personal loans. They do not reflect the underlying credit or other risks which amounted to £7 million (2006: £9 million) as indicated by the risk weighted amount using the Financial Services Authority's capital adequacy requirement. The risk weighted amount is much lower than the contractual amount since the majority of commitments are cancellable, either at any time or up to and including one year.

	2007 £m	2006 £m
Commitments to lend on credit cards, mortgages and personal loans up to and including one year		
Contract amount	3,193	3,404
Risk weighted amount	7	9

Five year financial record

	IFRS			UK GAAP		
	2007	2006	2005	2005	2004	2003 ¹
Financial results (£m)						
Revenue²	18,518	17,317	16,573	16,573	18,239	18,144
Revenue (inc VAT) - continuing operations	18,518	17,317	16,364	16,364	15,517	15,147
Underlying operating profit						
Sainsbury's Supermarkets	429	352	308	321	564	572
Sainsbury's Bank	2	(10)	17	13	26	22
	431	342	325	334	590	594
Underlying net finance costs ³	(51)	(75)	(88)	(92)	(60)	(60)
Share of post tax profit from joint ventures	-	-	1	1	-	3
Underlying profit from continuing operations⁴	380	267	238	243	530	537
Increase on previous year (%)	42.3	12.2	n/a			
Underlying profit from discontinued operations	-	-	11	11	145	158
Underlying profit before tax⁵	380	267	249	254	675	695
Increase/(decrease) on previous year (%)	42.3	7.2	n/a	(62.4)	(2.9)	10.8
Earnings per share						
Basic (pence)	19.2	3.8	4.1	3.5	20.7	23.7
(Decrease)/increase on previous year (%)	405.3	(7.3)	n/a	(83.1)	(12.7)	24.1
Underlying basic (pence)	14.7	10.5	8.3	9.0	23.4	24.2
Increase/(decrease) on previous year (%)	40.0	26.5	n/a	(61.5)	(3.3)	12.6
Proposed dividend per share ⁶ (pence)	9.75	8.00	7.80	7.80	15.69	15.58
Retail statistics for UK food retailing						
Number of outlets at financial year-end						
Sainsbury's Supermarkets ⁷						
over 40 000 sq ft sales area	178	166	158	158	157	152
25 001 - 40 000 sq ft sales area	163	168	176	176	163	162
15 000 - 25 000 sq ft sales area	91	88	79	79	77	79
under 15 000 sq ft sales area	356	330	314	314	186	105
	788	752	727	727	583	498
Sales area (000 sq ft)						
Sainsbury's Supermarkets ⁷	17,364	16,725 ⁹	16,370	16,370	15,570	15,199
Net increase on previous year						
Sainsbury's Supermarkets ⁷ (%)	3.8	2.2	5.1	5.1	2.4	5.9
New Sainsbury's Supermarkets ⁷ openings	40	34	36	36	35	39
Sainsbury's Supermarkets' sales intensity (including VAT)⁸						
Per square foot (£ per week)	17.59	16.70	16.38	16.38	16.66	17.12

¹ Revenue in 2003 has been restated for the change in accounting policy in accordance with FRS 5 (Application to the Group)

² Includes VAT at Sainsbury's Supermarkets and sales tax at Sainsbury's Supermarkets

³ Net finance costs pre-financing fair value movements and one-off items that are material and infrequent in nature

⁴ IFRS Profit before tax from continuing operations before any gain or loss on the sale of properties, impairment of goodwill, financing fair value movements, and one-off items that are material and infrequent in nature

⁵ UK GAAP Underlying profit before tax is stated before exceptional items

⁶ Total proposed dividend in relation to the financial year

⁷ Includes all convenience stores

⁸ Excluding petrol and restated to include £=518 adjustment

⁹ Reflects size adjustments

Additional shareholder information

End of year information at 24 March 2007

Number of shareholders 127 354 (2006 140 920)

Number of shares in issue 1,734,239 672 (2006 1 710 516 638)

By size of holding

	Shareholders %		Shares %	
	2007	2006	2007	2006
500 and under	67.62	64.84	0.57	0.65
501 to 1,000	12.59	13.31	0.69	0.81
1 001 to 10,000	18.31	20.35	3.34	4.20
10,001 to 100 000	0.95	1.03	1.86	2.24
100 001 to 1,000 000	0.36	0.34	8.68	9.53
Over 1 000 000	0.17	0.13	84.86	82.57
	100.00	100.00	100.00	100.00

By category of shareholder

	Shareholders %		Shares %	
	2007	2006	2007	2006
Individual and other shareholders	96.04	94.86	21.91	31.17
Insurance companies	0.05	0.05	0.03	0.03
Banks and Nominees	3.52	4.61	69.71	54.82
Investment Trusts	0.03	0.04	0.01	0.01
Pension Funds	0.01	0.02	0.13	0.26
Other Corporate Bodies	0.35	0.42	8.21	13.71
	100.00	100.00	100.00	100.00

Annual General Meeting ("AGM")

The AGM will be held at 11.00am on Wednesday 11 July 2007 at The Queen Elizabeth II Conference Centre Broad Sanctuary Westminster London SW1P 3EE. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report.

Company website

J Sainsbury plc interim and annual reports and results announcements are available on our website (www.j.sainsbury.co.uk). As well as providing share price data and financial history, the site also provides background information about the Company, regulatory and news releases and current issues. Shareholders can receive email notification of results and press announcements as they are released by registering on the page called Email news service in the Investor section of the website.

Registrar

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.

Telephone 0870 702 0106 (www.computershare.com)

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 Plan and some 31,157 shareholders participate in it. Full details of the Plan and its charges, together with mandate forms, are available from the Registrar.

Key dates for the final dividend are as follows:

Last date for return or revocation of Plan mandates	29 June 2007
Plan shares purchased for participants	20 July 2007
Plan share certificates issued	2 August 2007

Individual Savings Account ("ISA")

A corporate ISA is available from The Share Centre Ltd and offers a tax efficient way of holding shares in the Company. Both a Maxi and Mini ISA are available. For further information contact The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB.

Telephone 01296 414141 or freephone 08000 282812 and quote Sainsbury's.

Low cost share dealing service

The Company offers a low cost share dealing service for J Sainsbury plc ordinary shares through The Share Centre Ltd. For further information contact The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB.

Telephone 01296 414141 or freephone 08000 282812 and quote Sainsbury's.

Additional shareholder information continued

ShareGift

Shareholders who wish to donate shares to charity can do so through ShareGift the independent charity share donation scheme (registered charity no 1052686). Further information about ShareGift may be obtained from Computershare Investor Services PLC or from ShareGift on 020 7337 0501 or at www.sharegift.org. There are no implications for capital gains tax purposes (on gain or loss) on gifts of shares to charity and it is also possible to claim income tax relief.

Tax information – Capital Gains Tax ("CGT")

For CGT purposes the market value of ordinary shares on 31 March 1982 adjusted for all capital adjustments was 91.99 pence and B shares 10.941 pence.

Share capital consolidation

The original base cost of shares apportioned between ordinary shares of 28⁴/₇ pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding comes into existence. The market value for CGT purposes of any share or security quoted on the Stock Exchange Daily Official List is generally the lower of the two quotations on any day plus one quarter of the difference between the values.

On Monday 19 July 2004 the values were determined as follows:

New ordinary shares 257.50 pence

B shares 35 pence

Investor relations

For investor enquiries please contact Elliot Jordan, Head of Investor Relations, J Sainsbury plc, Store Support Centre, 33 Holborn, London EC1N 2HT.

American Depositary Receipts ("ADRs")

The Company has a sponsored Level 1 ADR programme for which The Bank of New York acts as depositary.

The ADRs are traded on the over the counter (OTC) market in the US under the symbol JSYNSY, where one ADR is equal to four ordinary shares.

All enquiries relating to ADRs should be addressed to:

The Bank of New York, Investor Relations, PO Box 11258,
Church Street Station, New York, NY 10286-1258. Toll Free
Telephone # for domestic callers 1 888 BNY ADRS
International callers can call +1 610 382 7836
Email shareowners@bankofny.com

General contact details

An audio tape of the Annual Review and Summary Financial Statement can be obtained by calling 01435 862 737.

Annual Reports, Interim Reports and information on corporate responsibility are all available on our website (www.j.sainsbury.co.uk) and by calling 0800 015 4330.

Share price information is available on the Company's website, in the financial press and the Cityline service operated by the Financial Times (Telephone 0906 003 3904).

For general enquiries about Sainsbury's Bank call 0500 405 060.

For any customer enquiries please contact our Customer Careline by calling 0800 636 262.

Additional shareholder information continued

Electronic communications for shareholders

The Company has set up a facility for shareholders to take advantage of electronic communications

If you would like to

- check the balance and current value of your shareholding and view your dividend history
- register your email address so that future shareholder information can be sent to you electronically
- submit your vote online prior to a general meeting

Log on to (www.j-sainsbury.co.uk) and complete the following steps

- 1 click on Investors
- 2 click on Shareholder Services
- 3 click on Computershare
- 4 enter the required information and click on submit. You will need your 11 character shareholder reference number located on your latest tax voucher
- 5 click on Electronic Shareholder Communication and register online

Registered office

J Sainsbury plc
33 Holborn
London EC1N 2HT
Registered number 185647

Solicitors

Linklaters
One Silk Street
London EC2Y 8HQ

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Stockbrokers

UBS
1 Finsbury Avenue
London EC2M 2PP

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Financial calendar 2007/08

Dividend and interest payments

Ordinary dividend

Ex dividend date	23 May 2007
Record date	25 May 2007
Final dividend payable	20 July 2007
Interim dividend payable	January 2008

B shares

Last redemption date	18 July 2007
Interest payment date	18 July 2007

Other dates

Annual General Meeting - London	11 July 2007
Interim results announced	14 November 2007
Interim report available	November 2007
Annual General Meeting - Birmingham	15 July 2008

Glossary

'Active Kids' – Our nationwide scheme to help inspire school children to take more exercise and to eat more healthily. Now in its third year of operation. 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

ADR – American Depositary Receipt – The over the counter traded US security

AGM – Annual General Meeting – This year the AGM will be held on Wednesday 11 July 2007 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am

B shares – Preference B shares issued on 12 July 2004 as part of the Return of Capital scheme in 2004/05

'basics' – Sainsbury's core sub-brand range of products

'BGT' – 'Be Good to Yourself' – Sainsbury's healthier alternative sub-brand range of products. Products fall into one of three categories: those with less than 3% fat, those with less calories, salt and saturated fat than standard lines, or plus products that are fortified with added ingredients (including pre-biotics, pro-biotics and Omega 3)

CMBS – Commercial Mortgage Backed Securities
Company – J Sainsbury plc

CC – Competition Commission – An independent public body which conducts in depth inquiries into mergers, markets and the major regulated industries. The CC is undertaking an investigation into the supply of groceries by retailers in the UK.
www.competition-commission.org.uk

CR – Corporate responsibility – The need to act responsibly in managing the impact on a range of stakeholders – customers, colleagues, investors, suppliers, the community and the environment

Debt restructuring – On 24 March 2006 the Group raised new long term financing secured on 127 of its supermarkets

'Different by design' – Sainsbury's general merchandise brand which mirrors the premium 'Taste the difference' food range

Dividend cover – Underlying profit after tax from continuing operations attributable to equity shareholders divided by total value of dividends declared during the year

DRIP – Dividend Reinvestment Plan – Allows shareholders to reinvest their cash dividend in shares of the Company through a specially arranged share dealing service

EPS – Earnings per share – Earnings attributable to ordinary shareholders 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

Easter adjustment – To adjust for the timing of Easter falling on 16 April 2006 and 8 April 2007

ESOP trusts – Employee Share Ownership Plan trusts

Fairtrade – The FAIRTRADE label is an independent consumer label that guarantees a fair deal for marginalised workers and small scale farmers in developing countries. Producers receive a minimum price that covers the cost of production and an extra premium that is invested in the local community. www.fairtrade.org.uk

Fair value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

'freefrom' – Sainsbury's range of products guaranteed to be wheat, gluten or dairy free

FSA – Food Standards Agency

FTSE4Good – The FTSE Group, an indexing company, runs the FTSE4Good index series to measure the performance of companies that meet CR standards and to facilitate investment in those companies. www.ftse.com/ftse4good

GDAs – Guideline Daily Amounts

Gearing – Net debt divided by total equity

Group – The Company and its subsidiaries

IFRIC – International Financial Reporting Interpretations Committee

IFRS – International Financial Reporting Standard(s)

IGD – Institute of Grocery Distribution

Income statement – Formerly known as the profit and loss account under UK GAAP

ISA – Individual Savings Account

Joint venture – A business jointly owned by two or more parties

Like-for-like sales – The measure of year on year same store sales growth

LTIP – Long Term Incentive Plan

MTL – Multiple traffic lights – Nutritional labels which provide effective, at a glance, information customers need to make healthier choices when shopping. 4/5/0 Sainsbury's products carry our Wheel of Health MTL label

Organic – Organic farming prohibits the use of artificial fertilisers, pesticides, growth regulators and additives in livestock feed. The International Federation of Organic Agriculture Movements (IFOAM) accredits national organic certifying bodies

Pipeline – Sites which the Group has an interest in developing in the future

ROCE – Return on Capital Employed

RPI – Retail Price Index

'Sainsbury's SO organic' – Sainsbury's organic sub-brand range of products

SORIE – Statement of recognised income and expense

TSR – Total Shareholder Return – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock

'Ttd' – 'Taste the difference' – Sainsbury's premium sub-brand range of products

'Try something new today' – The marketing campaign in support of Making Sainsbury's Great Again

TU' – Sainsbury's own label clothing range

UK GAAP – UK Generally Accepted Accounting Principles

Underlying basic earnings per share – Profit after tax from continuing operations attributable to equity holders before any gain or loss on the sale of properties, impairment of goodwill, financing fair value movements and one off items that are material and infrequent in nature, divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the ESOP trusts which are treated as cancelled

Underlying profit before tax – Profit before tax from continuing operations before any gain or loss on the sale of properties, impairment of goodwill, financing fair value movements and one off items that are material and infrequent in nature

Underlying operating profit/(loss) – Underlying profit before tax from continuing operations before finance income and finance costs

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