J Sainsbury plc

Annual Report and Financial Statements 2023

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Helping everyone eat better

John James and Mary Ann Sainsbury set up Sainsbury's in 1869 with a desire to bring good food at affordable prices to everyone, and this is as important today as it was all those years ago.

So driven by our passion for food, we will serve and help every customer, giving them delicious, great quality food at great prices all year round.

Our focus on great value food and convenient shopping, whether in-store or online is supported by our brands – Argos, Habitat, Tu, Nectar and Sainsbury's Bank. Sainsbury's has around 600 supermarkets and over 800 convenience stores. Argos is a leading digital retailer and last year was the third most visited retail website in the UK, with over 70 per cent of its sales starting online. Argos products are conveniently available for customers to collect from hundreds of Sainsbury's stores. Our digital and technology capabilities enable us to adapt as customers shop differently and our profitable, fast-growing online channels offer quick and convenient delivery and collection.

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

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Performance highlights

5.2%

Retail sales growth (inc. fuel) versus the 2021/22 financial year. Excluding fuel sales increased 2.0%

£690m

Underlying profit before tax, down 5% versus the 2021/22 financial year and up 18% versus the 2019/20 financial year

£327m

Statutory profit before tax versus £854 million in the 2021/22 financial year and versus £278 million in the 2019/20 financial year

£926m

Retail operating profit, down 7% versus the 2021/22 financial year and down 1% versus the 2019/20 financial year

23.0p

Underlying basic earnings per share, up 16% versus 19.8p in the 2019/20 financial year, but down 9% versus 25.4p in 2021/22. Basic earnings per share 9.0p

7.6%

Return on capital employed, down 80bps versus the 2021/22 financial year and up 20bps versus the 2019/20 financial year

£34.5m

Raised for good causes

£560m

Invested over two years in value

51.4%

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

£225m

Investment decisions in colleague pay and benefits over the past year

10m+

Meals donated through Neighbourly

Read more about our KPIs on page 36.

Find out more at
www.about.sainsburys.co.uk/ar2023

Chair's letter

Chair Martin Scicluna reviews the business activity in the year.

A year of progress

Two years into our plan to put food back at the heart of Sainsbury's, I remain hugely impressed by the passion of our colleagues and the quality of our team under Simon's leadership as we deliver on our priorities and make bold decisions to develop and grow the business.

Just as we began to experience a more normal operating environment in the aftermath of COVID 19, we encountered the most challenging economic conditions seen for a very long time. The ongoing war in Ukraine is disrupting global supply chains and impacting the prices of essential commodities such as food and fuel, leading to rapid inflation. The cost of living crisis continues to have a huge impact and rising interest rates mean it is a really tough economic environment for customers, colleagues and suppliers alike.

In November 2020 our Chief Executive Simon Roberts and the Operating Board set out an ambitious three-year plan to put food back at the heart of our business. They have done an excellent job at continuing to deliver against the key metrics we set out over two years ago. Grocery is a fiercely competitive market and it takes time to build a value proposition – actions we took when we launched our plan are why we are able to deliver genuine value for our customers now, when it really matters. As a result of our bold and deliberate price investments, we have grown our volume market share and customers are benefitting from our much improved position on price.

Throughout these challenging times, our colleagues have continued to deliver for our customers and I would like to thank them all for their exceptional service and commitment. They are at the core of everything we do at Sainsbury's and their dedication is critical to the long-term success of our business.

We are committed to doing all we can to support them, particularly in the current environment. This is why we have made pay and benefit investment decisions totalling £225 million over the last year. We led the industry on colleague pay and were the first major supermarket to pay colleagues above the Living Wage nationally and at the Living Wage in London. As a result of the scale of our overall investment, pay for frontline retail colleagues has increased 44 per cent over seven years. Simon and our leadership team are especially passionate about this topic and it has been a big focus for the business this year.

The industry is facing unprecedented pressures and we are working closely with all our suppliers so that we can better understand the challenges they are facing. I firmly believe that prioritising financial support to our farmers is the right thing to do to ensure that they have the confidence and resources to be able to invest in supplying our customers, both now and in the future. Over the last 12 months we have done a huge amount to support our suppliers with rising costs and also to help secure supply, heavily investing in the British suppliers who produce our beef, poultry, pork and dairy to make sure our customers can still find great products on our shelves.

In such extraordinary times, it is only right that we balance the needs of all our stakeholders and we are extremely mindful of the importance of shareholders as well as customers, colleagues and suppliers. Our strong balance sheet enables us to reinvest in the business, positioning Sainsbury's for long-term resilience and continuing to deliver value for shareholders.

As we look ahead to the coming year, we are hoping for a period of greater stability. In February, we welcomed the positive news on The Windsor Framework, which hopefully will help to simplify processes and reduce friction when we move products between Great Britain and Northern Ireland. We are working hard to ensure that as a result of the Framework, the customers in our 12 Northern Ireland stores are able to access the full range of products, at the same great prices, as customers in Great Britain.

However, all retailers, both big and small, are facing soaring costs and supply chain pressures and we have consistently said that we need an urgent and fundamental reform of business rates. While the freeze to the business rates multiplier for this year and the reform of Transitional Relief are steps in the right direction, we firmly believe that much more still needs to be done. Business Rates reform would not only prevent store closures and protect much-needed jobs, but for Sainsbury's and many other food retailers, a reduction in rates would also enable greater investment into keeping food prices low for customers at this critical time.

Strategic update

Today, we are two years into our three-year plan to transform Sainsbury's and put food back at the heart of the business and Simon and his team are making impressive progress. They are delivering on our priorities and continue to make bold decisions to speed up the pace of change and development across the business. They have simplified operations and ensured our cost savings programme remains on track, so that we can invest at scale where it matters most; our people, driving service for customers and supporting our suppliers.

We are building brands that deliver and support investments in our wider customer offer. Argos, Habitat, Tu, Nectar and Sainsbury's Bank are all contributing positively in their own right, supporting our ambition in food. Our brands have always had a great reputation for value and as our customers continue to watch their spending, we're focused on making sure our price points are more competitive than ever.

In order to further simplify the business and reduce costs, there have unfortunately been difficult decisions to make. In January, we announced plans to close the Argos business in the Republic of Ireland, as trading and performance had become increasingly challenged and operating costs continued to rise. These decisions are not made lightly, but it is important to be able to save money and reinvest where it can make the biggest difference for the future.

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

Building a Business for the Future

In June 2021, we launched our sustainability strategy, Plan for Better, a core part of our broader strategy to put food back at the heart of Sainsbury's. Our Plan for Better commitment is a key driver in the development of our business as the environmental and social challenges that are facing the world have never been greater. The food we eat and how that food is produced, sourced, packaged and disposed of has major consequences. By Helping everyone eat better we are committing to playing a leading role in offering delicious, affordable food that supports healthy and sustainable diets and helps customers reduce their impact on the planet one plate at a time.

SIGNATURE REMOVED

At COP26 in November 2021, where we were the Principal Supermarket Partner, we signed up to WWF's Retailers' Commitment for Nature, a joint commitment to halve the environmental impact of UK shopping baskets by 2030. Building on that commitment, this year we have updated our targets to align to a 1.5-degree climate commitment across all scopes and timeframes and announced a new shared Climate Action Programme to drive progress in our collective supply chains. Our Food Commercial division has also set out individual category level targets across our priority areas, including plastic, health, food waste and carbon Scope 3, to ensure full accountability for delivery of our commitments and enable accelerated action.

We're continuing to work towards our goal to become Net Zero across our operations by 2035 and have made bold steps over the past year towards this. In July 2022, we introduced the Sainsbury's Innovation Investments initiative to support start-up businesses commercialising sustainable technologies and this year, for the ninth consecutive year, we were pleased to be awarded an A rating for our Climate Change CDP submission and were the only UK food retailer to have achieved this.

Following the human rights saliency assessment we carried out last year, we have also strengthened our ambition on human rights and launched new commitments that address our most relevant human rights risks and emerging issues that affect people within our supply chain.

On a more local level, we launched our new community and partnerships programme, Nourish the Nation, in response to the rising cost of living, to help provide food and urgent support to those most in need. Working with longstanding charity partners Comic Relief, FareShare and other key redistribution partners, we are providing funding to initiatives designed to tackle food insecurity and ensure communities have access to balanced, nutritional and sustainable food sources, now and in the future.

Diversity, Equity & Inclusion has also been a longstanding priority for Sainsbury's and we make sure that inclusion is led from the very top and is recognised in everything we do. So that Sainsbury's remains a leading inclusive retailer, we have developed our Diversity and Inclusion strategy and set ambitious targets to increase representation of women to 50 per cent for senior leaders and 43 per cent for senior management positions by 2024. This is coupled with an Ethnically Diverse representation target of 12 per cent and a Black representation target of 3 per cent for both senior leaders and senior management positions.

In the latest FTSE Women Leaders review we came third with 50.7 per cent senior women across our combined executive committee and direct reports. Only 23 FTSE 100 companies have met or exceeded the 40 per cent target. We were at 36.4 per cent in 2019 and ranked 56th, so I am really proud to see such good progress over the last few years, as we work towards our targets for gender balance across our senior leadership team.

We report on our Plan for Better progress every six months and you can read more about what we have delivered this year on pages 13 to 28.

Financial Review

We delivered a strong performance this year against a comparative which benefited last year from elevated COVID-19 sales. Underlying profit before tax was £690 million, down 5 per cent versus FY2021/22 and at the top end of our £630 million to £690 million guidance range. The strength of our ongoing cost savings programme, and lower finance charges, allowed us to mitigate the impact of rising operating cost inflation while also investing to help customers and colleagues.

Statutory revenue was up 5.3 per cent to £31,491 million. Statutory profit before tax was £327 million versus £854 million in FY2021/22. This 62 per cent decline reflects the impact of non-cash asset impairments, driven by a material increase in discount rates, and exceptional income from legal settlements received in the prior year.

We achieved strong Retail Free Cash Flow of £645 million and average Free Cash Flow delivery in the three years to March 2023 of £644 million. Retail Free Cash Flow includes the £50 million dividend paid from Sainsbury's Bank to the Group in April 2022. We remain on track to deliver at least £500 million Retail Free Cash Flow per year.

We delivered non-lease Net Debt reduction of £285 million, closing the year in a Net Funds position of £144 million. Underlying basic earnings per share was 23.0p and basic earnings per share was 9.0p.

ⓘ More information on our financial performance can be found in the Financial Review on pages 38 to 43.

Delivering for our shareholders

The Board proposes a final dividend of 9.2p per share, bringing the full-year dividend to 13.1p per share. Our policy to pay a dividend of around 60 per cent of underlying earnings has allowed us to maintain a full year dividend which is flat year-on-year, despite a decline in earnings, and reflects our commitment to deliver strong dividends for shareholders.

Remuneration

When determining incentive outcomes and total remuneration received by the Executive Directors, the Remuneration Committee considers a number of factors including executive pay in the context of the broader workforce, investments and the perspectives of our stakeholders. It also ensures that payments reflect the Company's underlying performance.

Simon's remuneration for the year reflects the strong performance of the business and the progress we have made against our strategy. Under Simon's leadership, Sainsbury's is a fundamentally stronger business. Our grocery market share has continued to increase and we have significantly improved our price position against all our competitors. Simon has demonstrated outstanding drive and determination to do the right thing for our customers, colleagues, communities and shareholders and on behalf of the Board I would like to thank him for his continued hard work and considerable achievements.

ⓘ For more information on this year's remuneration awards, please see pages 90 to 113.

Board changes

After six years as Chief Financial Officer at Sainsbury's, Kevin O'Byrne confirmed his intention to retire in July last year. Following Kevin's retirement, Bláthnaid Bergin joined the Board in March 2023 as our new Chief Financial Officer, having joined Sainsbury's in 2019 as Group Director of Finance before moving to Commercial and Retail Finance Director in 2021.

I would like to thank Kevin for his major contribution to Sainsbury's since he joined the board in 2017. He has led a transformation in our financial performance and balance sheet such that we are now in a materially stronger position as we look to the future.

Conclusion

Finally, I would like to once again thank all of my colleagues, including our Operating Board and Simon, for their huge efforts and support over the past year. You are at the heart of everything we do at Sainsbury's and your dedication to serving and helping every customer is critical to the long-term success of our business.

Martin Scicluna
Chair

Chief Executive's letter

In a year dominated by the cost of living crisis, Simon Roberts explains how Sainsbury's is delivering for customers, colleagues, communities and shareholders.

Since Sainsbury's was founded in 1869, we have always played a major role in the communities we serve and helped our customers feed their families. I believe our role today is more important than ever and that's why we take our commitment to Helping everyone eat better so seriously. Our priority is to offer great value, high quality food and the strategic plan we set out in November 2020 to put food back at the heart of Sainsbury's was designed to deliver for our customers, colleagues, communities and shareholders.

Our strategy is underpinned by five priorities, which provide a clear roadmap for all our teams to measure progress against our plan. I'm pleased to report that our strategic priorities are guiding us to make the right decisions to deliver over the long-term and are supporting us to invest for those who need it right now.

FIVE STRATEGIC PRIORITIES

Given the major cost of living challenges that millions of households are continuing to face, staying connected to our customers, colleagues and suppliers has been my biggest priority this year. We have taken a food first and people first approach to every decision, consistently listening to our customers and colleagues. We have made clear choices and deliberate investments throughout the year to make a real difference, supporting with the cost of living and at the same time, driving forward our performance and profitability.

Every day, customers have been telling us that they are watching every penny and every pound and the biggest thing we can do is keep prices low so that they can feed their families with affordable, good quality food. That's why we have stepped up our promise to deliver better value, investing over £560 million over the past two years, £10 million more than the commitment we announced in December. Whilst we have seen such rapid inflation across the market, we have consistently ensured that our food prices have inflated at a slower rate than our key competitors[1]. The ongoing impacts of inflation are going to be with us for some time, but I can assure our customers that we will continue to stand by them and do everything we can to keep our prices low.

At the same time as prioritising support for our customers, we have done the same for our colleagues. Throughout the year, our senior leadership team and I have spent much of our time listening to colleagues across all our stores, depots and Store Support Centres around the country. Colleagues have said that they are committed to providing the best service to customers, but that they are also worried about paying their own household bills. That is why we acted in September with a second pay rise and put in place an extensive cost of living package to support colleagues through the winter and beyond, with free food available during shifts and deeper discounts at Argos and Sainsbury's to help our colleagues save more on their shopping. In January, we raised colleague pay again for the third time in a year, increasing our rate of pay ahead of the Living Wage and making us the first major supermarket to do so.

In total, we have announced a £225 million investment over the last year in increasing colleague pay and improving benefits. Of course there is a cost to make these vital changes, but I see this commitment as an essential investment in our brand and our business. We care deeply about our colleagues as they are so fundamental to our success every single day. The changes we made have been positively received across our 152,000 colleagues and are helping our teams to feel more engaged, with colleague engagement and motivation improving year-on-year and customer satisfaction for friendliness, speed and availability also improving as a result.

We are proud of the longstanding relationships we have with so many of our suppliers and we are deeply committed to these partnerships. Over the last 12 months, our suppliers have navigated ongoing pressures across supply chains as a result of the war in Ukraine, rising costs of labour and energy and the wider impacts of inflation and we know it has been very tough for many of them. That's why we have prioritised additional financial support for many key food supply chains, giving £66.4 million of additional support to British meat, dairy and produce farmers over the last year. We really care about British farmers and producers and we know they are absolutely critical to the UK food system. We will keep pushing ourselves to do all we can to support them, helping to maintain a resilient British food industry for the future and ensuring our customers can continue to find all the products they expect on our shelves.

The decisions and investments we have made over the past year have helped us to deliver results in the short term, but they are also moving us closer to our longer-term goals, which is why they are so important. More customers are shopping with us, our colleagues are more engaged and more productive and we have stronger partnerships and relationships with our suppliers. As a result, our grocery volume market share has improved relative to other large supermarket competitors, we are improving profitability across our brands, we have competed strongly in Food and General Merchandise and we have delivered strong financial results, creating long-term value for our shareholders.

Food First: Putting food back at the heart of Sainsbury's

Before we launched our plan, it was clear that too many of our customers felt they could get better value by doing their food shopping elsewhere and we made it our mission to change that. The progress we're making in putting food back at the heart of the business and the investments we have made in keeping prices low have led to more customers shopping with us and staying with us when they see the value Sainsbury's now offers.

I hear from customers up and down the country that they are relying on us to help them feed their households on much tighter budgets. That's why we're prioritising price investment through campaigns like Aldi Price Match. At the end of December we launched our biggest campaign yet, matching around 300 products with a focus on fresh items customers buy most often, including chicken breasts, mince, fruit and vegetables, milk and eggs so that they feel confident doing more of their weekly shop with us.

At the same time, customers are spending more time eating at home. That's why we made product innovation such a key part of our plan and over the last two years we have built a brilliant team of product developers, who last year successfully launched nearly 1,400 new food products, including exciting new ranges and more extensive vegetarian and vegan options. We've been bolder for all the key events and we have offered more choice and quality for our customers, with a big emphasis on Taste the Difference, which has outperformed the market through major events including Christmas and last year's Jubilee[2]. We delivered our third winning Christmas[3], gaining share from our competitors and importantly, we are learning all the time about how we can do an even better job in serving and delivering for our customers at these key moments.

The investments we are making, fuelled by our cost saving programme, are driving popular campaigns like Aldi Price Match and Price Lock and bringing thousands of new products to customers, but we're not stopping there. Retail has never been more competitive and we are determined to maintain the strong momentum we now have and consistently deliver the best value, quality and service for all our customers.

Brands that Deliver: Supporting our core food business

Our five brands – Argos, Habitat, Tu Clothing, Sainsbury's Bank and Nectar are central to our plan as they each make progress in delivering for customers and shareholders in their own right. As the performance of these brands has improved, they increasingly support our commitment to make the necessary investments to put Food First. As more customers shop for food with us, they also buy more products from our brands because of the value, range and convenience we offer. Our focus on making our brands stronger and more profitable in their own right has provided us with the firepower to invest in better value, innovation and service for customers.

Argos continues to perform strongly, following the acceleration of its transformation and as a result is now a much more profitable business than prior to the pandemic. We have closed 45 standalone stores and opened 24 Argos stores in supermarkets and we're benefiting from the reduction in rents and rates. Argos is now in over 1,000 different locations around the UK and the certainty of Fast Track delivery, often under four hours, and Click & Collect has been very well received by customers. We've expanded our UK network of Local Fulfilment Centres to 17, revolutionising our logistics and fulfilment network to provide faster deliveries and better availability. Our transformation programme is giving customers a better experience and customer satisfaction scores are consistently up on last year.

Tu Clothing passed the landmark of £1 billion in sales this year, as we've focused on growing a stronger online presence and working with more third-party brands to offer better value and more regularly updated ranges for customers. We gained value share in a number of homeware categories[4], despite discretionary spending being under pressure. Habitat launched nearly 3,000 new products this year and customer feedback continues to be strong. Financial Services is a more focused business compared to pre-pandemic. Although its loan book is smaller, revenue is back in line and expenses are lower.

Our Nectar programme is turbocharging how we connect with customers and is central to our value proposition, offering personalised discounts, better value and encouraging more customers to shop with us. We now have over 18 million Nectar members and more than 11 million digital Nectar users and since the launch of Your Nectar Prices in September 2021, customers have saved over £61 million. We have just taken our biggest and boldest step yet, with the introduction of Nectar Prices, going even further to save our customers money by rewarding their loyalty with discounts in supermarkets and online. Nectar360 is also growing fast and is on track with its plan to deliver £90 million of incremental profit by March 2026. It offers loyalty, insight and marketing services to over 700 brands to help them understand and engage with their customers.

Save to Invest: Becoming a simpler, more efficient business, re-investing where it matters most

Our cost saving programme, Save to Invest, drives our ability to become a simpler, more efficient business, providing the fuel for us to invest where it makes the biggest difference for our customers and colleagues. Two years into our plan, the improvements we have been able to make are delivering results and providing competitive advantage as we reduce our operating costs at a faster pace than competitors. We have continued to make necessary and sometimes difficult choices as we work to make this business simpler and more agile, whilst always being as thoughtful and as considered as possible about the impact of change on our people and our partners. It is crucial that we maintain this firepower and as we look ahead, our major focus is on simplifying what we do, advancing automation and digitisation to improve our customer experiences and in being at our most efficient across our end-to-end processes. We have strong momentum across our cost savings programme and this will remain a key priority as we focus on building our business for the future and on delivering more value for our shareholders.

We are becoming a fundamentally more efficient and more productive business. Our end-to-end transformation programme has strengthened Argos, making it a significantly more competitive and profitable business. We know this made a very positive difference to customers during the postal strikes over Christmas and last summer's hot weather, when there was particularly high demand for seasonal products.

Our cost savings have enabled us to invest over £560 million in value over the last two years, as well as rewarding our colleagues more, which is so important because we know this is driving better customer service. By becoming more competitive on price, we have consistently inflated behind the market and more customers are shopping at Sainsbury's. Our teams have really driven our Save to Invest programme and it has become a galvanising programme of change for us as we have been able to reinvest in our colleagues and customers.

Connected to Customers: Customers at the centre of everything we do

Staying close to our customers is key to our success because we know that satisfied customers will spend more with us and do more of their shopping at Sainsbury's.

This year we have also seen a consistent shift towards customers returning to our stores following the pandemic and our Convenience business achieved sales of £3 billion for the first time, driven by more people returning to the workplace and wanting the flexibility to shop how and where they want.

We're investing more into our stores to improve customer experience and future-proof our business. For example, we know that it is important for customers to be able to easily find low prices when they shop with us, so we have rolled out more value-focused aisles in supermarkets to help customers find our special offers and discounts in one place.

1. Nielsen panel data. Top 100 SKUs by retailer. Average Selling Price YoY growth. 52 weeks to 4 March 2023.
2. Nielsen EPOS data – JS volume growth YoY% difference to Total Market growth YoY% for key events week growth versus last year events week
3. Kantar Worldpanel division, Christmas = 4 weeks to 25 December 2022, 26 December 2021, 27 December 2020 and 29 December 2019. Total Grocery volume growth. Q3=12 weeks to 25 December 2022, 26 December 2021, 27 December 2020 and 29 December 2019.
4. Kantar Retail Share Total Clothing, Footwear & Accessories – % sales volume. 24 weeks ending 5 Feb 2023.

Plan for Better: Building a sustainable business for the future

This year has shown more than ever some of the profound climate challenges facing us all and while we have made good progress against the commitments laid out in our Plan for Better, we are very aware how much further both our business and the wider food industry need to go if we are to protect global food supply chains and reduce environmental impact.

We have led the way in the support we've given to British suppliers in response to the unprecedented challenges they have been navigating. Our teams and I regularly meet with our suppliers and farmers to understand how we can best support and work with them, continuing to deliver through strong partnerships and a commitment to deliver against our Plan for Better.

An example of the progress we are making is our new partnership with Moy Park. We have signed a long-term contract which means from March 2023 by Sainsbury's fresh and frozen chicken is reared with 20 per cent more space than the Red Tractor industry standard. This means our customers can always be confident that the chicken they purchase from Sainsbury's is reared under these improved welfare conditions, but at the same great price. Chicken is by far the most popular protein source in the UK and this partnership with Moy Park has enabled them to make the investments necessary to support our own Net Zero and Scope 3 carbon reduction commitments. We are now seeing farms running from solar energy with real innovations in chicken feed, one of the largest causes of Scope 3 emissions. Working together with a key strategic supplier, we are able to produce chickens that have had a happier, healthier life at no extra cost to customers, whilst also reducing our impact on the environment

We have made bold changes to reduce plastic packaging, becoming the first UK retailer to vacuum pack all beef mince. We focused on beef mince because it is one of our highest volume products and will have the biggest impact, reducing plastic per product by over 55 per cent and saving 450 tonnes annually. Over the last decade, we've taken big steps to stand shoulder to shoulder with our British suppliers because as the second largest full-choice supermarket in the UK, we have a huge responsibility to help British food production thrive.

Food poverty is a major challenge in the UK and we have a clear commitment to address this issue and support our communities. We have really focused on bringing together our food waste and food poverty activity. Since the launch of our partnership with Neighbourly in 2021, we have donated over ten million meals, preventing over 4,500 tonnes of food from going to waste and bringing us one step closer in our commitment to reduce our food waste by 50 per cent by 2030.

We're also standing by our brand promise of Helping everyone eat better with our Nourish the Nation programme which, since launching, has raised £7.2 million to help fund initiatives designed to tackle food insecurity and ensure communities have access to balanced, nutritional and sustainable food sources. I recently visited the Felix Project in East London with the team and Martin, our Chair, and we saw first-hand the very inspiring work the team there are doing. So far, we have made donations equating to 2.9 million meals to the Felix Project, just one of the major programmes of support we have in place to address food poverty across the UK.

Through our ongoing work to become a truly inclusive and diverse business, colleagues feel even more welcome and confident to be themselves and as a result, do an even better job for customers. We are totally committed to being the most diverse and inclusive retailer as we work to develop the most inclusive culture and ways of working. I am encouraged by the progress we've made over the last year with 50.7 per cent senior women represented across our combined executive committee and direct reports according to the latest FTSE Women Leaders Review and further improvements being achieved in closing our gender and ethnicity pay gap.

We want more shoppers to feel welcome at Sainsbury's and to find products on our shelves that suit the needs of all the diverse communities we serve. Initiatives like Thrive with Sainsbury's, our incubator programme which this year invested £1 million to provide support to Black-founder led food and drink companies, are so important. They not only help us discover new brands, but also help to make the retail and food industries more accessible to new diverse supplier entrants.

A year of further progress to come

The progress we have made over the last 12 months has given me further confidence that we have the right plan and the right team to ensure we will continue to deliver for all our stakeholders. As a leadership team, my colleagues and I are absolutely committed to continuing to improve what we do and deliver even better outcomes for customers, colleagues, suppliers and shareholders.

We have three simple and compelling expectations of everyone on our team at Sainsbury's – to own it, to make it better and to be human, showing how much we care. I am pleased with the progress we are making, driving our agility, improving our capabilities and scaling up our ambition as a business. Two years into our plan we're achieving solid progress and continuing to find new ways to improve what we do. However, as a team we know there still remains much to be done.

As we look to the year ahead, the external environment around us will continue to be challenging, but I am confident we have the right plan in place.

I really want to acknowledge my leadership team for all they have delivered in the last year and to thank every one of my colleagues for their hard work and dedication to serving our customers and supporting each other. I am so proud of our people and of everything they are doing as we deliver our plan. The strong results we have achieved are testament to the outstanding commitment and contribution from every member of our team.

Simon Roberts
Chief Executive Officer

Business model

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

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

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

Building on our brand and strong assets

GRAPHIC REMOVED

Sainsbury's brand
and own brand heritage

GRAPHIC REMOVED

Scale
Second largest full-choice supermarket

GRAPHIC REMOVED

Strong
operating cash flow

GRAPHIC REMOVED

Attractive
customer base

GRAPHIC REMOVED

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

GRAPHIC REMOVED

Reputation for
service

GRAPHIC REMOVED

Online scale
and capability

GRAPHIC REMOVED

Nectar, investment
in digital and innovation

Underpinned by data, technology innovation and capability

GRAPHIC REMOVED

Our **Plan for Better** is integrated into everything we do and is a key differentiator for us.
We are making good progress against our plan to become Net Zero by 2035, five years ahead of our original target.

Creating value for our stakeholders

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

The Sainsbury's Difference

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

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

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

Attractive customer base
Sainsbury's is a trusted brand, loved by millions of customers across the UK. We serve an attractive customer base and around 70 per cent of the UK population have shopped with Sainsbury's over the last year[1] with a bias to a more affluent sociodemographic than key competitors.

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

Service
Customers come to Sainsbury's for our outstanding customer service. Our 152,000 colleagues are integral to our long-term success.

Online scale
We continue to improve the productivity of Groceries Online, consistently improving the speed of items picked. Last year Argos was the UK's third most visited retailer website and we are making good progress to reduce the number of Argos standalone stores we have and to offer more Argos stores inside Sainsbury's stores. We are improving the Argos distribution model, focusing on high volume Local Fulfilment Centres (LFCs) to improve choice and availability.

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

How we create value

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

ⓘ For more information about how we engage with our stakeholders, see pages 29 to 35.

For colleagues
We invest in our colleagues and are committed to paying them fairly for their efforts. By creating an engaged workforce that is invested in the progress of the business and the role they play in our success, we will achieve high retention rates and deliver superior customer service. See page 31 for more detail.

For suppliers
We are proud of our strong supplier relationships and we work collaboratively with them to grow our business and theirs. By improving technology and simplifying processes we are making it easier for our suppliers to do business with us. See page 34 for more detail.

For shareholders
Our Chief Executive Simon Roberts, and the Operating Board, continue to do a very good job delivering against the key metrics we set out in November 2020. We expect to deliver around £1.3 billion of cost savings in the three years to FY2023/24, doubling the run rate from the three years to FY2019/20. We are confident in our competitive position and our strong programme of cost savings, which is helping us to mitigate higher than expected operating cost inflation and enabling us to reinvest in our core food business. Despite a challenging environment, we delivered profits at the higher end of the guidance range and generated retail free cash flow of £645 million. Our policy to pay a dividend of around 60 per cent of underlying earnings has allowed us to maintain a full year dividend at the same level as last year.

For communities
We play an active role in local communities. Our customer feedback programme and customer surveys help shape our community programmes and this year we raised £34.5 million for good causes. See page 34 for more detail.

1. Nielsen Panel data – 52 weeks to P13 22/23 – Universe: Total FMCG (excluding Kiosk & Tobacco)

Our strategy

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

We are simplifying operations at pace and accelerating our cost saving programmes in order to invest in improving food quality, increasing choice and innovation and consistently delivering value to customers. Our portfolio brands – Argos, Habitat, Tu, Nectar and Sainsbury's Bank – support our core food business, delivering for customers and shareholders in their own right. We will continue to simplify and drive efficiencies across the business, enabling us to invest in our customers, colleagues and communities.

Priorities

Food First

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

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

Brands that Deliver

— Customer and profit focus
— Supporting the core food business

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

Save to Invest

— Structurally lower operating costs to fuel investment in our food business
— Cutting complexity and increasing pace of execution

We will deliver a step change in efficiency by transforming our approach to costs, simplifying our organisation and delivering a structural reduction in our operating cost base. We expect to deliver around £1.3 billion of cost savings in the three years to FY2023/24. This will enable us to reinvest in our customer offer, deliver improved financial returns and underpins confidence in our competitive position in the face of operating cost inflation.

Connected to Customers

Knowing and understanding our customers better than anyone else is fundamental to our success. Nectar unlocks our ability to connect with customers and drive that insight into our business decision making and we now have over 11 million digital Nectar users. We listen to our customers and nearly two million respond to our customer satisfaction feedback programmes a year.

Plan for Better

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

Our priorities

Food First

We are making good progress to put food back at the heart of Sainsbury's by offering better value, more new products and improved service. Our grocery volume market share performance has improved considerably[1] since we launched our Food First plan and we are growing our volumes ahead of other full-choice grocers[2].

Value

As the cost of living crisis continues to put pressure on millions of households, we are relentlessly focused on delivering consistent value for customers. Driven by our bold cost savings programme, we have invested over £560 million over the last two years to keep food prices low through campaigns that prioritise the products customers buy most often. Over 60 per cent of this investment has gone into fresh products such as meat, fish, poultry, fruit and vegetables and dairy. As a result, we have consistently inflated behind our key competitors[3] and we are seeing less switching of customer spend to limited-choice supermarkets than our competitors[4].

At the end of December we increased the number of products in Aldi Price Match by 20 per cent and our largest ever campaign matched the price on around 300 fresh products and household staples including chicken breasts, milk, eggs, nappies and cereal. Own brand ranges are performing strongly and our entry price range is the fastest growing product tier.

We recently launched Nectar Prices, offering discounts to all supermarket and online customers using the Nectar app or card and results are already exceeding our expectations. Your Nectar Prices – previously My Nectar Prices, which launched in 2021 – offers customers their own personalised discounts, generating more than 70 million unique offers a week for customers using SmartShop in supermarkets. The most active Your Nectar Prices users are saving almost £200 a year on their shopping[5].

Innovation

We have exceeded our innovation target by 15 per cent and launched nearly 1,400 new products during the year. More customers are celebrating special occasions, treating themselves at home and we outperformed the market at key seasonal events[6]. We expanded our Taste the Difference range by 33 per cent year-on-year and Taste the Difference sales are up 16 per cent versus FY2019/20.

Our seasonal ranges are popular with customers and our second Autumn Editions range included 70 per cent more products year-on-year. Since launching Inspired to Cook last year, the range has been popular with customers as more people look for creative solutions to home cooking from scratch and our World Foods range is also performing well.

In January we launched Flourish, a new range with 70 fresh and healthy convenient products that help people eat better whilst on the move. The range is already popular and bestselling lines so far include the Pesto Chicken Sandwich and Immune Boosting smoothie.

We are also changing the way we work with suppliers to build long term partnerships that drive better results. Last year we agreed a long-term contract with Moy Park, our chicken supplier, to ensure that from March 2023 all our *by* Sainsbury's fresh and frozen chicken is grown under better welfare conditions. Our investment has enabled Moy Park to have better product control and we have been able to make these improvements without increasing prices for customers.

Service

We have announced a record £225 million of investment over the last 12 months in colleague pay and benefits. In 2022 we became the first major supermarket to pay the Living Wage across the country and the first to give hourly-paid colleagues a third pay rise in one year. All Sainsbury's and Argos retail colleagues now receive a base rate of pay of £11 per hour and colleagues in London receive £11.95 per hour, increasing pay for frontline, hourly paid colleagues by 10 per cent in the last year and 44 per cent over seven years.

Alongside competitive pay we have invested heavily in extra support for colleagues in response to increased financial pressure. Colleagues told us that free food at work was important and so we recently extended the provision of free food during shifts for a further six months. To help our colleagues have more control over their monthly budgets, we also introduced a pay advance scheme where colleagues can access their pay as they earn it and invested in more frequent deeper discounts at Argos and Sainsbury's to help colleagues save money on their shopping.

Rewarding our colleagues is driving higher colleague engagement scores and higher customer satisfaction scores. Supermarket satisfaction is consistently performing ahead of full choice competitors[7], particularly in product quality and availability and colleague availability[8]. Colleague engagement scores have also improved over the last two years.

Customers are increasingly returning to stores post-pandemic and more people are prioritising convenience and speed as they return to the workplace. As a result, we have grown Convenience sales to £3 billion for the first time and sales are up 10 per cent year-on-year. Convenience and On Demand sales combined are up 9 per cent versus pre-pandemic and On Demand is averaging 118,000 weekly orders in as little as 30 minutes through our Chop Chop service and partnerships with Deliveroo, Uber Eats and Just Eat.

Groceries Online sales were down 13 per cent year-on-year but were 81 per cent higher than pre-pandemic levels. Groceries Online accounts for 14 per cent of grocery sales versus 8 per cent in FY2019/20. We introduced more Christmas delivery slots to serve customers and brought forward Easter grocery slots and availability scores are up[9]. Online productivity has improved with items picked per hour up 6 per cent year-on-year and up 9 per cent on pre-pandemic levels.

1. Nielsen Panel volume market share FY17/18 – FY22/23. Total FMCG (excluding Kiosk & Tobacco), Market Universe: Total Outlets.
2. Nielsen Panel volume growth Yo3Y. Total FMCG (excluding Kiosk & Tobacco), 52 weeks to March 2023. Market Universe: Total Outlets.
3. Nielsen panel data. Top 100 SKUs by retailer. Average Selling Price YoY growth. 52 weeks to 4 March 2023.
4. Nielsen panel data. Net volume switching £m to Aldi • Lidl as % of each retailer's volume. 52 weeks to 4 March 2023.
5. Average annual saving across our top 30,000 most active Your Nectar Price users.
6. Nielsen EPOS data – JS volume growth YoY% difference to Total Market growth YoY% for key events week growth versus last year events week.
7. Competitor benchmarking survey. Overall Supermarket customer satisfaction % score. January 2022 to March 2023.
8. Competitor benchmarking survey. Q4 22/23 supermarket CSAT scores 12 weeks to 4 March 2023.
9. Competitor benchmarking survey. Q4 22/23 Groceries Online CSAT scores 12 weeks to 4 March 2023. Availability • Availability of Items Offered.

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

GRAPH REMOVED

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

GRAPH REMOVED

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

GRAPH REMOVED

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

GRAPH REMOVED

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

GRAPH REMOVED

Brands that Deliver

Our portfolio of brands – Argos, Habitat, Tu, Nectar and Sainsbury's Bank – are now £145 million more profitable than before the pandemic[1], helping to support our ambition in food. By offering a wide range of great quality, affordable General Merchandise products alongside our food range, customers can do more of their shopping in one place and as a result, more are choosing to shop with us[2]. Our brands are more profitable and, combined with our Save to Invest programme, are giving us greater firepower to invest in price, innovation and customer service.

Nectar is the UK's largest coalition loyalty programme and continues to grow, providing value for customers and helping drive increased profitability through Nectar360. We recently awarded our one trillionth Nectar point, equivalent to £5 billion worth of points over the last 20 years and we now have over 11 million digital Nectar users. We launched Nectar Prices in April, offering great discounts to Nectar customers in supermarkets and online. At the same time, Your Nectar Prices gives Nectar users personalised prices. Through Nectar, we are the only supermarket to have both a broad and personalised capability. Growing Nectar participation creates richer data, further fuelling the growth of our Nectar360 business. This allows us to offer over 700 brands more relevant content and activations across a range of marketing channels. Nectar360 is on track to deliver at least £90 million of incremental profit contribution by March 2026.

Argos has consistently outperformed the General Merchandise market over the last year[3] as we have built on its reputation for value and delivered better convenience and availability. Customers value the certainty and speed of Fast Track delivery and Click & Collect and towards the end of the year more sales went through Argos stores inside supermarkets than standalone Argos stores for the first time. Argos's market-leading Click & Collect and delivery offering made an especially big difference during the postal strikes over Christmas and last summer's hot weather, when many customers used Fast Track delivery – often under four hours – for seasonal products including paddling pools and barbecues. We have extended the breadth of range at Argos, including more premium brands, and continue to invest in Argos's digital capabilities, with 73 per cent of sales now originating online.

The transformation of the Argos store and distribution network continues at pace, reducing cost and improving availability and service for customers. We now have 17 Local Fulfilment Centres, a network that is transforming the speed at which we can fulfil customer orders and is improving product availability and driving improved customer satisfaction[4]. We now have the best national same and next day delivery proposition of any UK retailer. Over the last year we have closed 45 standalone Argos stores and opened 24 Argos stores inside Sainsbury's supermarkets and 92 in-store collection points. We now have 424 stores inside Sainsbury's supermarkets, 285 standalone stores and Collection points inside 420 Sainsbury's stores.

Tu is the sixth largest UK clothing brand by volume[5]. Full price sales now make up 80 per cent of our Clothing sales, up 15 percentage points versus pre-pandemic and we are working with more online third party brands including Sosandar, Little Mistress and Finery to provide a wider choice. We have migrated the Tu clothing online web platform onto the Argos platform, improving the quality of the web experience and enabling customers to use their Nectar points for purchases, further integrating our portfolio of brands and helping customers save money. This integration is also saving the business money and driving greater simplicity. Online sales are up 46 per cent versus pre-pandemic.

Habitat is performing well against a challenging General Merchandise backdrop and we have gained value market share in a number of homeware categories including bedding and decorations[6]. We are working with third-party designers including Sanderson Design Group to offer more choice to customers and have launched a one off range with Kew Botanical Gardens for the summer.

Our Financial Services business is benefiting from a tighter focus on providing services for Sainsbury's and Argos customers. Profits have recovered to pre-pandemic levels as lending activity and travel money demand have increased but the loan book remains smaller than pre-pandemic levels.

1. Combined operating profit of Sainsbury's Bank, Argos (inc. Habitat) and Nectar FY19/20 to FY22/23.
2. Nielsen Panel data. Proportion of Sainsbury's shoppers within the total market. 52 weeks to P13. Total market = Total Outlets, FMCG excluding Kiosk & Tobacco.
3. GfK tracked market share 12 months to March 2023.
4. Customer Satisfaction – Argos. % score FY22/23 average vs FY21/22 average.
5. Kantar Retail Share Total Clothing, Footwear & Accessories - % sales volume. 24 weeks ending 5 Feb 2023.
6. Global Data, Retail % of Value. Homewares, full-year to March 2023.

Sales growth

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

GRAPH REMOVED

Sales growth

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

GRAPH REMOVED

Bank sales growth

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

GRAPH REMOVED

Save to Invest

Our cost saving programme, Save to Invest, provides the fuel that drives our ability to invest in the areas that make the biggest difference for customers. We have made bold and deliberate decisions over the last two years to ensure we can invest in keeping prices low for customers and colleague pay. We are on track to deliver around £1.3 billion of cost savings in the three years to FY2023/24 and have reduced our operating cost to sales ratio by 97 basis points over the last two years, despite significantly higher than anticipated operating cost inflation.

We are making structural savings by rationalising our property estate and focusing on ensuring our stores are in the right locations to deliver for customers and serve communities. In the last year, we have closed eight convenience stores and three supermarkets. We have also opened 13 new convenience stores including one Neighbourhood Hub. We made the difficult decision to close our Argos operations in Republic of Ireland, including 34 stores and the website, in addition to the ongoing programme of Argos standalone store closures and the opening of Argos stores inside Sainsbury's supermarkets.

In February, we announced plans to close two of our warehouses and invest £90 million to improve automation at our Daventry warehouse, enabling a reduction of stock, faster delivery to customers and a simpler delivery process for suppliers. Industry-leading automation alongside improved training and development for colleagues is a key focus for future investment as we look at how we can improve our logistics network to get better and faster results for customers.

We plan to transform and simplify our logistics operations by working more effectively with the expert partners who already run significant parts of our network. We have announced plans to move to three dedicated partnerships across transport, food, general merchandise and clothing by the end of 2024, instead of multiple different contracts across the network. This will make the best use of our partners' expertise to provide better service and availability for customers, drive innovation and facilitate the sharing of industry best practice.

We are also focused on making our supply chains more efficient and increasing productivity in order to improve performance whilst creating simpler and more streamlined end-to-end processes. We have rolled out new supply chain capabilities across our food business including changing the way we forecast demand, how we purchase and order goods and the way our suppliers plan production. This is driving better availability and reducing waste.

We are becoming a simpler, nimbler and more efficient business so that we can reinvest in what matters most to customers. We have made changes to some of our office space and the way some of our Store Support Centre teams work in order to simplify processes. More than ever, our office-based colleagues are able to work remotely or from home and we have seen a significant reduction in the number that regularly use Sainsbury's offices across our locations in the UK. These changes were therefore a necessary step in adapting our ways of working to become more flexible, particularly following the pandemic.

Plan for Better

Our Plan for Better

Offering customers sustainably sourced, quality food at affordable prices has been at the heart of Sainsbury's since John James and Mary Ann Sainsbury started the business in 1869. The environmental and social issues facing the world today are hugely challenging and we know our customers, colleagues and suppliers care deeply about them. As a retailer with a global supply base serving communities across the UK we have a responsibility to protect our planet and our people. By putting environmental and social sustainability at the core of how we do business and by building strong, resilient value chains we will continue to deliver for our customers now and in the future.

GRAPH REMOVED

That is why Plan for Better is an important part of our business strategy. Consisting of three interlocking pillars – Better for you, Better for the planet, Better for everyone – the plan sets out our sustainability goals, priority areas and key commitments and we will report on our progress twice a year.

Sainsbury's was the principal supermarket partner at COP26, where we signed up to the WWF's Retailers' Commitment for Nature, a collaborative approach to halve the environmental impact of UK shopping baskets by 2030. This year we have made a 1.5-degree climate commitment across all scopes and timeframes. We are ahead of this commitment on Scope 1 & 2, with a target of being Net Zero by 2035. For Scope 3 our targets are aligned to limiting climate change to a 1.5-degree trajectory by halving our emissions by 2030 and achieving Net Zero by 2050. We have made these commitments along with other retailers in the WWF's Retailers' Commitment for Nature, and are part of a new shared Climate Action Programme with eight UK retailers lead by WRAP to drive progress through the industry.

In our Food Commercial division, each category has set out clear targets across our priority areas of Plastic, Health, Food Waste and Carbon Scope 3. This will ensure that we deliver on our commitments with full accountability.

We were delighted to be awarded an A rating for our Climate Change CDP submission for the ninth consecutive year, the only UK food retailer to have achieved this standard. In addition, we introduced the Sainsbury's Innovation Investments initiative, which will invest a minimum of £5 million over the next four years into start-up businesses that develop sustainable technologies which reduce operational carbon emissions and water usage across a number of sectors.

We will continue to address human rights risks and emerging issues that affect people who work within our value chain. See page 17 for details of our new, robust commitments. We are also proud to have launched Nourish the Nation, our new community and partnerships programme. This is a long-term strategy, in partnership with Comic Relief, to help tackle food insecurity in our local communities, now and in the future.

Our standalone Plan for Better reports can be found at **www.about.sainsburys.co.uk**.

Better for you

Healthy and sustainable diets for all

A key priority for our business is to offer our customers great value, healthy food that is produced sustainably. We also provide customers with information and incentives to encourage them to make better food choices for themselves and for the planet.

Sales of Healthy and Better for you food currently stands at 81.2 per cent of total food sales, against a target of 85 per cent by 2025/26. 72.7 per cent of protein sales comes from plant-based and meat-free products, of which 11 per cent is entirely plant-based.

But we know that transforming the food system to healthy and more sustainable diets requires action beyond targets and disclosures. For this reason, we remain committed to trialling initiatives that inspire, incentivise, innovate and partner to drive healthier and more sustainable baskets.

This year we introduced a new range of healthy innovations under our Flourish brand, developed to meet strict nutritional criteria. We also continue to develop plant-based options and our range now includes a broad selection of plant-based alternative meat products across chilled and frozen.

We continue to nudge customers towards healthier and more sustainable choices and to encourage them to eat in line with the government's Eatwell Guide. We publish the learnings from our trials in partnership with the Institute of Grocery Distribution (IGD) and academia. As part of our commitment to Helping Everyone Eat Better, at least 70 per cent of the products we price match to Aldi are Healthy or Better for you options and by incentivising customers with lower prices or additional Nectar points we help make healthy eating more affordable.

As the cost of living continues to rise, we have supported customers by adding a £2 top up to the Healthy Start vouchers provided by the government to pregnant women with a low-income and families with children under the age of four. We extended the programme out to Wales and Northern Ireland to enable us to support more families.

This year marked the third year of The Great Fruit and Veg Challenge, an initiative that rewards shoppers with additional Nectar points for purchasing fruit and vegetables between July and September. This year over 585,000 customers signed up to the challenge, with participating customers purchasing over three times more fruit and vegetables than non-participating customers, taking home 88 million portions of fruit and vegetables during the challenge.

In October, we changed the layout of our stores in England and on our website to be in line with the government's food regulations restricting the placement of certain products high in fat, salt or sugar (HFSS).

Better for the planet

Reducing carbon emissions

To achieve our ambition to be Net Zero in our own operations by 2035 we continuously look for ways to cut carbon and maximise our energy efficiency. Overall, we have reduced our absolute greenhouse gas (GHG) emissions within our operations to 461,692 tCO_2e, a reduction of 38.2 per cent year-on-year and 51.4 per cent from our 2018/19 baseline, keeping us on course for our 2035 Net Zero target.

This year we completed the rollout of LED lighting to our entire estate, reducing our lighting energy consumption by an average of 70 per cent. We aim to significantly reduce our reliance on fossil fuels through our long-term commitment to purchase renewable energy from new wind farms and solar projects.

We have launched Sainsbury's Innovation Investments' initiative in partnership with Williams Advanced Engineering. We will invest a minimum of £5 million over the next four years to support start-up, sustainable businesses create solutions that reduce carbon emissions and water usage across our operations, as well as support the wider food retail sector to progress and support our Net Zero goals.

We are proud that our environmental transparency was again recognised by the CDP, an environmental impact disclosure system. We were awarded an A rating for climate change for the ninth consecutive year, the only UK food retailer to reach this standard. We were also recognised by CDP as a Supplier Engagement Leader for our work in engaging with our suppliers to tackle climate change.

Every new store we opened last year has continued to make use of our very latest design principles and technology to ensure that they are as energy efficient as possible. They use 100 per cent renewable electricity and LED lighting and are not reliant on natural gas for their heating requirements.

Our latest supermarket, Sainsbury's Hook, is the most energy efficient store of its type and that we have ever opened. It brings together everything we have learned and developed in recent years to reduce the impact our stores have on the environment, from solar panels on the roof to air-seal doors, rainwater harvesting, demand-controlled ventilation and refrigeration integrated heating and cooling.

51.4%

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

Building on the WWF Commitment we signed up to during COP26, we updated our targets this year to align to a 1.5-degree trajectory across all scopes and timeframes. These have been submitted to the Science Based Targets initiative (SBTi) for review by end of 2023.

We can only achieve our ambitious Scope 3 emission reduction target by working collaboratively with our suppliers across our total value chain (where our baseline is 26,663,081 tCO_2e 2018/19). We have set clear expectations of our suppliers to disclose their site level emissions and reduction plans through Manufacture 2030 and HIGG platforms. The data from these platforms enables us to identify hotspots and opportunities for decarbonisation in our supply chain. We have set a higher expectation for those suppliers who constitute 80 per cent of our value chain emissions by requesting them to disclose their Group level emissions and climate change related activity via CDP. As a member of the WWF's Retailers' Commitment for Nature, we have planned to increase engagement with these suppliers, asking them to have approved net zero 1.5-degree science-based targets by end of 2025.

ⓘ For more information on how we are reducing our Scope 1, 2 and 3 carbon emissions visit **www.about.sainsburys.co.uk** for our Plan for Better report.

Reducing food waste

Combatting food waste throughout our value chain is one of our top priorities. Our initiatives are designed to tackle food waste from farm through to fork. We are committed to reducing food waste by 50 per cent across our value chain by 2030, driven by the increased cost of living, inflation, food poverty and environmental factors.

In 2021, we launched our food donation partnership with Neighbourly, an organisation that connects all our stores to a network of over 25,000 charities, schools and community groups. Since our partnership began, we have donated over 10 million meals to those that need it most, helping to prevent over 4,500 tonnes of food going to anaerobic digestion and saving 16.58k tonnes of carbon emissions. This year we redistributed over 4000 tonnes of food waste to humans and have increased our food waste to humans by 157 per cent compared to our 2019/20 baseline.

We have recently announced changes to date labels on 276 of our own-brand products in a bid to help reduce food waste in the home. This builds on the work we have done in recent years to remove best before dates from over 1,500 products, including, pineapples, bananas, apples and indoor plants. These changes could help UK households save 11,000 tonnes of food from going to waste each year, the equivalent of 17 million products.

As the cost of living continues to rise, we introduced our 'Taste Me, Don't Waste Me' boxes containing surplus fresh fruit and vegetables sold at a lower price to give customers access to affordable, nutritious food. Since February we have rolled out the boxes to over 200 selected supermarkets across the country.

We continue to collaborate with industry on reducing food waste and support the delivery of Courtauld 2030/Champions 12.3. We have been members of UK Food Waste Reduction Roadmap since 2018 and we continue to work with our suppliers on food waste, with 35 per cent of our Fresh sales coming from suppliers who have signed up to the roadmap. We continue to work with WRAP to implement their guidance on upstream and downstream food waste, including behavioural tips on product labelling.

We have reduced our food waste to anaerobic digestion (tonnes) by eight per cent year-on-year, a reduction of 26 per cent from our 2019/20 baseline. Where we are unable to donate to charity, we send surplus food including bread, fruit, vegetables and salads to UK farms, via our partners, to be used in animal feed. We are proud that we have sent zero waste to landfill since 2013.

Reducing use of plastic packaging

Reducing plastic is important to our customers and is a key priority of our strategy. We have a target to reduce our own-brand plastic packaging by 50 per cent by 2025 and to increase recycled content and recyclability. So far we have achieved an absolute reduction in plastic packaging of 17.5 per cent and relative reduction (tonnes per million units sold) of 10.4 per cent from our baseline (2018 Food and 2020 GM).

We recognise how important it is for us to continue to remove, reduce, replace and recycle plastic packaging in our own brand products. The innovations we have introduced to achieve our ambitious targets include:

- First retailer to launch own-brand 1 litre refill handwash pouches that use 85 per cent less plastic, saving 28 tonnes of plastic each year
- Switched our double strength squash formula to quadruple strength and light-weighted our bottles saving 185 tonnes of plastic each year
- Removed single-use plastic lids across dairy and food to go pots, saving 73 million pieces of plastic equating to over 220 tonnes of plastic
- First UK retailer to vacuum pack all beef mince saving over 450 tonnes of plastic
- Removed plastic bags from our entire banana range
- Launched new double-length toilet rolls, reducing plastic packaging overwrap by 30 per cent, saving 84 tonnes of plastic

Working alongside our product and packaging suppliers, customers and other retailers, we will reduce the amount of plastic across the value chain, while also investing in research and development on materials and technologies to enable a low carbon circular economy approach.

There is room for more action on plastic packaging reduction. With a focus on collaboration and new initiatives, we look forward to making greater progress in the upcoming year.

Better for everyone

Sainsbury's is passionate about playing an active role in supporting our local communities, championing human rights and working closely with our suppliers to ensure they adhere to our high ethical standards. We are also committed to being a truly inclusive employer where all our colleagues are treated fairly and with respect and are encouraged to develop their skills and fulfil their potential.

An inclusive place to work and shop

We get feedback from our colleagues through our annual engagement survey, regular 'temperature check' surveys and ongoing colleague listening. This helps us to understand what is important to our colleagues and to identify how we can continue to support them. After each colleague engagement survey, line managers discuss the results with their teams and work together to plan and implement actions that will help make Sainsbury's a truly great place to work.

This year, we achieved a score of 68 when it came to colleagues who said they are happy at work and 77 per cent of colleagues told us they are able to be themselves at work.

77%

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

We continue to focus on representation and transparency across the business and this year we published our third integrated Gender and Ethnicity Pay Report. Our mean gender pay gap has remained flat at 8.5 per cent, while our median gender pay gap has increased slightly from 4.7 per cent to 6.3 per cent. This is because we have invested in our driver premium and more men work in these roles.

Our mean ethnicity pay gap is -1.6 per cent and median gap is -4.0 per cent; this is because over 50 per cent of our Ethnically Diverse colleagues work in stores that pay a higher hourly rate through a location premium (i.e. London), compared to approximately 8 per cent of our white colleagues.

Progress on diverse representation at senior leadership and senior management positions can be seen in the table on page 16.

We are committed to being an inclusive employer with diverse representation at all levels of our business. We train senior managers who are responsible for recruitment to be inclusive in their decision making and manage bias through the process. Our new recruitment dashboard helps us to identify how successful we are in attracting diverse talent for our Store Support Centre, Retail and Logistics roles and highlights any adverse impact in the recruitment process. Using this data, we work with our Talent partners across the business to agree interventions to support our inclusivity objectives.

Our range of leadership development programmes includes our Ethnically Diverse Programme, which has been running since 2019. It ends this year having supported over 367 Ethnically Diverse colleagues in their careers across Sainsbury's. The newly titled and refreshed programme for our Ethnically Diverse colleagues, Accelerate YOU, launches in June and will focus on developing colleagues with high potential to prepare for leadership roles in our business.

We are proud that our diversity, equity and inclusivity initiatives have been recognised at a national level.

We are among 'The Times' Top 50 Employers for Women 2022 and have improved our position in the FTSE Women Leaders Review to third place. In a Forbes magazine study, we were ranked 27th out of 400 of the most female-friendly businesses globally, taking second place in the UK.

We launched Thrive with Sainsbury's, the UK's first retail incubator programme for Black-led businesses. As a result, we were delighted to list at least three new food brands in our supermarkets in 2023. We are also the corporate sponsor of the Diversity in Retail Ethnic Future Leaders programme, supporting candidates in their development and progression across multiple industries.

We continue to be one of only 489 businesses across the UK accredited as a Disability Confident Leader, which is the highest tier of accreditation in the government's Disability Confident scheme.

Three Sainsbury's colleagues were recognised in Diversity in Retail's inaugural Role Models for Inclusion Index and our Company Secretary, Tim Fallowfield OBE, was listed as an Executive Role Model. Our Proud @ Sainsbury's colleague network has been recognised in the Top 10 Networks by the British LGBT+ Awards.

We are making progress in driving positive, sustainable change to improve the lived experience and opportunities for under-represented groups. There is more that we can do and we continue to work with a number of partners, including Business Disability Forum, Carers UK, Stonewall, Business in the Community, Diversity & Inclusion in Grocery and Diversity In Retail.

ⓘ For more information, please visit the Better for Everyone section of our corporate website or read our Gender and Ethnicity Pay Report at **www.about.sainsburys.co.uk**.

Supporting colleagues through cost of living challenges

We have prioritised supporting our colleagues as the cost of living continues to rise.

Firstly, we committed to invest £225 million over the last year to increase the base rate to at least £11 per hour for Sainsbury's and Argos retail colleagues, with London rates currently set at £11.95. In 2022 we became the first major supermarket to pay the Living Wage across the country and over the last year we increased the pay of retail hourly-paid colleagues by ten per cent. In total, pay has increased by 44 per cent over the last seven years.

To further support our colleagues we provided free food for store and depot colleagues during their shifts and increased discounts at Sainsbury's and Argos for all colleagues. We also gave every colleague a £15 voucher to spend in store through the Christmas period.

We strengthened our partnership with Salary Finance to include Pay Advance. This gives colleagues the option to access their pay ahead of pay-day. We have also increased the financial and emotional wellbeing resources available to colleagues, particularly those relating to budgeting, savings and debt management.

We continue to make an annual contribution to GroceryAid, a charity that supports grocery workers across a range of areas, including financial support.

Health and safety

The health and safety of our colleagues and customers is a top priority and is essential to the smooth running of our business. As a result of the measures and process we have put in place there has been a reduction in injuries to both colleagues and customers. Reported colleague accidents have decreased by 17 per cent and customer accidents by 34.6 per cent over the last six years.

An independent safety team supports our retail and logistics operations and provides expertise, coaching and challenge to our line managers. We use our innovative risk mapping tool and data from a wide range of sources to identify areas that need support in our stores. This ensures that we have the right level of compliance in place around key areas such as training, fire safety and adherence to procedures.

Our governance processes ensure colleagues can feedback on issues, regularly engage with unions and benefit from Board oversight. We have strong and well-established Primary Authority relationships in place that cover all our risk areas including health, food, fire and petroleum safety. These relationships are built on a foundation of trust and we openly share information with our Primary Authority.

Diversity and Inclusion targets	Senior leadership positions (the top 230 leaders)		
Female	Target 2024: 50%	2022/23: 44.2%	2021/22: 40.1%
Ethnically Diverse	Target 2024: 12%	2022/23: 9.3%	2021/22: 8.2%
Black	Target 2024: 3%	2022/23: 2.8%	2021/22: 2.4%

Diversity and Inclusion targets	Senior management positions (the top 1,200 leaders beneath the top 230 senior leadership positions)		
Female	Target 2024: 43%	2022/23: 39.7%	2021/22: 35.7%
Ethnically Diverse	Target 2024: 12%	2022/23: 9.1%	2021/22: 8.7%
Black	Target 2024: 3%	2022/23: 1%	2021/22: 1%

PIE CHART REMOVED

Community and partnerships

Sainsbury's has a presence in communities across the country and with the help of our colleagues and customers we support our communities through fundraising, volunteering and raising awareness. This year alone we raised a total of £34.5 million for good causes.

Our primary focus is to tackle food poverty. In response to the rising cost of living we launched Nourish the Nation with our longstanding charity partner Comic Relief. This long-term community initiative provides funding to tackle food insecurity and ensure communities have access to balanced, nutritional and sustainable food sources now and in the future. Though our Nourish the Nation community programme we have raised £7.2 million to support Comic Relief, our food redistribution partners, such as FareShare and The Felix Project, and local community groups to help mitigate the impact of the rising cost of living. In addition, through our customer food donation scheme, 97 per cent of our stores are supporting 524 number of local community groups with essential grocery items.

£34.5m

raised for good causes this year

We continue to actively support our Community Grant scheme, an initiative aimed at assisting the most vulnerable people throughout the UK get access to food, while also helping to lift them out of food poverty. We have already supported 585 local good causes and committed over £970,000 of funding.

Through our partnership with Woodland Trust, we planted over 310,000 native trees this year. In total, we have raised over £12.9 million and planted over 4.9 million trees since our partnership began in 2004. This has the potential to mitigate 1.2 million tonnes of carbon emissions over their lifetime.

Alongside our community investment, we make positive economic contributions through our responsible approach to tax. We contributed approximately £2.4 billion in cash taxes borne and collected this year.

ⓘ For more information on how we serve our communities visit **www.about.sainsburys.co.uk** for our Plan for Better report.

Championing human rights

We are committed to respecting human rights across our value chain to ensure the people who make or grow our products are not being exploited or exposed to unsafe working conditions. We also ensure our business's transition to Net Zero is just and equitable for the communities we source from.

This year we have developed our Human Rights strategy and have set out five human rights commitments. These build on our recent human rights saliency assessment, where we identified the key human rights risks that affect the people within our value chain.

Our five updated commitment areas will focus on:

1. **Forced labour.** We will seek out and address all forms of forced labour within our value chains
2. **Sustainable livelihoods.** By 2030 we will achieve living wages or income for workers in priority value chains (equivalent to the volumes that we source).
3. **Safe and healthy working environments.** We will complete deeper dives into our priority value chains to tackle the most salient health and safety risks, including those beyond Tier 1.
4. **Discrimination.** We will improve the position of the most vulnerable workers in our priority value chains
5. **Grievance mechanisms.** We will ensure access to effective and trusted grievance mechanisms across all Tier 1 suppliers

To live up to our vision of being the most trusted retailer it is critical that there is complete transparency in our value chain. Having previously published our Tier 1 clothing and food sites, this year we also published our Tier 1 general merchandise sites with information such as addresses, number of workers, gender split and union membership. We will be publishing a list of our Sainsbury's branded Goods Not for Resale sites in the year ahead, as well as working to achieve greater visibility of the challenges faced further down the value chain.

We updated and published our whistleblowing and ethical trade policies. These define our position and expectations of suppliers on ethical sourcing practices and access to safe and independent means of raising concerns.

ⓘ For more information on our approach to social sustainability and to read our Human Rights Policy, Ethical Sourcing Policy and Modern Slavery Statement, please visit **www.about.sainsburys.co.uk**.

Animal health and welfare

Through our new long-term partnership with our poultry supplier, Moy Park, we have significantly invested in improving the health and welfare standards of our core *by* Sainsbury's fresh and frozen chickens, from March 2023 grown with 20 per cent more space than the Red Tractor industry standard. The change also includes increased stimuli for chickens such as additional bales, as well as pecking objects and platforms for perching, providing chickens with the freedom to express more natural behaviours.

This means our customers can always be confident that the chicken they purchase from our core *by* Sainsbury's fresh and frozen range is grown under these improved welfare conditions, but at the same great price.

We will work with our farmers to monitor animal behaviour as part of the programme, tracking the impact of the improved welfare practices, reporting progress through the separate annual health and welfare report.

The partnership with Moy Park has enabled them to make the long-term investments necessary to support our own Net Zero and Scope 3 carbon reduction commitments. We are now seeing farms running from solar energy with innovations in chicken feed, which is one of the largest causes of Scope 3 emissions. By collaborating with a key strategic supplier, we can produce chickens that have had a happier, healthier life at no extra cost to customers, while also reducing our impact on the environment.

Task Force on Climate-related Financial Disclosures (TCFD)

Introduction

With the impacts of climate change being felt around the world, we understand the important leadership role we can play to address the climate challenges faced.

We have committed to reduce Greenhouse Gas (GHG) emissions within our own operations to Net Zero by 2035 and reduce our Scope 3 emissions in-line with a 1.5°C trajectory, the highest ambition of the Paris Climate Change Agreement. We have a strong heritage in reducing our own emissions and are collaborating closely with our suppliers to ensure we're driving positive change across our supply chain too.

Tackling the climate emergency requires collaborative and transformational thinking and a willingness to work together and share learnings globally, across industry and government, so that we can all take meaningful, immediate action. We are signatories to the World Wide Fund's (WWF) Retailers' Commitment for Nature to halve the environmental impact of UK baskets by 2030.

Whilst we are delivering on our commitments to reduce the impact of our business on the climate, we are aware that climate change will continue to present risks and opportunities over the short, medium and long term. This is our third year of reporting against the recommendations set by the Task Force on Climate-Related Financial Disclosures (TCFD). We have complied with the Financial Conduct Authority listing rule LR 9.8.6R by including climate-related financial disclosures consistent with all of the TCFD recommendations to strengthen our climate resilience, which we discuss below.

Governance

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

The Board

The Board is accountable for risk management, strategy and target setting, including climate-related matters. The Board monitors how we are responding to climate-related risks and opportunities, identified through the risk management process and scenario analysis. The Board also oversees our Plan for Better strategy, one of our core strategic business priorities, which includes climate-related matters. The Board also sets and monitors progress against our climate-related metrics and this year approved accelerating our Scope 3 GHG emission target to align to a 1.5°C trajectory.

The Board recognises the importance of ensuring that there is appropriate climate-related expertise within the business and has undertaken training by the Cambridge Institute for Sustainability Leadership. The Board continues to upskill in this area and provides relevant training for the wider commercial teams. See pages 62 to 64 for biographies of our Board members, including their skills and experience.

Board Committees

The Corporate Responsibility and Sustainability Committee reviews the sustainability strategy and monitors the business engagement with our key stakeholders, including climate-related matters.

The Remuneration Committee reviews remuneration for Executive Directors against our Plan for Better targets and metrics, including long term targets for Scope 1, 2 and 3 GHG emission (see page 90 for more details).

The Audit Committee reviews risks and confidence in the climate-related metrics that we disclose. Further information on the Corporate Responsibility and Sustainability, Remuneration and Audit Committees can be found on pages 70 to 74.

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

Operating Board

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

Plan for Better Steering Committee

The Plan for Better Steering Committee supports the Operating Board and leads the operational execution of our Plan for Better strategy, by overseeing business activity and monitoring performance against our climate-related metrics. The Plan for Better Steering Committee is chaired by the Chief Marketing Officer and has cross-divisional representation at Director level. Climate risks are agreed once per year at the Plan for Better Steering Committee with Board level oversight from the Corporate Responsibility and Sustainability Committee. Climate risks and mitigations are monitored throughout the year by the Plan for Better business leads and Steering Committee. The Government Affairs team provides regular updates to the Plan for Better Steering Committee, Operating Board and Corporate Responsibility and Sustainability Committee on relevant legislation and regulation impacting Plan for Better, including those relating to climate.

Further information on the Corporate Responsibility and Sustainability Committee can be found in its report on pages 82 to 83, providing information on the governance structure, its responsibilities, meeting frequency and principal activities in the year.

Strategy

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

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

Climate change also presents opportunities to build business resilience and efficiency, create new climate-friendly products for our customers and develop and invest in new technology. For example, through our Sainsbury's Innovation Investments initiative we will invest in early-stage companies who are developing disruptive technology to tackle climate change and give them the opportunity to trial the technology within our operations.

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

Time horizon	Risk type	Classification	Risk/opportunity description[1]	Financial impact (assuming actions are taken to mitigate risks)	Mitigations that are being implemented/ considered as part of our strategic planning
Short/Medium	Transition	Reputation	Climate conscious consumers favouring lower GHG emission products	Revenue opportunity	Development and promotion of lower GHG animal protein and nutritionally positive meat alternatives to capture switching calories from existing and new customers (see Meat, Fish and Poultry scenario analysis on page 22) Increasing the use of recycled cotton and customer circularity, improving efficiency as well as appealing to climate conscious consumers (see Clothing scenario analysis on page 22)
Short/Medium	Transition	Technology	Investment in climate change solutions	Equity growth opportunity	Through our Sainsbury's Innovation Investments initiative we are identifying early-stage companies to invest in who are developing disruptive technology to tackle climate change and giving them the opportunity to trial the technology within our operations Development of our Refrigeration Integrated Heating and Cooling systems has allowed us to replace natural gas heating by using the refrigeration systems to provide all heating and cooling requirements Removing old fridges with hydrofluorocarbon refrigerant gas and replacing with new fridges with natural refrigerant that are more energy efficient See our carbon commitment on page 20
Short/Medium	Transition	Policy & Legal	Introduction of a carbon price leading to an increase in the cost of higher GHG emission products	Low revenue loss	Majority of cost assumed to be passed on to customers to encourage purchase of lower GHG emission products. We are also working with our suppliers to reduce the GHG emissions of our products, such as animal feed efficiency (see Meat, Fish and Poultry scenario analysis on page 22)
Medium	Transition	Policy & Legal	Ban on the sale of new petrol and diesel cars from 2030 leading to a reduction in fuel sales	High revenue loss/ offset lost fuel revenue	Providing electric vehicle charging for customers as they shop at our stores to offset lost fuel revenue (see Fuel scenario analysis on page 22) Transitioning to electric vehicles across our full fleet by 2035 (see our carbon commitment on page 20)
Short/Medium/ Long	Physical	Acute	Increased likelihood of heat events, flooding and droughts leading to a reduction in crop yields and increased sourcing costs	Medium/high revenue loss	Working with our suppliers to create climate adaption plans to build resilience and secure supply of crops (see Produce, Coffee, Tea and Cotton scenario analysis on page 23)
Short/Medium/ Long	Physical	Acute	Increased likelihood of flooding leading to water damage and closure of stores and depots	Low revenue loss/ cost	Flood warning system, flood emergency plans for at-risk stores and investments in flood defences (see Operations example below on page 22)

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

Financial impact ranges

We have used the below financial impact ranges, which are the same as we use for our corporate risk management process (described further in the risk management section on page 44).

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

Time horizons

We have used the below time horizons:

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

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

Climate related risks and opportunities are considered as part of our Plan for Better strategy, which is one of our core strategic business priorities. The below table shows how our Plan for Better strategy supports climate-related matters. Further information on each of the key commitments can be seen on pages 13 to 17.

Plan for Better commitment[1]	How our Plan for Better strategy supports climate-related matters
Reduction in carbon emissions	We have a strong track record over the last 16 years of reducing GHG emissions within our own operations and have already achieved a 51.4 per cent reduction against our 2018/19 baseline. We purchase 100 per cent renewable electricity. We have committed to long-term purchasing of renewable energy from eight new-to-the-planet wind farms, of which six are already generating electricity and two are due to be commissioned in 2023. We are working to significantly increase our existing on-site solar investment and we are actively looking for further power purchase agreements with new-to-the-planet wind/solar developers. This year we have completed a number of solar photovoltaics (PV) panel installations across our estate, building on our existing 237 PV installations, with plans to increase rollout during the next financial year. We completed the rollout of LED lighting to 100 per cent of our estate, reducing lighting energy consumption by an average of 70 per cent. We continue to invest in new and existing stores, removing their reliance on hydrofluorocarbon refrigerant gases and natural gas through the electrification of heating and the use of the refrigeration system, to provide all heating and cooling requirements. Our latest store in Hook is an example of this. We continue to work with Imperial College to support in identifying and researching methods and technologies to mitigate our Carbon impact and to provide academic independence to our strategy. During the year we launched our Sainsbury's Innovation Investments initiative where we are planning to invest at least £5 million over four years to support start-ups who have innovative business proposals focusing on areas that will support in achieving our decarbonisation pathways. We are committed to transitioning our full fleet to electric by 2035 in line with our decarbonisation strategy. We have a fully electric Groceries Online fleet within one London store and we will continue to expand into further stores. Within our logistics (Argos Fast Track Delivery and depot-to-store heavy goods vehicles) we are working closely with our van and truck manufacturers to trial and test new technologies within the electric and hydrogen space to help us understand and make decisions about investing in new technologies to decarbonise. We have completed a number of trials to date and continue to do so to enable us to transition our Argos Fast Track Delivery fleet and our Rigid trucks to electric over the next few years. Our Scope 3 emissions make up 97 per cent of our overall GHG emissions and we have committed to a reduction in line with a 1.5-degree trajectory. We are working in collaboration with our suppliers, industry and the non-governmental organisation community to achieve this. For example, we request our suppliers to submit data on environmental impact disclosure systems and we are working with Mondra on a trial project along with other retailers to understand the environmental impacts of specific products. See page 27 for more information.
Reduction in water use	Climate change is expected to increase water stress in the UK. Our target is to ensure all of our own operations are water neutral by 2040. We have already reduced water usage in our own operations by 17.6 per cent against our 2018/19 baseline and are making significant progress in both the reduction and recycling of water through water efficiency measures and Rainwater Harvesting systems in our stores. We have mapped our total water footprint across our operations and a significant proportion of our supply chain and are developing our water stewardship approach across both our own operations and supply chain. We are signatories of the Courtauld Water Roadmap 2030 where the overarching Roadmap goal is for 50 per cent of the UK's fresh food to be sourced from areas with sustainable water management by 2030. As part of this we support five collective action projects in our key sourcing locations for our supply chains across the UK, Spain and South Africa. We are also signatories of Textiles 2030 which aims to reduce the aggregate water footprint of new products sold by 30 per cent. We are exploring strategic water replenishment initiatives that include investing in nature-based solutions at catchment scale. The ambition will be to replenish a proportion of volumes of water used in specific regions, to support us in meeting our operational water neutrality target where needed.
Healthy & sustainable diets	The type of food in our diet has a big impact on GHG emissions. We continue to promote healthier and more sustainable buying behaviours through our 'test and learns'. We also encourage our customers to eat more in line with the principles of the government's Eatwell Guide, through marketing campaigns, pricing and Nectar points, such as our Great Big Fruit and Veg challenge, now in its third year of running with over 585,000 customers engaged. The Eatwell Guide is a healthy and balanced diet and when compared against a standard UK diet, is lower in GHG emissions, water usage and land use.

Plan for Better commitment[1]	How our Plan for Better strategy supports climate-related matters
Reduction in food waste	We are committed to halving food waste across our value chain by 2030. Food waste contributes over eight per cent of total man-made GHG emissions, so actions we are taking to reduce food waste are also reducing GHG emissions. Since July 2021 we have donated over 10 million meals to local partners who redistribute food to those that need it the most through our partnership with Neighbourly, who help us manage our back of store food donation programme and enable us to connect to a network of over 25,000 charities, schools and community groups. This year we also announced and implemented the removal of 'best before' dates on our own brand products with the aim of reducing the amount of food that is thrown away in homes. We are following best practice disclosure on our food waste and continuing to collaborate with the industry to support the delivery of Courtauld 2030/Champions 12.3. We have encouraged many of our Fresh suppliers (covering 35 per cent of our Fresh sales) to sign up to the UK Food Waste Reduction Roadmap and will continue to encourage our remaining suppliers to help drive industry action on food waste prevention as well as redistribution.
Nature	The delicate composition of our ecosystems is becoming unbalanced, through the overexploitation of natural resources, unsustainable land use, the introduction of invasive species and the pollution of air, water and land. As a business, we recognise our high dependency on nature and ecosystem services and have committed to ensuring the impact of our operations contributes towards a nature positive future. We have piloted the use of a supply chain environment risk tool to assess our nature-related risks and opportunities across our business and supply chain and continue to explore the many datasets and tools that are developing in this space to identify our hotspots for taking action. This year we funded a collaboration between the UK Centre for Ecology & Hydrology and Land App to help empower farmers and land managers to make the best decisions on habitat creation based on their location and local nature priorities. We have been working to build supply chain resilience for over 20 years, working directly with farmers and growers on areas such as soil health and integrated pest management. We are founding members of the UK Soy Manifesto and have also increased certification of high climate risk materials such as palm oil, soy, timber and cotton. We actively support multi-year investments with the aim of protecting and restoring areas of high nature value, for example soy farms in Brazil, palm oil plantations in Indonesia and produce production landscapes in Peru. We have introduced responsible sourcing roadmaps for all of our key raw materials and are exploring circular economy supply chains through our recycling approach. We also measure the number of woodland trees planted through our partnership with the Woodland Trust and to date have planted 4.9 million trees since 2004. This has the potential to mitigate 1.2 million tonnes of CO_2 over their lifetime.
Human Rights	We are committed to respecting human rights across our value chain to ensure the people who make or grow our products are not being exploited or exposed to unsafe working conditions and that our transition to Net Zero is just and equitable for the communities we source from. This year we have developed and refreshed our Human Rights strategy and have set out five human rights commitments. These commitments build on our recent human rights saliency assessment, where we identified our most salient human rights risks and evolving issues that affect the people within our value chain.

Climate-related risks and opportunities are also considered within financial planning. We have committed to spend £1 billion to become Net Zero by 2035 across our own operations and this is built into our financial plan, approved by the Board. We have considered the impact that the revenue losses identified in our quantitative scenario analysis of Meat, Fish and Poultry, Produce, Tea, Coffee, Cotton, Clothing and Fuel (pages 21 to 24) could have on the carrying value of the Group's store assets, by modelling the impact on cash flows. Except for fuel, the results do not have a material impact on the Group's impairment considerations, see page 26 and Note 17 to the financial statements for more details. Finally, Sainsbury's Bank considers climate-related risks as part of its Internal Capital Adequacy Assessment process (ICAAP) which includes using a detailed modelled approach based on the three Climate Biennial Exposure Scenarios provided by the Bank of England and assessing lending portfolios according to sector, region and local area.

Net Zero Transition Plan

We are committed to becoming Net Zero within our own operations by 2035 and to reduce emissions within our supply chain in line with a 1.5-degree trajectory. Our high-level strategy and actions to transition to a low carbon economy are described in this Annual Report and within our standalone Plan for Better reports on our website which can be found at **www.about.sainsburys.co.uk**.

As a leading retailer, we are supportive of the need for companies to be open and transparent about their climate ambitions and progress to achieving ambitious net zero targets. At COP 26 the Chancellor announced his intention for Net Zero transition plans to be mandatory in the UK and established the Transition Plan Taskforce (TPT) with the aim of developing the 'gold standard' of transition plans. To support the TPT, we have participated in the TPT Sandbox Coalition, a consultation process for leading businesses to understand and influence the requirements of implementing and disclosing a transition plan.

We have an internal Net Zero Transition Plan, which we will finalise once the final guidance has been issued by the TPT. This plan will set out our high-level climate-related ambitions and actionable steps we are taking to support our transition to a low carbon economy, meet our targets, including our overall emissions reduction targets and actions to mitigate climate risk. We plan to publish a standalone Net Zero transition plan in line with the timeframes set.

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

We continue to deepen our understanding of the climate-related risks and opportunities facing our business. This year we expanded our quantitative scenario analysis to include more categories of products we sell. Scenario analysis can act as a "stress test" for our current business operations and supply chain and help to explore a range of different outcomes. This allows us to evaluate the potential effects on our strategic and financial position under each of the defined scenarios. We use the results to inform strategic thinking on how to manage the identified risks and opportunities.

Our Own Operations – Qualitative Scenario Analysis

Climate change is expected to increase the frequency and intensity of flood events in the future, impacting directly through water damage to our property estate and indirectly by hindering access for our customers and suppliers. We have performed qualitative scenario analysis using the World Resources Institute Aqueduct tool to understand the impact of flood risk and water stress on our locations in a 4.3°C scenario (high emission).

We have been actively managing flood risk across our property estate for many years through our real-time flood warning system, flood emergency plans for at-risk stores and investments in flood defences. Our flood warning system uses geospatial mapping of our sites to predict flood location and threat level, allowing us to make timely decision and targeted investments to minimise the impact of flooding.

Improving our understanding of future water related risks helps us assess the need for future building adaptations. It is also supporting our commitment to be water neutral by 2040, by identifying where water conservation will have the biggest impact.

Case study – Tadcaster Store Flood Protection

Tadcaster is one of our stores that was identified as at high-risk of flooding. In February 2022, during Storm Franklin, our early flood warning system meant that we were able to put up flood defences eight hours ahead of the Environment Agency flood warning, enabling us to avoid damage from the heavy rain and rising River Wharfe and reopen our store quickly once the flood risk passed.

Our Products and Supply Chain – Qualitative Scenario Analysis

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

This analysis was conducted by considering the potential impact of 27 climate-related risks, including physical and transitional risks. For physical risks, we considered the geographical sourcing for each of our product categories and assessed different physical risks under a high emissions scenario. To evaluate transitional risks, we considered the GHG emissions of our different product categories, as well as how changing market dynamics and increased regulations could impact both production costs and revenue. The below table shows the most material climate-related risks identified as well as the product categories most exposed.

Type of risk	Most material risks	Most exposed categories
Physical risks	— Heat events — Labour capacity — Drought — Flooding	— Produce — Cotton — Coffee — Tea
Transition risks	— Regulation, including carbon taxes — Changes in consumer preferences	— Meat, Fish & Poultry — Dairy — Clothing — Fuel

The findings of the qualitative scenario analysis were reviewed, alongside the financial materiality of each product category, by senior leadership and key stakeholders during a series of workshops. Last year we selected Meat, Fish and Poultry and Produce to undergo further analysis through a quantitative scenario analysis approach. This year we have expanded our quantitative analysis to Coffee, Tea, Cotton, Clothing and Fuel. We did not expand to Dairy as climate-related risks are similar to Meat, Fish and Poultry. This approach was approved by the Plan for Better Steering Committee with oversight from the Corporate Responsibility and Sustainability Committee.

Our Products and Supply Chains – Quantitative Scenario Analysis

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

— 1.5°C – A pathway that limits global warming to below 1.5°C (low physical risk, high transition risk)

— 2.4°C – Described by the IPCC as an intermediate scenario (medium physical and transition risk)

— 4.3°C – A high emissions worst case scenario pathway (high physical risk, low transition risk)

Through our analysis we identified transition risks to be material leading up to 2030 as the global community strives to limit global warming to below 1.5°C, whereas physical risks are expected to manifest by 2050 if transition goals are not met. Extending transition risk analysis beyond 2030 introduces significant amount of uncertainty to our analysis. Our analysis of Meat, Fish and Poultry, Clothing and Fuel extends to 2030 as the product categories are most vulnerable to transition risks, namely regulation and changes in consumer preferences. Our quantitative analysis for Produce, Cotton, Coffee and Tea extends to 2050 to capture the potential financial impacts associated with heat events, labour capacity, flooding and droughts.

Quantitative Scenario Analysis – Potential financial impact of climate-related transition risks on most exposed products in a low emissions scenario in 2030

To assess the financial impact associated with regulation and changes in consumer preferences, we evaluated the sale of Meat, Fish and Poultry, Clothing and Fuel in the UK. For regulation risks, we considered the impact of a carbon price on the Meat, Fish and Poultry category and the ban of the sale of new petrol and diesel cars from 2030 (hybrid cars from 2035) on the Fuel category. For Meat, Fish and Poultry the carbon prices applied in our scenario analysis align with IPCC data and costs are assumed to pass on directly to customers, reducing demand for the highest emission Meat, Fish and Poultry products. For Fuel we have assumed a rapid uptake of battery electric vehicles leading to a 50 per cent reduction in fuel demand by 2030. For consumer preference, we considered the impact of more climate conscious customers favouring lower GHG emission protein and purchasing more second-hand clothing (displacing new clothing purchases).

The results show the potential revenue loss in a 1.5°C (low emissions) world in which physical risks associated with climate change are limited, but high transition risks are experienced as the world attempts to meet the Paris Agreement. Results consider product categories in isolation and assumes no actions are taken to mitigate climate risks. The MFP results do not capture the business opportunity of developing and promoting lower GHG animal protein and nutritionally positive meat alternatives to capture switching calories from existing and new customers. The Fuel result does not capture the business opportunity from providing customer electric charging.

Most material transitional climate risks:	Annual revenue loss to most exposed categories in isolation in 1.5°C scenario in 2030, assuming no actions are taken to mitigate risks:			Mitigations that are being implemented/considered as part of our strategic planning:
	Meat, Fish and Poultry	Clothing	Fuel	
Regulation	£50m to £100m revenue loss to Meat, Fish and Poultry category in isolation Overall opportunity to business post mitigations	n/a	£2,400m to £2,500m revenue loss to fuel category in isolation Opportunity to offset lost fuel revenue post mitigations	**Meat, Fish and Poultry** — Working with suppliers to reduce GHG emissions in our supply chains e.g., supplier targets, animal health and welfare and feed efficiency — Development of lower GHG emission animal protein within existing product (see integrated beef case study below) and promotion of nutritionally positive meat alternatives to capture switching calories from existing and new customers **Clothing** — Increasing the use of recycled cotton and customer circularity — Signatories of Textiles 2030, which aims to reduce the aggregate water footprint of new products sold by 30 per cent — Target for 100 per cent of our cotton to be sourced to an independent sustainability standard by 2025 **Fuel** — Providing electric vehicle charging for customers as they shop at our stores
Changes in consumer preferences	£300m to £350m revenue loss to Meat, Fish and Poultry category in isolation Overall opportunity to business post mitigations	£35m to £40m revenue loss to Clothing category in isolation	n/a	

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

Case study – Integrated Beef Scheme

Our market-leading integrated beef scheme uses selected Aberdeen Angus genetics, resulting in a more sustainable, highly consistent and traceable beef product for our customer. The scheme has been running since August 2019 and we are working to fulfil our entire Taste the Difference tier. The genetics used improve the sustainability of our beef is estimated to deliver a 23 per cent reduction in overall GHG emissions and a 40 per cent reduction in methane.

Quantitative Scenario Analysis – Potential financial impact of climate-related physical risks to most exposed crops in high emissions scenarios in 2050

To assess the financial impact of the increased likelihood of heat events, reduced labour capacity, drought and flooding, we evaluated the production of Produce, Cotton, Coffee and Tea in our key sourcing locations. We considered two scenarios, one where global warming reaches 4.3°C (high emission) as a result of no global action taken to reduce emissions, leading to extreme physical risks manifesting in the long term and a 1.5°C (low emission) scenario where the Paris Agreement is met but physical risks are still experienced, albeit more mildly. The below table shows the results of the 4.3°C (high emission) scenario only.

Our scenario analysis considered the impacts of these acute physical risks and the resulting diminished or lost crop yields that would result in increased supply costs. We assume these additional costs are passed on directly to the consumer, reducing demand and impacting our revenue. Results consider product categories in isolation and assumes no actions are taken to mitigate climate risks.

Most material physical climate risks:[1]	Annual revenue loss to most exposed crops in isolation in 4.3°C scenario in 2050, assuming no actions are taken to mitigate risks:				Mitigations that are being implemented/ considered as part of our strategic planning:
	Produce[2]	Cotton	Coffee	Tea	
Heat events	£35m to £40m revenue loss to crops	£75m to £80m revenue loss to crops	£30m to £35m revenue loss to crops	£40m to £45m revenue loss to crops	— **Engage**: continue to work closely with our suppliers to understand growing locations and adaption plans — **Explore supply chain adaption options with suppliers**: higher altitude locations, lower flood risk areas, vertical farming, glass growing structures, reservoirs, drainage channels, drought and temperature resistant crop strains — **Certification**: sourcing of sustainable crops through Fairtrade, Rainforest Alliance and BCI Cotton — **Human rights**: commitments to ensure that our transition to Net Zero is just and equitable for the communities we source from
Labour capacity	n/a	n/a	£10m to £15m revenue loss to crops	£20m to £25m revenue loss to crops	
Drought	£25m to £30m revenue loss to crops	£20m to £25m revenue loss to crops	£10m to £15m revenue loss to crops	£0m to £5m revenue loss to crops	
Flooding	£0m to £5m revenue loss to crops	£10m to £15m factory operation days	£0m to £5m revenue loss to crops	£0m to £5m revenue loss to crops	
Key sourcing locations:	Spain UK	Benin Brazil India Bangladesh (manufacturing)	Brazil Columbia Honduras Peru	India Kenya Malawi Rwanda	

1. Risks should be considered in isolation as the complex interrelationship between multiple risks has not been considered.
2. Produce considers citrus fruits, lettuce, berries and potatoes grown in Spain and the UK.

Case study – UK grown Brassicas

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

Risk Management

Risk Management a) Processes for identifying and assessing climate related risks

We consider climate risk as one of our priority strategic risks and it is a key pillar in our Plan for Better strategy. We identify climate-related risks through quarterly bottom-up divisional and governance forum risk assessments and then reviewed annually top-down in a dedicated climate risk workshop to assess completeness. The process manages our ability to deliver our Plan for Better strategy, progress towards our Scope 1, 2 and 3 targets and consideration of physical and transition climate risks impacting our operations and supply chain, including existing and emerging regulatory requirements.

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

Risk Management b) Processes for managing climate related risks

Each climate risk is assigned a Divisional Director-level business owner who is responsible for monitoring and mitigating the risk. Climate risks are agreed once per year at the Plan for Better Steering Committee with Board level oversight from the Corporate Responsibility and Sustainability Committee. Climate risks and mitigations are monitored throughout the year by the Plan for Better business leads and Steering Committee. To further enhance capacity and ownership of climate risks across the business, the Steering Committee has cross-divisional representation at Director level.

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

The output from this climate risk process, in aggregate, is elevated to the Corporate Risk map owned by the Board with support from the Audit Committee and informs the Environment and Social Sustainability principal risk shown on page 50. Further details of our overall risk management framework and supporting processes can be found on page 44.

Metrics and targets

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

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

Plan for Better Commitment	Metric	Methodology
Reduction in carbon emissions	Absolute GHG emissions within our own operations (tCO_2e)	Absolute, market based, Scope 1 and 2 GHG emissions in the financial year for Sainsbury's Group and calculated by third party CBRE and verified by third party ERM (limited assurance post publication of Annual Report). Follows the GHG protocol.
	Electricity which comes from renewable sources (%)	The amount of renewable energy used by Sainsbury's Group as a proportion of the total electricity consumption in the financial year, supported by third party CBRE. Combination of energy sourced directly from solar and wind farms as well as certificate-backed renewable electricity from the UK.
	Absolute Scope 3 GHG emissions (tCO_2e)	Includes emissions from purchased goods, upstream transport and distribution, services sold and our customers' use and consumption of the products we sell. Data is verified by the Carbon Trust (limited assurance post publication of Annual Report). Follows the GHG protocol.
	Suppliers disclosing through CDP (number)	Suppliers disclosing through CDP, which is an environmental impact disclosure system.
	Suppliers disclosing through Manufacture 2030 or HIGG (number)	Suppliers disclosing through either Manufacture 2030 or HIGG, which are environmental impact disclosure systems.
	Suppliers with SBTi 1.5-degree net zero targets approved (number)	Suppliers with approved SBTi 1.5-degree aligned net zero targets recorded on the SBTi platform. This is considered the gold standard for GHG emission targets.
	Suppliers who have signed up to the UK soy manifesto (% of soy footprint)	Suppliers who have signed up to the UK Soy Manifesto. The manifesto is an industry commitment to sourcing deforestation and conversion free soy by 2025. Suppliers disclosed their information through 3Keel.
Reduction in water use	Absolute water usage within our own operations (m^3)	Absolute water usage in the financial year for both Sainsbury's and Argos, supported by third party WaterScan and verified by third party ERM (limited assurance post publication of Annual Report).
Healthy & sustainable diets	Healthy and Better for you sales tonnage as a proportion of total sales tonnage (%)	Food sales tonnage of healthy, healthier choice and Better for you products as a percentage of total food sales tonnage in the financial year (exclusive of beers, wines, spirits and baby food). Healthy, healthier choice and Better for you defined using a nutrition criteria tool, including criteria from the Eatwell Guide which is lower in GHG emissions.
Reduction in food waste	Food waste to anaerobic digestion (tonnes)	Total food waste tonnage sent to anaerobic digestion in the financial year calculated as total operational food surplus i.e., food that is not sold to customers, less any food surplus redistributed to both humans and animals.
Nature	Soy sourced to an independent sustainability standard (%)	Sustainably sourced soy tonnage as a percentage of total soy tonnage footprint, as calculated by the third party 3Keel.
	Palm sourced to an independent sustainability standard (%)	Sustainably sourced palm oil tonnage as a percentage of total palm oil tonnage footprint, as calculated by the third party 3Keel.
	Timber sourced to an independent sustainability standard (%)	Cubic metre volume of assessed sustainably sourced timber products sold as a percentage of total cubic metre volume of all assessed timber products sold during 2022 calendar year. Sustainability assessments were carried out by third party Track Record Global Ltd.
	Cotton sourced to an independent sustainability standard (%)	Cotton tonnage sustainably sourced and certified by third party Better Cotton Initiative (BCI) as a percentage of total cotton tonnage sourced during 2022 calendar year.
	Number of woodland trees planted (number)	Total number of trees planted in the financial year through partnership with the Woodland Trust.

In line with TCFD recommended disclosures, we are required to report on cross-industry metrics to enable comparability across different sectors. These metrics are deemed important proxies for measuring climate-related risks and opportunities.

Metric Category	Unit of Measurement	Narrative
GHG Emissions Absolute Scope 1, Scope 2 and Scope 3.	MT of CO_2e	Absolute GHG emissions across all scopes is included within our Plan for Better metrics. Our Scope 1, 2 and 3 emissions figures to date and targets are disclosed on page 27. We have committed to reducing emissions in line with a 1.5-degree trajectory. We are in the process of revalidating our near-term and long-term science-based targets across all emissions to be approved by SBTi by the end of 2023 calendar year.
Transition and Physical Risks Amount and extent of assets or business activities vulnerable to transition or physical risks.	Amount	Our quantitative scenario analysis focuses on our most material transition and physical risks: heat events, reduced labour capacity, droughts, flooding, regulation and changing consumer preferences. The results show the potential financial impact of climate change on our most exposed product categories. We use these results as assumptions within our financial planning models to determine whether these risks resulted in material impacts on performance or position as at year end. As part of our Group impairment work we considered all of the climate related risks identified in our quantitative scenario analysis. The most material transitional risk was in fuel. As such, the Group's current year impairment review included cash flow assumptions in relation to the expected future revenue loss within the fuel category. The other climate change risks identified did not result in a material financial impact to the accounts. Further details can be found in our scenario analysis page 22 and note 17 of the financial statements on page 156.
Capital Deployment Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities	Reporting currency	Our decarbonisation strategy will be enabled by our commitment to invest £1 billion to become Net Zero by 2035 and our future capital investment is aligned with our decarbonisation roadmap. This year we spent £25 million on installing LED across our stores, Solar PV optimisation and the installation of solar, refrigeration efficiency and engineering innovation. More information can be found within our 2023 CDP submission found on our website in the reports and policies section. Our capital spend to date has focused on several priority areas: the decarbonisation of heat, increasing the amount of renewable energy, energy efficiency and the removal of hydrofluorocarbon refrigerant gas. We have installed LED lighting across 100 per cent of our estate reducing electricity consumption associated with lighting by 70 per cent.
Climate-Related Opportunities Proportion of revenue, assets, or other business activities aligned with climate-related opportunities	Amount	The impacts of climate issues not only inform our risk management, it also drives our strategy to identify and consider climate-related opportunities that we can benefit from. A key technological/engineering innovation has been the removal of natural gas heating and replacement with Refrigeration Integrated Heating and Cooling (RIHC) systems – using the refrigeration systems to provide all heating and cooling requirement in 26 stores which builds on our previous programme of installing Ground Source Heat Pumps in 30 of our stores. We have fully mapped our estate to help us make decisions on the most effective way to deploy capital expenditure to reduce emissions. Our mapping tool allows us to identify which sites need to be invested in and when. Our latest store in Hook is designed to be our most energy efficient store to date. We plan to more than double the number of RIHC stores in 2023/24. For further details see page 14. We believe that an innovation led approach is the only way that we can achieve our ambitious targets. Since December 2022, we have received over 360 opportunities through our Sainsbury's Innovation Investments initiative and have taken seven through to the next stage to consider for investment.
Internal Carbon Prices Price on each ton of GHG emissions used internally by an organisation	Price in reporting currency, per MT of CO_2e	An Internal Carbon Price (ICP) is a method used by companies to appraise investments, aid decision making and manage risks for projects that relate to transitioning to a low-carbon economy. By assigning a monetary price to GHG emissions, it allows businesses to efficiently deploy capital and assess the best course of action to address climate-related risks and opportunities. Following detailed modelling using real life investment scenarios to determine how an ICP could impact our decisions, considering required net present value/ gross investment hurdle rates, it was determined that investment in initiatives delivering carbon reductions did not require any further support to justify expenditure and that the pipeline of current projects hit the required hurdle rates set by the business. We will continue to evaluate whether an ICP is a mechanism that may be relevant to the organisation in future.
Remuneration Proportion of executive management remuneration linked to climate considerations	Percentage, weighting, description, or amount in reporting currency	Our Plan for Better metrics, which includes climate-related metrics form part of the Executive Director's long-term incentive arrangements. Further details can be found on page 99.

Metrics and Targets b) Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and the related risks

	Baseline	Results	
	2018/19	2021/22	2022/23
Scope 1 and 2 GHG emissions	949,744 tCO_2e	746,681 tCO_2e	461,692 tCO_2e
Scope 3 GHG emissions	26,663,081 tCO_2e	n/a	n/a

For a more detailed breakdown of our Scope 1 and 2 GHG emissions, please see our streamlined energy and carbon reporting disclosure on pages 97 to 98. We have a strong track record of delivering GHG emissions reductions and a robust plan to Net Zero by 2035, however there is some risk as our transition plan requires industry innovation, such as a commercially viable alternative fuel solution for heavy goods vehicles. Our near-term target is to reduce our Scope 1 and 2 GHG emissions by 68 per cent by 2030/31, which will help us achieve Net Zero by 2035.

We have worked with the Carbon Trust to define our Scope 3 baseline and the methodology for calculating our annual emissions through the use of industry average carbon factors. This has enabled us to identify our most carbon-intensive products and the suppliers who constitute the top 80 per cent of our Group emissions. We are actively working towards an aligned industry approach to measure supplier-specific emissions as this is the most effective way to track emissions reductions within our own supply chain. However, in the absence of a universally recognised approach, we are engaging with our strategically important suppliers to carry out life cycle analyses of the products they sell us and continuing to request suppliers to disclose emissions data through the following environmental impact disclosure systems: CDP, Manufacture 2030 and HIGG.

In 2022 as part of a trial we asked our suppliers to report on Manufacture 2030, which involves submitting data on carbon, water and waste at site-level. As this was a trial, we only asked suppliers who were already reporting on Manufacture 2030, in order to reduce the reporting burden. This year, we are working with a greater number of suppliers to disclose on Manufacture 2030 and create emission reduction action plans and as with all other Scope 3 metrics our target is to cover 80 per cent of our total emissions base.

In order to improve the quality of our Scope 3 reporting we know that we need to move beyond using industry average factors. To do this, we are embarking on a project with Mondra to understand the environmental impact of our emissions at a product and ingredient level across a number of products to accelerate decarbonisation and enable effective business decision making. This is a pilot initiative involving many stakeholders in the industry thereby helping to steer the industry to a consistent approach to Scope 3 data collection.

We recognise we cannot solve the challenges relating to reducing Scope 3 emissions on our own and are therefore committed to work at industry level to find a solution. We participate regularly with industry-wide working groups and are signatories, alongside other retailers, to the WWF's Retailers' Commitment for Nature, which involves a commitment to halve the environmental impact of UK baskets by 2030. As part of this commitment, we have submitted more ambitious science-based targets to the SBTi to align our emissions reduction targets to limiting climate change to a 1.5-degree trajectory. Once this has been approved, we will be able to reset our Scope 3 near-term target.

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

We understand the importance of setting GHG emission reduction targets. In response to the new standard set by SBTi, we have submitted our Net Zero 1.5-degree aligned targets across all scopes to be revalidated by SBTi by the end of 2023. We have long-term remuneration targets for Executive Directors on Scope 1, 2 and 3 and Plastic packaging (see page 99 for more details).

We also have targets and measure performance against other climate-related metrics. See page 20 for more details on how these metrics are supporting climate-related matters.

Plan for Better commitment	Metric	Baseline	Results 2021/22	Results 2022/23	Target
Reduction in carbon emissions	Absolute GHG emissions within our own operations (tCO_2e)	949,744 tCO_2e 2018/19 FY	746,681 tCO_2e[1]	461,692 tCO_2e	Net Zero by 2035/36 FY 68% by 2030/31
	Electricity which comes from renewable sources (%)	17% 2019/20 FY	41%	100%	100%
	Absolute Scope 3 GHG emissions (tCO_2e)	26,663,081 tCO_2e 2018/19 FY	n/a	n/a	Aligned to a 1.5 degree trajectory
	Suppliers disclosing through CDP (number)	n/a	197[2]	188	80% of emission by 25/26 FY
	Suppliers disclosing through Manufacture 2030 or HIGG (number)	n/a	n/a	395	80% of emission by 25/26 FY
	Suppliers with SBTi 1.5-degree net zero target approved (number)	n/a	n/a	8	80% of emission by 25/26 FY
	Suppliers who have signed up to the UK soy manifesto (% of footprint)	n/a	n/a	86%	100% 2025 CY
Reduction in water use	Absolute water usage within our own operations (m^3)	3,224,000 m^3 2018/19 FY	2,797,699 m^3	2,655,817 m^3	Water neutral by 2040/41 FY
Healthy & sustainable diets[3]	Healthy and Better for you sales tonnage as a proportion of total sales tonnage (%)	82% 2019/20 FY	82.3%	81.2%	85% 2025/26 FY
Reduction in food waste	Food waste to anaerobic digestion (tonnes)	31,615 tonnes 2019/20 FY	25,483 tonnes	23,443 tonnes	15,808 tonnes 2030/31 FY
Nature	Soy sourced to an independent sustainability standard (%)	6% 2019 CY	58%	43%	100% 2025 CY
	Palm sourced to an independent sustainability standard (%)	99.1% 2019 CY	100%	100%	100% 2025 CY
	Timber sourced to an independent sustainability standard (%)	60% 2019 CY	77%	92%	100% 2025 CY
	Cotton sourced to an independent sustainability standard (%)	76% 2019 CY	94%	98%	100% 2025 CY
	Number of woodland trees planted (number)	493,750 trees 2019/20 FY	398,333	310,000	1,500,000 (cumulative) 2025 CY

1. Absolute GHG emissions within our own operations in 2021/22 restated from 762,119 tCO_2e to 746,681 tCO_2e
2. Number of suppliers disclosing on CDP in 2021/22 restated from 183 food suppliers to 197 suppliers.
3. We are reporting on a revised target of 85 per cent (with a baseline of 82 per cent), based on changes to our nutrient criteria, following updated government reformulation targets and expert advice.

Engaging with our stakeholders and our Section 172 statement

Stakeholder considerations and our culture play an important part in the Board's discussions and decision-making in promoting the long term success of the Company. Against a backdrop of a cost of living crisis, it has been even more important to balance the needs of all of our stakeholders.

During the year ended 4 March 2023, the Board has acted in accordance with Section 172(1) of the Companies Act 2006. Each Director has acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, the Directors have regard to the interests of other stakeholders, whilst maintaining high standards of business conduct. Examples of how Directors have applied these matters in Board discussions and their decision-making are included throughout this Annual Report.

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

An overview of our key stakeholders and stakeholder considerations that influenced discussions and the outcomes of these discussions is outlined below. Further examples of how the stakeholder voice has been brought into the boardroom can be found in our Governance section on page 71.

"We remain committed to strengthening our engagement and relationships with all of our stakeholders."

Simon Roberts, Chief Executive

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Customers

Over two-thirds of the total retail shoppers in the UK have shopped with Sainsbury's over the last year[1] and there were over 17.7 million active Nectar users who would be able to benefit from personalised offers from us and our Nectar partners. Within Argos, we have 19 million active customers, and the website is the third most visited online retailer in the UK. In Financial Services, we have 1.9 million active Sainsbury's Bank customers and 2.1 million Argos Financial Services customers. Understanding the needs of our customers allows us to provide relevant products and services. Satisfied customers are key to our long-term success.

Key customer priorities

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

Engaging with our customers

We heard what mattered to our customers through:

- 1.9 million responses per year across our Sainsbury's and Argos customer feedback programmes
- Nectar data, which helps us understand how customers are shopping
- Qualitative customer focus groups and quantitative surveys
- Market research
- Social media listening
- Brand tracking, which assesses the performance and perception of our different brands
- I Care, a satisfaction survey which helps us understand the overall shopping experience for our customers

1. Nielsen IQ panel, Total FMCG (excl. Kiosk & Tobacco), 52 weeks ending P3 22/23.

Customer feedback and overall metrics on consumer sentiment and trends were shared regularly with the Board and Operating Board, steering our responses to the key issues impacting customers, such as the cost of living crisis, price inflationary pressures and availability of products. The Board received regular updates from the Chief Marketing Officer, which included feedback from our customer listening sessions.

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

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

We prioritised keeping our prices low for our customers with our £560 million investment in price. The Aldi Price Match and Price Lock campaigns are two ways in which we continue to support our customers to shop more affordably.

Our Nectar programme connects us to our customers and is central to our value proposition, offering our customers personalised discounts and giving them better value.

Food innovation and bringing new products to customers is a key part of our plan to put food back at the heart of Sainsbury's. During the year, we have launched nearly 1,400 new products, including the Flourish brand which was created to help our customers make positive health choices.

As part of our ongoing commitment to Plan for Better, we also announced major changes to date labels on packaging to help reduce food waste in homes for our customers. Decision makers, including our Corporate Responsibility and Sustainability Committee, referred to customer insight analysis to understand how customers view our progress around sustainability and inform how related projects develop.

Colleagues

Our colleagues include everyone who is employed by the business. Colleagues are at the heart of everything we do and their commitment to our purpose and values is critical to the business's long-term success.

Key colleague priorities

— Reward
— Career progression
— Colleague engagement
— Training and development
— Wellbeing
— Health and safety
— Diversity, equity and inclusion

Engaging with our colleagues

The Board engages directly with colleagues through the National Great Place to Work Group, our Workforce Advisory Panel. Presentations on culture, colleague engagement, talent retention and progression from our Group HR Director, and regular summaries from the Chief Executive on key initiatives, were provided to the Board. Updates on decisions which were made based on colleague feedback were shared through regular internal communications from the Chief Executive and Operating Board members.

Our colleague engagement activities included:

— Non-Executive Director meetings with our Workforce Advisory Panel to directly understand the views of colleagues from across the business via their elected peers. Updates from the sessions are shared and discussed at Board meetings, directly feeding into the Board's decision-making process
— Operating Board Director Listening Sessions are held regularly throughout the year and provide an opportunity to hear directly from colleagues across the business. This is an open forum for colleagues to share their experiences and ask questions, which in turn further develops the Board's understanding of the overall colleague experience
— A Board visit to the new Aylesbury Gatehouse store to meet colleagues and receive updates on food innovation, customer services, general merchandise, value and Nectar
— Continual feedback through internal channels, including live presentations, question and answer sessions and internal social media discussions with the Operating Board
— Honest, confidential colleague feedback on what it is like to work for the business through our annual colleague engagement survey, 'We're Listening', let us know what's on colleagues' minds
— Colleague feedback through topic specific 'temperature check' surveys throughout the year, helping us to understand colleagues' views and sentiments, enabling the Board and Operating Board to act swiftly
— Regular updates provided to the Board and its Committees on culture, engagement, diversity, equity and inclusion, and colleague pay and benefits

Colleague feedback provides the Board with insight and challenge. We ensure decision makers receive timely feedback, allowing colleague interests to remain a priority when considering key concerns. Our swift actions in response to the cost of living crisis and inflationary pressures exemplifies this. Colleague feedback through listening sessions, via internal social networks and 'temperature check' surveys enabled senior leadership to better understand colleague concerns particularly in relation to the pressures of rising costs.

The business has continued to make significant investments in colleague pay and benefits. All our Sainsbury's and Argos store colleagues now receive a base rate of at least £11.00 per hour and £11.95 per hour for those in inner and outer London, both of which are above the government's National Living Wage.

To further support our colleagues through the cost of living challenges, we've provided a food offering for our colleagues in our stores, depots, Local Fulfilment Centres and our Contact Centre Teams.

In response to feedback from colleagues, we have also invested in an improved colleague discount offering with longer and more frequent colleague discount uplifts throughout the year, provided a second discount colleague card, widened the list of people who could be the second user and reduced the eligibility period for colleagues to receive a discount card.

It is vital that we have a diverse workforce, thriving in an inclusive culture and reflecting the communities we serve. The Board supported the commitments made by the Operating Board in support of our Black colleagues and customers, including the launch of Thrive with Sainsbury's the UK's first retail incubator programme for Black-led businesses. It also supported the commitment to increase representation of women and Ethnically Diverse colleagues in senior leadership positions by agreeing stretching diversity targets and maintaining transparency by publishing our Gender and Ethnicity Pay Report for a third year. Our range of leadership development programmes includes our Ethnically Diverse Programme, which has been running since 2019. It ends this year having supported over 367 Ethnically Diverse colleagues in their careers across Sainsbury's. The newly titled and refreshed programme for our Ethnically Diverse colleagues, Accelerate YOU, launches in June and will focus on developing colleagues with high potential to prepare for leadership roles in our business.

More information on our colleague engagement activities can be found on pages 15 to 16 and our colleague engagement KPI can be found on page 36.

Shareholders

We have over 100,000 shareholders, including large institutional investors and smaller individual shareholders.

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

Key shareholder priorities

During the year, we regularly engage with shareholders to help inform strategic decision-making and to understand their views. Our shareholders' main areas of focus included:

- How the cost of living crisis has changed consumer spending habits, including propensity to eat at home versus in restaurants, and reducing the impact of inflation through reducing the number of grocery items purchased and/or trading down to cheaper products, including switching out of branded products in favour of own brand
- The grocery market's response to macro-economic inflationary pressures on raw material prices and operating costs
- The sustainability of Argos and general merchandise's trading momentum given disposable income pressures
- Progress towards our cost savings targets and whether opportunities are unique to our business
- Grocery market share performance, given the changing dynamics in a competitive environment
- Expectations for groceries online penetration now that demand has normalised post-pandemic
- How we will address capital allocation once our leverage targets are achieved
- Providing confidence in profit, cash flow and dividend prospects
- The macroeconomic environment's impact on the financial services business including demand for financial products and potential increase in the levels of consumer bad debt
- The impact of a high interest rate environment on leverage and interest costs

Engaging with our shareholders

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

- One-on-one investor meetings with the Chair, Chief Executive, Chief Financial Officer and Director of Investor Relations
- Real-time feedback from investors after meetings and presentations
- The Annual General Meeting
- Attendance at key investor conferences and tours of our stores
- Regular email and telephone contact with investors and analysts
- A shareholder event for retail investors
- Dialogue with shareholder groups
- Regular engagement with investors on Environmental, Social and Corporate Governance (ESG)
- Analyst attendance at the Board Strategy meetings, providing insight and perspective on the retail sector

We continue to engage with our shareholders on our Plan for Better commitment. We've built a regular cadence of communication, reporting on our progress through issuing an Investor ESG Newsletter. In February 2023, we held our first deep dive investor group meeting on the topic of Nature and Biodiversity, providing investors with the opportunity to engage in a question and answer session with one of our subject matter experts. This format of engagement received positive feedback and we look forward to hosting similar events over the course of the next year to cover a variety of areas of interest.

Between April and June, we engaged with a significant number of shareholders in response to the special resolution tabled by ShareAction directing Sainsbury's to accredit as a Living Wage Employer by July 2023. Our recommendation to vote 'against' the ShareAction resolution was supported by the majority of our shareholders, with 83.31 per cent of votes cast against the resolution.

Shareholders were keen to understand our remuneration decisions and, through voting at the Annual General Meeting, were given an opportunity to indicate their opinion on the 2022 Remuneration Report. The resolution to approve the 2022 Annual Report on Remuneration was approved with 98.53 per cent of votes cast in favour. The Board and Remuneration Committee continued to consult with shareholders to understand their views on key decisions, and we will continue this dialogue in future years. For more information, please see the Annual Report on Remuneration on page 96.

Suppliers

We have over 5,800 Goods For Resale (GFR) suppliers that supply products for food, general merchandise and clothing, and over 1,800 Goods Not For Resale (GNFR) suppliers across the Group that support all functions, including logistics, marketing, technology and retail. Our suppliers range from large multi-national companies to small independently-run businesses.

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

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

Key supplier priorities

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

Engaging with our suppliers

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

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

The Board held a dinner with senior leaders from some of our key suppliers. This enabled a broad ranging discussion about the impact of the cost of living crisis, relationships between the Group and our suppliers and the benefits of simplification in the supply chain and trading processes.

In June 2022, the Operating Board held a supplier event with over 1,000 supplier delegates in attendance. We updated our suppliers on how we were delivering against our Food First plan as well as our key strategic objectives for the year ahead. We also held a smaller event for our own-brand food suppliers in September 2022 to update them on key changes that were specific to suppliers of Sainsbury's branded products.

Our management teams actively engage with both the GFR and GNFR supply chains to manage key risks, including the impacts of the war in Ukraine, global supply chain issues and inflation on stock levels and logistics. This enables us to manage our supply chain and continuity of supply to customers. Additionally, we hold key supplier meetings with the Board to further enhance communication with these stakeholders.

We take part in annual, independent surveys which benchmark us against other retailers and highlight areas for improvement; these include the Supplier Advantage survey and the Groceries Supply Code of Practice supplier survey. The Corporate Responsibility and Sustainability Committee received updates during the year on the outcomes of these surveys, which helped shape supplier-related initiatives and prioritise focus areas to deliver tangible improvements for our suppliers. This includes a programme to streamline our supplier data sources into a single platform which will be a key focus of our supplier technology roadmap this year.

To achieve our Scope 3 emission reduction targets, we are working collaboratively with our suppliers to reduce emissions across our total value chain. We have set clear expectations on our Plan for Better commitments and have asked our suppliers to disclose their emissions and reduction plans through the Carbon Disclosure Project, Manufacture 2030 and Higg platforms, (see page 27 for more details). As a member of the WWF's Retailers' Commitment for Nature, we are increasing our engagement with key suppliers, asking them to have approved net zero 1.5°C science-based targets by end of 2025.

We recognise that our suppliers are key to protecting human rights throughout our business activities and the Corporate Responsibility and Sustainability Committee regularly discuss supply chain matters. We have clear modern slavery policies for both GFR and GNFR suppliers and actively engage with our suppliers to prevent modern slavery and human trafficking in our business operations and supply chains. We have reported this through our Modern Slavery Statement.

Communities

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

Our business relies on resilient communities; we have a long history of building strong partnerships and making a difference in the communities we serve, both locally and internationally. The Board supported the ongoing priorities of Helping everyone eat better, especially in response to the rising cost of living, and supporting our communities and the most vulnerable in society. This focus has enabled us to make decisions at pace and allocate resources and investment so that we can maximise the benefit to our communities.

Key community priorities

- Driving impact at a local level
- Tackling food poverty
- Supporting the most vulnerable

Engaging with our communities

Regular updates on our community strategy are provided to the Corporate Responsibility and Sustainability Committee and the Board. Customer and colleague feedback provided the Board with valuable information on how we can best support our customers and local communities, particularly in relation to household financial challenges. We have continued our partnership with Neighbourly, our food redistribution partner.

Neighbourly provide an award-winning giving platform that helps businesses make a positive impact in their communities by redistributing supermarket store-level surplus food to people in need. This year, we are pleased to have hit a significant milestone of donating over 10 million meals to those facing food insecurity since our partnership began in 2021. We have also launched our Nourish the Nation community programme with a long-term aim to support communities with access to food now and in the future. Working with our longstanding charity partner Comic Relief, this will fund initiatives designed to tackle food insecurity and ensure communities have access to balanced, nutritional and sustainable food sources.

Other examples of initiatives we have put in place to support our communities during the year include:

- Community and charity partnerships, which raised £34.5 million for good causes
- Through our Nourish the Nation programme, we have raised £7.2 million to support Comic Relief, our key food redistribution partners and local community groups
- Supported 585 local good causes and paid over £970,000 of funding through our Helping everyone eat better community grant schemes, which is aimed at providing access to food for the most vulnerable people throughout the UK and helping them out of food poverty
- Our ongoing partnership with FareShare online has generated over £850,000 in customer donations
- Encouraged customer initiatives over Christmas to help champion our partner Comic Relief to provide urgent support for those most affected by the rising cost of living
- Topping up the government's Healthy Start vouchers, expanded to Wales and Northern Ireland for the first time this year

For more information on our communities, please see page 17.

Government, parliamentarians and regulators

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

As a UK-based business and a major employer of over 152,000 colleagues, it is appropriate and responsible for a business of our scale to engage in a transparent way with government and regulators.

Key government/regulator priorities

— Openness and transparency
— Compliance with regulation, including Groceries Supply Code of Practice
— Impact on environment
— Diversity, equity and inclusion

Engaging with government, parliamentarians and regulators

The Board and the Corporate Responsibility and Sustainability Committee received updates in relation to our work with government and regulators through summaries on activities including:

— Engagement with government and policymakers through regular correspondence, Parliamentary and political events
— Public responses to government consultations
— Direct meetings, including store-based engagement with elected representatives
— Trade association meetings, including those convened by the British Retail Consortium, Confederation of British Industry, and the Institute of Grocery Distribution
— Government organised roundtables
— Participation in government organised forums, such as the Retail Sector Council, Defra Retailer Forum and Department for Business and Trade Retail Forum
— Liaison with regulators, including the Grocery Code Adjudicator, HMRC, Trading Standards, Food Standards Agency and Environment Agency

The Board and senior leadership have been in regular dialogue with Ministers and officials, primarily to ensure the ongoing affordability and access to groceries for our customers through a challenging economic climate.

As a responsible business, we proactively engage with government, devolved administrations, regulators and industry bodies in the areas in which we operate on public policy issues affecting our customers and colleagues. Our engagement is transparent and we allow our responses to government consultations to be made public.

Key areas where we have engaged with government include the reform of business rates and the removal of downward transitional relief; implementation of the Northern Ireland Protocol and Windsor Framework; implementation of new High Fat, Sugar and Salt restrictions in our stores; development of new schemes to improve recycling, such as the Deposit Return Scheme and the Extended Producer Responsibility; and challenges facing the food supply chain, such as high energy and commodity costs and labour shortages.

New KPIs

Operational

Grocery market share performance (%)
Definition: Sainsbury's grocery market share of total market and of full-choice supermarkets measured by Nielsen Volume Market share as at 4 March 2023.

11.3%
in 2022/23

GRAPH REMOVED

Colleague engagement (score)[1]
Definition: Percentage of our colleagues who feel that we are a great place to work. Colleague engagement score out of 100 from the internal, annual 'We're Listening' survey. Target to maintain strong engagement score.

+300bps
in 2022/23

GRAPH REMOVED

Diversity and inclusion
Slightly behind target

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

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

+40bps
since 2019/20 baseline

GRAPH REMOVED

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

Carbon Scope 1 & 2
Ahead of target

Food waste
Ahead of target

Carbon Scope 3
Industry reporting challenges

Healthy & sustainable diets
Behind target

Plastic
Ahead of target

Financial

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

£645m
in 2022/23

GRAPH REMOVED

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

97bps
improvement since 2019/20

GRAPH REMOVED

Pre-tax return on capital employed (%)[3]
Definition: Underlying profit before interest and tax, divided by average net assets excluding pension deficit/surplus, less net debt, calculated on a 14 point basis. Target to increase.

+0.2%
since 2019/20 baseline

GRAPH REMOVED

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

£690m
in 2022/23

GRAPH REMOVED

1. In the course of this financial year we have moved to a new metric in our colleague survey. The above improvement is based on interim surveys through the course of the year.
2. Full-choice supermarkets consists of Sainsbury's, Tesco, Asda and Morrisons.
3. Refer to APMs on page 219.

Legacy KPIs

Group measures

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

GRAPH REMOVED

Retail underlying EBITDAR margin (%)[1]
Definition: Underlying profit before tax before underlying net finance costs, underlying share of post-tax results from joint ventures, depreciation, amortisation and rent, divided by sales excluding VAT, including fuel, excluding Financial Services.

GRAPH REMOVED

Retail underlying operating margin (%)[1]
Definition: Underlying profit before tax before underlying net finance costs and underlying share of post-tax results from joint ventures, divided by retail sales excluding VAT, including fuel, excluding Financial Services.

GRAPH REMOVED

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

GRAPH REMOVED

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

GRAPH REMOVED

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

GRAPH REMOVED

Retail

Like-for-like sales (%)[1]
Definition: Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year.

GRAPH REMOVED

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

GRAPH REMOVED

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

GRAPH REMOVED

Maintaining balance sheet strength

Adj net debt/EBITDAR
Definition: Net debt divided by Group underlying EBITDAR.

GRAPH REMOVED

1. Refer to APMs on page 219.
2. 2018/19 restated for IFRS 16.
3. Special dividend paid in lieu of final dividend for 2019/20 following the deferral of dividend decision.

Financial Review

Group sales were up 5.4 per cent year-on-year, with an increasing contribution from higher inflation as the year progressed. Grocery sales rose 3.0 per cent. General Merchandise sales were down slightly with tough comparators in the first Quarter, but delivered a strong performance in the rest of the year. Fuel sales grew strongly at 23 per cent reflecting oil price inflation.

Statutory profit before tax of £327 million (2021/22: £854 million) represented a decline year-on-year, with non-underlying costs of £363 million driven by non-cash impairments. This compared to prior year non-underlying profits of £124 million, supported by significant income from legal settlements. Our underlying profit before tax of £690 million (2021/22: £730 million) was down against a prior year supported by COVID-19 impacts, but strongly up on pre-pandemic levels (2019/20: £586 million).

Retail profits fell 7 per cent, reflecting investments in value as we supported customers facing cost of living challenges. We saw significant inflation across our cost base in line with the market. Despite this, our *Save to Invest* programme enabled us to deliver a further small improvement in operating costs as a percentage of sales, down 97 basis points against 2019/20.

Financial Services underlying operating profit rose 21 per cent, benefiting from increased demand for credit and recovery of travel money volumes, partially offset by higher impairment charges reflecting the economic outlook.

Non-underlying items were driven by a £281 million non-cash impairment, reflecting a material rise in the discount rate following sustained gilt rate rises. We continued with our restructuring programme announced in November 2020, incurring £106 million of costs. We expect to incur £900 million to £1 billion of one-off costs, with most in the period to March 2024. Of this, £746 million has been charged to date. Group statutory profit after tax was £207 million (2021/22: £677 million).

Basic earnings per share was 9.0 pence (2021/22: 29.8 pence) reflecting the impairment charge. Underlying basic earnings per share fell to 23.0 pence (2021/22: 25.4 pence), down 9 per cent, broadly in line with the decline in post tax earnings.

We reduced non-lease net debt by £285 million, moving to a net funds position at year end. Total net debt reduced by £415 million.

Growing sales and our negative working capital cycle drove a £174 million working capital inflow resulting in strong retail free cash flow of £645 million (2021/22: £503 million), including a dividend of £50 million from the Bank. We will continue to prioritise the right level of investment to support our strategy and maintain our strong balance sheet whilst paying a higher proportion of underlying net earnings to shareholders. Despite the decline in profit, our dividend remains flat year-on-year at 13.1 pence per share.

Subsequent to the Group's balance sheet date, we acquired the remaining beneficial interest in two property investment vehicles. As a result we have secured the freehold rights to 21 high quality stores. This has been funded through existing cash resources and an unsecured £575 million term facility.

We delivered a pre-tax return on capital employed of 7.6 per cent, down from 8.4 per cent in 2021/22, reflecting the lower underlying profits, but higher than pre-pandemic levels. The business had £1.0 billion of undrawn facilities at the end of the year, in addition to the term facility discussed above.

As at 6 March 2023 the net defined benefit pension surplus under IAS 19 for the Group was £989 million (excluding deferred tax). The £1,294 million reduction from 5 March 2022 was driven by remeasurement losses caused by significant movements in gilt markets which resulted in a substantial decrease in the value of the Group's pension Scheme's assets and liabilities. The latest triennial valuation as at 30 September 2021 was completed during the year and showed a surplus of £130 million. For 2023/24 we expect total pension scheme cash contributions of around £45 million.

Financial Review of the year results for the 52 weeks to 4 March 2023

In the 52 weeks to 4 March 2023, the Group generated profit before tax of £327 million (2021/22: £854 million) and an underlying profit before tax of £690 million (2021/22: £730 million).

A number of Alternative Performance Measures ('APMs') have been adopted by the Directors to provide additional information on the underlying performance of the Group. These measures are intended to supplement, rather than replace the measures provided under IFRS. Please see pages 219 to 223 for further information.

Summary income statement	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m	Change %
Group sales (including VAT)	**35,157**	33,355	5.4
Retail sales (including VAT)	**34,626**	32,924	5.2
Retail sales (excluding fuel, including VAT)	**28,664**	28,095	2.0
Group sales (excluding VAT)	**31,491**	29,895	5.3
Retail sales (excluding VAT)	**30,960**	29,463	5.1
Underlying operating profit			
Retail	**926**	1,001	(7)
Financial services	**46**	38	21
Total underlying operating profit	**972**	1,039	(6)
Underlying net finance costs	**(282)**	(309)	9
Underlying profit before tax	**690**	730	(5)
Items excluded from underlying results	**(363)**	124	N/A
Profit before tax	**327**	854	(62)
Income tax expense	**(120)**	(177)	32
Profit for the financial period	**207**	677	(69)

Summary income statement	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m	Change %
Underlying basic earnings per share	**23.0p**	25.4p	(9)
Basic earnings per share	**9.0p**	29.8p	(70)
Interim Dividend per share	**3.9p**	3.2p	22
Final Dividend per share	**9.2p**	9.9p	(7)
Total Dividend per share	**13.1p**	13.1p	–

The business delivered a strong performance against a tough comparison last year which benefited from elevated COVID-19 sales. The ongoing cost programme helped us mitigate the impact of rising operating cost inflation and invest ahead of competitors to deliver for customers, colleagues and shareholders. We have consistently prioritised protecting value for customers, raising prices behind the market, and this remains key to our strategy to grow volume market share. We have supported colleagues throughout the year with three pay rises and are delivering a higher dividend payout ratio for shareholders, supported by strong cash generation.

Group sales

Group sales (including VAT, including fuel) increased by 5.1 per cent year-on-year. Retail sales (including VAT, excluding fuel) increased by 2.0 per cent, Fuel sales increased by 23.4 per cent and Financial Services sales increased by 23.0 per cent.

Total sales performance by category	52 weeks to 4 March 2023 £bn	52 weeks to 5 March 2023 £bn	Change %
Grocery	21.7	21.0	3.0
General Merchandise	6.0	6.1	(0.4)
Clothing	1.0	1.0	(3.0)
Retail (exc. fuel)	**28.7**	**28.1**	**2.0**
Fuel sales	6.0	4.8	23.4
Retail (inc. fuel)	**34.6**	**32.9**	**5.2**

Our Grocery customers managed their spend carefully, buying into own branded products and our strong promotional plan to partly offset the impact of significant market wide grocery inflation. This helped us deliver relatively resilient volumes within a context of volume decline across the market. We continued to prioritise value for customers, inflating behind key competitors. Grocery sales strengthened through the year as inflation increased. The successful delivery of key events (Platinum Jubilee, World Cup, Christmas and Valentine's Day) and an exceptionally hot summer also helped drive sales growth after a tough first quarter COVID-19 comparative.

General Merchandise sales declined against strong COVID 19 comparatives in the first quarter but grew from the second quarter, with Argos delivering market share gains in a weak market. A strong performance in Consumer Electronics & Technology was driven by improved availability and increased collaboration with suppliers on key product lines. Small Domestic Appliances, particularly air fryers and clothes airers, also proved popular as customers reacted to cost-of-living concerns and social media trends.

Clothing sales growth was adversely impacted by a first quarter that annualised elevated sales the prior year when COVID-19 restrictions closed non-essential retail stores.

Fuel sales increased by 23.4 per cent, driven entirely by higher market prices reflecting oil price inflation and a weakened sterling exchange rate. Sainsbury's increased its share of the fuel market.

Total sales performance by channel	52 weeks to 4 March 2023	52 weeks to 5 March 2022
Total Sales fulfilled by Supermarket stores	**1.9%**	(2.0)%
Supermarkets (inc. Argos stores in Sainsbury's)	**4.8%**	(1.8)%
Groceries Online	**(13.5)%**	(4.7)%
Convenience	**9.9%**	8.8%

Sales in Supermarkets grew by 4.8 per cent as customers returned to stores following COVID-19 distortions in the prior year. Conversely, Groceries Online sales decreased by 13.5 per cent over the year as demand normalised, but were 81 per cent higher than pre-pandemic levels in 2019/20. Convenience sales increased by 9.9 per cent, with growth strongest in Food on the Move city centre stores and more urban locations.

Retail like-for-like sales performance	52 weeks to 4 March 2023	52 weeks to 5 March 2022
Like-for-like sales (exc. fuel)	**2.6%**	(2.3)%
Like-for-like sales (inc. fuel)	**5.7%**	3.6%

Retail like-for-like (LFL) sales, excluding fuel, increased by 2.6 per cent (2021/22: 2.3 per cent decrease), driven by Grocery, with sales growth strengthening throughout the year.

Space

In 2022/23, Sainsbury's did not open any new supermarkets and closed three (2021/22: opened four new supermarkets and closed four). There were 13 new Convenience stores opened in the year and eight were closed (2021/22: 19 opened and 23 stores closed).

During the period, two standalone Argos stores were opened alongside 24 new Argos stores in Sainsbury's while 45 standalone Argos stores were closed, in line with our Argos transformation plan. The number of Argos collection points in Sainsbury's stores increased from 335 to 420. As at 4 March 2023, Argos had 709 stores including 424 stores in Sainsbury's.

Store numbers and retailing space	As at 5 March 2022	New stores	Disposals/ closures	Extensions/ refurbishments/ downsizes	As at 4 March 2023
Supermarkets	598	–	(3)	24	**595**
Supermarkets area '000 sq. ft.	20,803	–	(62)	(25)	**20,716**
Convenience	809	13	(8)	–	**814**
Convenience area '000 sq. ft.	1,918	40	(22)	–	**1,936**
Sainsbury's total store numbers	1,407	13	(11)	24	**1,409**
Argos stores	328	2	(45)	–	**285**
Argos stores in Sainsbury's	400	24	–	–	**424**
Argos total store numbers	728	26	(45)	–	**709**
Argos collection points	335	92	(7)	–	**420**
Habitat	3	–	–	–	**3**

In 2023/24, we expect to open three supermarkets and around 25 new convenience stores, and to close around one supermarket and five to ten convenience stores. In addition, we expect to open around 30 Argos stores inside Sainsbury's, and close around 100 Argos standalone stores, including 34 stores in Ireland.

In the UK, we expect the standalone Argos store estate will reduce to around 180 stores by March 2024, while we expect to have 430-460 Argos stores inside Sainsbury's supermarkets as well as 450-500 collection points. We had previously guided to around 160 standalone Argos stores by this date. This change reflects further progress in rent negotiations.

Retail underlying operating profit

Retail underlying operating profit	52 weeks to 4 March 2023	52 weeks to 5 March 2022	YoY Change
Retail underlying operating profit (£m)[1]	**926**	1,001	(7.5)%
Retail underlying operating margin (%)[2]	**2.99**	3.40	(41)bps
Retail underlying EBITDA (£m)[3]	**2,060**	2,145	(4.0)%
Retail underlying EBITDA margin (%)[4]	**6.65**	7.28	(63)bps

1. Retail underlying earnings before interest, tax and Sainsbury's underlying share of post-tax profit from joint ventures.
2. Retail underlying operating profit divided by retail sales excluding VAT.
3. Retail underlying operating profit before underlying depreciation and amortisation of £1,134 million.
4. Retail underlying EBITDA divided by retail sales excluding VAT.

Retail underlying operating profit decreased by 7.5 per cent to £926 million (2021/22: £1,001 million) and retail underlying operating margin decreased by 41 basis points year-on-year to 2.99 per cent (2021/22: 3.40 per cent). These declines reflect our investment in value, reduced volumes and higher levels of operating cost inflation, offset by both higher fuel sales and our ongoing Save to Invest programme.

Continued step changes in our retail operating model delivered savings, led by enhanced labour productivity, structural distribution platform savings and ongoing optimisation of our estate through front end configuration.

In 2023/24, Sainsbury's expects a retail underlying depreciation and amortisation charge of around £1,150 million, including around £450 million right of use asset depreciation.

Financial Services

Financial Services results 12 months to 28 February 2023	2023	2022	Change
Underlying revenue (£m)	**531**	432	23%
Interest and fees payable (£m)	**(84)**	(57)	47%
Total income (£m)	**447**	375	19%
Underlying operating profit (£m)	**46**	38	21%
Net interest margin (%)[1]	**5.1**	4.5	60bps
Cost:income ratio (%)	**66**	74	(800bps)
Bad debt as a percentage of lending (%)[2]	**2.1**	1.2	90bps
Active customers (m) – Bank	**1.9**	1.8	2%
Active customers (m) – AFS	**2.1**	2.1	–
Tier 1 capital ratio (%)[3]	**15.5**	15.6	(10bps)
Total capital ratio (%)[4]	**17.9**	18.1	(20bps)
Total Customer lending (£bn)[5]	**5.3**	5.1	4%
Unsecured lending (£bn)	**4.7**	4.3	10%
Secured lending (£bn)	**0.6**	0.8	(27%)
Customer deposits (£bn)	**(4.7)**	(4.2)	12%

1. Net interest receivable divided by average interest-bearing assets.
2. Bad debt expense divided by average net lending.
3. Common equity Tier 1 capital divided by risk-weighted assets.
4. Total capital divided by risk-weighted assets.
5. Amounts due from customers at the Balance Sheet date in respect of loans, mortgages, credit cards and AFS credit, net of provisions.

Financial services underlying operating profit of £46 million is up £8 million (2021/22: £38 million), primarily driven by increased customer demand for credit and Travel Money, tempered by higher impairments and increased costs.

Net Interest Margin increased 60bps, with net interest income up 15 per cent due to a higher mix proportion of unsecured lending, improving yields and a focus on managing the increased cost of funding. Fee income has shown recovery post COVID-19 within Travel Money as demand for foreign travel returns and in Credit Cards due to higher Retail spend. The recovery of credit demand helped drive unsecured lending balances growth of 10 per cent year-on-year, resulting in total income up 19 per cent to £447 million (2021/22: £375 million).

The Cost:income ratio reduced to 66 per cent (2021/22: 74 per cent), driven primarily by the volume-driven recovery in income, together with careful management of yields, funding and costs.

Higher impairments reflect both the latest economic outlook assumptions on inflation and unemployment, as well as higher unsecured lending balances and tough comparators in the prior year. Bad debt expense as a percentage of lending increased 90bps year-on-year to 2.1 per cent (2021/22: 1.2 per cent), reflecting the above as well as the higher proportion of unsecured lending balances as the mortgage book runs down.

As disclosed at last year's preliminary results, a £50 million dividend was paid from Sainsbury's Bank to the Group for the first time in April 2022. The Bank remains well capitalised with a Total Capital ratio of 17.9 per cent (2021/22: 18.1 per cent).

We expect Financial Services underlying operating profit for 2023/24 to be broadly in line with 2022/23.

Underlying net finance costs

Underlying net finance costs reduced by 9 per cent to £282 million (2021/22: £309 million). These costs include £26 million of net non-lease interest (2021/22: £40 million). The reduction of net non lease interest was driven by increased interest income, where the benefit from higher interest rates was supported by higher cash balances. Financing costs on lease liabilities reduced to £256 million (2021/22: £269 million), due primarily to the declining remaining term of the existing lease portfolio, with lower costs associated with leases as they age.

Sainsbury's expects underlying net finance costs in 2023/24 of between £295 million – £305 million, including around £245 million – £255 million lease interest.

Items excluded from underlying results

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

Items excluded from underlying results	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Restructuring and integration programmes	**(106)**	(103)
Impairment charges	**(281)**	–
Restructuring, impairment and integration	**(387)**	(103)
Income recognised in relation to legal disputes	**30**	182
Software as a service accounting adjustment	**–**	(21)
IAS 19 pension income	**58**	11
Property, finance and acquisition adjustments	**(64)**	55
Items excluded from underlying results	**(363)**	124

- Restructuring and integration costs of £106 million (2021/22: £103 million) include £106 million (2021/22: £92 million) relating to the structural integration of Sainsbury's and Argos announced in November 2020. Cash costs in the year were £50 million (2021/22: £114 million). We still expect to incur one off costs from these retail infrastructure and operating model changes of around £900 million to £1 billion, with cash costs of around £300 million, with the majority to be incurred in the period to March 2024. To date we have incurred costs of £746 million and cash costs of £203 million. In 2023/24 we expect to incur cash costs of around £60 million in relation to this programme.
- Non-cash impairments of £281 million were driven by a material increase in the underlying discount rate, following sustained increases in gilt interest rates (2021/22: £nil).
- Income recognised in relation to legal disputes of £30 million (2021/22: £182 million) primarily relates to settlements for overcharges from payment card processing fees and is shown net of legal fees. £30 million of cash was received in the year (2021/22: £107 million).
- 2021/22 included a non-cash cost of £21 million relating to software as a service following the IFRS interpretations committee clarification of how these costs should be treated and represented the out of period impacts of this change.
- IAS 19 Pension income rose to £58 million (2021/22: £11 million) driven by the increased net surplus brought forward from the 2021/22 year end and an increased discount rate which reduced pension scheme liabilities.

— Other movements of £64 million expense (2021/22: £55 million income) relate to property losses, acquisition adjustments and non-underlying financing costs. The adverse year-on-year movement is primarily driven by a loss on energy derivatives of £29 million (2021/22: £76 million gain) caused by lower energy prices. The energy derivatives relate to long-term, fixed price power purchase arrangements (PPAs) with independent producers. These are accounted for as derivative financial instruments, but are not designated in hedging relationships. Therefore gains and losses are recognised in the income statement. Decreases in electricity forward prices in the year have led to loss on the related derivative financial instruments. In addition, the Group recorded a total cost of £10 million related to property transactions, including expenses related to the Post Balance Sheet Event disclosed below, and a loss on disposal of non-trading properties (2021/22: £7 million profit).

Taxation

The tax charge was £120 million (2021/22: £177 million). The underlying tax rate (UTR) was 22.8 per cent (2021/22: 21.1 per cent) and the effective tax rate (ETR) was 36.7 per cent (2021/22: 20.7 per cent).

The UTR is higher than the previous year. This reflects the impact of a similar value of tax adjusting items as last year having a greater proportional impact on lower profits in the current year. In addition, the previous year benefited from the agreement of a number of open returns with HMRC.

The ETR is higher than the prior year largely due to non-deductible expenses, particularly in respect of non-underlying impairment charges and the impact of restructuring in Ireland, giving rise to trade losses which will extinguish rather than being available for future offset. The effective tax rate is also higher than the standard rate of UK corporation tax due to the impact of non-deductible capital expenditure and non-underlying costs.

Sainsbury's expects an underlying tax rate in 2023/24 of around 29 per cent, with the increase being driven primarily by the change in the standard rate of UK corporation tax from 1 April 2023.

Earnings per share

Underlying basic earnings per share decreased to 23.0 pence (2021/22: 25.4 pence), primarily driven by the decrease in underlying profit. Basic earnings per share was 9.0 pence (2021/22: 29.8 pence per share).

Dividends

The Board has recommended a final dividend of 9.2 pence per share (2021/22: 9.9 pence). This will be paid on 14 July 2023 to shareholders on the Register of Members at the close of business on 9 June 2023. The Group's policy to pay a dividend of around 60 per cent of underlying earnings has allowed us to maintain a full-year dividend of 13.1 pence (2021/22: 13.1 pence).

Sainsbury's has a Dividend Reinvestment Plan (DRIP), which allows shareholders to reinvest their cash dividends in our shares. The last date that shareholders can elect for the DRIP is 23 June 2023.

Net debt and retail cash flows

As at 4 March 2023, net debt was £6,344 million (5 March 2022: £6,759 million), a reduction of £415 million (2021/22: £290 million increase). Excluding the impact of lease liabilities on net debt, Sainsbury's reduced net debt by £285 million in the year, moving to a net funds position of £144 million (5 March 2022: net debt of £141 million). We continue to expect to generate retail free cash flow of at least £500 million in the coming year[1].

Net debt includes lease liabilities under IFRS 16 of £6,488 million (2021/22: £6,618 million). Lease liabilities decreased by £130 million.

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

1. Excludes the Supermarket Income REIT property transaction.

Summary cash flow statement[1]	Retail 52 weeks to 4 March 2023 £m	Retail 52 weeks to 5 March 2022 £m
Retail underlying operating profit	**926**	1,001
Adjustments for:		
Retail underlying depreciation and amortisation	**1,134**	1,144
Share based payments and other	**49**	54
Retail exceptional operating cash flows (excluding pensions)[2]	**(23)**	(3)
Adjusted retail operating cash flow before changes in working capital[2]	**2,086**	2,196
Decrease/(increase) in working capital[3]	**174**	(185)
Net interest paid[3]	**(307)**	(323)
Pension cash contributions	**(44)**	(71)
Corporation tax paid	**(99)**	(23)
Adjusted net cash generated from operating activities[3]	**1,810**	1,594
Cash capital expenditure[3]	**(717)**	(645)
Repayments of lease liabilities	**(512)**	(491)
Initial direct costs on right-of-use assets	**(16)**	(3)
Proceeds from disposal of property, plant and equipment	**29**	46
Dividends and distributions received[3]	**51**	2
Retail free cash flow	**645**	503
Dividends paid on ordinary shares	**(319)**	(238)
Repayment of borrowings[3]	**(40)**	(256)
Other[3]	**(32)**	(27)
Net increase/(decrease) in cash and cash equivalents	**254**	(18)
Decrease in Debt	**552**	747
Conversion of perpetual convertible bond[4]	**–**	240
Other non-cash and net interest movements[5]	**(391)**	(1,259)
Movement in net funds/(debt)	**415**	(290)
Opening net debt	**(6,759)**	(6,469)
Closing net debt	**(6,344)**	(6,759)
of which		
Lease liabilities	**(6,488)**	(6,618)
Net funds/(debt) excluding lease liabilities	**144**	(141)

1. See note 7 for a reconciliation between Retail and Group cash flow.
2. Excludes working capital and pension contributions.
3. Refer to the Alternative Performance Measures on pages 219 to 223 for reconciliation.
4. £242 million of the £250 million perpetual convertible bond converted. Given a carrying value of £248 million this resulted in a £240 million reduction in net debt.
5. Other non-cash includes new leases and lease modifications and fair value movements on derivatives used for hedging long-term borrowing.

Adjusted retail operating cash flow before changes in working capital decreased by £110 million year-on-year to £2,086 million (2021/22: £2,196 million) due to lower underlying profit and increased non-underlying costs. Higher retail non-underlying operating cash flows of £23 million (2021/22: £3 million) largely reflected lower legal disputes income offsetting restructuring costs. Working capital decreased by £174 million (2021/22: £185 million increase) in line with expectations, primarily driven by sales growth and a return to normal phasing of working capital following COVID-19 impacts.

Corporation tax paid increased to £99 million (2021/22: £23 million) with last year benefiting from payments made in 2020/21 before the decision to forgo business rates relief which subsequently reduced taxable profits in that year.

Pensions contributions of £44 million (2021/22: £71 million) are down versus last year in line with the long-term pension funding framework and the triennial valuation agreed with the pension Trustee. Proceeds of £29 million (2021/22: £46 million) resulted from disposals of non-trading sites. A £50 million dividend was received from Sainsbury's Bank (2021/22: £nil).

Retail free cash flow increased by £142 million year-on-year to £645 million (2021/22: £503 million), with the year-on-year movement driven by the working capital reduction and the dividend received from Sainsbury's Bank, partly offset by higher capital expenditure and corporation tax. Retail free cash flow was used to fund dividends and reduce borrowings.

Dividends of £319 million were paid in the year, which were covered 2.0 times by free cash flow (2021/22: 2.1 times).

The Group has right sized its access to contingent funding with credit facilities reduced from £1,450 million to £1,000 million. At 4 March 2023, this facility remained undrawn. During the year, the Group arranged a three-year unsecured £575 million Term Loan facility with a maturity date of March 2026 to part fund the transaction disclosed in Post Balance Sheet Events below. This replaced the £575 million unsecured term facility that was due to mature in November 2024 detailed at Interims as a Post Balance Sheet Event.

Capital expenditure

Core retail cash capital expenditure was £717 million (2021/22: £645 million). This was in line with expectations and higher than recent years, when projects were delayed due to COVID-19.

Sainsbury's expects core retail cash capital expenditure (excluding Financial Services) in 2023/24 to be £750-£800 million.

Financial Ratios

Key financial ratios	52 weeks to 4 March 2023	52 weeks to 5 March 2022
Return on capital employed (%)[1]	**7.6**	8.4
Net debt to EBITDA[2]	**3.0 times**	3.1 times
Fixed charge cover[3]	**2.7 times**	2.8 times

1. ROCE: Return is defined as a 52 week rolling underlying profit before interest and tax. Capital employed is defined as Group net assets excluding the pension deficit/surplus less net debt (excluding perpetual securities). This is calculated using the average of 14 datapoints – the prior year closing capital employed, the current year closing capital employed and 12 intra-year periods as this more closely aligns to the recognition of profit.
2. Net debt of £6.344 million includes lease obligations under IFRS 16, divided by Group underlying EBITDA of £2.139 million.
3. Group underlying EBITDA divided by rent (both capital and interest) and net underlying finance costs, where interest on perpetual securities is treated as an underlying finance cost.

Sainsbury's continues to target leverage of 3.0x – 2.4x to deliver a solid investment grade balance sheet and net debt continues to reduce. Year-end leverage of 3.0x reflects higher average capital employed as a consequence of the exercise of purchase options on 21 leased supermarkets previously disclosed in last year's Group's results. The completion of the property transaction detailed within Post Balance Sheet Events will result in lower lease debt and an overall reduction in net debt.

Return on capital employed (ROCE) has declined primarily due to lower earnings, with higher capital employed driven by an increase in the average value of right of use assets and derivatives. Fixed charge cover is stable.

Defined benefit pensions

The Pension Scheme is valued on different bases for different purposes. For the corporate annual accounts, the value of the retirement benefit is calculated under IAS 19 while the funding of the Scheme is determined by the Trustee's triennial valuation. The last triennial valuation, as at 30 September 2021 and agreed in October 2022, showed a surplus of £130 million (when the IAS 19 Surplus was recorded as £720 million) and there was no change to the Asset Backed Contributions structure that was agreed in 2019.

At 4 March 2023, the net defined benefit surplus under IAS 19 for the Group was £989 million (excluding deferred tax). This represents a £1,294 million reduction from the prior year-end date of 5 March 2022. This was driven by a lower accounting value of the Scheme's liabilities (higher discount rate used to calculate the present value of benefits, an adjustment to the expected future improvements in mortality slightly offset by higher than expected inflation), more than offset by a decrease in the market value of assets. The asset value decrease was due to a reduction in the value of liability driven investment assets which the Scheme used to match the value of liabilities and provide a hedge against changes in inflation and interest rates.

Significant movements in gilt markets as a consequence of the political events of late 2022 resulted in the Trustee reducing the level of interest rate hedging in the Scheme. Coinciding with a fall in gilt yields, this reduced the ongoing funding level. However, there has been no change to the contributions to the Scheme, and the Company does not currently anticipate there to be any impact on the contributions from the 2024 triennial valuation.

The Trustee has since taken action to partially reinstate the interest rate hedging ratios. The Trustee has also reviewed the collateral sufficiency framework which ensures sufficient high quality liquid assets are maintained in order to meet liquidity requirements, even in times of market stress and volatility. The level of collateral that the Scheme can call on at any time is well above the limits suggested recently by the Pensions Regulator.

For 2023/24, total pension scheme cash contributions are expected to be around £45 million.

Retirement benefit obligations	Sainsbury's as at 4 March 2023 £m	Argos as at 4 March 2023 £m	Group as at 4 March 2023 £m	Group as at 5 March 2022 £m
Present value of funded obligations	**(5,128)**	**(793)**	**(5,921)**	(9,373)
Fair value of plan assets	**6,007**	**927**	**6,934**	11,693
Pension surplus	**879**	**134**	**1,013**	2,320
Present value of unfunded obligations	**(12)**	**(12)**	**(24)**	(37)
Retirement benefit surplus	**867**	**122**	**989**	2,283
Deferred income tax liability	**(262)**	**(68)**	**(330)**	(640)
Net retirement benefit surplus	**605**	**54**	**659**	1,643

Post Balance Sheet Events

Property transaction – Supermarket Income REIT

Subsequent to the balance sheet date, on 17 March 2023 the Group completed the purchase of a commercial property investment pool, known as Highbury and Dragon, in which it already held a beneficial interest. The investment pool contained 26 supermarkets, all of which were formerly leased to Sainsbury's. Of the 26 stores acquired, 21 will be retained and five sold. We will enter into new 15-year leases on four of the five divested stores.

The total consideration of £431 million (excluding costs) consists of three tranches: £279 million was paid immediately, £117 million is due on 10 July 2023, and the third tranche of £35 million is conditional on the sale of five stores from the property pool. In addition, the Group will fully fund the bond redemptions attached to the property pool, of which £170.5 million was paid on 20 March 2023, and £130.4 million will be paid on 13 July 2023. The Group will fully fund the consideration and bond redemptions by utilising the Group's cash resources and also by drawing under the three-year unsecured term loan. This will result in a reduction of lease debt of £1,042 million and drives an overall reduction in net debt and ongoing lease costs.

Bláthnaid Bergin (Aug 1, 2023 09:32 GMT+1)

Bláthnaid Bergin
Chief Financial Officer

Principal Risks and Uncertainties

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

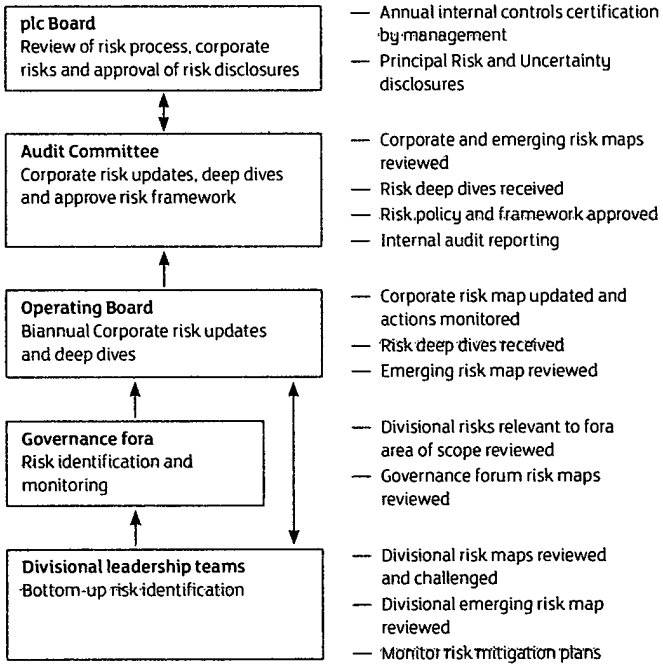
Below and on the following pages, we set out an overview of our risk management framework, the principal risks at year end, ongoing mitigations and how these align to our strategy. The Operating Board monitors these principal risks on an ongoing basis, considering our risk appetite and flexing mitigations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

Our approach to risk management

Our risk management framework is designed to:

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

The following diagram provides an overview of the key risk management activities undertaken by leadership that support this risk framework and allow the Board to fulfil its obligations under the 2018 Corporate Governance Code. Please refer to pages 69 to 70 for the role and remit of these governance bodies.



The plc Board has overall responsibility for risk management, the system of internal control, and for reviewing the effectiveness of these at least annually. As such, they have approved our principal risks disclosure, as set out on pages 46 to 57. Certain responsibilities have been delegated to the Audit Committee, as outlined on page 85.

Our risk management process

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

The Operating Board maintains the overall corporate risk map, which captures the key risks to achieving our strategic objectives. In the past year the Operating Board agreed a risk appetite statement and supporting measures for corporate risks.

The Operating Board formally reviews the corporate risk map from a 'top down' perspective twice a year, to discuss and agree the level of risk within the business and that the business is prepared to accept for each key risk. Actions and a target risk position are agreed for any risks where management's risk appetite differs to the current net position. This enables the Operating Board to agree and monitor appropriate actions as required.

A risk dashboard is maintained for each corporate risk, setting out the risk, causes of the risk, risk appetite, risk measures and tolerances, key mitigations and any actions to reach the target risk position. The Operating Board also reviews and challenges the output of the bottom-up risk process, considering new risks, movements in the position of risks and key themes.

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

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

Risk and Internal Audit also provide independent assurance to management and the Audit Committee.

The Audit Committee Chair provides updates on Risk Management to the plc Board.

Emerging risks and opportunities

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

- increasing environment, social and governance awareness, regulation and impacts on our operations, supply chains and customers;
- technology acceleration, which presents a range of risks and opportunity to our customers, business and the overall market sector; and
- increasingly complex regulations and legal obligations, which can lead to the risk of fines or compensation for non-compliance and, as is the case with the ongoing equal value claims, the potential for consequential litigation.

Changes to principal risk disclosures

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

There have been no changes to the principal risks we are disclosing compared to last year.

There has been one movement in the net position of risks during the year. This risk relates to our 'Trading Environment', reflecting the significant external factors that are influencing our customers, suppliers, supply chains and therefore our operations and valuations in the current economic climate. The net position of all other corporate risks remains unchanged from last year.

Our Principal Risks

The most significant principal risks identified by the Board and the associated mitigations are set out on the following pages. This year, we have ordered them to first show those that have been included in the risk modelling undertaken as part of the preparation of the viability statement (see page 59). This reflects that these risks have the potential to have the largest impact on the business. They are highlighted with this symbol: (v).

We have also clearly set out the link between each principal risk and the Group's key performance indicators (see page 36) and continue to highlight the link with the strategy of the business, as follows:

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

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

No change | Increased net risk exposure | Reduced net risk exposure | NEW New risk

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

Business continuity, operational resilience and major incident response (v)

Risk	*Mitigations*
A major incident or catastrophic event could affect the business or its individual brands' ability to trade. Sainsbury's exposure to operational resilience and major incident risks may be greater because of operational complexities and some ageing systems. External factors such as the Russia/Ukraine conflict, increased costs of fuel and resilience of global supply chains have impacted the business at points through the year. Such disruptions are actively managed either through day-to-day ways of working or if needed, through the Incident Response Team (IRT). The IRT was convened at various times through the year including to support our response to Queen Elizabeth II's passing, external protests and operational issues. *Direct oversight:* Operating Board *Link to strategy:* *Link to key performance indicators:* n/a *Movement:*	— The Operating Board sets the operational resilience strategy for the business — The Operational Resilience Committee, which includes representatives from functions across Sainsbury's, including the Bank, meets regularly to implement the operational resilience policy and strategy — Internal Audit reviewed Operational Resilience arrangements during the year to give assurance over the design, implementation and effectiveness of the framework — Business-wide resilience exercises are undertaken to imitate real life business continuity scenarios and test our ability to respond effectively. This includes testing our emergency call cascade. Actions in response to lessons learnt are agreed — Key business processes are assessed for operational resilience against a set of minimum standards and contingency measures regularly tested. Remote working solutions have reduced the risk of loss of a key site **Crisis management** — In the event of any unplanned or unforeseen events, the IRT is convened to manage the response and any associated risk to the business — The IRT Chair reports to the Operating Board, which provides strategic direction and decision making across financial, operational and regulatory matters, considering all stakeholders

Business strategy and change (V)

RISK DEEP DIVE

Risk	*Mitigations*
The strategy requires significant, concurrent change activities to be delivered in the right sequence and at pace to drive business value. Key risks associated with this include an inability to prioritise resources to deliver competing change activities and/or not having the right skills, capabilities and culture in place to deliver and embed the required changes/within required timescales. *Direct oversight:* Business Performance Review, Operating Board *Link to strategy:* *Link to key performance indicators:* All metrics, associated with our objective of delivering for customers and driving stronger financial outcomes *Movement:* (→)	— Our business strategy, as set out in this Strategic Report, is focused on the following priorities: — Food First — Brands that Deliver — Save to Invest — Connected to Customers — Plan for Better — The central transformation office supports visibility and prioritisation across the major change portfolio. This means we bring together all of the key elements of transformation across the business, to ensure we realise maximum value whilst balancing risk and operational performance — The Operating Board has regular sessions to discuss strategy, supported by a dedicated Strategy team. The Operating Board engages with a wide range of stakeholders – including shareholders, colleagues, customers and suppliers – to ensure our strategy remains relevant — To ensure focus is maintained on delivering the strategic priorities of the business, major new transformational change projects are approved by the Operating Board once they have been through robust challenge on expected costs and benefits, proposed timeframes for achieving the benefits and risks associated with their delivery. The Board also monitors and reviews the in year implementation of the plans to meet budget targets through weekly and periodic formal reviews

Customer (v)

Risk	*Mitigations*
Our business includes Sainsbury's, Argos, Habitat, Tu clothing, Nectar and Sainsbury's Bank. The business, across all brands, must continue to evolve to meet customer needs and deliver great customer experiences. A failure to align with, and respond to changes in customer sentiment, behaviours, expectations and circumstances, exacerbated by changes in customer behaviours as the cost of living crisis continues to evolve, will impact our ability to retain existing and attract new customers. *Direct oversight:* Operating Board and Sainsbury's Bank Management Board; Customer, Commercial and Channels Forum *Link to strategy:* *Link to key performance indicators:* Strong customer satisfaction scores *Movement:* (→)	— The Customer, Commercial and Channels Forum, chaired by the Chief Marketing Officer, is responsible for ensuring the customer is at the heart of our decision making — Customer trends, attitudes and behaviours are continually monitored over time through their response to our propositions and feedback, as well as reviewing future customer and macro trends on a quarterly basis, to help set future direction. We use Lettuce Know, a weekly customer survey, to track customer satisfaction directly and target to maintain our positive differential compared to peers — We continue to invest in digitising the Nectar Loyalty scheme which provides us with a rich source of customer data and insight that is reviewed and embedded right across the business — We continued to focus on value, quality, innovation and convenience, reflecting both what existing customers want and what will attract new customers. Our focus on Helping everyone eat better means we are committed to delivering good food at reasonable prices, supporting our customers in the cost of living crisis — In terms of value, quality and innovation, we delivered the Aldi Price Match campaign throughout the year, refreshing it regularly to respond to customer feedback, launched nearly 1,400 new products and introduced My Nectar Prices, providing a range of national and personalised pricing for customers — In terms of convenience, we continue to monitor and flex our ways of working to meet customer demand for how they want to shop, particularly as the customer behaviour continues to evolve post COVID-19 pandemic and as the cost of living crisis impacts how and where customers shop. As well as our traditional channels, we have invested in our contactless channels such as SmartShop, Click & Collect and Groceries Online. In particular, SmartShop propositions and participation has been a key focus to help customers understand how it can support them managing their spend and saving money in-store — We have implemented change across our stores and websites to reflect the new High Fat, Salt and Sugar legislation in a manner focused on helping our customers navigate the change

Data security (v)

RISK DEEP DIVE

Risk	*Mitigations*
It is essential that the security of customer, colleague and Company confidential data be maintained. A major breach of information security could have a significant negative financial and reputational impact on the business. The risk landscape is increasingly challenging with deliberate acts of cybercrime including ransomware attacks on the rise, targeting all markets and heightening the risk exposure to broader business disruption as well as to data breaches. *Direct oversight:* Data Governance Committee *Link to strategy:* *Link to key performance indicators:* n/a *Movement:*	— A Data Governance Committee (DGC) is in place to oversee the management of colleague, customer and commercial data, information security and associated awareness and training. Metrics to measure alignment to risk appetite are reviewed in each meeting — The Data Governance and Information Security function, with the support of colleagues in the Technology division, continue to develop information security strategies and to build the necessary capability to respond to the increasing number and sophistication of attacks, alongside focusing on improving how we handle data and protect systems across the organisation. There is active monitoring and analysis of changes to legal and compliance requirements and current and emerging threats. This analysis is used to tune and apply our security framework accordingly — A suite of information security policies is in place, which focus on encryption, network security, access controls, system security, data protection and information handling. There is continued investment in technology to support the implementation of policy requirements — There is continued focus on ensuring robust governance and control frameworks are implemented, including monitoring and improving maturity via continuous reviews of our controls against the NIST framework for information security and GDPR regulation and PCI standards in terms of data — A risk-based security testing approach across IT infrastructure and systems is in place to identify and address vulnerabilities and allow us to adapt and improve our defences — Reviews of key third parties who hold sensitive customer or colleague data continue to take place and progress of the review and agreed actions is monitored by the DGC — There are regular updates to the DGC, Operating Board and the Audit Committee on progress — All colleagues are required to complete mandatory training on how to keep our information safe. This is supplemented by regular colleague awareness campaigns, focusing on specific aspects of data and information security, for example monthly email phishing exercises, with results reported to the DGC and defined escalations for colleagues who fail

Environment and Social Sustainability

RISK DEEP DIVE

Risk	*Mitigations*
Understanding and mitigating the impact of the climate on our business operations, reducing our environmental impact as well as using our size and scale as a business to have a positive impact on society and our communities is a core part of our strategy. The Plan for Better strategic priority was launched in 2021, putting our responsibilities towards our planet and people at the core of our business. Our strategy includes consideration of environmental and social sustainability risks and the impact of climate change on our business operations. *Direct oversight:* Corporate Responsibility and Sustainability Committee, Plan for Better Steering Committee *Link to strategy:* *Link to key performance indicators:* Deliver our Plan for Better commitment *Movement:*	— The Corporate Responsibility and Sustainability Committee provides oversight of the Plan for Better strategy. The Corporate Responsibility and Sustainability Committee and Plan for Better Steering Committee provide oversight of programme risks and, along with the Audit Committee, they review and approve our external reporting — The Plan for Better Steering Committee met regularly during the year and provided regular updates to the CR&S Committee and to the Operating Board as required. This Steering Committee oversees delivery of the Plan for Better programme — Our Plan for Better strategy, explained on pages 13 to 17 of this report, was launched in 2021 and sets out our environmental and social sustainability goals across our whole business, outlining our priority areas of focus, our key commitments and our progress against these. We have identified areas which matter most to our stakeholders, have the greatest impact on our business and which are aligned to the UN Sustainable Development Goals, so that we can make the biggest difference — Our Plan for Better strategy has three interlocking pillars: Better for you, Better for the planet and Better for everyone — One of our key metrics to measure and report on Plan for Better performance is our progress towards becoming Net Zero across our own operations by 2035 and reduce our Scope 3 emissions in line with a 1.5°C trajectory. We will continue to monitor our progress in achieving our targets, flexing our approach as needed. We also publicly report on progress towards achieving our Net Zero targets, as well as our other targets within Plan for Better twice a year, to ensure transparency — See page 18 for more information on our ongoing implementation of the TCFD recommendations

Financial and treasury (v)

RISK DEEP DIVE

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

Health and safety (v)

RISK DEEP DIVE

Risk	*Mitigations*
Prevention of injury and loss of life for both colleagues and customers are of utmost importance is of utmost importance and is paramount to maintaining the confidence our customers and colleagues have in our business. The business continues to change and evolve to meet customer needs, impacting the safety risk profile. *Direct oversight:* Group Safety Committee *Link to strategy:* *Link to key performance indicators:* n/a *Movement:*	— The Group Safety Committee oversees safety management across the Group. It met regularly during the year, receiving detailed reports on a wide range of topics, including across Facilities Management, Food Technical, Retail, Audit and Product. Key areas of focus this year included improving data quality, understanding root causes and risk removal — The Operating Board and plc Board receive regular reporting on safety, including an annual deep dive facilitated by the Director of Safety and Insurance — Our approach to safety continues to evolve in line with changes in the risk profile in the business. A safety vision is defined and a set of reactive and proactive metrics that align to each core area of the business is in place to support effective monitoring and planning — Clear policies and procedures are in place detailing the controls required to manage health and safety across the business, aligned to Assured Primary Authority advice, to comply with all applicable regulations — Process compliance is supported through oversight from our Primary Authority, internal training programmes and management monitoring, all which align to both health and safety laws and our internal policies. We invested in technology solutions to direct and monitor process completion, with oversight provided by field teams in both Safety and Internal Audit — Work has continued to further enhance structures, capabilities, data and measures of success. This will drive prioritisation and stakeholder alignment across the business in order to maintain our focus on reducing harm and its associated costs by removing unnecessary complexity. As a result of the new focus, overall incidents are down, continuing a five year trend

Political and regulatory environment (v)

Risk	*Mitigations*
There is a trend of increasing regulation, together with enforcement action, across all areas of our business. This increases the risk of non-compliance, adds additional cost as we respond to these regulations and drives complexity into our business processes. During the last year we have seen increased uncertainty regarding the impact and expected implementation timelines for regulation. The post-Brexit regulatory and enforcement regime, progress of the Retained EU Law Bill, the deposit return schemes, plastic, packaging and food waste regulation and Restoring Trust in Audit corporate governance reform have continued to evolve but present uncertainty. *Direct oversight:* Operating Board *Link to strategy:* - *Link to key performance indicators:* n/a *Movement:* (→)	— During the year, we completed our biannual risk assessment to review key regulatory risks, which functions are impacted and at a high level, how they are managed — Accountability and responsibilities for key regulatory risks are confirmed as part of this. Our key regulatory risks include Competition Law, GDPR, GSCOP and Anti-Bribery & Corruption. A high-level of assessment of the key elements of a compliance framework for each of these key risks is completed and the results are shared with the Operating Board — Mandatory training and policies are in place for key regulatory areas, including data governance, anti-bribery and corruption, competition law and GSCOP — We liaise with external parties and our internal stakeholders to monitor for changes to existing regulations that would impact the business, so that we can respond appropriately. During the year we have: — continued to evaluate the impact of complying with the post-Brexit regulatory and enforcement regime, including what it means to be trading under both UK and EU regulations in Ireland and the implications of any changes to the Windsor Framework — proactively responded to regulatory consultations and worked with governments to understand the impact of deposit return schemes, plastic, packaging and food waste regulations — anticipated and responded to other emerging areas of regulatory focus on environment and climate change, and associated reporting requirements — As a responsible business, we proactively engage with Government, devolved administrations, regulators and industry bodies in the areas in which we operate, on public policy issues impacting our customers and colleagues. Our engagement is transparent, and we allow our responses to government consultations to be made public

Product safety and sourcing (v)

Risk	*Mitigations*
Failure to manage safety and sourcing risks for both food and non-food products leads to injury or loss of life, breach of regulation and/or reputational damage. *Direct oversight:* Group Safety Committee *Link to strategy:* *Link to key performance indicators:* n/a *Movement:*	— The Group Safety Committee receives regular reports on product safety from the Director of Technical, Food, Director of Commercial Operations & Development, GM and from the Director of Safety and Insurance on operational food safety risks. In addition, the Corporate Responsibility and Sustainability Committee discussed matters related to product sourcing risk, including supply chain transparency, modern slavery and human rights — Clear policies and procedures are in place detailing the controls required to manage product safety, product integrity and ethical risks across both the Food and General Merchandise businesses and to comply with all applicable regulations — These help ensure product safety is maintained through the end-to-end operations, including safety processes in place in our depots and stores covering refrigeration, security and storage quality management controls in place to ensure product safety and integrity for all products — There are separate Technical functions implementing safety and quality frameworks, including training, for the Food and General Merchandise businesses. This ensures arrangements reflect the specific products risks in each area for our own brand products — Across both Food and General Merchandise, there are established supplier audit and product testing programmes in place to support rigorous monitoring of supplier sites, product safety, traceability, integrity and ethical issues, including modern slavery. Supplier terms, conditions and product specifications set clear standards for product/raw material safety and quality with which suppliers are expected to comply. Ethical audits are minimum requirements for all sites — For Food products, minimum requirements are defined for authenticity and buying practices for suppliers and colleagues and there is a continuous programme of targeted, risk-based surveillance testing. The Responsible Sourcing Manual was launched during the year — In General Merchandise, technical standards are signed-off and tracked through the product development life cycle. In the last year factory visits have been re-established fully in year by our technical team and targeted plans have focused on completing site visits which were not possible due to COVID-19 restrictions. — There are incident management escalation procedures in place to quickly resolve issues for food and non-food product incidents

Sainsbury's Bank (v)

Risk	*Mitigations*

Sainsbury's Bank is exposed to a number of risks, including those related to operational, regulatory, credit, capital, funding, liquidity and market risks.
Global events and accompanying high levels of inflation and higher interest rates are causing an uncertain economic outlook, particularly with regard to unemployment, GDP growth and the impact of cost of living pressures on consumers. This is actively managed through our normal economic scenario modelling analyses and corresponding playbooks.
Direct oversight: The Boards of J Sainsbury plc and Sainsbury's Bank plc
Link to strategy:
Link to key performance indicators: n/a
Movement: (→)
	— The Bank is managed through defined governance structures that include the Board of Sainsbury's Bank plc, its Risk Committee and Audit Committee. The Board of Sainsbury's Bank plc is comprised of Executive Directors, independent Non-Executive Directors and a member of the Operating Board
	— The Bank has a defined risk appetite aligned to delivery of strategic objectives and has implemented a risk management framework that is overseen by its Risk Committee. This Committee monitors the effectiveness of risk management activities against strategic, operational, compliance and financial risks, and is updated on, and discusses, emerging risk areas. In particular, the Risk Committee reviews the results of stress testing including the internal Liquidity and Capital Adequacy Assessments
	— The actual management of risks is through an executive governance structure, which manages the day-to-day operations of the business. This includes the Sainsbury's Bank Management Board, an Executive Risk Committee and an Asset and Liability Committee
	— Oversight by J Sainsbury plc is provided through:
	  — Membership of the Board of Sainsbury's Bank plc – an Operating Board member is on the Board of Sainsbury's Bank plc
	  — Updates on key matters arising from meetings of the Bank Risk and Audit Committees are reported to the J Sainsbury plc Audit Committee
	  — There are a number of reserved matters that require Sainsbury's Bank plc to prior approval permission from the Board of J Sainsbury plc

Trading environment and competitive landscape (v)

RISK DEEP DIVE

Risk	*Mitigations*
We operate in a highly competitive market during a time of economic uncertainty, primarily driven by the COVID-19 pandemic. Whilst the UK has now left the European Union, uncertainties around the final trading relationship with Northern Ireland and UK border checks create additional complexities for our business and our suppliers. With the outlook set to remain broadly the same for the immediate future, we need to respond appropriately to external market conditions while maintaining clear focus on delivering our strategic objectives. We also need to be mindful of the ongoing risk of supplier failure, either through insolvency or through an inability to deliver products due to global supply chain challenges.	— We have a wide, differentiated portfolio of brands, including Sainsbury's, Argos, Habitat, Tu clothing, Nectar and Sainsbury's Bank, which provides some inherent resilience to unforeseen changes — We continually monitor current market trends and price points across competitors, and respond through actively managing price positions, developing sales propositions and adjusting promotional and marketing activity — We put the customer at the heart of our decision making. During the cost of living crisis, we have supported our customers through price investment activities. We continue to offer and develop different price points to meet customer needs ensuring we retain existing and attract new customers. See also the Customer principal risk for further details — We are in regular contact with the government and other external bodies to understand decision making in relation to Northern Ireland and other material changes so we, and our suppliers, can adapt our ways of working as needed — In terms of supplier continuity specifically, we maintain regular, open dialogue with key suppliers concerning their ability to trade and collaborate with them on solutions where appropriate. The variety and breadth of our supply base allows us to continue to source products and mitigate the risk of local disruption — Reflecting the continued challenges faced in global supply chains including the impact of the war in Ukraine and other geopolitical factors, we have continued to work closely and collaboratively with all our suppliers to maintain availability of products. Actions taken include onboarding alternate suppliers, rationalising products, forecasting demand and providing logistics support
Direct oversight: Customer, Commercial and Channels Forum; Operating Board	
Link to strategy:	
Link to key performance indicators: Grocery market share performance	
Movement: ↑	

Colleague engagement, retention and capability

Risk	*Mitigations*
The business employs over 152,000 colleagues who are critical to the success of our business. Attracting talented colleagues, investing in training and development and rewarding colleagues fairly are all essential to the sustainability of our operations. An inability to attract, motivate and retain talent, specific skillsets and capability impacts our ability to deliver our strategic objectives. The availability of skills in specific areas is a key area of focus, given the challenging labour market. The challenging trading environment requires a focus on efficient operations, which may include change initiatives that affect colleagues, impacting trust or engagement. *Direct oversight:* Operating Board *Link to strategy:* *Link to key performance indicators:* Maintain strong colleague engagement *Movement:*	— Employment policies and remuneration and benefits packages are regularly reviewed and are designed to be fair, consistent and competitive. £225 million has been invested in colleague pay and benefits over the course of the year. To provide additional support for colleagues, colleague discount is increased each pay day and free food has been provided to colleagues in all our stores and depots in response to the cost of living crisis. The financial wellbeing offering to colleagues has also been enhanced this year — Formal processes are in place to nurture talent and provide fulfilling career opportunities through performance and development discussions, talent management, succession planning and investment in developing leaders to build capability and support a positive culture — Stretching gender, ethnically diverse and Black representation targets for 2024 have been set, linked to leadership long-term incentives — Colleague sentiment and views are sought through regular 'We're Listening' surveys, analysis of Yammer activity direct colleague engagement and engagement with trade unions. In addition, Operating Board directors hold active listening sessions on a regular basis — 'Smarter Working' experiments have been run throughout the year focused on improving prioritisation, colleague empowerment and pace, allowing colleagues in Store Support Centres greater flexibility over where and when they work — Specific programmes are in place to target hard to recruit areas, presenting a wide range of opportunities for colleagues from across the business, as well as attracting new talent

Statement of Viability

1 How Sainsbury's assesses its prospects

The Group's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 60. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 38 to 43.

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

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

The most recent corporate plan was signed off in October 2022, and refreshed in March 2023, as part of the normal budgeting process. This is reviewed by the Operating Board and ultimately by the PLC Board with involvement throughout from both the Chief Executive and Chief Financial Officer. Part of the Board's role is to consider the appropriateness of the key assumptions, taking into account the external environment, business strategy and model.

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

- **The Group's Food First strategy.** This strategy is putting food back at the heart of Sainsbury's and offering customers great value and high-quality products. The strategy aims to deliver profitable sales growth while reshaping our business.
- **Inflationary pressures.** Continued uncertainty within the wider macroeconomic environment has resulted in increased inflationary pressure within the Group's cost base and on consumer spend. External forecasts indicate that this could continue, limiting discretionary spend and putting further competitive pressure on non-discretionary spend as consumers become increasingly price sensitive.
- **Climate change considerations.** The Group's most recent corporate planning and budgeting processes includes assumed cash flows to address climate change risks, including costs associated with initiatives in place as part of the Plan for Better commitment. These costs comprise reducing environmental impacts and meeting customer expectations in this area, notably through reducing packaging and reducing energy usage across the estate.
- **The Group's financial position.** The Group has successfully reduced net debt over the past year as part of the continued focus on deleveraging. Furthermore, the committed Revolving Credit Facility, which enables the Group to maintain sufficient levels of contingent funding, has been successfully refinanced and right-sized during the year with two £500 million Facilities. Facility A has a maturity of December 2026 and Facility B has a maturity of December 2027. As at 4 March 2023, the Revolving Credit Facility was undrawn. In addition, the Group successfully arranged a £575 million committed term loan facility with maturity of March 2026 in order to part fund the acquisition of a property portfolio.

2 The assessment period

The Directors have determined that the three years to March 2026 is an appropriate period over which to provide its viability statement. This was considered the appropriate timeframe by the Directors because:

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

3 Assessment of viability

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

- Scenarios have been modelled over and above those in the corporate plan, based upon a number of the Group's principal risks and uncertainties (as documented on pages 44 to 57). The scenarios were overlaid into the corporate plan to assess the potential impact on net debt of one or more of these crystallising over the assessment period, and have been tested in isolation and in combination with one another. The impact of the movements in net debt on the Group's funding headroom and financial covenants were then assessed. Where required, available mitigating actions to maintain funding headroom were considered as part of the assessment. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses and dividend payments
- Reverse stress-testing was performed to determine the extent to which cash flows would need to deteriorate before fully utilising the Group's funding headroom or breaching its financial covenants, and after taking into account any mitigating actions as detailed above

Whilst each of the risks on pages 44 to 57 has a potential impact and have been considered as part of the assessment, only those that represent severe but plausible scenarios were selected for modelling through the corporate plan.

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

Scenario modelled	Link to Principal Risk
Scenario 1 – Cost of Living scenario Given the wider macroeconomic uncertainty the Group is now seeing high levels of inflation with external forecasts indicating this could continue and limit discretionary spend, particularly impacting General Merchandise (GM) and Clothing. Assumptions: —Sales – volume losses in Argos, Sainsbury's GM, Clothing and Fuel sales in line with the 2008 recession phasing have been applied to forecast sales.	Business continuity, operational resilience and major incident response Customer
Scenario 2 – Food inflation impacts on margin Whilst Food inflation is unlikely to lead to lower sales given large elements are an essential purchase, it may cause increased competitive pressure and so lower margins generated on those sales. High inflation impacting the cost of goods and operations and continuing global supply chain issues, including the war in Ukraine, were also considered. Assumptions: —Margin – this scenario models the competing away of margins in grocery sales to attract customers during this inflationary period.	Trading environment and competitive landscape
Scenario 3 – Data and legal breaches and regulatory changes The impact of any regulatory fines has been considered. The largest considered are the General Data Protection Regulation (GDPR) fine for data breaches, and fines levied by the Groceries Supply Code of Practice (GSCOP). Assumptions: —Costs – amount paid for regulatory fines	Data security Health and safety Product safety and sourcing Political and regulatory environment
Scenario 4 – Sainsbury's Bank capital and liquidity requirements We have considered the strength of the Bank's capital and liquidity positions to withstand extreme-but-plausible stress scenarios such as a deep UK and global recession, or political instability leading to high unemployment, high inflation and high interest rates. Assumptions: —Sales – reflecting a severe economic stress with a deep UK and Global recession, large falls in asset prices and higher global interest rates as per the 2022 Annual Concurrent Stress testing release by the Bank of England	Sainsbury's Bank
Scenario 5 – Failure to deliver sustainable cost savings Delays in delivering the Save to Invest programme, which would have an impact of circa. £200 million in each year of the assessment period, were considered. Assumptions: —Costs – additional costs of c. £100 million per annum as a result of failure to deliver cost savings	Business strategy and change
Reverse stress test In addition to modelling regulatory fines and price investments as above, the level of forecast sales decline required before the Group fully utilises its available funding and mitigations, or breaching its financial covenants, was considered. The required reduction was considered extreme and implausible.	

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

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

The modelling has shown that the business is able to withstand a combination of all of the scenarios and still maintain funding headroom throughout the plan period.

Taking into account the Group's current prospects and principal risks and uncertainties, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three years to March 2026.

4 Going concern

As a consequence of the work performed to support the viability statement above, the Directors also considered it appropriate to adopt the going concern basis in preparing the financial statements which are shown on pages 117 to 215.

Non-financial information statement

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

Reporting requirement	*Our approach*	*Where to find more information and outcomes*
Colleagues	We want to be a place where people love to work and shop. This means being an inclusive employer where colleagues are treated fairly and with respect, and where they are encouraged to develop their skills and fulfil their potential. We are committed to doing all that we can to support our colleagues, particularly in the current environment, and have continued to make significant investments in pay.	— Chair's letter on page 2 — Plan for Better Report on page 13 — Engaging with our stakeholders and our Section 172 statement on page 29 — Non-financial KPIs on page 36 — Nomination and Governance Committee Report on page 79 — Annual Statement from the Remuneration Committee Chair on page 90 — Gender and Ethnicity Pay Reports
Environment	Our sustainability plan, Plan for Better, covering our environmental and social commitments, is integrated into our business strategy. Our Plan for Better sets out our sustainability goals across the whole business, priority areas of focus, key commitments and our progress.	— Plan for Better Report on page 13 — Ethical Sourcing Policy — Policy on Manmade Cellulosic Fibres — Policy on Cotton — Policy on Precious Metals & Minerals — Policy on Forest Products — Requirements for Soy Feed — Engaging with our stakeholders and our Section 172 statement on page 29 — Corporate Responsibility and Sustainability Committee Report on page 82
Community	We have a long history of building partnerships and delivering great impact in our communities, locally and internationally. We are committed to supporting social cohesion, economic prosperity and inclusive growth. We aim to positively impact those in need through fundraising, volunteering, donations and raising awareness. Our Community & Partnership strategy is aligned to Helping everyone eat better.	— Chair's letter on page 2 — Plan for Better Report on page 13 — Groceries Supply Code of Practice — Whistleblowing Policy — Engaging with our stakeholders and our Section 172 statement on page 29 — Corporate Responsibility and Sustainability Committee Report on page 82

Reporting requirement	*Our approach*	*Where to find more information and outcomes*
Human rights	At Sainsbury's, we fully recognise our responsibility as a company to respect and protect human rights throughout all our operations. We have a long history of setting high standards and working collaboratively with our suppliers to ensure they are met, and we work hard to embed respect for human rights and ethical practices throughout our business. We are committed to respecting human rights across our value chain to ensure the people who make or grow our products are not being exploited or exposed to unsafe working conditions. We have identified and prioritised our salient human rights risks and set ambitious commitments to drive forward progress in these priority areas. Through our due diligence processes, we seek to identify, prevent and, where needed, mitigate and remediate adverse human rights risks that are linked to our operations, products or services.	— Chair's letter on page 2 — Modern Slavery Statement — Ethical Sourcing Policy — Plan for Better Report on page 13 — Engaging with our stakeholders and our Section 172 statement on page 29 — Corporate Responsibility and Sustainability Committee Report on page 82
Anti-bribery and corruption	Our values form the framework which guides the behaviours of all colleagues and suppliers across the business. We expect all our colleagues, contractors and suppliers to act with honesty and integrity and never to engage in any activity which could be considered as accepting or giving a bribe. Our anti-bribery and corruption policy provides guidance and expectations on our colleagues' responsibilities and behaviour, and our expectations to prevent bribery and fraud. We have a Disciplinary and Appeals Policy to help encourage everyone to maintain our rules and standards of conduct, attendance, capability and performance. Our Whistleblowing Policy covers how to report wrongdoing when honesty and integrity are compromised.	— Whistleblowing Policy — Audit Committee Report on page 84 — Compliance with the Grocery Supply Code of Practice on page 87
Other information	Other information to support this statement can be found on the following pages.	— Business Model on page 7 — Our Strategy on page 9 — Task Force on Climate-related Financial Disclosures (TCFD) on page 18 — Non-financial KPIs on page 36 — Principal Risks and Uncertainties on page 44 — Statement of Viability on page 58 — Board leadership and company purpose on page 69 — Audit Committee Report on page 84

All our public policies, reports and standards are available at **www.about.sainsburys.co.uk**.

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

Bláthnaid Bergin (Aug 1, 2023 09:32 GMT+1)

Bláthnaid Bergin
26 April 2023

J Sainsbury plc Board of Directors 2023/24

IMAGE REMOVED

Martin Scicluna
Chair
C (N)

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

Skills and experience: Martin brings a wealth of experience from over 30 years' service as an executive and non-executive board director at a wide range of companies. Previous roles include Chairman of RSA Insurance Group plc, Chairman of Great Portland Estates plc, Senior Independent Director and Chair of the Audit Committee of Worldpay Inc., and Non-Executive Director and Chair of the Audit Committee of Lloyds Banking Group plc. He was a partner at Deloitte LLP for 26 years, serving as Chairman from 1995 to 2007, where his clients included Dixons, WH Smith, Alliance Unichem and Cadbury.

External appointments: None.

Specific contributions to the Company: Martin has extensive experience as a Chair. He brings valuable knowledge and skills in developing strategy and evaluating business opportunities, along with an understanding of the financial services sector and how it operates. As Chair, Martin has a deep understanding of governance and what is needed to lead an effective Board.

Independent: Upon appointment.

Key to Committee members

- **A** Audit Committee
- **C** Corporate Responsibility and Sustainability Committee
- **N** Nomination and Governance Committee
- **R** Remuneration Committee
- (A) (C) (N) (R) Denotes Chair of Committee

IMAGE REMOVED

Simon Roberts
Chief Executive
C

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

Skills and experience: Simon has worked in retail for over 30 years, having started at Marks and Spencer and joined Sainsbury's from Boots, where he was most recently Executive Vice President of Walgreens Boots Alliance and President of Boots UK and Ireland.

External appointments: Member of the Government's Retail Sector Council and Advisory Board Member of Diversity in Retail.

Specific contributions to the Company: Simon is leading Sainsbury's plan to put food back at the heart of the business. Under Simon's stewardship, Sainsbury's has launched its Plan for Better, which is integrated into our strategy and includes a bold commitment to become Net Zero across our own operations by 2035. Simon has led significant investments into colleague pay, most recently leading the industry in paying the Living Wage across the whole country as part of a cost of living support package. Simon is a dedicated, determined and enthusiastic champion for our customers and colleagues and for inclusion and diversity across our company.

Independent: No.

IMAGE REMOVED

Bláthnaid Bergin
Chief Financial Officer

Appointed to the Board: 5 March 2023. Bláthnaid was appointed as Chief Financial Officer on 5 March 2023, having joined Sainsbury's in 2019 as Group Director of Finance before becoming Commercial and Retail Finance Director in 2021.

Skills and experience: Prior to joining Sainsbury's, Bláthnaid was Chief Finance Operations Officer at Aviva. She was also Group Financial Controller for RSA Insurance, as well as Joint Interim Group Chief Financial Officer for six months. She is a qualified Chartered Accountant and spent most of her career at GE in various finance roles working across Europe, Asia and Australia. Bláthnaid was previously Non-Executive Director, Chair of the Audit Committee and Senior Independent Director for Artemis Alpha Investment Trust.

External appointments: None.

Specific contributions to the Company: Bláthnaid is well embedded in our business and is a highly respected leader. She has a strong record of financial leadership and, over the last three years at Sainsbury's, has supported the development and delivery of our strategy. Bláthnaid has extensive international and finance experience gained during previous and current executive and non-executive positions.

Independent: No.

IMAGE REMOVED

Jo Bertram
Non-Executive Director
C N

Appointed to the Board: 7 July 2022.

Skills and experience: Jo is a highly talented strategic business leader with significant experience leading transformation and change. Prior to becoming Managing Director, Business & Wholesale at Virgin Media O2, Jo held senior Director and Strategy roles at O2. Between 2013 and 2017, she held the position of Regional General Manager, Northern Europe at Uber. Jo has previously worked at McKinsey and Accenture and holds an MBA from INSEAD.

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

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

Independent: Yes.

Key to Committee members

- A Audit Committee
- C Corporate Responsibility and Sustainability Committee
- N Nomination and Governance Committee
- R Remuneration Committee
- (A) (C) (N) (R) Denotes Chair of Committee

IMAGE REMOVED

Brian Cassin
Non-Executive Director
A N

Appointed to the Board: 1 April 2016. Brian joined the Board on 1 April 2016 and became the Senior Independent Director on 7 July 2022.

Skills and experience: Brian brings relevant experience of running a FTSE 100 group with knowledge of big data and analytics, both areas of key importance to Sainsbury's. As Chief Executive Officer of Experian plc, Brian brings strong leadership experience and a substantial background in operating within a regulated environment. He joined Experian plc as Chief Financial Officer in April 2012, a post he held until his appointment as Chief Executive Officer in July 2014. Prior to this, Brian spent his career in investment banking at Greenhill & Co, where he was Managing Director and Partner. Brian has also held various roles at Baring Brothers International and at the London Stock Exchange.

External appointments: Chief Executive Officer of Experian plc.

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

Independent: Yes.

IMAGE REMOVED

Jo Harlow
Non-Executive Director
C N (R)

Appointed to the Board: 11 September 2017.

Skills and experience: Jo brings a wealth of experience in consumer-facing businesses and the telecoms and technology industries, both in the UK and internationally. She was Corporate Vice President of the Phones Business Unit at Microsoft Corporation and, before that, was Executive Vice President of Smart Devices at Nokia, following a number of senior management roles at Nokia from 2003. Prior to that, Jo held marketing, sales and management roles at Reebok International Limited from 1992 to 2003 and at Procter & Gamble from 1984 to 1992.

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

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

Independent: Yes.

Sainsbury plc Board of Directors 2023/24 continued

IMAGE REMOVED

Adrian Hennah
Non-Executive Director
(A) N R

Appointed to the Board: 1 April 2021.

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

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

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

Independent: Yes.

Key to Committee members

- **A** Audit Committee
- **C** Corporate Responsibility and Sustainability Committee
- **N** Nomination and Governance Committee
- **R** Remuneration Committee
- (A) (C) (N) (R) Denotes Chair of Committee

IMAGE REMOVED

Tanuj Kapilashrami
Non-Executive Director
N R

Appointed to the Board: 1 July 2020.

Skills and experience: Tanuj is a highly experienced HR professional with significant experience in talent and change management, both in the UK and internationally. She joined Standard Chartered Bank in 2017 and is currently the Group Head of HR. Prior to this, Tanuj spent 17 years in key global and regional HR leadership roles within HSBC.

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

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

Independent: Yes.

IMAGE REMOVED

Keith Weed CBE
Non-Executive Director
A (C) N

Appointed to the Board: 1 July 2020.

Skills and experience: Keith is an exceptionally capable marketing and digital leader. He has championed new ways of integrating sustainability into business and building brands with purpose. Keith was awarded a CBE for services to the advertising and marketing industry in the 2021 New Years Honours List. He has a strong business background, having spent 36 years at Unilever plc, most recently as Chief Marketing and Communications Officer, which included leading the company's ground-breaking sustainability programme globally. Whilst at Unilever, Keith led different parts of the business, during which time he worked closely with Sainsbury's and other retailers. He has strong international experience and knowledge, having run international businesses both in the UK and overseas.

External appointments: Non-Executive Director of WPP plc, Trustee Director of Business in the Community, Trustee Director of The Leverhulme Trust and President of The Royal Horticultural Society. He is also a trustee of Grange Park Opera.

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

Independent: Yes.

Board changes

After six years' service as Chief Financial Officer, Kevin O'Byrne retired from the Board on 4 March 2023.

Following Kevin's retirement, Bláthnaid Bergin was appointed as Chief Financial Officer and a Director of the Board on 5 March 2023. A resolution to elect Bláthnaid as a Director will be put to Shareholders at the AGM to be held on 6 July 2023.

Kevin O'Byrne
Chief Financial Officer

Appointed to the Board: 9 January 2017. Kevin retired from the Board on 4 March 2023.

Skills and experience: Kevin brought a wealth of international retail and finance experience to the Board from his previous Chief Executive Officer and Chief Financial Officer roles. His skills and experience in leading finance and driving performance improvement provided the business with valuable expertise in pursuing its strategy. Kevin was previously Chief Executive Officer of Poundland Group PLC until December 2016 and held executive roles at Kingfisher plc from 2008 to 2015, including Divisional Director UK, China and Turkey; Chief Executive Officer of B&Q UK & Ireland and Group Finance Director. Prior to this, he was Group Finance Director of Dixons Retail plc, CEO of PC World Division in UK, France, Spain and Italy, and European Finance Director of Quaker Oats. He was a Non-Executive Director of Land Securities Group PLC from 2008 to September 2017, where he was Chairman of the Audit Committee and Senior Independent Director.

External appointments: Kevin is the Senior Independent Director and Chairman of the Audit Committee of Centrica plc and Non-Executive Director of International Flavors & Fragrances Inc. (IFF).

J Sainsbury plc Operating Board 2023/24

IMAGE REMOVED

Simon Roberts
Chief Executive

See page 62.

IMAGE REMOVED

Bláthnaid Bergin
Chief Financial Officer

See page 62.

IMAGE REMOVED

Rhian Bartlett
Food Commercial Director

Date of appointment: November 2020.

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

IMAGE REMOVED

Graham Biggart
Chief Transformation Officer

Date of appointment: March 2022.

Skills and experience: As Chief Transformation Officer, Graham is responsible for our strategy and the delivery of our major end-to-end change programmes across Sainsbury's, Argos, Habitat and Tu. He is also accountable for our Supply Chain, as well as Logistics, Fulfilment & Transport, and our Central Business Services teams. Graham joined Sainsbury's in 2015 and has led a number of different areas of the business in that time, across commercial, operations and channels, including as Commercial Director for Fresh Food & Foodservice and as Commercial Operations Director covering Range, Space, Price & Formats, as well as Sainsbury's Local and Argos Republic of Ireland. Prior to Sainsbury's, Graham worked at McKinsey & Company, primarily on strategy and transformation topics and, before that, at Brunswick Group, focused on media, investor and government communications. Graham is a Non-Executive Director and Chair of the Risk & Audit Committee of GS1 UK.

IMAGE REMOVED

Jim Brown
Chief Executive Officer, Sainsbury's Bank

Date of appointment: June 2019.

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

IMAGE REMOVED

Tim Fallowfield OBE
Company Secretary and Corporate Services Director

Date of appointment: September 2004.

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

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

IMAGE REMOVED

Mark Given
Chief Marketing Officer

Date of appointment: June 2020.

Skills and experience: Mark joined the Operating Board in June 2020. He has significant experience in customer insight, brand communication and digital marketing. Mark joined Sainsbury's in 2012, becoming Marketing Director in 2017. He was appointed Chief Marketing Officer in August 2019 and has responsibility for Marketing & Loyalty across the Sainsbury's, Argos, Tu clothing and Habitat brands. Mark has also been responsible for the Nectar Loyalty coalition and the Nectar360 media business since 2018. In 2021, Mark assumed responsibility for all Corporate Responsibility & Sustainability activity, including delivery of our Plan for Better targets. Prior to joining Sainsbury's, Mark built his digital skills leading the Priority programme at O2, where he was Head of Sponsorship. Before this, Mark worked with key brands at Heineken UK where he was Brand Director. He began his career at Procter & Gamble UK before working across Europe on a variety of brands. Mark is currently a Council Member of the Incorporated Society of British Advertisers (ISBA) and a Fellow of the Marketing Society.

IMAGE REMOVED

Clodagh Moriarty
Chief Retail and Technology Officer

Date of appointment: June 2018.

Skills and experience: Clodagh joined the Operating Board in 2018 and was appointed as Chief Retail and Technology Officer in March 2023, combining the leadership of Technology with the Group's Digital and Retail teams. She is responsible for all stores and their operations, as well as Sainsbury's digital offer and strategy, ensuring customers experience an integrated and seamless shopping experience across Sainsbury's, Argos, Tu, Sainsbury's Bank and Nectar. Clodagh's previous roles in Sainsbury's include Retail and Digital Director and Chief Digital Officer. She is also a member of the Sainsbury's Bank Board and sits on its Nomination and Remuneration Committees. Clodagh is the Operating Board Sponsor for Wellbeing, ensuring we uphold our colleague mental health and wellbeing commitments across the business. Clodagh joined Sainsbury's as Head of Strategy, following nine years at Bain & Company and, during her time with us, has had numerous leadership roles across commercial and channels. She is a Non-Executive Director and member of the Remuneration and Nomination and Governance Committees of Taylor Wimpey plc.

IMAGE REMOVED

Paula Nickolds
General Merchandise Commercial Director

Date of appointment: June 2021.

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

IMAGE REMOVED

Angie Risley
Group HR Director

Date of appointment: Angie will retire from the Operating Board in June 2023.

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

Operating Board changes

Phil Jordan retired as Chief Information Officer on 4 March 2023. Following Phil's retirement, Clodagh Moriarty's role was expanded to Chief Retail and Technology Officer, combining the leadership of Technology with the Group's Digital and Retail teams.

After ten years of working as a key member of the Operating Board, Angie Risley has confirmed her intention to retire from Sainsbury's. Prerana Issar has been appointed as the Group's Chief People Officer, joining the Operating Board on 30 May 2023.

Prerana Issar
Chief People Officer

Date of appointment: Prerana will join the Operating Board on 30 May 2023.

Skills and experience: Prior to joining Sainsbury's, Prerana was the NHS's first Chief People Officer and supported the 1.2 million people who work for the NHS to deliver critical care for patients, including through the COVID-19 pandemic, the most challenging period of the NHS's history. Before that, Prerana worked at the United Nations World Food Programme as Director of Public-Private Partnerships and Chief HR Officer. She is focused on HR delivering commercial impact, having started her career at Unilever plc, where she spent 15 years and finishing her time there as Vice President of HR for Global Food.

Governance Report

Dear Shareholder

This has been another exceptional year for retail, during which the cost of living crisis has presented real challenges for all of our stakeholders. In that economic background, the Board has maintained its focus on the implementation of the strategy we outlined in November 2020, and ensured that this delivers a balanced outcome for our customers, colleagues, suppliers and shareholders.

As I have said earlier in this report, we have delivered on our priorities and the Board has made bold decisions to develop and grow the business, whilst ensuring that our strategy remains aligned with our purpose, culture and values. We are now more than two years into our plan to put food back at the heart of Sainsbury's and Simon and the Operating Board have done an excellent job at delivering against our key performance measures across each of our five strategic pillars. The Board has made balanced and deliberate decisions on price investment and colleague pay and benefits.

The Board regularly engages with shareholders to help inform strategic decision-making and to understand their views. Throughout the year, the Board received updates on shareholders, including their feedback and key areas of focus and views on the retail sector. We are pleased to recommend a final dividend of 9.2p per share, reflecting our commitment to deliver strong dividends for shareholders.

Updates on customer feedback, insight, consumer sentiment metrics and trends are regularly provided to the Board, steering our responses to the key issues impacting customers. This understanding of our customers has helped the Board to shape the implementation of strategy, including key decisions on price investment to offer customers consistent value.

Our colleagues have continued to deliver for our customers and I am grateful for their exceptional service and commitment during these challenging times. The Board is committed to supporting our colleagues with the rising cost of living and we have made investment decisions totalling £205 million in retail colleague pay over the last year. This ongoing commitment to our colleagues has been a big focus this year for the Board and its Committees and, in addition to leading the industry on pay, we have created a cost of living package including the provision of food for store and depot colleagues and increased colleague discount.

Colleague feedback is critical to the Board and we continue to monitor our culture through our Great Place to Work panels, colleague listening and the outputs of our We're Listening colleague engagement survey. The Board engages directly with colleagues through our National Great Place to Work Group to understand the views of colleagues from across the business. Updates from these sessions are shared and discussed at Board meetings, feeding into our decision-making process. Further information on how we monitor culture can be found on page 31.

The Board is mindful of the impact its decisions have on our suppliers. During the year, the Board received regular updates on supplier relationships and directly engaged with key suppliers, enabling greater understanding of the challenges they face and building stronger partnerships.

The Group's diversity, equity and inclusion strategy is a key area of focus for the Board and its Committees. Our commitment to this strategy is demonstrated by the composition of the Board and senior leadership teams. I am delighted to report that the Group was recognised in this year's FTSE Women Leaders Review, ranking third in the 2022 FTSE 100 Women on Boards and in Leadership league table. The Board has set ambitious targets to increase representation of women and Ethnically Diverse colleagues in our senior leadership and senior management positions, whilst also ensuring that all appointments are made on merit and meet the needs of the Group.

Our sustainability strategy is a key priority for the Board and the Corporate Responsibility and Sustainability Committee, whose report is set out on pages 82 to 83. Plan for Better is a core part of our broader strategy and Board agenda and we have made significant progress over the last year, further integrating sustainability into our daily business operations. Plan for Better encompasses a broad set of sustainability commitments across our environmental and social agenda and, this year, we launched our new Community and Partnership Strategy, which focuses on supporting the Better for Everyone pillar, helping to improve access to food and tackling food poverty.

Central to setting the right tone from the top and maintaining high standards of corporate governance is the review of the Board's own performance. An external evaluation was conducted in 2022/23, which concluded that the Board and each of its Committees continue to be effective. The Board's strengths included our stakeholder-led approach, the ability to execute on strategy and the constructive engagement between the Board and the Operating Board. Our progress against last year's areas of focus, as well as further information on this year's evaluation can be found on pages 76 to 77.

I would like to thank all of my Board colleagues for their commitment, support and flexibility over the past year. I will again express my thanks to Kevin O'Byrne for his many years of service and his significant contribution to the Board. He has led a transformation in our financial performance and balance sheet such that we are now in a materially stronger position as we look to the future. I would like to wish Kevin all our best wishes for the future as he steps off the Board and into the next phase of his career. Following a robust recruitment process, we have welcomed Bláthnaid Bergin to the Board and look forward to the part that she will play in Sainsbury's future.

Martin Scicluna
Chair

2018 Corporate Governance Code (Code)

The Board considers that the Company has complied in full with the Principles and Provisions of the Code (available at **www.frc.co.uk**). Further details on how we comply with the Code are available in the Strategic and Governance Reports, as outlined below.

Compliance with the Code

Board leadership and Company purpose
(i) More information can be found on pages 69 to 74.

Division of responsibilities
(i) More information can be found on page 78.

Composition, succession and evaluation
(i) More information can be found on pages 75 to 77.

Audit, risk and internal control
(i) More information can be found on pages 84 to 89.

Remuneration
(i) More information can be found on pages 90 to 113.

Board leadership and Company purpose

Role of the Board

The Board is the principal decision-making body in the Company. It is collectively responsible for promoting the long-term success of the business for the benefit of its shareholders, achieving this through the creation and delivery of sustainable shareholder value. The Board also carefully considers its wider stakeholders, including customers, colleagues and suppliers, when making decisions. More information on the Board's engagement with its stakeholders can be found on pages 29 to 35.

The Board is responsible for setting the strategy of the business and overseeing its implementation by management. It is committed to delivering on each of the Group's strategic priorities, which are aligned with the Group's purpose and values. It ensures effective corporate governance, succession planning and stakeholder engagement. The Board is also responsible for ensuring that effective internal controls and risk management systems are in place.

Colleague engagement is critical to the Board, and it monitors culture through the Great Place to Work panels, colleague listening and the outputs of colleague engagement surveys. The Board and senior leaders set the tone from the top and lead by example on the Group's valued behaviours.

The Board has formally delegated certain governance responsibilities to its Board Committees and the Operating Board, as outlined below. During the year, the Board reviewed the delegated responsibilities and Terms of Reference of each of the Board Committees. Following this review, additional responsibilities were delegated to the Nomination and Governance Committee to ensure the most effective use of Board time. Further information can be found on pages 70 to 77.

Operating Board

Matters not specifically reserved for the Board have been delegated to the Operating Board, chaired by Simon Roberts. The Operating Board is responsible for the day-to-day operation of the business and the execution of our strategy, ensuring that this is done in an ethical and sustainable manner. During the year, the Operating Board delivered progress against our key performance measures across each of the five strategic pillars. Each Operating Board Director has a range of responsibilities, as detailed in their biographies on pages 66 and 67.

Sainsbury's Bank Board

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

Summary of Matters Reserved for the Board

The Board has adopted a formal schedule of matters reserved for its attention, detailing matters that are considered of significance to the Group owing to their strategic, financial or reputational importance. The schedule of matters reserved for the Board are reviewed on an annual basis and approved by the Board. Below is a summary of Matters Reserved for the Board:

- Group strategy, operating plans, long-term plans and budget
- Changes to corporate and capital structure
- Major acquisitions, mergers, joint ventures and disposals
- Significant capital expenditure and borrowing
- Material contracts
- Risk management and internal control
- Changes to the pension scheme
- Financial reporting and disclosures
- Review of remuneration policies and share schemes
- Dividend policy and payment

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

Board Committees

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

Audit Committee

- Reviews and monitors integrity of financial information prior to publication, ensuring that the Annual Report as a whole is fair, balanced and understandable
- Oversees systems of internal control and risk management
- Approves internal and external audit processes
- Maintains relationship with auditors
- Carries out in-depth reviews of specific risks, ensuring that risks are appropriately identified, managed and mitigated

ⓘ More information on page 84.

Corporate Responsibility and Sustainability Committee

- Reviews the Plan for Better strategy, monitoring progress against key environmental and social sustainability targets and metrics
- Undertakes horizon scanning of future social and environmental sustainability matters
- Monitors business engagement on sustainability and corporate responsibility matters

ⓘ More information on page 82.

Nomination and Governance Committee

- Reviews the Board's size, structure and composition, including the recommendation of new appointments to the Board
- Monitors balance of skills, knowledge, experience, independence and diversity of the Board and its Committees to ensure that they remain appropriate
- Oversight of succession planning and development plans of the Board and senior management
- Reviews the Board's governance framework, including the Group's compliance with applicable laws and regulations
- Oversight of annual performance evaluation of the effectiveness of the Board and its Committees
- Monitors compliance against the UK Corporate Governance Code

ⓘ More information on page 79.

Remuneration Committee

- Recommends and reviews the Remuneration Policy, ensuring that it promotes the delivery of our strategy and the long-term sustainable success of the business
- Approves remuneration and benefits for the Chair, Executive Directors and Operating Board Directors
- Approves remuneration principles throughout the business

ⓘ More information on page 90.

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

Operating Board Committees

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

Business Performance Review

- Monitors and reviews implementation of the Group's plans to meet budget targets, as set out by the Operating Board
- Approves 'in-year' capital expenditure
- Monitors business performance with regards to customers, the market, product proposition and perceptions of our brand
- Monitors and reviews colleague engagement

Group Data Governance Committee

- Oversees programmes that deliver compliance with Data Protection, Data Security and Payment Card Industry data security standards
- Oversees effective information security and risk management throughout the business
- Provides assurance, with the Group CISO and Director of Data Governance, to the Operating Board, Audit Committee and Board

Group Safety Committee

- Reviews the safety culture and the robustness of safety management systems throughout the business, including food safety, online safety and colleague security
- Oversees standards for management and monitoring of colleague and customer safety
- Provides assurance, with the Director of Safety and Insurance, to the Operating Board, Audit Committee and Board
- Reviews the Group's safety performance and potential safety risks within the business

Plan for Better Steering Committee

- Leads operational execution of our Plan for Better strategy
- Oversees Plan for Better activities in relation to this strategy to ensure delivery

Customer, Commercial and Channels Forum

- Leads the development and execution of our customer, commercial and channel plans against our strategy
- Manages the in-year operating performance of the retail business

Key areas of focus for the Board

Our Board and Committee meetings were held in person and remotely during the year, enabling agile and effective decision-making. The Chair also held regular calls between meetings with the Non-Executive Directors. Members of the Operating Board, management teams and other colleagues attended Board meetings to enable improved Board dialogue, review performance, discuss progress and agree key priorities for the short, medium and longer term.

Key activities of the Board

The Board has a detailed programme of activities which is agreed by the Chair, in conjunction with the Chief Executive and Company Secretary, covering operational and financial performance, strategy and transformation planning, risk, governance, culture and stakeholder matters. This enables consideration and decision-making which is appropriate for the business, our stakeholders and the markets in which we operate. Further information on the how the Board has taken the respective views of its key stakeholders into account during Board discussions is provided in our S.172 statement on pages 29 to 35.

A typical Board meeting will comprise the following elements:

- performance reports including Chief Executive overview, Chief Financial Officer review and operational performance reports
- deep dive reports into areas of particular strategic importance to evaluate progress, provide insight and, where necessary, decide on appropriate action
- verbal Committee updates from the Chairs of our Board Committees, including the key discussion points and particular matters to bring to the Board's attention
- feedback from shareholder meetings
- updates from our Great Place to Work panel, with further context provided by the Non-Executive Directors who attended that particular session
- legal, risk and governance updates, including approval of the revised governance framework, approval of the Modern Slavery Statement and updates and review of material litigation

The table on the following pages sets out the key topics that the Board reviewed, discussed and debated during the year.

Matters considered	Outcome	Benefits and consideration	Link to Stakeholders	Link to KPIs	Link to strategy
Strategy	— Discussed progress against the strategic plan and the impact of the cost of living crisis and inflationary pressures on our customers, colleagues and suppliers — Monitored progress against culture, behaviours, diversity, equity and inclusion strategy which supports the long-term planning and future direction of the Group — Reviewed the Operating Board's investment choices and ways of simplifying the Group's operating model — Held deep dive discussions on the Group's strategic and transformation programs — Discussed and created relevant action plans for long-term strategic challenges ⓘ More information on pages 10 to 12.	— Having a clear, strategic direction for the short, medium and long term and understanding our stakeholder expectations is vital for the execution of our strategic priorities — Staying connected to our stakeholders has enabled the Board to make deliberate decisions on value investment, colleague pay and ensuring the longevity of our supply chain — The decisions taken have helped to deliver good results in the short term, but will also enable the Group's longer-term goals	— Customers — Colleagues — Shareholders — Suppliers — Communities	— Grocery market share performance — Colleague engagement score — Retail free cash flow — Retail operating cost to sales — Customer satisfaction score — Plan for Better commitment — Pre-tax return on capital employed — Underlying profit before tax	

Key to Link to strategy

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

Matters considered	Outcome	Benefits and consideration	Link to Stakeholders	Link to KPIs	Link to strategy
Chief Executive report and Financial updates	— The Chief Executive and Chief Financial Officer provided an overview of the operational and financial performance of the business at each meeting — Periodic updates on sales, profit, cash flow, stakeholders and progress against KPIs ⓘ More information on pages 4 to 6 and 38 to 43.	— The Board has delegated authority to the Chief Executive for the day-to-day management of the business — Operational and financial updates provide oversight of the business, and the impact actions may have on stakeholders	— Customers — Colleagues — Shareholders — Suppliers — Communities	— Grocery market share performance — Colleague engagement score — Retail free cash flow — Retail operating cost to sales — Customer satisfaction score — Plan for Better commitment — Pre-tax return on capital employed — Underlying profit before tax	
Review of financial position, going concern and viability of the Group Progress against the long-term plan and budget Review of balance sheet and leverage targets Review of funding and liquidity plans	— Refreshed capital allocation framework and review of shareholders returns and dividend policy — Management of Group financing activities, including debt refinancing and pension plans ⓘ More information on pages 38 to 43.	— Board oversight supports the strategic direction and long-term viability and ensures that future liabilities can be met	— Customers — Colleagues — Shareholders — Suppliers — Communities	— Group market share performance — Retail free cash flow — Retail operating cost to sales — Pre-tax return on capital employed — Underlying profit before tax	
Risk management framework Updates on principal and emerging risks Risks, including principal risks as appropriate, are also discussed through the other matters considered	— Maintained responsibility for the identification and management of risks to ensure the successful operation of the business — Identified and monitored principal and emerging risks, including economic and political uncertainty, supply chain security and raw material availability — Reviewed Audit Committee discussions and decisions to monitor internal controls, stress testing and risk mitigation across the business ⓘ More information on pages 44 to 59.	— The Board reviews the most significant or principal risks facing the Group — Strengthening the risk and internal control environment is fundamental to our governance framework	— Customers — Colleagues — Shareholders — Suppliers — Communities	— Grocery market share performance — Colleague engagement score — Retail free cash flow — Retail operating cost to sales — Customer satisfaction score — Plan for Better commitment — Pre-tax return on capital employed — Underlying profit before tax	

Matters considered	Outcome	Benefits and consideration	Link to Stakeholders	Link to KPIs	Link to strategy
Culture, diversity and inclusion Talent, succession and development	— Committed to the biggest year-on-year investment into colleague pay for our retail colleagues and other enhancements to colleague benefits — Maintained focus on culture and development as a critical enabler of our longer-term success — Focused on succession planning across pivotal roles within the business, including the appointment of Bláthnaid Bergin as Chief Financial Officer, following the retirement of Kevin O'Byrne — Building leadership capability to develop and grow diverse talent and strengthen future pipelines through tailored development programmes — Induction of Jo Bertram as Non-Executive Director — Supported the Operating Board in the launch of our Smarter Working initiative to further embed a positive, forward-thinking culture whilst improving business outcomes and enabling flexibility where it is most valued by colleagues — Received regular updates on colleague engagement, reviewing colleague feedback from listening groups, the Great Place to Work panel and the We're Listening survey ⓘ More information on pages 15 to 16 and 75 to 77.	— Understanding what is important to our colleagues allows the Board to make effective decisions to ensure our culture is fit for purpose — Supporting colleagues with leading pay and benefits is a key part of our Save to Invest plan as it supports Sainsbury's strategic objective to drive outstanding service	— Colleagues	— Colleague engagement score — Plan for Better commitment	
Oversight of our Plan for Better strategy by the Corporate Responsibility and Sustainability Committee	— Signed up to the WWF's Retailers' Commitment for Nature, a joint commitment to halve the environmental impact of UK shopping baskets by 2030 — Strengthened our human rights undertaking with an enhanced focus on five new human rights commitments and the publication of our first Human Rights Saliency report — Supported the launch of our Nourish the Nation Community programme with a long-term aim to support communities with access to food now and in the future ⓘ More information on pages 13 to 17 and 82 to 83.	— Our commitment to our customers, colleagues and the communities we serve are reflected in our Plan for Better strategy which is integrated across our four other strategic pillars	— Customers — Colleagues — Shareholders — Suppliers — Communities	— Plan for Better commitment — Colleague engagement	

Matters considered	Outcome	Benefits and consideration	Link to Stakeholders	Link to KPIs	Link to strategy
Investor relations, investor views and key market updates	— Understanding of investors' strategic and performance expectations of Sainsbury's — Visibility of market conditions, share price performance and future outlook — Feedback on investor meetings held during the year	— Ensures shareholder sentiment is understood and considered when making decisions	Shareholders	— Grocery market share performance — Retail free cash flow — Retail operating cost to sales — Customer satisfaction score — Plan for Better commitment — Pre-tax return on capital employed — Underlying profit before tax	
Safety updates focusing on people and food safety	— Review of major safety incidents and the safety strategic plan, including updates on trends and the Group's safety culture ⓘ More information on page 16.	— The Board places significant importance on looking after the safety of colleagues, customers and anyone else impacted by our business	— Customers — Colleagues — Suppliers	— Colleague engagement score — Customer satisfaction score — Plan for Better commitment	
Governance matters	— Updates from the Chairs of the Committees — Review of audit and governance reform processes — Discussed the results of the Board effectiveness review and progress against actions — Legal and governance updates, including material litigation and Modern Slavery — Review and approval of statutory reporting and shareholder documentation — Approved the adoption of a simplified governance committee framework — Ensured continued compliance with the UK Corporate Governance Code 2018, as outlined on page 68 ⓘ More information on pages 68 to 117.	— An important part of the Board's role is the oversight of the Group's activities, ensuring that the Group is properly governed with the required resources	— Colleagues — Shareholders	— Colleague engagement score — Customer satisfaction score — Plan for Better commitment	

Composition, succession and evaluation

Director development

Induction

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

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

Jo Bertram joined the Board as a Non-Executive Director on 7 July 2022 and has been a member of the Nomination and Governance and Corporate Responsibility and Sustainability Committees since this date. As part of her induction, she met with Board members, senior leadership and visited stores, which provided her with an excellent opportunity to engage directly with store colleagues. These visits helped Jo develop an understanding of key business challenges, colleague experiences and the culture embedded across the business. In addition to this, she also spent time with Sainsbury's external advisers and consultants who provided her with detailed insight of the retail sector.

After six years as Chief Financial Officer, Kevin O'Byrne confirmed his intention to retire from Sainsbury's at the end of the financial year. Following a thorough external and internal search to identify a successor, Bláthnaid Bergin was appointed as Chief Financial Officer and joined the Board on 5 March 2023. Bláthnaid started her induction programme as an Executive Director prior to joining the Board. As Bláthnaid already had a thorough understanding of the business through her role as Commercial and Retail Financial Director and previously as Group Financial Director, her induction programme was tailored to build her experience of the increased responsibilities as a plc Director, particularly around the regulatory and investor landscape. Bláthnaid attended the analyst meetings held after the Interim results and the Q3 results analyst presentation. She has been attending Board meetings in her capacity as Chief Financial Officer Designate since September 2022.

The Directors' induction process

Understanding the business

- Business strategy, purpose and vision
- Overview of each business area and its opportunities
- Operating plans, current KPIs and targets
- Key business relationships
- Board and governance procedures, including Directors' duties
- Board effectiveness reviews and actions
- Matters relevant to the Board Committees they join
- Recent Board and Committee papers and minutes
- Key people and succession plans
- Remuneration and reward across the business
- Finance, Treasury and Tax overviews
- Risk profile and approach
- Internal audit, risk and internal controls

Understanding the sector and environment

- The market and competitors
- Customer trends
- Consumer and regulatory environment, including Market Abuse Regulations
- Brand perception and reputation
- Analyst and investor perspectives
- Key stakeholders' views

Meeting the Sainsbury's internal team and advisers

- Directors
- Committee Chairs
- Company Secretary and Corporate Services Director
- Members of the Operating Board
- Senior leadership across the business
- Members of the external audit team
- Remuneration consultants
- Brokers

Visiting Group operations

- Store visits
- Distribution centres
- Store support centres

Continuing development
Non-Executive Directors continue to learn about the business by meeting with senior leadership, colleagues, suppliers and other stakeholders, as described on the previous page. All of the Non-Executive Directors continue to engage with different aspects of the business to support their ongoing development. Further information on the continuing development of one of our Non-Executive Directors, Adrian Hennah, is described below.

During the year, Adrian Hennah, in his capacity as Chair of the Audit Committee, focused his continuing development on cyber security, Environmental, Social and Corporate Governance assurance and the UK government's proposals for audit and control related governance changes. Adrian engaged with Sainsbury's colleagues, auditors and advisers through briefings on these key topics to inform discussions at Audit Committee meetings. Through his external appointments, he gained further knowledge and guidance in these areas from other colleagues, auditors and advisers. This, alongside his discussions with third-party experts and reading of relevant specialist publications, enabled Adrian to bring an informed external perspective to Board and Audit Committee meetings and decisions.

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

The Board Strategy Conference took place in October and included updates from our corporate brokers on the impact of current economic and political situations, and views within the supermarket and general merchandise sectors. The Strategy Conference provides an opportunity for the Board to review and discuss transformation planning across the business in the short- and medium-term. The programme of activities for the Board included store visits, including a visit to one of the Group's newest stores in Aylesbury, and dinners with external attendees, including key stakeholders. This builds the Directors' understanding and knowledge of the wider business and the macro environment in which the Group operates.

The Audit and Remuneration Committees received updates on relevant accounting and remuneration developments, trends and changing disclosure requirements from management. The Corporate Responsibility and Sustainability Committee received stakeholder and regulatory updates on ESG matters from management. More information can be found on pages 82, 84 and 90.

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

Board evaluation

In line with best practice, we review the Board's effectiveness on an annual basis through a formal performance evaluation, including an assessment of the Board and its Committees. An external evaluator conducts the review every third year, and, in the two intervening years, this is carried out by the Company Secretary and Corporate Services Director to ensure continuity over the three-year cycle.

Following a review of external providers by the Chair and the Company Secretary and Corporate Services Director, Clare Chalmers was engaged to conduct this year's external evaluation. Clare completed the previous external evaluation in 2019/20 and the Board felt that it would be advantageous for her to use her existing knowledge to review progress over the last three years, as well as identify further opportunities for improvement. Neither Clare Chalmers, nor her associates, has any other connection to Sainsbury's or any of its Directors and the Board was satisfied with her independence.

The process was designed to assess the strengths of the Board and to raise challenges and opportunities for improvement. Clare observed the Board in January 2023 and reviewed Board and Committee papers. She met with the Chair and the Company Secretary and Corporate Services Director to agree the scope of the evaluation and the key areas of focus, resulting in an agreed agenda of interviews with the Board and members of the Operating Board. A copy of the previous external evaluation report and the meeting agenda was sent to each attendee before their individual meeting. Their discussions remained confidential and no views were attributed to any individual in the final report.

The key areas of focus included: the effectiveness, role and priorities of the Board and its Committees; the Board's composition, skills, diversity, culture and succession planning; the leadership of the Board and the business; decision-making and risk management; stakeholder engagement; talent management; the Board's focus on ESG and interaction in strategy; and purpose, strategy and values. Each Director was given the opportunity to raise their own additional points.

Following the individual discussions, Clare discussed her initial findings with the Chair and the Company Secretary and Corporate Services Director, then presented a final written report to the Nomination and Governance Committee. A meeting was held with the Board to discuss the findings and agree the key actions.

Findings of the 2022/23 review
Clare Chalmer's independent review concluded that the Board has made significant progress against identified actions over the last three years and had led the Company well. It also concluded that the Board and its Committees and each of its Directors continue to be effective. Directors were well led by the Chair and the Board and Committees have an open dialogue, drawing upon the diverse range of experience and skills within the Boardroom. All Directors demonstrated commitment to their roles and the Board culture was deemed effective and conducive to creating a positive environment and challenge by the Non-Executive Directors. The Chief Executive's stakeholder-led and collaborative approach had resulted in strong engagement with the strategy and its execution. Significant progress had been made against a clear strategy, despite the changing and challenging macro environment.

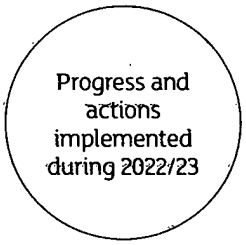
The review identified some opportunities for the Board, including the following key priorities:

- Continue to develop and test risk appetite to facilitate the Board's decisions
- Identify further opportunities for third-party experts to engage with the Board on selected topics
- Identify further opportunities for engagement with members of senior leadership

The Board considered all of the recommendations contained in the report. The Board has developed an action plan which will be reviewed on a regular basis by the Nomination and Governance Committee and also identified development areas for the Board, which are detailed on page 77. The Board reviews progress against the agreed actions regularly during the year. Any Committee-specific findings and action points will be overseen by each Committee Chair, with consideration of the overall Board findings which are deemed relevant to the Committee's work.

In accordance with the 2018 Corporate Governance Code, the findings of the review of the Chair were shared with the Senior Independent Director respectively. The Senior Independent Director met with the Chair to review this feedback. The review concluded that the Board was well led by the Chair and the Directors were very satisfied with the Chair's current performance.

Board evaluation cycle



Key areas of focus from 2021/22 review	Progress and actions implemented during 2022/23
Board focus on strategy Allocate additional time dedicated to key strategic discussions at Board meetings	The Board's Forward Agenda was reviewed to allocate more time and include additional opportunities for focused discussion and reflection on strategic matters at each meeting. Further information can be found on page 71
Board Committees Engage non-Audit Committee members in Audit Committee meetings and expand the Nomination and Governance Committee's remit	During the year, non-Audit Committee members were invited to attend Committee meetings to enhance their understanding of our risks and opportunities. All Board members attended the Audit Committee meeting which discussed the year-end results. The Board reviewed the delegated responsibilities and Terms of Reference of each of the Board Committees. Following this review, additional responsibilities were delegated to the Nomination and Governance Committee to ensure the most effective use of Board time
Colleague engagement Build on level of engagement between the Board and colleagues	Additional opportunities were identified for Non-Executive Directors to attend sessions with our Great Place To Work employee resource group. Further information can be found on page 31
Customer insights Incorporate broader perspectives into customer insight sessions	The Board were provided with regular updates on customer feedback, consumer sentiment, metrics and trend during the year, providing valuable insight and supporting decision-making. Further information can be found on page 30
Sainsbury's Bank Continue to develop relationships with the Bank Board and monitor the Bank's progress in delivery of its strategy	The Board held its September meeting at the Bank's office, inviting senior colleagues from the Bank to present strategic and governance updates. Appropriate relationships between the plc Board and the Sainsbury's Bank Board were developed further throughout the year, enabling closer monitoring of the Bank's progress to strengthen and simplify our financial services business

Division of responsibilities

How the Board operates

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

Our Board comprises the Chair, two Executive Directors and six independent Non-Executive Directors. Jo Bertram joined the Board as a Non-Executive Director on 7 July 2022 and has been a member of the Nomination and Governance Committee, and the Corporate Responsibility and Sustainability Committee since this date. Susan Rice retired from the Board on 7 July 2022.

Kevin O'Byrne retired from the Board on 4 March 2023. Bláthnaid Bergin became the Chief Financial Officer and joined the Board with effect from 5 March 2023.

Our Board members' responsibilities are listed below and more information on their specific contributions can be found in their biographies on pages 62 to 65.

Chair Martin Scicluna	— Leading the Board and ensuring its effectiveness in all aspects of its role — Promoting the highest standards of corporate governance — Ensuring that the Board is aware of the views of shareholders and other stakeholders — Promoting a culture of openness and debate in the boardroom and constructive relations between Executive and Non-Executive Directors
Chief Executive Simon Roberts	— Leading the day-to-day management of the business and executing the strategy agreed by the Board — Proposing strategies, business plans and policies to the Board — Ensuring effective implementation of the Board's decisions — Leading, motivating and monitoring performance of the Company's senior management — Creating a framework of strategy, values, culture, performance management and objectives to ensure the successful delivery of results for the business — Maintaining an effective framework of internal controls and risk management
Chief Financial Officer Bláthnaid Bergin (with effect from 5 March 2023) Kevin O'Byrne (retired from the Board on 4 March 2023)	— Supporting the Chief Executive in developing and implementing strategy — Overseeing the day-to-day financial activities and the financial performance of the business — Together with the Chief Executive, ensuring that financial policies and practices set by the Board are adopted at all levels of the business
Senior Independent Director Brian Cassin	— Acting as a sounding board for the Chair and as an intermediary for the other Directors when necessary — Being available to meet with shareholders and representative bodies as required — Leading the annual appraisal and review of the performance of the Chair
Independent Non-Executive Directors Jo Bertram Jo Harlow Adrian Hennah Tanuj Kapilashrami Keith Weed CBE	— Bringing an external perspective, independent judgement and objectivity to the Board's deliberations and decision-making — Supporting and constructively challenging the Executive Directors and senior management, holding them to account and offering specialist advice using their wide and varied experience — Monitoring delivery of the agreed strategy within the risk management framework set by the Board
Company Secretary and Corporate Services Director Tim Fallowfield OBE	— Advising and assisting the Board and the Chair, particularly in relation to governance, Board evaluations, induction, training and formulating the agenda for Board meetings — Ensuring that Board procedures and the governance framework are effective — Ensuring the Board receives accurate, timely and clear information and is consulted on all matters important to it

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

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

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

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

Martin Scicluna	9(9)	Tanuj Kapilashrami	9(9)
Jo Bertram[1]	6(6)	Kevin O'Byrne	9(9)
Brian Cassin	9(9)	Susan Rice[2]	3(3)
Jo Harlow	9(9)	Simon Roberts	9(9)
Adrian Hennah	9(9)	Keith Weed	9(9)

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

1. Jo Bertram joined the Board on 7 July 2022
2. Susan Rice stepped down from the Board on 7 July 2022

Time commitment and conflicts of interest

Prior to appointment, each prospective Non-Executive Director confirms that they will have sufficient time available to be able to discharge their responsibilities effectively and that they have no conflicts of interest. This is discussed by the Board before any appointment is made.

In addition, the Board reviews and approves requests by Directors wishing to undertake new external responsibilities or directorships, considering both the time commitments involved and any potential conflicts. The conflicts of interest register is reviewed annually to ensure it is up to date and that there are no new conflicts to consider. No changes were recorded during the year that would impact the independence of any of the Directors.

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

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

Nomination and Governance Committee Report

Dear Shareholder

It has been a busy year for the Committee, with changes in our Board and the extension of the Committee's responsibilities.

Susan Rice stepped down from the Board and her role as Senior Independent Director on 7 July 2022, after nine years of outstanding contribution and commitment. Following her retirement, Brian Cassin was appointed as Senior Independent Director, Jo Harlow became Chair of the Remuneration Committee and Keith Weed was appointed as Chair of the Corporate Responsibility and Sustainability Committee; each of whom has demonstrated expertise and skilful leadership in these roles. We welcomed Jo Bertram as a Non-Executive Director on 7 July 2022 and she has made a strong start, bringing significant expertise to the Board, particularly in relation to our development of improved customer experience through digital solutions.

After six years as Chief Financial Officer, Kevin O'Byrne retired from the Board at the end of the financial year. Kevin played an instrumental role in strengthening the Group's financial position and developing and implementing our strategy and we thank him for his impressive and sustained contribution to the business.

Following a rigorous search process, Bláthnaid Bergin was appointed as Kevin's successor and started as Chief Financial Officer and Board member at the start of the new financial year. Bláthnaid has a strong record of financial leadership and has supported the development and delivery of our strategy. I am delighted to welcome her to the Board and look forward to continuing to work alongside her.

The Board remains supportive of the recommendations of the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity. The Board continues to make good progress against its diversity, equity and inclusion strategy, and the Company was recognised in the Financial Times Diversity Leaders in Europe List, the Times Top 50 Employers for Women 2022 List and ranked third in the 2022 FTSE Women Leaders FTSE 100 league table. I am proud of the significant progress we have made to reach gender balance across our senior leadership; four of our nine Board Directors and 50 per cent of our Operating Board members are women.

During the year, the Committee's responsibilities were extended to include governance matters, alongside the key role it plays in supporting the Board with succession planning, reviewing Board composition and promoting diversity, equity and inclusion.

Martin Scicluna
Chair

Principal role and responsibilities

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

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

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

Attendance at the scheduled Nomination and Governance Committee meetings:

Martin Scicluna	2(2)	Adrian Hennah	2(2)
Jo Bertram[1]	2(2)	Tanuj Kapilashrami	2(2)
Brian Cassin	2(2)	Susan Rice[2]	0(0)
Jo Harlow	2(2)	Keith Weed	2(2)

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

1. Jo Bertram joined the Board on 7 July 2022.
2. Susan Rice stepped down from the Board on 7 July 2022.

Committee membership

The Committee consists of the Chair of the Board and the six Non-Executive Directors, all of whom are independent. The Chair of the Board is also the Chair of the Committee, and the Company Secretary and Corporate Services Director or his nominee acts as the Secretary of the Committee.

The Chief Executive and Chief Financial Officer attend meetings by invitation.

Succession planning

Talent development

We recognise the importance of developing our people, and the talent pipeline within our business continues to be a key focus for the Committee. Our senior leadership population is a source of future Operating Board talent, with five members of our Operating Board, Rhian Bartlett, Graham Biggart, Tim Fallowfield, Mark Given and Clodagh Moriarty, progressing through this route. Similarly, Bláthnaid Bergin joined the Board through internal succession on 5 March 2023.

Our Leadership Acceleration Programme, Leading Together and Leading Steps Up programmes are key investments we continue to make into developing our senior leadership.

Appointments to the Board

The Nomination and Governance Committee has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. When the need to appoint a Director is identified, for instance when a Director is approaching the end of their ninth year on the Board, the Committee reviews the experience, skills and knowledge required, taking into account the Board's skills matrix, existing composition and the relevant experience and understanding of our stakeholder groups. We engage executive search consultants to develop a diverse list of possible candidates who meet the desired specification. Suitable candidates are then interviewed by Committee members. The process is led by the Chair of the Board, who receives support from the Company Secretary and Corporate Services Director and the Directors as appropriate.

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

When the Nomination and Governance Committee has identified a suitable candidate, it makes a recommendation to the Board, enabling the Board to make the final decision.

The Committee followed the above procedure during the search for the new Chief Financial Officer, Bláthnaid Bergin. The Committee considered and interviewed a wide and diverse range of internal and external candidates for the role. The Board was unanimous in its decision to appoint Bláthnaid Bergin as Chief Financial Officer.

Identify	The Committee discussed the overall skill sets of the Board and Operating Board to agree a detailed job specification, skill set and preferred attributes for the appointee. A thorough review of potential candidates was undertaken, resulting in a diverse long list of external and internal candidates from a broad range of backgrounds. The Committee shortlisted a number of candidates.
Interview	The Chair and several of the Directors met with the shortlisted candidates who confirmed their interest in the role. Following the interviews, the Nomination and Governance Committee members met to discuss feedback.
Select	The Committee was unanimous in its final selection of candidates. It recommended to the Board that Bláthnaid Bergin be appointed as Chief Financial Officer. Her specific contribution to the Company can be found in her biography on page 62.
Appoint	Bláthnaid Bergin's appointment as Chief Financial Officer was announced on 5 July 2022 and took effect on 5 March 2023.

Diversity, equity and inclusion

The Board and Committee continue to promote the importance of diversity, equity and inclusion across the business. We are committed to being a truly inclusive retailer where every single one of our colleagues is treated fairly and with respect and can fulfil their potential. We want our customers to feel welcome when they shop with us. We embrace and encourage diversity, inclusion and equity and aim to reflect the diverse communities we serve. Simon Roberts and the Operating Board provide clear and committed leadership and accountability of our inclusion agenda, with members of the Operating Board acting as sponsors across wellbeing, diversity and inclusion, and our Colleague Networks. The governance of diversity, equity and inclusion is a regular part of the Operating Board agenda to ensure ongoing progress and focus.

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

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

Board diversity policy

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

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

Aim to maintain a level of at least 40 per cent female Directors and at least one Director who identifies as Ethnically Diverse on the Board.
Four of our nine Board Directors are women (44 per cent) and one identifies as Ethnically Diverse. In making its recommendations to the Board, the Committee has due regard to the 2018 Corporate Governance Code and other best practice and will consider the balance of skills, experience, independence and knowledge of the Board, its diversity in the broadest sense, including gender and ethnicity, how the Board works together as a team and other factors relevant to its effectiveness.

We are proud to have our progress recognised in this year's FTSE Women Leaders Review, ranking third in the 2022 FTSE 100 Women on Boards and in Leadership league table. The Board continues to review the development of the pipeline of both Ethnically Diverse and female senior management within the business. Fifty per cent of the ten members of our Operating Board are women. More information on diversity and inclusion can be found on page 15.

Consider candidates for appointment as Non-Executive Directors from a wide pool.
When appointing Non-Executive Directors to the Board, the Nomination and Governance Committee will work closely with external advisers in compiling long and short lists of diverse candidates from various backgrounds and sectors. Candidates are then identified, interviewed and measured against a detailed job specification, skill sets and preferred attributes.

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

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

1. The definition of 'senior management' in the 2018 Corporate Governance Code should be the Executive Committee or the first layer of management below Board level, including the Company Secretary. However, with such a large workforce, we believe including our top 230 senior leadership in the scope of our targets ensures that we are focused on improving diversity in all of our most significant leadership positions and developing our pipeline of talent. Our top 230 lead large teams and are critical role models in the organisation, playing a vital role in shaping the inclusive culture that we are working hard to create. We want all of our colleagues to see visible and diverse leaders in every part of the business.

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Corporate Responsibility and Sustainability Committee Report

Dear Shareholder

We are committed to delivering against our sustainability agenda, and this year we have made good progress against our Plan for Better targets, further integrating environmental and social sustainability into the core of our business.

I was delighted to become Chair of the Corporate Responsibility and Sustainability Committee and I am dedicated to progressing the important work it has delivered over the past few years. I want to thank Jo Harlow for her contributions and commitment during her tenure as Chair and I look forward to continuing to work together in this group. I'm also very pleased to have welcomed Jo Bertram to the Committee.

The Committee oversees the governance of being a sustainable business, focusing on environmental and social strategy, as well as stakeholder engagement including our customers, colleagues, suppliers, the community, shareholders and government. We remain committed to listening and engaging with our stakeholders and more information about this can be found on page 29.

I am pleased to see the significant progress that has been made against Plan for Better, which encompasses a broad set of sustainability commitments across our environmental and social agenda. The Plan is fully integrated into our business strategy and governance processes, with ongoing collaboration between our Operating Board and Management teams.

Since Plan for Better was launched we have made improvements to our targets, ensuring they are robust to address the social and environmental challenges facing the world, and made good progress on integrating Plan for Better into our daily business operations.

This year we were awarded an A rating for our Climate Change CDP submission for the ninth consecutive year, making us the only UK food retailer to have achieved this. We also know that the scale of change required can only be achieved through collaboration and I am particularly proud of the 'Retailers' Commitment for Nature', which saw us come together with other retailers and WWF to address the impact the food system has on the environment. Through this retailer group, we set out plans for a new Climate Action Programme and all aligned to a 1.5-degree climate commitment.

We also launched our new Community and Partnership strategy, which focuses on supporting our Better for Everyone pillar, helping improve access to food and tackling food poverty, with a total of £970,000 given to stores to support projects in their local community. Our Nourish the Nation community programme launched in November and we have donated £7.2 million to Comic Relief, FareShare and other key redistribution partners to support local community food projects. We continue to work in partnership with Neighbourly to ensure no good food goes to waste, which has supported the redistribution of over 10 million meals to those in need so far.

We announced changes to date labels on packaging for 276 own-brand products in a bid to help reduce food waste in homes. These changes could help UK households save 11,000 tonnes of food each year, the equivalent of 17 million products. In our efforts to help everyone eat better, we also ensured that at least 70 per cent of our products which were price matched to Aldi were Healthy or Better for you as well as great value.

To reduce plastic, we launched refillable handwash pouches, which are estimated to save a total of 28 tonnes of plastic every year and removed plastic bags from our entire banana range. We are also partnered with UK charity Newlife in all our supermarkets, where Tu clothing not sold in-store will be recycled or resold to support disabled and terminally ill children.

I am confident in the progress we've made on Plan for Better, however, acknowledge fully the scale of the challenge that lies ahead. We are committed to delivering against our plan and our stretching targets because not only is it critical to the success of our strategy, it is critical to protecting and preserving the planet for future generations. We look forward to sharing more on our achievements in the coming year.

Keith Weed
Chair, Corporate Responsibility and Sustainability Committee

Principal role and responsibilities

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

Attendance at scheduled Committee meetings:

Keith Weed	4(4)	Martin Scicluna	4(4)
Simon Roberts	4(4)	Jo Harlow	4(4)
Jo Bertram[1]	2(2)		

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

1. Jo Bertram joined the Board on 7 July 2022.

Principal activities in the year

The Committee met four times during the year for scheduled meetings. The meetings focused on our Plan for Better strategy, horizon scanning and stakeholder engagement – customers, colleagues, the community, suppliers, shareholders and government. The Committee plays an active role in ensuring that Plan for Better is fully integrated into every aspect of our business and oversees updates and progress against our targets and commitments.

At each Committee meeting, members discussed our engagement across our stakeholder groups, with deep dives of individual groups at each meeting. The Committee made the decision to align our targets to WWF's Retailers' Commitment for Nature, to have Net Zero targets aligned with a 1.5-degree pathway across all scopes. As this new commitment will require steeper reductions across our emissions footprint, the Committee reviewed a detailed plan which set out the actions we would take in our own business, with suppliers and with industry. Embedding Plan for Better outcomes in how we do business is a priority for us and, with steer from the CR&S Committee, our Food Commercial division set out individual category level targets across our priority areas: Plastic, Health, Food Waste and Carbon Scope 3. This is to ensure full accountability for delivery of our commitments and enable accelerated action. The Committee also discussed and agreed to reset our Biodiversity pillar and approved a refreshed set of Human Rights commitments.

The legislative landscape was discussed at the Committee, ensuring we have the right plans in place to meet regulations such as HFSS (high in fat, salt and sugar) and the Deposit Return Scheme. The Committee also reviewed our reporting and disclosure approach to ensure our methodology was robust and can meet evolving stakeholder expectations.

The Committee reviewed our engagement with suppliers and the feedback we received from them via the Advantage Suppliers Survey and Groceries Code Adjudicator report helped set out our future direction. More information on suppliers can be found on page 33. Our Taskforce on Climate-related Financial Disclosures (TCFD) insight and report was reviewed at the Committee; further information on TCFD can be found on page 18. The Committee examined the business's approach to Net Zero Transition Plan requirements and agreed its publication timeline. The Committee discussed future ESG upskilling sessions for the Board, but also more broadly across other teams in the business. The Committee also considered the Plan for Better remuneration approach and advised the metric and weighting should be chosen to drive the right behaviours, in line with our ESG ambitions.

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

- Page 13 for progress on our Plan for Better commitments
- Page 18 for our TCFD report
- Page 96 for information on sustainability-linked remuneration targets
- Visit **www.about.sainsburys.co.uk** to read our Plan for Better Report

Governance

1. Remit of Committee in relation to the sustainability strategy. For full details on the Committees, please read the Remuneration Committee Report on page 96 and the Audit Committee Report on page 84.
2. Membership consists of Directors from across the business, with additional Director representation from Audit, Finance and Strategy attending the Committee twice a year to review Corporate Risk Updates including TCFD recommendations.
3. Previous working group structure was reviewed and replaced with workstream-specific forums to support more efficient ways of working.

Audit Committee Report

Dear Shareholder

I am pleased to present the Committee's report for the year ended 4 March 2023. This report explains the Committee's responsibilities and shows how it has delivered on this during the year.

The Committee plays an important role in ensuring the integrity of the financial reporting, the internal control environment and risk management processes. During the year, we have considered a variety of matters aligned with the Group's principal risks.

These included:

- Financial reporting, including the processes in place to ensure the Annual Report and Financial Statements are fair, balanced and understandable
- Review of cyber security and the IT control environment, incorporating a deep dive on, and continued monitoring of cyber risk
- Assessment of Environmental, Social and Governance (ESG) metrics and assurance
- The continued evolution of our risk management framework and key discussions
- The Group's response to the government's proposals on audit and corporate governance reforms
- The Group's response to the impact that the significant movements in the UK gilt market had on its pension scheme

Through the annual Board evaluation process (pages 76 to 77), the Board has confirmed the effectiveness of this Committee in its role of supporting the Board in compliance with its duties.

Looking ahead to 2023/24, the Committee will remain focused on the Group's reporting, internal control and risk management processes. We will continue to oversee the development of plans to meet the Government's reform proposals, including the introduction of an audit and assurance policy.

I would also like to thank my Committee colleagues, Brian Cassin and Keith Weed, and all the members of management who attend, report to and support the Audit Committee, for their energy and focus in enabling us to discharge our responsibilities effectively.

Adrian Hennah
Chair, Audit Committee

Committee membership

The members of the Committee are all independent Non-Executive Directors who, together, have experience and skills relevant to the retail sector. The Board has determined that Adrian Hennah has recent and relevant financial experience and each member of the Committee has extensive general business and management experience. The different and complementary skills each member brings to the Committee have helped ensure robust and productive discussions with management and the external auditor. The Committee members' expertise and experience is set out in each of their biographies on pages 62 to 65.

The Committee is also well supported by the Director of Internal Audit, Risk and Resilience and the Internal Audit team; they play an important role and their work is respected throughout the business.

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

Principal role and responsibilities

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

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

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

Committee meetings

The Committee held four scheduled meetings in the year.

Attendance at scheduled Audit Committee meetings:

Adrian Hennah	4(4)	Keith Weed	3(4)
Brian Cassin	4(4)		

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

Each Committee meeting followed a distinct agenda to reflect the financial reporting cycle and particular matters for the Committee's consideration.

The Committee has a periodic and structured forward-looking planner. This is designed to ensure that responsibilities are discharged in full during the year and that regulatory developments continue to be brought to the Committee's attention. Meeting content is regularly reviewed with management and the external auditors, evolving to support appropriate discussion. An update is provided to the Board following each meeting. Committee meetings are generally scheduled close to Board meetings to facilitate effective and timely reporting. Committee members regularly hold private sessions following each meeting with each of the Director of Internal Audit, Risk and Resilience and the external auditor to provide an additional opportunity for open dialogue and feedback without management present. The Committee Chair also meets with the Chief Financial Officer, Director of Internal Audit, Risk and Resilience and external auditor on an ad hoc basis and prior to each Committee meeting.

Committee activities

In addition to its key areas of discussion, the Committee received regular updates from management in relation to key financial controls; ESG metrics assurance and reporting; general controls; treasury; capital structure; internal audit; and compliance. The Committee also received regular updates in relation to Sainsbury's Bank which operates its own audit and risk committees governed by specific banking regulations. Representatives of the Bank regularly attend our meetings.

Financial reporting

The integrity of the financial statements and formal announcements relating to financial performance

The Committee reviewed the Annual Report, the Preliminary and Interim results, and supporting information to assist in these reviews.

Significant financial and reporting matters

The Committee reviewed items relating to pensions, tax, going concern and viability, the impact of the conflict in Ukraine and the impact of heightened cost inflation and the squeeze on customer real incomes on the Group. More information can be found in Significant financial and reporting matters on page 88.

Treasury funding and liquidity

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

Assumptions and qualifications in support of the viability and going concern statements

The Committee assessed the financial projections over three years, which continues to be an appropriate timeframe for the Statement of Viability as approved by the Board. More information can be found in the Statement of Viability on page 58 and the Significant financial and reporting matters on page 88.

Assessment of whether the Annual Report is fair, balanced and understandable

One of the Committee's key roles is to advise the Board that it is satisfied that the Annual Report and Financial Statements are fair, balanced and understandable (see page 118) and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In doing so, the Committee ensures that management disclosures reflect the supporting detail, and/or challenges management to explain and justify their interpretation and, if necessary, re-present their position. The external auditor supports this process, in the course of its statutory audit, by auditing the accounting records of the Company against agreed accounting practices, relevant laws and regulations. In addition, the Committee:

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

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

Risk management and internal controls, and principal risks and uncertainties

The risk management process reviews the principal risks and uncertainties, and emerging risks and opportunities, facing the Group and compares these to the assumptions, scenarios, and actions used and addressed in the Group's corporate plans

The Committee reviewed the Group's risk register, principal and emerging risks and mitigation strategies, with particular discussion around prioritised risks and risk movements. A robust assessment of the Group's principal risks and detailed scenario analysis work to stress test liquidity was performed as part of the viability scenario modelling. For further information on the Group's risk management framework, see pages 44 to 59.

Reports from the Audit and Risk Committees of Sainsbury's Bank, including risk and compliance reporting processes

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

The Chairs of the Bank's Audit and Risk Committees, the Bank's Chief Executive Officer, the Bank's Chief Financial Officer and the Bank's Chief Risk Officer attended meetings of the Committee and provided updates on critical accounting judgements and estimates, important operating and regulatory matters, operational resilience and capability, the control framework and environment, and key risks. There is regular communication between Sainsbury's Internal Audit function and its equivalent within the Bank. See Significant financial and reporting matters on page 88.

Key Financial Controls and IT General Controls

The Committee considered the effectiveness of key financial control programmes and monitored the control environment, and implementation of recommendations to further enhance the Group's financial reporting systems. The Internal Controls over Financial Reporting (ICFR) programme was established in FY20/21 to design, implement and embed a framework to both improve the Group's internal control framework and to comply with expected enhancements to corporate governance for UK listed companies. Sponsored by the Chief Executive and Chief Financial Officer, the Committee received regular updates on the progress made towards the implementation of the ICFR framework, including key milestones achieved and feedback from third party reviews. In addition, the Committee monitored the implementation of management actions to remediate issues identified and make improvements.

Further information on our internal controls framework is on page 89.

External audit

Scope of the external audit plan and fee proposal

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

Independence and objectivity

The independence and objectivity of the external audit function is a fundamental safeguard to the interests of the Company's shareholders.

In line with regulation, the previous EY audit partner rotated off the audit at the end of the 2020/21 audit. The Committee approved the appointment of Colin Brown as the new EY partner for 2021/22 in April 2021.

Non-audit services and fees

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

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

The majority of the non-audit work undertaken by EY during 2022/23 related to services provided by EY in relation to the issuance of Sainsbury's Bank Tier 2 Capital in September 2022. The total non-audit fees were £0.3 million. The audit fees for the year in respect of the Group and subsidiaries were £3.8 million. A breakdown of the fees is provided in note 9 of the consolidated financial statements on page 143.

Effectiveness of external audit

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

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

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

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

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

Recommendation of the reappointment of EY as auditor

The Committee has recommended to the Board the reappointment of EY as auditor for the 2023/24 financial year. A resolution to this effect will be tabled at the 2023 AGM.

Tender of external auditor

EY was appointed as the Company's external auditor in July 2015, following a tender process. We are next required to undertake a tender in 2024 or we may do so at an earlier time as determined or required by the Board. The Committee currently intends to conduct a tender process no later than the 2024 year-end, being ten years after the original appointment. The Committee believes conducting the competitive tender process then to be in the best interests of the Company and its members. In making this decision, the Committee took into account the external auditors' knowledge of the business, ongoing effectiveness, independence and the benefits of maintaining continuity with the same audit team.

Internal Audit

Director of Internal Audit, Risk and Resilience

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

Management's responsiveness to Internal Audit's findings and recommendations

Internal Audit plays an integral role in our governance structure and provides regular reports to the Committee on the effectiveness of governance, systems and processes and controls across the Group. The Committee was provided with updates on Internal Audit's findings, key agreed actions and the status of all actions at each meeting.

Internal Audit Plan

Internal Audit's activity is primarily driven by the Internal Audit Plan which is agreed each half-year, ensuring it reflects the key risks the Group faces, the governance frameworks, management structures and operations. The scope of the Internal Audit Plan and subsequent amendments were reviewed by the Committee.

Effectiveness of the Internal Audit function

In line with the Internal Audit Charter, Committee terms of reference, and the recommendations of the Institute of Internal Auditors, the Committee conducts an annual assessment of the effectiveness of Internal Audit, in 2022/23 this took the form of an external quality assessment. The external quality assessment was facilitated by KPMG Governance, Risk and Compliance Services and included an assessment of compliance with the Institute of Internal Auditors standards and benchmarking of the function against other internal audit functions and leading practice. The methodology was supported by a framework that identifies three focus areas relating to positioning, people and processes. The overall assessment found that Internal Audit was effective with good ratings across all measures. Recommended actions will be incorporated into the FY23/24 Internal Audit continuous improvement plans.

Other

Audit Committee's effectiveness
The Committee was evaluated this year as part of the Board evaluation process and the Committee was rated highly overall. See pages 76 and 77 for further details. The review found the Committee to be strong, robust and challenging with good coverage of financial and other skills. The evaluation suggested some areas for improvement, which will be incorporated into the 2023/24 forward agenda. Overall, the Committee was found to be effective.

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

All issues were escalated to the relevant manager for investigation. Internal Audit reviewed the effectiveness of the whistleblowing process during the year. Actions to further improve the process will be implemented in the next financial year.

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

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

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

GSCOP requires that the business delivers an Annual Compliance Report to the Competition and Markets Authority as approved by the Chair of the Audit Committee, and that a summary must be included in the Annual Report and Financial Statements. This is set out below.

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

We continue to engage positively with the GCA on GSCOP matters and work collaboratively to address any concerns and improve our processes through our regular catch ups. We also proactively contact the GCA for clarification and guidance.

Inflationary pressures and global supply chain challenges have been widely reported during the year. Sainsbury's Buying and Supply Chain teams have worked closely with suppliers to minimise the impact on customers. In particular, we work collaboratively with suppliers when responding to Cost Price Increase (CPI) requests. Our approach aligns to the GCA's 7 Golden Rules for CPIs and these Rules are included in mandatory GSCOP training.

During the year, we offshored some key financial and operational processes including the management of supplier queries to our Shared Services Team in India. We notified suppliers of these changes and any associated GSCOP risks were managed. This included providing mandatory GSCOP training to our Shared Services team.

Following implementation of the Voluntary Commitment on Forensic Auditing in the last financial year, we have continued to align the management of audit claims to the Best Practice Statement on Forensic Auditing.

During the year, we communicated with suppliers on various matters. In particular, we recommunicated the CCO's independence, commitment to confidentiality and that suppliers should contact the CCO if they feel they have been adversely impacted after raising a concern with the CCO. This is in support of the GCA re-confirming to suppliers that they should not experience retribution or retaliation as a result of raising a concern to the CCO.

Relevant policies are reviewed and updated on at least an annual basis and are made available to colleagues. This is supported by Sainsbury's GSCOP training, which is compulsory for colleagues who are part of the Buying Team and for colleagues who are directly or indirectly involved in decisions that impact GSCOP. As a result, over 1,600 colleagues completed appropriate training during the year. GSCOP training is reviewed and refreshed annually to ensure it remains current. There are defined consequences for training non-compliance.

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

Thirty-one potential breaches were reported in FY22/23 (31 in FY21/22). Of the 31 potential breaches of GSCOP, 24 were in scope of the Code, 6 were deemed to be outside of the Code and one was withdrawn by the supplier.

Twenty-one were raised directly to the CCO and 10 were raised and resolved within our Trading Division using standard escalation procedures. All potential breaches reported in the year were resolved in the year. The majority of complaints raised directly to the CCO related to the resolution of supplier queries, where operational changes referenced above created some interim disruption. None were pursued as formal disputes with the CCO or referred to the GCA for arbitration. Causes of potential breaches are reviewed to identify areas for improvement.

Significant financial reporting matters and judgements

The areas of focus and actions taken by the Committee in relation to the 2023 Annual Report are outlined below. The Committee was satisfied in each case with the accounting and disclosure in the financial statements.

Area of focus	Actions taken
Presentation of financial statements The Group uses Alternative Performance Measures (APMs) and includes additional disclosures, including reconciliations to statutory measures, see pages 219 to 223. See note 5, Profit before non-underlying items, on page 134.	The Committee considers it important to take account of both the statutory measures and the APMs when reviewing these financial statements. In particular, items excluded from underlying results were reviewed by the Committee and it is satisfied that the presentation of these items is clear, applied consistently across years and that the level of disclosure is appropriate. The net non-underlying charge this year was £(363) million (2022: net profit of £124 million). Excluded items are detailed on pages 134 to 137. The most significant items relate to impairment of non-financial assets and charges recognised in relation to the continuation of restructuring programmes announced in November 2020. The Committee gave particular attention to ensure the Group's APMs are not presented in ways that give them greater prominence than amounts stemming from the financial statements; that specific, tailored explanations for the inclusion of individual APMs are provided; and that APMs are reconciled to the most directly reconcilable line items.
Pensions accounting The Group's balance sheet shows a pension surplus of £989 million, which comprises £6,934 million of assets, and £(5,945) million of liabilities. This compares to a net surplus in the prior year of £2,283 million. See note 35, Retirement benefit obligations, on page 194.	The Committee reviewed a summary of the actuarial assumptions used in arriving at the valuation for the defined benefit pension scheme and was satisfied that they are reasonable. In particular, the Committee reviewed the financial impact of the significant movements in the UK gilt market during the financial year, which resulted in the Group putting in place a temporary loan facility in October 2022. The Committee are satisfied that the pensions Scheme remains resilient.
Going concern and viability Going concern and viability projections are produced bi-annually and monitored regularly. See Statement of Viability on page 58.	The Committee undertook a detailed review of the financial liquidity of the business over the formal viability assessment period of three years, and made further enquiries beyond this timeframe, taking into account cash flows, current levels of debt and the availability of future finance. The viability assessment was discussed by the Committee in March 2023 and scenarios to be stress-tested through the business's corporate plan were agreed. The outcomes of scenarios, stress-tests and further enquiries were discussed and concluded in April 2023.
Sainsbury's Bank reporting The Bank's impairment provisioning for customer loans is a significant risk and is subject to complex IFRS 9 accounting requirements.	The Committee receives updates on the key agenda items discussed at the Bank's Audit Committees. These include accounting judgements and estimates and important operating and regulatory matters such as liquidity, cash flows, capital adequacy and risk management processes. The accounting judgements and estimates reviewed by the Committee included impairment of loans to Bank customers. Sensitivities for impairment provisions, including potential impacts from the cost of living crisis, are in note 28 of the accounts on page 167.
Climate Change disclosures With the impacts of climate change being felt around the world, we understand the important leadership role we can play to help reduce the impact of the food system on the climate. Consideration has been given to the impact of both physical and transition climate change risks, and how these impact the financial statements. See page 18 for our Task Force on Climate-related Financial Disclosures.	The Committee challenged and reviewed the Task Force on Climate-related Financial Disclosures, in particular the qualitative and quantitative scenario analysis performed, our transition plan, and cross-industry metrics. The Committee are satisfied that appropriate consideration and disclosure has been given to the impacts of Climate Change on the Group's financial statements.
Contingent liabilities Along with other retailers, the Group is currently subject to claims from current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. See note 38, Contingent Liabilities, on page 204 for further details.	The Committee further considered management's assessment of the status of ongoing regulatory investigations and litigation.
Impairment of non-financial assets Impairment of assets is a source of estimation uncertainty. A review for impairment triggers is performed at each reporting date by questioning if changes in the circumstances suggest the recoverable value of certain assets may be less than their carrying value. The increase in discount rates during the financial year represented a significant impairment indicator and therefore a full impairment test was undertaken. See note 17, Impairment of non-financial assets, on page 154.	The Committee reviewed summary reports produced by management detailing the outcomes of the impairment assessment. The Committee challenged the assumptions used in the impairment review and the consistent application of accounting methodology. The Committee were satisfied with the outcomes of the impairment reviews.

Internal controls framework

The internal controls framework encompasses controls relating to financial reporting, preparation of consolidated Group accounts, operations, compliance, risk management and Sainsbury's interests in joint ventures.

The Audit Committee reviews the effectiveness of internal controls on an ongoing basis and monitors any remedial action required. An overview of key elements of the control framework is set out below.

Our control environment

- The Board discusses and approves the Company's strategy, plans, objectives, budget and the risks to achieving them
- Group-wide policies covering delegations of authority, anti-bribery and corruption and key compliance requirements such as keeping information safe and HR policies set clear parameters for colleagues
- Management regularly reviews risks to achieving objectives, with mitigating controls identified and actions taken

Controls embedded in the business

- Policies, procedures and controls are embedded within business processes
- Specific teams, such as Central Retail and Technical Operations, support the design and implementation of specific controls across the business
- Training programmes are provided to support implementation and compliance with key policies, processes and controls

Monitoring and oversight

- Compliance with policies, standards and controls is monitored and evaluated in finance, accounting, treasury, information security and safety management
- The Business Performance Review forum provides oversight and approval of capital spend
- The Capital Returns forum monitors the outcome of capital spend
- Quarterly commercial reviews by Executive Directors of financial and operational performance cover all business areas
- Oversight and governance committees have delegated responsibility for monitoring key risk areas such as the Data Governance, Group Safety, and Treasury Committees

Our assurance framework

- Operating Board members certify annually that the corporate risk map accurately reflects their view of key risks across the business, that they are responsible for managing risks relevant to their division and that internal controls exist to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed
- The Board and the Committee review any significant fraudulent activity and whistleblowing by colleagues, suppliers or other parties, including alleged incidents of bribery, and actions being taken to remedy any control weaknesses
- Reports from management are presented to the Operating Board and Audit Committee on how we manage material risks
- Management and the Audit Committee review the scope and results of the work of Internal Audit across the Company and of the implementation of their recommendations
- The Committee reviews the scope and results of the work of the external auditor and any significant issues arising

Annual Statement from the Remuneration Committee Chair

Dear Shareholder

Having become Chair of the Committee during 2022, I am pleased to present the Directors' Remuneration Report for the year ended 4 March 2023.

We know that the rising cost of living has been front of mind for all our stakeholders over the last year and we are focusing our efforts on minimising the impact of high inflation on customers and colleagues alike. For our customers, we have invested over £560 million over the last two years to keep our prices low, at the same time as prioritising innovation and customer service. For our colleagues, we made a record investment and committed £225 million over the last year in increasing retail hourly pay and enhancing other benefits.

We are two years into our Food First plan, and we are delivering our objectives despite the challenging economic backdrop. We have delivered an underlying profit before tax of £690 million, which while down five per cent is at the upper end of our guidance range. We have also grown market share, delivered more than £900 million of cost savings over the first two years of the plan and increased retail free cash flow to £645 million. The proposed full-year dividend of 9.2p adds to the strong returns delivered to shareholders over a number of years.

None of this would have been possible without the hard work and commitment of all our colleagues across the business who always put our customers first and I'm really proud that we were the first major supermarket to pay our colleagues the Living Wage wherever they live in the UK.

The Remuneration Committee seeks to take a measured and responsible approach to executive pay, considering the specific circumstances and the perspectives of all our stakeholders. When making its decisions this year, it has carefully considered the external environment, the results delivered and executive pay in the context of broader workforce investments.

Focus on colleague pay and engagement

Sainsbury's is a major employer in the UK and our wage bill is our largest operating cost. The Remuneration Committee's remit includes oversight of pay arrangements across the Group and we have always considered wider colleague pay when making executive pay decisions. This year, more than ever before, we have sought to understand the colleague reward context in order to ensure that any decisions at the executive level are appropriate and fair. All Remuneration Committee meetings now start with an update on recent reward changes and initiatives for our colleagues and an overview on feedback from colleagues via different communication channels.

As in previous years, the Committee continues to review progress in terms of our gender and ethnicity pay gaps. Our mean gender pay gap has remained flat at 8.5 per cent, with a small increase to the median pay gap to 6.3 per cent, both being significantly below the UK average. There has been further improvement in our Ethnically Diverse and Black pay gaps.

Each year the Non-Executive Directors spend time visiting stores and participating in colleague listening so they can hear from colleagues first-hand about what's on their minds and their perspective on their own pay. The Chair and I meet at least once a year with colleagues specifically to talk about executive pay – how it is set, the structures, metrics and outcomes.

Recognising that the impact of escalating inflation disproportionately impacts lower earners, over the last year we decided to make a record investment of £205 million into pay for retail hourly-paid colleagues, with a further £20 million invested in other benefits. In October 2022 we responded with an interim pay increase of 25p per hour for our retail hourly-paid colleagues, and in early 2023 we announced we would bring forward their annual pay review by one month. For this population the overall annual pay increase is ten per cent.

We have also targeted investment in pay towards our front-line managers. This year, like last, we have applied different standard percentage increases depending on grade. Front-line managers will receive a six per cent pay increase in 2023, reducing to four per cent for senior management.

The box below sets out further details of our pay rates and the other investments we have made to support colleagues. We are very proud of the comprehensive package that we have put together in what has been an undeniably tough year for many, and the response that we have received from our colleagues has been overwhelmingly positive, reinforcing that these were the right and proportionate actions to take.

Cost of Living Support

- National pay rate increased from £9.50 to £10 in March 2022, followed by a further increase to £10.25 in October 2022, rising to £11 from February 2023. London rates increased from £11.05 to £11.30 in October 2022 rising to £11.95 from February 2023.
- This represents a combined increase of ten per cent for retail hourly-paid colleagues. We were the first major supermarket to pay the Living Wage across the whole country.
- Hourly rates have increased by 44 per cent over the last seven years.
- Introduced free food in stores, depots, Local Fulfilment Centres and Contact Centres.
- More frequent colleague discount uplifts in both Sainsbury's and Argos.
- £15 voucher for all colleagues to spend in store in December 2022.
- Launched a new pay advance scheme which enables colleagues to draw down their pay as it is earned.
- Sustained communications programme signposting colleagues towards financial, emotional and physical wellbeing resources.
- Sainsbury's makes an annual financial contribution towards GroceryAid, a registered charity, which provides a range of support to those employed in the grocery industry, including financial support.

Customers and community

Sainsbury's has over delivered on its commitment to invest £500 million in low prices by March 2023. During the year we expanded our Aldi Price Match which now covers around 300 products, including fresh products and important household staples.

Sainsbury's has a strong community presence across the UK and this year we have raised £34.5 million for good causes across all our programmes. We have a particular focus on tackling and preventing food waste and food poverty. Since our partnership began in 2021, we have donated over 10 million meals through Neighbourly and as part of the Nourish the Nation programme we donated £7.2 million to Comic Relief, FareShare and the Felix Project, to help local communities to deal with the rising cost of living.

Executive remuneration in 2022/23

The Committee carefully assesses performance against a framework to ensure that incentive outcomes are aligned to the underlying performance of the business and the shareholder experience. For 2022/23, the Remuneration Committee has determined that outcomes should be based on the formulaic result and no adjustments are necessary, as the outcomes accurately reflect the performance of the business.

In addition, the Committee is satisfied that the total remuneration received by Executive Directors in respect of 2022/23 is a reasonable reflection of performance over the period, taking into account the market and economic conditions and the positive progress that has been delivered against our strategic plan.

Annual bonus

Profit accounts for 50 per cent of the overall bonus, with 20 per cent based on retail free cash flow and 30 per cent based on a strategic scorecard. Profit achievement is towards the top end of the range set last year, paying out at 78 per cent of maximum. The outcome of the retail free cash flow element is 100 per cent of the maximum.

The 30 per cent of the bonus based on a strategic scorecard is made up of customer metrics, colleague metrics and individual strategic objectives. The Committee considered a range of data points in order to determine the outturn. Customer satisfaction scores in Sainsbury's have been consistently ahead of the other full choice supermarkets and in Argos we have delivered an improved customer experience which has driven year-on-year improvement in satisfaction scores. Colleague engagement remains strong and we have continued to make progress against our stretching gender and ethnicity targets. The Committee has agreed that the customer element should pay out at eight per cent and the colleague element should pay out at nine per cent (each out of a possible ten per cent).

The Committee reviewed Simon Roberts and Kevin O'Byrne's performance against their individual strategic objectives and determined that both had delivered their objectives fully and exceeded expectations. The Committee agreed a pay out of ten per cent (out of a possible ten per cent) for both Executive Directors.

This results in an overall bonus of 86 per cent of the maximum for both Simon and Kevin.

Long-term incentive plan – 2020 Future Builder

Retail free cash flow accounts for 50 per cent of the incentive plan, with ROCE and EPS weighted at 25 per cent each. The vesting multiplier is confirmed as 3.1x (out of a maximum of 4.0) or 77.5 per cent of maximum, reflecting retail free cash flow performance at maximum, and ROCE and EPS part way through the range.

The targets for the 2020 Future Builder were set in October 2020, based on a Corporate Plan that included assumptions for the additional costs relating to COVID-19. At the point that targets were set, it was not anticipated that rates relief would be repaid. As retail free cash flow is already at maximum, adding the impact of rates relief back in would not alter the result.

The Committee reviewed the impact of COVID-19 on the performance of Sainsbury's share price at the time of the 2020 grant and determined it was relatively contained. This award was made at a share price of £1.991 which was based on a 30-day average in order to smooth the share price volatility. The Committee concluded that no adjustment is necessary to the number of shares vesting under this award.

2023/24 Remuneration

When determining the pay review for Directors this year, the Committee had significant regard to the pay of the broader workforce and senior management. It awarded Simon Roberts a four per cent pay increase effective May 2023, taking his base salary to £941,850. This is below the ten per cent increase that retail hourly paid colleagues have received over the last year and in line with the pay increase awarded to senior management. Bláthnaid Bergin is not eligible for a May pay increase given her appointment in March.

Two years ago, we launched the 2021 Win in Food long-term share incentive plan which was linked to the eight key performance indicators used to track the successful execution of the strategy communicated in November 2020. For Executive Directors, 80 per cent is based on the four key financial measures (retail free cash flow, ROCE, EPS and cumulative cost savings) and the remaining 20 per cent is subject to key strategic indicators (market share, customer, colleague and Plan for Better).

These eight key metrics were used again in the plan the following year – our 2022 Leaders' Share Award – and these will continue to apply for our 2023 Leaders' Share Award. During the year, driven by simplicity, the Committee reviewed and reduced the number of underlying assessment criteria.

As part of this simplification and as we do not yet have representation targets set for 2026, representation targets will not be included in the 2023 long-term plan. We remain committed to improving representation and our ambitious 2024 targets will form part of the colleague element of the strategic scorecard in the annual bonus for Executive Directors (which has a ten per cent of bonus weighting), ensuring that focus on representation remains directly linked to reward.

We continue to focus on sustainability and our long-term objective to be Net Zero by 2035. Our Plan for Better sets out our sustainability goals across our whole business, outlining our priority areas of focus, our key commitments and our progress. The 2023 Leaders' Share Award will continue to include both carbon and plastic reduction targets as we believe their inclusion is key to ensuring that we deliver in line with our sustainability strategy.

Leadership Changes

Following more than six years as Chief Financial Officer, Kevin O'Byrne retired from Sainsbury's at the end of the financial year. In line with the shareholder approved Remuneration Policy, the Committee approved good leaver status for Kevin in relation to bonus and share awards that were outstanding after he retired.

Bláthnaid Bergin was promoted to the position of Chief Financial Officer on 5 March 2023. Bláthnaid's salary on appointment is £650,000 and she will receive a pension and cash supplement totalling 7.5 per cent of salary, in line with the pension available to the majority of the workforce. Bláthnaid's incentive opportunities are the same as Kevin's and are consistent with our Remuneration Policy.

AGM and Remuneration Policy

In line with the UK reporting regulations, the Directors' Remuneration Policy will be put to a binding vote and the Annual Report on Remuneration will be put to an advisory vote at the AGM on 6 July 2023.

The Committee conducted a thorough review of the existing Remuneration Policy during 2022, considering the latest proxy voting guidelines and guidance from major investors. The Committee concluded that the policy remains fit for purpose, so the overall structure remains unchanged from the policy presented in 2020, although some minor adjustments have been made to detailed terms to aid the operation of the policy. Whilst we have regularly consulted with shareholders in the past, given the minimal changes to the policy, this was not thought to be necessary this year.

Closing Remarks

Over the next two pages there are summaries for 2022/23 and 2023/24 remuneration. We hope that the disclosure provided in this report provides clear insight into the Committee's decisions and we look forward to receiving your support at the AGM.

Finally, I would like to thank Dame Susan Rice for her leadership of the Committee since 2017, as well as formally welcoming Adrian Hennah to the Committee. While the leadership and membership of the Committee has changed, we remain committed to rewarding our Executive Directors for acting in the interest of all our stakeholders, including our shareholders, and for delivering results that are aligned with our Company's purpose, strategy and values.

Jo Harlow
Chair, Remuneration Committee

The Committee held four scheduled meetings within the year, together with a number of unscheduled meetings. Attendance of Directors at scheduled Remuneration Committee meetings:

Susan Rice[1]	1(1)	Adrian Hennah[2]	3(3)
Jo Harlow	4(4)	Tanuj Kapilashrami	4(4)

The maximum number of meetings held during the year that each Director could attend is shown in brackets.
1. Susan Rice stepped down from the Board on 7 July 2022.
2. Adrian Hennah joined the Remuneration Committee following the AGM on 7 July 2022.

Principal role and responsibilities

- Determining and agreeing with the Board a transparent Remuneration Policy which supports the Company's strategy and promotes long-term sustainable success
- Setting the Remuneration Policy and individual remuneration arrangements for the Chair, Executive Directors and Operating Board Directors
- Reviewing and noting remuneration trends and reward policies applying to all colleagues, considering alignment to culture and taking these into account when determining executive pay
- Approving the service agreements of each Executive Director, including termination arrangements
- Considering the achievement of the performance conditions under annual and long-term incentive arrangements

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

Summary of 2022/23 remuneration decisions

Pay element	2022/23 decisions
Salary 3.5 per cent increase (below that of colleagues)	— Chief Executive, Simon Roberts – £905,625 and Chief Financial Officer, Kevin O'Byrne – £680,412 — A 3.5 per cent salary increase was awarded to Executive Directors from 29 May 2022, which was below the at least 5.3 per cent increase for retail hourly-paid colleagues, and in line with the pay review for senior management
Annual bonus Award of 86 per cent of maximum	— The 2022/23 bonus outturn was 86 per cent of the maximum for Simon Roberts and Kevin O'Byrne — The profit element paid out at 39 per cent (out of 50 per cent) — The retail free cash flow element paid out at the maximum, 20 per cent (out of 20 per cent) — The Committee determined an outturn of eight per cent for the customer metrics and nine per cent for the colleague metrics (each out of ten per cent). Simon Roberts' and Kevin O'Byrne's individual annual objectives paid out at ten per cent (out of ten per cent), resulting in an overall strategic scorecard outturn of 27 per cent (out of 30 per cent) — Further details of the bonus measures and outturn can be found on pages 96 and 97 GRAPH REMOVED
Long-Term Incentive Plan (LTIP): Future Builder Vesting at 77.5 per cent of maximum	— Maximum payout under the retail free cash flow element (50 per cent of the award), with ROCE and EPS (each 25 per cent of the award), part way through the range. This results in a vesting multiplier of 3.1x (out of a maximum of 4.0) or 77.5 per cent of maximum — Further detail on the outcomes is set out on page 97 GRAPH REMOVED

When considering year-on-year comparisons for Simon Roberts, it should be noted that the 2021/22 single figure includes an LTIP value in relation to being a Board Director rather than Chief Executive. For a more consistent like-for-like comparison, an assumed Chief Executive award level could be factored in which would result in a notional 2021/22 total remuneration figure of £4,470k, resulting in an 11 per cent year-on-year increase.

Total remuneration for 2022/23

GRAPH REMOVED

GRAPH REMOVED

Summary of remuneration for 2023/24

Pay element	Approach for 2023/24	
	Executive Directors	Other colleague groups
Salary	— Chief Executive, Simon Roberts – £941,850 effective 28 May 2023 (four per cent salary increase) — Chief Financial Officer, Bláthnaid Bergin – £650,000 effective 5 March 2023 (on appointment)	— Ten per cent increase over the year for retail hourly-paid colleagues — Six per cent for front-line managers, reducing to four per cent for senior management
Benefits	— Includes colleague discount, life assurance (six times salary), company car cash allowance (or car), private medical cover and long-term disability insurance	— All colleagues are eligible for colleague discount and life assurance (six times salary if in pension, otherwise one times salary) — Eligibility for other benefits is dependent on grade
Retirement benefits	— Pension and/or cash supplement totalling 7.5 per cent of salary	— Participation in a pension plan is offered to all colleagues on a contributory basis, with the Company contribution varying by grade — Retail hourly-paid colleagues and front-line managers are offered a matching scheme up to 7.5 per cent of salary
Annual bonus	— Performance is based on profit (50 per cent), retail free cash flow (20 per cent) and strategic scorecard (30 per cent) — Bonus paid 50 per cent in cash after the year-end and 50 per cent deferred into shares for two years — Maximum opportunity of up to 250 per cent of salary per annum. For 2023/24: — Simon Roberts – 220 per cent of salary — Bláthnaid Bergin – 180 per cent of salary	— Retail and central management and central colleagues are eligible for an annual bonus and maximum opportunity varies by grade — Annual bonus based on profit and personal performance — For more senior grades part paid in cash, and part in shares deferred for two years
LTIP: 2023 Leaders' Share Award	— Awards are subject to a three-year performance period followed by a two-year retention period for Executive Directors — The performance metrics and weightings remain unchanged since 2021 and are fully aligned to our Win in Food strategy — Maximum award of up to 250 per cent of salary per annum. — For 2023 awards: — Simon Roberts – 250 per cent of salary — Bláthnaid Bergin – 225 per cent of salary	— Top 230 managers participate in this plan — Maximum award varies by grade
Shareholding guidelines	— In-employment guidelines: Chief Executive – three times salary; Chief Financial Officer – two times salary — Post-employment guidelines: Executive Directors are required to hold shares equivalent to their in-employment guideline for two years post departure. This requirement applies only to shares acquired from Company incentive plans	— In-employment guidelines apply to Operating Board Directors only
Recovery provisions	— The Executive Directors' incentive arrangements are subject to malus and clawback	— Malus provisions apply for all senior leaders who are eligible for our LTIP

Measure	Weighting	Threshold	Maximum
Cumulative retail free cash flow[1]	20%	£1,350m	£1,650m
ROCE[1]	20%	7.0%	10.0%
Underlying basic EPS[1]	20%	20.0p	27.0p
Cumulative Cost Savings	20%	£750m	£1,250m
Strategic indicators	20%	Based on market share, customer, colleague and Plan for Better. Further details set out on pages 99 and 100	

1. These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 219 to 223.

Remuneration in context

Our reward objectives

Our objective is to have a fair, equitable and competitive total reward package that encourages colleagues to serve and help every customer, drives profitable sales and provides opportunities for colleagues to share in Sainsbury's success.

Executive remuneration principles

The above reward objective applies to our senior executive population as well. In addition, the Committee believes it is important that a significant portion of the Executive Directors' package is performance-related, delivered in shares and that the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and long-term shareholder value.

The Remuneration Policy for our senior executives is therefore based on the following principles:

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

Linking executive pay to our business strategy

The Committee carefully considers the performance metrics incorporated into the annual bonus and long-term incentive plan to ensure they support our strategic priorities. The annual bonus is linked to key financial and individual strategic objectives, while the long-term incentive plan rewards for delivery against our key strategic objectives and therefore includes all eight of the key performance metrics that we use to track our success. The achievement of these metrics supports long-term sustainable performance and value creation for our shareholders.

Key considerations

When reviewing the Remuneration Policy for Executive Directors and determining the approach to pay, in line with the Code, the Committee gives consideration to the following:

- **Simplicity and transparency:** The Remuneration Policy has been designed to incentivise senior executives to achieve clearly defined financial, operational and strategic objectives. The Committee reviews performance metrics and targets each year to ensure that they continue to be clear and aligned to the delivery of the strategy. The changes we introduced for the 2021 Win in Food incentive plan demonstrate this
- **Alignment to our purpose, values and culture:** Sainsbury's has a clear purpose and strong value set resulting in a unique culture which plays an essential role in achieving our strategy. Our culture is underpinned by our Purpose (our core reason for being); our Valued Behaviours (what we want from our people); and being a great place to work (encouraging colleagues to want to be their best). The Committee ensures our pay practices drive the right behaviours in line with our values and culture
- **Risk mitigation:** The Committee reviews and sets performance targets each year to ensure that they drive the right behaviours and are appropriately stretching without encouraging unnecessary risks. Under the annual bonus and LTIP the Committee has the ability to adjust incentive outcomes to ensure that they are reflective of the underlying financial and non-financial performance of the participants and the Company. The Committee believes that this discretion is an important feature and mitigates the risk of unwarranted vesting outcomes. In addition, in the event that certain risk events come to light the Committee may operate recovery provisions on all incentive awards. This has been demonstrated by the Committee in the two years prior to this one
- **Potential outcomes:** When setting, and subsequently implementing, the policy for senior executives, the Committee considers our business goals, the retail market and competitors, the potential and actual outcome and cost to the Company, stakeholder views and best practice. The Committee believes it is important to exercise sound judgement at all stages during the process to ensure that executive pay levels appropriately reflect performance and are aligned with the interests of shareholders

Fair pay for colleagues

When considering remuneration arrangements for Executive Directors, the Committee takes into account the pay and conditions of colleagues at all levels throughout the Company. Remuneration Committee meetings start with an update on any reward changes and initiatives for colleagues across the business, particularly investment decisions for our hourly-paid colleagues, as well as relevant external updates such as changes to competitor pay rates. The Committee also reviews information on internal measures, including colleague listening, engagement surveys, details of our gender and ethnicity pay gaps and the ratio of Chief Executive remuneration to the remuneration of our colleagues, and considers how these compare externally.

Sainsbury's employs over 152,000 colleagues who work hard to deliver for our customers. The Committee recognises that our colleagues are the cornerstone of our business and essential to the overall success of our plans. The remuneration objectives for our colleagues follow the same principles as the policy for the Executive Directors. Pay and benefits reflect the nature and contribution of the role and take into account levels of pay in comparable roles in the market.

Reward and benefits

- All colleagues are entitled to base salary, pension and a range of benefits
- Managers participate in annual bonus plans which are aligned under a common set of principles
- Senior executives also participate in our Long-Term Incentive Plan
- We offer colleague discount in Sainsbury's, Argos and Habitat and during 2022/23 colleagues saved over £57 million – around £350 on average
- In 2022/23, we again improved colleague discount, increasing Argos discount from ten per cent to 15 per cent on every payday throughout the year, in addition to the enhanced Sainsbury's discount for five days over every payday

Recognition, development and wellbeing

- Being a place where colleagues love to work is crucial to the success of our business and we recognise colleagues who go the extra mile and bring our values to life through love it, our colleague recognition scheme
- During 2022/23 we issued around 332,000 instant rewards and over 14,000 exceptional performance awards to colleagues, along with appreciation gifts. This equates to a cash value of over £5 million
- We want to support colleagues in their career goals and operate a number of development programmes including one to support retail colleagues who want to take their first steps into front-line management and leadership roles
- Our 'Wellbeing' agenda is sponsored by Clo Moriarty, our Chief Retail and Technology Officer, demonstrating the importance of our colleagues' mental and physical wellbeing. We offer a range of support mechanisms, including an Employee Assistance Programme

Pensions and life assurance

- Participation in a pension plan is offered to all colleagues on a contributory basis, with the Company contribution varying by grade
- Retail hourly-paid colleagues are offered a matching scheme up to 7.5 per cent of salary
- We have c. 108,000 colleagues in our pension plans
- Colleagues in our pension plan also receive six times life assurance (one times if not in a pension or in an auto-enrolled scheme)

Share ownership

- All colleagues have the opportunity to become shareholders in the Company through our all-employee share plan
- Around 23,500 colleagues participate in our Sharesave plans, representing an uptake rate of 17 per cent
- Colleagues can also participate in Sainsbury's Share Purchase Plan (SSPP), which is our name for the partnership element of the Share Incentive Plan

Ethnicity and gender pay

- Our colleagues are paid according to their role not their gender or ethnicity
- The ethnicity pay gap shows the difference in the average hourly rate of pay of ethnically diverse colleagues compared to that of white colleagues. Our 2022 mean ethnicity pay gap is -1.6 per cent (down from -0.9 per cent) and our median ethnicity pay gap is -4.0 per cent (down from -2.8 per cent). Location plays a key part in explaining the gap, as a high proportion of our ethnically diverse colleagues work in our London stores and earn a location premium
- Our 2022 mean gender pay gap has remained flat at 8.5 per cent. Our median gender pay gap has increased slightly from 4.7 per cent to 6.3 per cent (due to investment in driver pay). Like a lot of companies our gap is caused by the fact that we have more men than women in our most senior roles, more women than men in our hourly-paid roles, and more men in hourly-paid specialist roles that attract premiums, such as online delivery drivers
- The Board is committed to improving gender and ethnically diverse representation. Our aim is to have 50 per cent of our Operating Board – which we have achieved from the start of the 2023/24 financial year – and 50 per cent of our Directors and Senior Managers to be women. We have made solid progress within our senior leadership population, of whom 44.2 per cent are women versus 40.1 per cent last year. Our ethnically diverse representation within our senior leadership population has moved from 8.2 per cent to 9.3 per cent over the course of 2022/23. While we still have some way to go to reach our target of 12 per cent by 2024, this is good progress

CEO pay ratios

- Our CEO median pay ratio is 229:1. The 25th, 50th and 75th percentiles ranked by total remuneration are all retail hourly-paid colleagues reflecting the size and make up of our colleague base
- The Chief Executive's total remuneration comprises a significant proportion of variable pay which will change each year depending on incentive outcomes

Colleague engagement

- The Board recognises the important role our colleagues play in the success of Sainsbury's. It takes colleague engagement and the views of colleagues seriously. We communicate regularly with colleagues to provide information about our strategy, our performance and on operational matters as well as asking for feedback on how colleagues are feeling. Further details are set out on page 31 of the Annual Report
- Our 'Make it better together' groups operate at store level rolling up to a national group (which is our Workforce Advisory Panel), which meets with Board members on a regular basis to discuss what is on colleagues' minds. Whilst we do not formally consult with colleagues on the setting of the Executive Director Remuneration Policy, the Chair and the Remuneration Committee Chair engage with colleagues directly to talk about the way that executive pay is set and give colleagues the opportunity to share their views and opinions. The last listening session covering executive pay was held in July 2022 and the next one is in July 2023
- Colleagues are able to become shareholders in the Company and can comment on the policy in the same way as other shareholders

Annual Report on Remuneration

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

When considering year-on-year comparisons for Simon Roberts, it should be noted that the 2021/22 single figure includes an LTIP value in relation to being a Board Director rather than Chief Executive. For a more consistent like-for-like comparison, an assumed Chief Executive award level could be factored in which would result in a notional 2021/22 total remuneration figure of £4,470k, resulting in an 11 per cent year-on-year increase.

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 4 March 2023, together with comparative figures for the 52 weeks to 5 March 2022.

		Simon Roberts[5] £000		Kevin O'Byrne £000	
	Notes	2022/23	2021/22	2022/23	2021/22
Base salary	1	**899**	875	**675**	657
Benefits	2	**17**	24	**18**	23
Pension		**67**	66	**106**	131
Total fixed pay		**983**	965	**799**	811
Annual bonus	3	**1,700**	1,675	**1,045**	1,029
LTIP/Future Builder	4	**2,264**	959	**1,458**	1,110
Total variable pay		**3,964**	2,634	**2,503**	2,139
Total		**4,947**	3,599	**3,302**	2,950

1. In 2022 the pay review effective date changed from the start of the financial year to the end of May. Salaries were effective 7 March 2021 and 29 May 2022.
2. Benefits include a combination of cash and non-cash benefits, valued at the taxable value. For all Executive Directors, this includes a cash car allowance (£15,250) and private medical cover.
3. Annual bonus relates to performance during the financial year, paid in June following the relevant year-end. Normally 50 per cent is paid in cash and 50 per cent in bonus shares which vest after two years.
4. The Long-Term Incentive Plan value relates to the Future Builder award vesting in April/May following the end of the relevant financial year, which is the third year of the performance period. The awards are then subject to an additional two-year retention period for Executive Directors. The figures include accrued dividend equivalent shares over the performance period. The 2021/22 LTIP figure has also been updated from the fourth quarter average share price to the actual share price on the vesting date of 29 April 2022 (£2.333). The 2022/23 values are based on the average share price over the fourth quarter for 2022/23 of £2.469. The values shown above include the share price growth of the original award of: +£380k for Simon Roberts and +£245k for Kevin O'Byrne.
5. Simon Roberts' 2021/22 Future Builder value is based on an award granted before his appointment as Chief Executive; the 2022/23 Future Builder value is based on the Chief Executive award value and his average salary for 2020/21.

Base salary (audited information)

	Salary effective from 29 May 2022
Simon Roberts	£905,625
Kevin O'Byrne	£680,412

Pension

Since his appointment as Chief Executive, in lieu of pension plan participation, Simon Roberts has received 7.5 per cent of salary, which is in line with the majority of the wider workforce. For 2022/23, Kevin O'Byrne received 17.5 per cent of salary in lieu of pension plan participation until the end of December 2022, following which his payment was reduced to 7.5 per cent of salary.

Benefits

For 2022/23, benefits for Executive Directors included the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount.

Annual bonus for 2022/23 (audited information)

For 2022/23 the maximum annual bonus award opportunity for the Chief Executive was 220 per cent of base salary and for the Chief Financial Officer the maximum opportunity was 180 per cent of base salary. Normally 50 per cent of any bonus is paid in cash and 50 per cent is paid in shares which are deferred for two years.

The performance measures for 2022/23 were profit (50 per cent), retail free cash flow (20 per cent) and a strategic scorecard (30 per cent comprising colleague, customer and individual each being ten per cent).

After the end of the financial year the Remuneration Committee undertook a review of performance to determine annual bonus outcomes for Simon Roberts and Kevin O'Byrne. As detailed below, the Committee identified that a bonus was payable to the Executive Directors. As in prior years the Remuneration Committee has sought to take a measured and rounded approach to performance assessment when determining incentive outcomes to ensure that they are fair and proportionate.

The following table summarises the final outcomes for the Executive Directors.

	Outcome (% of overall maximum)	Simon Roberts £000	Kevin O'Byrne £000
Profit	39%	771	474
Retail free cash flow	20%	395	243
Strategic scorecard	27%	534	328
Total	**86%**	**1,700**	**1,045**

Profit performance

The table below sets out the threshold and stretch profit targets and the actual profit outcome.

	Threshold £m	Stretch £m	Outcome £m
Profit[1]	620	710	690

1. Underlying profit before tax. This measure is defined in the Alternative Performance Measures section of the Annual Report on pages 219 to 223.

Retail free cash flow

The table below sets out the threshold and stretch retail free cash flow targets and the actual outcome.

	Threshold £m	Stretch £m	Outcome £m
Retail free cash flow[1]	450	550	645

1. These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 219 to 223.

Strategic scorecard

The strategic scorecard (30 per cent of the overall bonus) consists of customer, colleague and individual objectives, equally weighted.

The table below sets out a summary of the achievements of the Executive Directors in relation to these objectives as assessed by the Remuneration Committee. The Committee has determined an award of 27 per cent out of a possible 30 per cent for both Executive Directors.

Shared objectives			Outturn
Customer	Significant focus on customers during the year to mitigate the impact of inflation. Invested over £560 million over the last two years keeping our prices low and have consistently ensured that our food prices have inflated at a slower rate than our competitors. Delivered strong customer satisfaction scores, showed a small improvement compared to 2019/20 and performed consistently ahead of the other full choice supermarkets. Improved customer experience in Argos, with customer satisfaction scores consistently up on last year due to faster deliveries and better availability.		8% (out of 10%)
Colleague	A successful year where we have improved our colleague engagement score by three points and made positive progress on the inclusion questions in our We're Listening survey in which all colleagues are invited to participate. Continued improvement of our gender and ethnically diverse representation at senior levels (see page 16 for further details) and we came third in the latest FTSE Women Leaders Review with 50.7 per cent senior women across our combined executive committee and direct reports.		9% (out of 10%)
	Simon Roberts	Kevin O'Byrne	
Director-specific	Grew food volume market share ahead of the other major supermarkets. Delivery of a clear GM&C strategy – Argos has outperformed the General Merchandise market. Tu and Habitat have both grown market share. Continued transformation of the operating model with strong delivery against our save to invest targets.	Delivered significant finance transformation changes including new chart of accounts which enables improved controls and analysis of business performance. Increased efficiencies and cost savings including through successful delivery of finance operations outsourcing. Good control of capital expenditure in line with plan.	Simon Roberts: 10% (out of 10%) Kevin O'Byrne: 10% (out of 10%)

2020 Future Builder (2020/21 to 2022/23 performance period) (audited information)

The 2020 Long-Term Incentive Plan is known as Future Builder. Around 230 senior managers across the business participate in this arrangement.

Awards are granted under the Long-Term Incentive Plan approved by shareholders in 2016. A core award of shares is granted, calculated as a percentage of salary and scaled according to level of seniority. Vesting of the core award is dependent on performance against specific targets tested at the end of a three-year performance period. The core awards can grow up to four times at stretch levels of performance. For Executive Directors, any vested award is subject to a two-year retention period.

The 2020 Future Builder award was subject to retail free cash flow, ROCE and EPS. In addition, a performance gateway had to be achieved before any element could vest. The retail free cash flow target has been met in full, with ROCE and EPS part way through the range. This results in an overall performance multiplier of 3.1x (out of a possible 4.0) i.e. 77.5 per cent of the maximum. The Committee reviewed the outcome of the awards in the context of award performance and determined that it was appropriate.

The targets for the 2020 Future Builder were set in October 2020, based on a Corporate Plan that included assumptions for the additional costs relating to COVID-19. At the point that targets were set, it was not anticipated that rates relief would be repaid. As retail free cash flow is already at maximum, adding the impact of rates relief back in would not alter the result.

The table below sets out the extent to which each performance measure was achieved.

	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)	Outcome	Multiplier achieved (out of a maximum 4.0x)
Cumulative retail free cash flow[1]	50%	£900m	£1,400m	1,932m	2.0x
ROCE[1]	25%	6.75%	9.75%	7.6%	0.5x
Underlying basic EPS[1]	25%	19.8p	26.5p	23.0p	0.6x
Performance gateway	The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting				Achieved
					Total 3.1 out of a maximum of 4.0

1. These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 219 to 223.

Shareholding guidelines (audited information)

The Executive Directors are required to build up a specified level of shareholding in the Company. This is to create greater alignment of the Directors' interests with those of shareholders, in line with the objectives of the Remuneration Policy.

The guidelines in the 2023 Directors' Remuneration Policy require the Chief Executive to have a holding of three times salary and other Executive Directors to hold shares with a value of two times salary.

Executive Directors are required to hold all vested share awards (net of tax) until the guideline has been met. In addition to shares held, Bonus Share Awards and LTIP awards where the performance period has ended, as well as dividend equivalents accruing on LTIP awards once the performance period has ended, count towards the guideline (on a net of tax basis).

Simon Roberts was appointed in 2020 and, as at the end of the financial year, holds 2.7x salary worth of shares, and Kevin O'Byrne met his guideline. Bláthnaid Bergin was appointed to the Board at the start of the financial year and her shareholding will be disclosed in next year's Annual Report.

Post-departure, Executive Directors will be expected to maintain a shareholding equal to their guideline (or actual shareholding if lower) for two years post-employment irrespective of the reason for leaving. This requirement will apply to shares acquired from Company incentive plans. Kevin O'Byrne meets the post-cessation shareholding requirement and this will be monitored through the two-year period.

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Remuneration in 2023/24

Base salary

When considering salaries the Committee takes account of a number of factors, with particular focus on the general level of salary increases awarded throughout the Company. Where relevant, the Committee also considers external market data on salary and total remuneration but the Committee applies judgement when considering such data.

For 2023/24 Simon Roberts will receive a four per cent salary increase. This is below the ten per cent award to retail hourly-paid colleagues and in line with senior management.

	2023 Salary
Simon Roberts (effective 28 May 2023)	£941,850
Bláthnaid Bergin (effective from appointment – 5 March 2023)	£650,000

Pension

Under the 2023 Remuneration Policy, the pension and/or cash supplement for any future appointments is capped at 7.5 per cent of salary, in line with the opportunity offered to the majority of the workforce. This is the rate that Executive Directors receive.

Benefits

Benefits for Executive Directors in 2023/24 are unchanged and will include the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount.

Annual bonus

The annual bonus for 2023/24 will operate on the same basis as 2022/23. It will be based 50 per cent on profit, 20 per cent on retail free cash flow and 30 per cent on strategic objectives (equally weighted between customer, colleague and individual objectives). The colleague element will include assessment against the six 2024 representation targets as set out on page 106.

The maximum annual bonus award opportunity for the Chief Executive is 220 per cent of base salary and for the Chief Financial Officer is 180 per cent of base salary. 50 per cent will be paid in cash and 50 per cent in shares deferred for two years.

The profit and retail free cash flow targets are set against the Company's expected performance and are subject to a rigorous process of challenge before the proposals are considered by the Board. The targets are set such that considerably stretching performance in excess of internal and external forecasts is required for maximum payout. The strategic objectives ensure that management continues to focus on operational priorities which contribute to the achievement of Group performance over the short and long term.

The Board is of the opinion that any performance targets for the current year annual bonus are commercially sensitive as the Company operates in a highly competitive, consumer-facing sector. The disclosure of targets would provide competitors with insights into the Company's strategic aims, budgeting and growth projections. However, in line with previous years, the Company will retrospectively disclose the targets in next year's Annual Report.

2023 Leaders' Share Award

Since sharing our strategy in November 2020, our long-term incentive plans have included all eight key metrics that we use as measures of our success in delivering against the strategy.

The 2023 Leaders' Share Award will retain the same plan structure and eight key metrics as previous years but the number of underlying targets relating to the strategic indicators has been reduced for the purpose of simplicity. The top circa 230 colleagues will participate in the plan.

For Executive Directors 80 per cent of the plan will be based on the four key financial measures (cumulative retail free cash flow, ROCE, EPS and cumulative cost savings). The remaining 20 per cent of the plan will be subject to key strategic indicators (market share, customer, colleague and Plan for Better).

For historic awards, we have presented the long-term incentive as a core award to which a multiplier of up to 4x could be applied. For the 2023 awards we have removed the multiplier construct. For the avoidance of doubt there are no changes to the maximum award levels. Simon Roberts will receive a maximum award of 250 per cent of salary and Bláthnaid Bergin will receive a maximum award of 225 per cent of salary (in line with the award level granted to the previous Chief Financial Officer).

The Leaders' Share Award is subject to a two-year retention period following the end of the three-year performance period. This will result in awards to Executive Directors being released after a five-year period.

The Committee has set stretching targets against these measures for the 2023 awards as shown below.

	Weighting	Threshold 25% of element vests	Maximum 100% of element vests
Cumulative retail free cash flow[1]	20%	£1,350m	£1,650m
ROCE[1]	20%	7.0%	10.0%
Underlying basic EPS[1]	20%	20.0p	27.0p
Cumulative cost savings	20%	£750m	£1,250m
Strategic indicators	20% (equally weighted)	— **Market share** – targets are commercially sensitive but we intend to provide full disclosure of targets at the end of the performance period — **Customer satisfaction**[2] – improvement of 0 to 200 bps in Company CSAT score — **Colleague** – range of -1 to +4 vs strong 2022 score — **Plan for Better**[2,3] – progress against our Scope 1 and Scope 3 and plastic reduction targets (see below)	

1. These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 219 to 223.
2. For 2023 onwards we are using a new combined Sainsbury's and Argos customer satisfaction measure and from 2022 plastic reduction relates to own brand only. Therefore, the Committee will need to consider the potential impact of these measurement changes on outstanding awards during the coming year and will engage with shareholders if necessary.
3. Our Scope 2 GHG emissions are zero as we use 100 per cent renewable electricity and therefore this is no longer included in the LTIP.

In line with previous grants, the Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting, vesting will be reduced if this is not the case. When making this judgement the Committee has scope to consider such factors as it deems relevant. The Committee believes that this discretion is an important feature of the Long-Term Incentive Plan arrangement and mitigates the risk of unwarranted vesting outcomes. This performance gateway assessment applies to all outstanding LTIP awards.

Plan for Better	Baseline	Threshold	Stretch
Scope 1 – Absolute GHG emissions within our own operations	554,936 (tCO_2e) 18/19 FY	354,971	308,539
Scope 3 – GHG emissions – suppliers with SBTi 1.5 degree net zero target approved	Less than 2% of emissions 22/23 FY	50%	80%
Plastic – Own Brand Food, General Merchandise & Clothing – tonnes of plastic packaging	69,839 Food 2018 CY/ GM&C 2020 CY	52,379	34,920

2023 Leaders' Share Award performance measures (definitions for other awards can be found in the relevant Annual Report)

Cumulative retail free cash flow

- Retail free cash flow measures the total flow of cash in and out of the business as well as providing an assessment of underlying profitability
- Retail free cash flow for these purposes is net cash generated from retail operations, after perpetual security coupons and cash capital expenditure but before strategic capital expenditure. It includes payments of lease obligations, cash flows from joint ventures and associates and Sainsbury's Bank capital injections. It is measured on a cumulative basis over the three-year performance period

Return on capital employed (ROCE)

- ROCE represents the total capital that the Group has utilised in order to generate profits. Management use this to assess the performance of the business
- It is defined as return divided by average capital employed where:
  - Return is defined as 52-week rolling underlying profit before interest and tax
  - Capital employed is defined as Group net assets excluding pension deficit/surplus, less net debt
  - The average is calculated on a 14-point basis – the prior year closing capital employed, the current year closing capital employed, and 12 intra-year periods, as this more closely aligns to the recognition of amounts in the income statement
  - More information can be found in the Alternative Performance Measures section of the Annual Report on pages 219 to 223

EPS

- EPS directly reflects returns generated for shareholders
- Underlying basic EPS is underlying profit after tax attributable to the equity holders of the parent, divided by the weighted average number of ordinary shares in issue during the year

Cumulative cost savings

- Cumulative cost savings represents cost reductions over the performance period as a result of identified initiatives. This is a key long-term measure which is fundamental to delivering returns to shareholders

Market share

- Sainsbury's market share (volume) based on Nielsen panel data

Customer

- Based on Company CSAT (excluding Bank and Tu)

Colleague

- Colleague engagement is measured using our annual We're Listening survey

Plan for Better

- Further details on the measures can be found in the Plan for Better section of the Annual Report

Non-Executive Director remuneration

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

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 4 March 2023 for each Non-Executive Director, together with comparative figures for the 52 weeks to 5 March 2022.

	2022/23			2021/22		
	Fees[1] £000	Benefits[2] £000	Total £000	Fees[1] £000	Benefits[2] £000	Total £000
Martin Scicluna	493	0	493	480	0	480
Jo Bertram[3]	47	1	48	–	–	–
Brian Cassin	83	0	83	68	0	68
Jo Harlow	89	0	89	83	0	83
Adrian Hennah	90	0	90	76	1	77
Tanuj Kapilashrami	70	0	70	68	0	68
Susan Rice[4]	37	1	38	107	4	111
Keith Weed	83	0	83	68	0	68

1. Paid in relation to the year. Fees were set 7 March 2021 and 29 May 2022.
2. The benefits for the Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office.
3. Jo Bertram joined the Board on 7 July 2022 and the figures quoted for 2022/23 relate to the period from her appointment to 4 March 2023.
4. Susan Rice stepped down from the Board on 7 July 2022.

In 2022 the Chair and Non-Executive Directors' fees were reviewed and an increase of 3.5 per cent was approved in line with senior management colleagues. The Chair fee increased to £497,033 and the base fee for Non-Executive Directors increased to £70,640. Reflecting the growing importance of the role to our business, the additional fee for the Chair of the Corporate Responsibility and Sustainability Committee increased from £15,000 to £19,500, bringing it in line with the Audit and Remuneration Committee Chair fees. The new fee levels were effective from 29 May 2022.

Non-Executive Directors receive a base annual cash fee; additional fees are paid to the Senior Independent Director and to the Chairs of the Audit, Remuneration and Corporate Responsibility and Sustainability Committees.

The Chair and Non-Executive Directors receive no benefits other than a colleague discount card and reasonable business travel expenses.

Chair and Non-Executive Director fees for 2023/24

In 2023 the Chair and Non-Executive Directors' fees were reviewed and an increase of four per cent was approved in line with senior management colleagues. The following table sets out the fee levels which are effective from 28 May 2023.

	Fees effective from 28 May 2023
Chair	£516,914
Base fee	£73,466
Senior Independent Director fee (additional)	£20,280
Chair of Remuneration Committee fee (additional)	£20,280
Chair of Audit Committee fee (additional)	£20,280
Chair of Corporate Responsibility and Sustainability Committee fee (additional)	£20,280

Non-Executive Directors' shareholdings and share interests

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

	Ordinary shares[1]		
	6 March 2022	4 March 2023	26 April 2023
Martin Scicluna	15,000	15,000	15,000
Jo Bertram[2]	N/A	8,000	8,000
Brian Cassin	25,000	25,000	25,000
Jo Harlow	8,000	8,000	8,000
Adrian Hennah	15,000	15,000	15,000
Tanuj Kapilashrami	10,500	10,500	10,500
Susan Rice[3]	4,000	N/A	N/A
Keith Weed	2,446	2,446	2,446

1. Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.
2. Jo Bertram was appointed to the Board on 7 July 2022.
3. Susan Rice stepped down from the Board on 7 July 2022.

Pay in the wider organisation

Chief Executive pay ratio

The following table provides pay ratio data in respect of the Chief Executive's total remuneration (as shown in the single figure table on page 96 compared to the remuneration of the 25th, 50th and 75th percentile of UK colleagues. All three of these colleagues are retail hourly paid colleagues, with the 50th percentile and the 75th percentile colleague earning additional premiums such as unsociable hours premium and bakers' premium.

The Chief Executive's total remuneration comprises a significant proportion of variable pay which will change each year depending on incentive outcomes. There has been an increase in variable pay for 2022/23 as a result of our improved performance. The year-on-year increase in the ratio for 2022/23 is also partly explained by the fact that the Chief Executive's single figure for 2021/22 included an LTIP value in relation to being a Board Director rather than Chief Executive.

Financial year	Method	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
2019/20	Option B[1]	173:1	173:1	153:1
2020/21[2]	Option B[1]	122:1	122:1	107:1
2021/22	Option B[1]	202:1	183:1	178:1
2022/23	Option B[1]	247:1	229:1	218:1

1. Option B as defined in the regulations.
2. Change in Chief Executive impacted single figure and resulting pay ratio.

The colleagues used to calculate the pay ratios were identified using our 2022 gender pay gap data. In line with the regulations, our 2022 gender pay gap data identifies employees using a snapshot date of 5 April 2022. This method has been chosen as it makes use of our gender pay data which provided a readily available and robust dataset.

A full-time equivalent total pay figure was calculated for each of these colleagues using the single figure methodology. The approach includes base salaries, pension contributions and any relevant pay premiums. To ensure these three colleagues were a suitable representative of their quartile, the total pay figures calculated were compared against a sample of colleagues either side of the three identified colleagues.

The following table provides base salary and total remuneration information in respect of the 25th, 50th and 75th percentile colleagues, on a full-time equivalent basis.

Financial year	Remuneration	Chief Executive	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
2022/23	Base salary	£899,000	£19,404	£20,948	£21,952
	Total remuneration	£4,947,000	£19,990	£21,635	£22,729

The Remuneration Committee considers pay ratios as one of many reference points when reviewing executive remuneration and considers that the median pay ratio for 2022/23 is consistent with the pay, reward and progression policies for the Company. Due to the nature of the role of the Chief Executive, the Committee believes that it is important for a significant portion of the Chief Executive's remuneration package to be performance-related and aligned to the long-term, sustainable success of the Company. As a result, the Chief Executive's single figure fluctuates each year depending on the Company's performance and the outturns of the incentive plans and this will impact the pay ratio reported in any single year.

Percentage change in Executive and Non-Executive Director remuneration

The table below shows the percentage change in the salary, benefits and bonus of Executive and Non-Executive Directors between (i) 2019/20 and 2020/21, (ii) 2020/21 and 2021/22 and (iii) 2021/22 and 2022/23, compared with the percentage change in the average of each of those components of pay for all our colleagues.

	Percentage change in remuneration from 2019/20 – 2020/21			Percentage change in remuneration from 2020/21 – 2021/22			Percentage change in remuneration from 2021/22 – 2022/23		
	Salary % change	Benefits % change[5]	Bonus % change	Salary % change	Benefits % change[5]	Bonus % change	Salary % change	Benefits % change[5]	Bonus % change
Simon Roberts	N/A	N/A	N/A	0.0%	42.7%	N/A	2.7%	-29.2%	1.5%
Kevin O'Byrne	1.1%	0.0%	222.2%	0.0%	29.3%	24.3%	2.7%	-21.7%	1.6%
Martin Scicluna	1.1%	0.0%	N/A	0.0%	0.0%	N/A	2.7%	0%	N/A
Jo Bertram[1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Brian Cassin[2]	1.1%	0.0%	N/A	0.0%	0.0%	N/A	22.1%	0.0%	N/A
Jo Harlow	2.8%	-100%	N/A	0.0%	0.0%	N/A	7.2%	0.0%	N/A
Adrian Hennah[2]	–	–	–	N/A	N/A	N/A	18.4%	-100%	N/A
Tanuj Kapilashrami	N/A	N/A	N/A	0.0%	0.0%	N/A	2.9%	0.0%	N/A
Susan Rice[3]	0.7%	-72.7%	N/A	0.0%	61.7%	N/A	-65.4%	-75.0%	N/A
Keith Weed[2]	N/A	N/A	N/A	0.0%	0.0%	N/A	22.1%	0.0%	N/A
All colleagues[4]	4.0%	-15.3%	308.1%	-1.2%	-21.9%	5.2%	7.6%	-6.6%	-5.4%

1. Jo Bertram joined the Board on 7 May 2022 and therefore no annual change is shown for 2022/23.
2. For the 2021/22 to 2022/23 salary comparison for Non-Executive Directors, the fee was increased by 3.5 per cent effective 29 May 2022, resulting in a full year-on-year increase of 2.7 per cent. Where a larger increase is shown this is a result of the Non-Executive Director taking on additional responsibilities during the year.
3. Susan Rice stepped down from the Board on 7 July 2022.
4. All colleague figures relate to averages based on number of full-time equivalent colleagues. These comparisons will be materially impacted by the grade mix of colleagues. While the 2020/21 to 2021/22 salary change shows a decrease, hourly paid colleagues received an increase of 2.2 per cent in March 2021 and there was no annual pay review for management. In all comparison years, the benefits change figure shows a decrease but there was no change to the benefits offered. The 2022/23 decline in the all colleagues bonus figure is a result of additional investment in bonus for more junior management roles over the two exceptional pandemic years. Note, any one-off payments made have been excluded from these figures.
5. Non-Executive Directors receive no benefits other than a colleague discount card and reasonable business travel expenses. The percentage change figures are in respect of the Non-Executive Directors' taxable business travel expenses only. The significant reductions reported for 2020/21 reflect the reduction in business travel during the year.

Relative importance of spend on pay

The table below illustrates the year-on-year change in total colleague pay (being the aggregate staff costs as set out in note 34 to the financial statements) and distributions to shareholders (being declared dividends).

Colleague pay			Distribution to shareholders		
2021/22 £m	2022/23 £m	% change	2021/22 £m	2022/23 £m	% change
3,600	**3,578**	-0.6%	238	**319**	34.0%

Performance and Chief Executive remuneration

The graph shows the TSR performance of an investment of £100 in J Sainsbury plc shares over the last ten years compared with an equivalent investment in the FTSE 100 Index. The FTSE 100 Index has been selected to provide an established and broad-based index. The graph also includes data for the FTSE All-Share Food & Drug Retailers Index. The Company is a constituent of both indices. The table details the total remuneration for the Chief Executive over this period.

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	CEO	2013/14	2014/15[1]	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21[2]	2021/22	2022/23
Single figure remuneration (£000)	S Roberts	–	–	–	–	–	–	–	1,325	3,599	**4,947**
	M Coupe	–	1,507	2,802	2,354	3,630	3,569	2,999	1,447	–	–
	J King	3,906	405	–	–	–	–	–	–	–	–
Bonus/Bonus Shares/ Deferred Share Award award as a percentage of maximum	S Roberts	–	–	–	–	–	–	–	0%	87%	**86%**
	M Coupe	–	26%	78%	35%	57%	56%	22%	0%	–	–
	J King	73%	0%	–	–	–	–	–	–	–	–
LTIP vesting percentage of maximum	S Roberts	–	–	–	–	–	–	–	60%	70%	**77.5%**
	M Coupe	–	0%	0%	22.5%	42.5%	55%	65%	60%	–	–
	J King	40%	0%	–	–	–	–	–	–	–	–

1. For 2014/15, Justin King's figures relate to the time he was Chief Executive Officer and, consistent with the single figure table, the figures for Mike Coupe relate to the whole of 2014/15; he was Chief Executive Officer from 9 July 2014.
2. For 2020/21, Simon Robert's figures relate to the time he was Chief Executive Officer during 2020/21 and, consistent with the single figure table, the figures for Mike Coupe relate to the time up until his departure on 2 July 2020.

Governance – the Remuneration Committee

Committee membership

During the year, the leadership of the Remuneration Committee transitioned from Susan Rice to Jo Harlow. Prior to becoming Chair, Jo Harlow had served on the Remuneration Committee for five years. In addition, the Committee comprised of Tanuj Kapilashrami throughout the year and Adrian Hennah, who joined in July 2022. All members of the Committee are independent Non-Executive Directors.

Tim Fallowfield, Company Secretary and Corporate Services Director, acts as secretary to the Committee. Martin Scicluna, Simon Roberts, Angie Risley (Group HR Director), the Director of Reward and the Director of Group Finance are invited to attend Committee meetings either fully or partially. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. Individuals who attend Remuneration Committee meetings are not present when their own remuneration is being determined.

The Committee typically meets four times each year, or more often as required. The Committee has a calendar of standard items within its remit and in addition it held in-depth discussions on specific topics during the year. In 2022/23 there were a couple of unscheduled meetings regarding changes to the Operating Board. The Committee complies with relevant regulations and considers the Code and best practice when determining pay and policy.

Advisers to the Remuneration Committee

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was supported by its appointed advisers, Deloitte LLP (Deloitte). Deloitte were reappointed by the Committee as advisers in 2013 following a competitive tender.

Deloitte are members of the Remuneration Consulting Group and, as such, operate under the Code of Conduct in relation to executive remuneration consulting in the UK. During the year, the Committee reviewed the advice provided by Deloitte and has confirmed that it has been objective and independent. The Committee has also determined that the Deloitte partner who provides remuneration advice to the Committee does not have any connections with the Company that may impact their independence. The Committee has reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

During the year they provided advice to the Committee on a range of topics including remuneration trends, corporate governance, incentive plan design and incentive plan rules. Their consultants attended all of the Committee meetings. In relation to their advice, Deloitte received fees of £53,000 (fees are based on hours spent). During the year, Deloitte provided the Company with unrelated advice and consultancy in respect of information technology, operating models, data analytics and taxation.

Statement of voting at general meeting

The table below sets out the votes on the Annual Report on Remuneration at the 2022 AGM and on the Directors' Remuneration Policy at the 2020 AGM. The Committee is keen to hear the views of all shareholders and continually reviews the Remuneration Policy and its implementation.

	Votes for	Votes against	Votes abstained
Remuneration Report (2022 vote)	98.53% 1,770 million	1.47% 26 million	– 15 million
Remuneration Policy (2020 vote)	97.00% 1,636 million	3.00% 51 million	– 6.0 million

Directors' contracts

Executive Directors have rolling contracts which are terminable on 12 months' notice by either party. Non-Executive Directors are appointed for an initial three-year period, which may be extended for a further term by mutual consent. The initial appointments and any subsequent reappointments are subject to annual election or re-election by shareholders. Non-Executive Directors' appointments may be terminated at any time by giving three months' written notice by either party; six months' in the case of the Non-Executive Chair.

Executive Directors' shareholdings and share interests (audited information)

The table below sets out details of the Executive Directors' shareholdings and a summary of their outstanding share awards at the end of the 2022/23 financial year. Further details of the movements of the Executive Directors' share awards are set out on page 107.

	Ordinary shares[1]			Scheme interests[2]			
	6 March 2022	4 March 2023	26 April 2023	Bonus Share Awards[3]	LTIP awards with performance period completed[4]	LTIP awards with performance period outstanding[5]	SAYE
Simon Roberts	373,520	608,965	608,965	363,601	216,329	2,827,544	4,873
Kevin O'Byrne[6]	573,312	837,706	837,706	566,845	816,304	1,940,668	0

1. Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children. They also include the beneficial interests in shares which are held in trust under the Sainsbury's Share Purchase Plan.
2. Long-Term Incentive awards are structured as nil-cost options.
3. Relates to 2021 and 2022 Bonus Share Awards.
4. Relates to 2019 Future Builder awards (and 2018 in the case of Kevin O'Byrne). Notional dividends are added for LTIP awards where the performance period is complete.
5. Relates to 2020 Future Builder awards, 2021 Win in Food award and 2022 Leaders' Share Award (maximum) where the performance period has not ended. As noted above, following the year-end, the 2020 award will vest at 77.5 per cent of maximum.
6. In line with the remuneration policy, part of the LTIP awards with performance period outstanding lapsed following Kevin's cessation of employment.

Note: The Executive Directors are potential beneficiaries of the Company's Employee Benefit Trust, which is used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 37.3 million shares (2022: 26.6 million) held by the Trustees.

Share awards made during the financial year (audited information)

The following share awards were made to Executive Directors during the year.

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Number of shares	Performance period end date
Simon Roberts	2022 Leaders' Share Award[1]	250% of salary	£2,264,063	25% of each element	983,092	1 March 2025
	Bonus Share Award[2]	95.7% of salary	£837,375	N/A	363,601	N/A
Kevin O'Byrne	2022 Leaders' Share Award[1,3]	225% of salary	£1,530,927	25% of each element	664,752	1 March 2025
	Bonus Share Award[2]	78.3% of salary	£514,747	N/A	223,511	N/A

1. The performance conditions applying to 2022 Leaders' Share Award are set out later in this section. The basis of award shows the maximum value being four times the core award. The award was made on 1 June 2022 and the number of shares has been calculated using the average share price between 25 May and 31 May 2022 of £2.303. Subject to performance, the award will vest in May/June 2025 and will be released after a further two-year retention period. The award is structured as a nil-cost option with an exercise period of up to six years from grant.
2. The Bonus Share Award was made on 1 June 2022 based on performance over the 2021/22 financial year. The award was made at 87 per cent of the maximum level (maximum of 220 per cent of salary for Simon Roberts and 180 per cent of salary for Kevin O'Byrne). The number of shares has been calculated using the average share price between 25 and 31 May 2022, £2.303. No further performance conditions apply. The Bonus Share Award will be released in March/April 2024.
3. In line with the remuneration policy, part of this award lapsed following Kevin's cessation of employment.

Unvested Long-Term Incentive Plan awards

The targets for Long-Term Incentive Plan awards granted in 2021 and 2022 are set out in the tables below.

2021 Win in Food Incentive plan (2021/22 to 2023/24 performance period)	Weighting	Threshold target core (1.0x award)	Maximum target (4.0x core award)
Cumulative retail free cash flow[1]	20%	£1,000m	£1,500m
ROCE[1]	20%	6.75%	9.75%
Underlying basic EPS[1]	20%	19.8p	26.5p
Cost reduction[2]	20%	80bps improvement	280bps improvement
Strategic indicators	20% (equally weighted)	— **Market share** – targets are commercially sensitive but we intend to provide full disclosure of targets at the end of the performance period — **Customer satisfaction** – improvement of 300 to 900 bps in Sainsbury's score and 210 to 510 bps in Argos — **Colleague** – progress against our 2024 representation targets (see below) and maintain colleague engagement scores — **Plan for Better** – progress against our Plan for Better Scope 1 & 2, Scope 3 and plastic reduction targets (see below)	

1. These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 219 to 223.
2. Improvement assessed against 2019/20 results due to the COVID-19 impact on 2020/21.

Colleague representation targets	Target – senior leadership positions (top 230 leaders)	Target – senior management positions (1,200 leaders beneath senior leadership)
Female	50%	43%
Ethnically diverse	12%	12%
Black	3%	3%

Plan for Better targets	Baseline	Threshold	Stretch
Scope 1 and 2 – GHG emissions	949,744 (tCO_2e) 18/19 FY	761,991	705,870
Scope 3 – GHG emissions	26,663,081 (tCO_2e) 18/19 FY	24,503,081	23,996,773
Plastic – Food – tonnes of plastic packaging	120,000 tonnes 2018 CY	91,200	80,400
Plastic – GM&C – tonnes of plastic packaging	9,836 tonnes 2018 CY	7,180	6,590

2022 Leaders' Share Award (2022/23 to 2024/25 performance period)	Weighting	Threshold target core (1.0x award)	Maximum target (4.0x core award)
Cumulative retail free cash flow[1]	20%	£1,250m	£1,650m
ROCE[1]	20%	6.75%	9.75%
Underlying basic EPS[1]	20%	19.8p	26.5p
Cost reduction[2]	20%	80bps improvement	280bps improvement
Strategic indicators	20% (equally weighted)	— **Market share** – targets are commercially sensitive but we intend to provide full disclosure of targets at the end of the performance period — **Customer satisfaction** – improvement of 0 to 200 bps in Sainsbury's score and 300 to 500 bps in Argos — **Colleague** – progress against our existing 2024 representation targets (see above) and assessment of further representation improvements in 2025. Maintain colleague engagement scores — **Plan for Better** – progress against our Scope 1 and Scope 3 and plastic reduction targets (see below)	

1. These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 219 to 223.
2. Improvement assessed against 2019/20 results due to the COVID-19 impact on 2020/21 and 2021/22.

Plan for Better targets	Baseline	Threshold	Stretch
Scope 1 – GHG emissions	554,936 (tCO_2e) 18/19 FY	382,403	345,258
Scope 3 – GHG emissions	26,663,081 (tCO_2e) 18/19 FY	23,783,081	23,108,004
Plastic – Own Brand Food & General Merchandise & Clothing – tonnes of plastic packaging	69,839 Own Brand Food 2018 CY/ GM&C 2020 CY	55,871	41,903

Details of the Executive Directors' share awards and movements

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

Name	Award	Date of award	Share price at grant (£)	Original share options awarded	Options lapsed	Total share options	Dividends[5]	Options exercised during the year	Remaining share options	Share price on exercise (£)	Date of exercise	Notional gain on exercise (£000)[6]
Simon Roberts	Long-Term Incentive Plan[1]	11/05/2018 (Part 2)	3.006	183,220	73,288	109,932	19,731	129,663	0	2.310	11/05/2022	300
		09/05/2019 (Part 1)	2.194	256,092	76,828	179,264	26,222	205,486	0	2.310	11/05/2022	475
		09/05/2019 (Part 2)	2.194	256,092	76,828	179,264	37,065	0	216,329			
		07/05/2020 (Part 1)	1.991	512,580	0	512,580	0	0	512,580	–	–	–
		07/05/2020 (Part 2)	1.991	512,584	0	512,584	0	0	512,584			
		04/06/2021	2.670	819,288	0	819,288	0	0	819,288	–	–	–
		01/06/2022	2.303	983,092	0	983,092	0	0	983,092	–	–	–
	Deferred Share Award[2]	07/05/2020	1.991	110,362	0	110,362	10,308	120,670	0	2.310	11/05/2022	279
	Bonus Share Award[3]	01/06/2022	2.303	363,601	0	363,601	0	0	363,601	–	–	–
	Sharesave[4]	10/12/2019	N/A	3,040	–	3,040	–	–	3,040	–	–	–
		14/12/2020	N/A	1,833	–	1,833	–	–	1,833	–	–	–
	Total			**4,001,784**	**226,944**	**3,774,840**	**93,326**	**455,819**	**3,412,347**			**1,054**
Kevin O'Byrne	Long-Term Incentive Plan[1]	11/05/2017 (Part 1)	2.671	234,012	81,905	152,107	33,119	185,226	0	2.310	11/05/2022	428
		11/05/2017 (Part 2)	2.671	234,012	81,905	152,107	33,119	185,226	0	2.310	11/05/2022	428
		11/05/2018 (Part 1)	3.006	212,060	84,824	127,236	30,533	0	157,769	–	–	–
		11/5/2018 (Part 2)	3.006	212,060	84,824	127,236	30,533	0	157,769			
		09/05/2019 (Part 1)	2.194	296,400	88,920	207,480	42,902	0	250,382	–	–	–
		09/05/2019 (Part 2)	2.194	296,404	88,922	207,482	42,902	0	250,384			
		07/05/2020 (Part 1)	1.991	330,184	0	330,184	0	0	330,184	–	–	–
		07/05/2020 (Part 2)	1.991	330,188	0	330,188	0	0	330,188			
		04/06/2021	2.670	615,544	0	615,544	0	0	615,544	–	–	–
		01/06/2022	2.303	664,752	0	664,752	0	0	664,752	–	–	–
	Deferred Share Award[2]	07/05/2020	1.991	129,331	0	129,331	12,082	141,413	0	2.310	11/05/2022	327
	Bonus Share Award[3]	07/05/2021	2.413	343,334	0	343,334	0	0	343,334	–	–	–
		01/06/2022	2.303	223,511	0	223,511	0	0	223,511	–	–	–
	Sharesave[4]	07/12/2018	N/A	3,461	3,461	0	–	–	0	–	–	–
	Total			**4,125,253**	**514,761**	**3,610,492**	**225,190**	**511,865**	**3,323,817**			**1,183**

1. The LTIP share figures relate to the maximum that could be achieved for awards.
2. The Deferred Share Award figures are after the application of performance conditions.
3. Bonus Share Awards are after the application of performance conditions. Simon Robert's waived his 2020/21 bonus and therefore no Bonus Shares were awarded. Kevin O'Byrne took 100 per cent of his 2020/21 bonus in Bonus Shares.
4. Sharesave is an all-employee share option plan and has no performance conditions as per HMRC Regulations. The option price for the Sharesave schemes shown were 2018 – £2.600; 2019 – £1.610 and 2020 – £1.610.
5. Dividends includes notional dividends accrued on LTIPs where the performance period has finished.
6. This is the notional gain on the date of exercise had all shares been sold.

Remuneration Policy

Directors' Remuneration Policy

The following section sets out our Directors' Remuneration Policy. This policy is subject to a binding shareholder vote at the AGM on 6 July 2023 and, if approved, will be effective from this date.

In determining the new Remuneration Policy the Committee followed a robust process which included discussions on the content of the policy at the Remuneration Committee meetings during the year. The Committee considered input from management and our independent advisers while ensuring that conflicts of interest were suitably mitigated. The Committee also took into account best practice and guidance from major shareholders.

Changes to the Remuneration Policy

The Remuneration Policy was last approved at the 2020 AGM, and an updated policy will be presented at the 2023 AGM. The overall structure remains unchanged from the previous policy.

As part of the review, minor amendments have been made to detailed terms to respond to emerging market and best practice and to aid operation of the Policy.

Policy Table for Executive Directors

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

Base salary	
Purpose and link to strategy	Core element of remuneration used to attract and retain executives who can deliver our strategic objectives.
Operation	Typically reviewed annually with increases normally taking effect in May. Consideration is given to a number of internal and external factors including business and individual performance, role, responsibilities, scope, market positioning, inflation and colleague pay increases.
Opportunity	Salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for the wider workforce. There is no maximum salary opportunity. Where the Committee considers it necessary and appropriate, larger increases may be awarded in individual circumstances such as: — A change in scope or responsibility; — If a new Executive Director is appointed at a lower rate and the salary is realigned over time as the individual gains experience in the role; or — Alignment to market level. Salary levels effective for 2023/2024: — Simon Roberts – £941,850 (effective 28 May 2023) — Bláthnaid Bergin – £650,000 (effective 5 March 2023, from date of appointment)
Performance details	None.

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

Retirement benefits	
Purpose and link to strategy	Provides an income following retirement and assists colleagues in building funds for their future.
Operation	Participation in a defined contribution plan and/or a cash salary supplement.
Opportunity	For Executive Directors, the value of any pension and/or cash supplement provided will be in line with the rate available to the majority of the workforce (currently 7.5 per cent of salary per annum).
Performance details	None.

Annual bonus	
Purpose and link to strategy	Rewards performance on an annual basis against key financial, operational and individual objectives, as well as strategic priorities. Awards partially delivered in shares to provide further alignment with shareholders.
Operation	Performance measured over the financial year. Bonus level determined by the Committee after the year-end based on performance against targets. Normally 50 per cent of the total bonus is paid in cash, with the balance deferred into shares for a period of two years. Dividend equivalent shares may accrue until the award vests. Dividend equivalents may accrue on vested shares. Measures and targets are reviewed annually. Recovery provisions (i.e. malus and clawback) apply.
Opportunity	Maximum opportunity of up to 250 per cent of salary per annum. The level of threshold payment for performance varies depending on the performance measure, with payouts from zero per cent. Full payout requires outperformance of stretch objectives. Maximum opportunity for 2023/24: — Simon Roberts – 220 per cent of salary — Bláthnaid Bergin – 180 per cent of salary
Performance details	Based on a combination of financial (e.g. profit), operational and individual metrics. The detail of the measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic goals. At least half of any award will be subject to financial measures.

Long-Term Incentive Plan (LTIP) Leaders' Share Award	
Purpose and link to strategy	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Share-based to provide greater alignment with shareholder interests.
Operation	Awards of conditional share awards (or equivalent) with vesting dependent on performance measured over a period of at least three financial years. Awards will normally be subject to a retention period following the end of the performance period which means awards will be released after five years. The Committee reviews the metrics, targets and weightings prior to each grant to ensure that they remain appropriate. Recovery provisions (i.e. malus and clawback) apply. Dividend equivalents may accrue, to the extent awards vest.
Opportunity	Maximum award of up to 250 per cent of salary per annum in respect of any financial year. For achievements at threshold levels of performance, up to 25 per cent of maximum under each element may vest. Award levels for 2023/24: — Simon Roberts – maximum award of 250 per cent of salary — Bláthnaid Bergin – maximum award of 225 per cent of salary
Performance details	Based on a combination of financial and strategic measures appropriate within the context of the Company strategy and external environment over the relevant performance period. Prior to granting awards, the Committee will review the performance conditions and may opt to vary the metrics and weightings to ensure measures and targets remain aligned with its objectives. The Committee would seek to consult as appropriate with its major shareholders regarding any material changes. Metrics and weightings for 2023/24 awards: — Cumulative retail free cash flow – 20 per cent — ROCE – 20 per cent — Underlying basic EPS – 20 per cent — Cumulative cost savings – 20 per cent — Strategic indicators – 20 per cent

Shareholding guidelines	
Purpose and link to strategy	Alignment of Executive Directors with shareholders.
Operation	Guidelines are Chief Executive three times salary, other Executive Directors two times salary. Executive Directors are normally expected to hold all vested share awards (net of tax) until the guideline has been met. Executive Directors normally will be expected to maintain a shareholding for two years following stepping down from the Board. Further detail on the operation of the shareholding guidelines are set out in the Annual Report on Remuneration.

Setting performance measures and targets

The Committee believes it is important that the performance conditions applying to incentive arrangements are aligned with the short and long-term objectives of the Company, while supporting the Company's purpose, culture, values and risk profile. We operate in a dynamic market with evolving challenges and the Committee reviews the performance measures and targets each year to ensure that they remain relevant and stretching. Further details of the performance measures are set out in the Annual Report on Remuneration.

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

The LTIP performance measures focus on the delivery of long-term strategic priorities and returns to shareholders. Target-setting follows a similar approach to that used for the annual bonus.

The Committee may vary or rebalance the weighting of the performance metrics for future annual bonus and LTIP awards, in order to ensure that they remain aligned with the Company's strategic objectives.

In line with the 2018 UK Corporate Governance Code, the Committee retains the ability to adjust incentive outcomes to ensure that they remain reflective of underlying financial and non-financial performance of participants or the Group or where the formulaic outcome is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. The Committee may also adjust the targets for awards or the calculation of performance measures and vesting outcomes for events not foreseen at the time the targets were set to ensure they remain a fair reflection of performance over the relevant period. When making such judgements, the Committee may take into account all such factors deemed relevant.

Recovery provisions (malus and clawback) – preventing rewards for failure

The Remuneration Committee may operate recovery provisions (malus and clawback) on all incentive awards. The Committee may reduce or cancel an unvested award, or impose further conditions on an unvested award in the event of material mis-statement of financial results, serious reputational damage, serious misconduct, fraud, or other cases of extreme failure where the Committee considers such adjustment to be warranted.

In addition, in the circumstances outlined above, the Committee may clawback incentives, by requiring an Executive Director to make a repayment in relation to bonus payments and share awards. This provision would apply for up to two years following the end of the relevant performance period.

Consideration of colleague pay and conditions

When considering remuneration arrangements for Executive Directors, the Committee takes into account, as a matter of course, the pay and conditions of colleagues throughout the Company.

In particular, the Committee receives regular updates on pay, incentives and benefits across the business as well as updates on any major changes to the pay of colleagues. The Committee takes into account the wider pay context, including the overall salary increase budget for management, the increase in rate of pay for hourly-paid colleagues and the Chief Executive pay ratio.

The Board receives regular updates on the views of colleagues via our annual and interim 'We're Listening' engagement surveys, Leader Listening programme and national 'Make it better together' group (our Workforce Advisory Panel). In addition, Non-Executive Directors regularly engage with colleagues on executive pay giving them the opportunity to share their views and opinions.

The Company operates all-employee share plans which support colleagues to become shareholders in the Company, these colleagues can then comment on the policy in the same way as other shareholders.

Differences in Remuneration Policy for all colleagues

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

All colleagues are entitled to base salary, benefits including pension and colleague discount. Eligible colleagues participate in our annual bonus plans which are aligned under a common set of principles with performance metrics tailored to different populations.

Senior executives expected to have the greatest influence on Company performance over time are eligible for participation in long-term incentive plans. All colleagues have the opportunity to become shareholders in the Company through our all-employee share plans.

Participation in a pension plan is offered to all colleagues on a contributory basis, with the Company contribution varying by grade. We have circa 108,000 colleagues in our pension plans. Executive Directors' pension contributions are aligned with the wider workforce.

Potential total remuneration opportunity under our pay policy

The Committee believes it is important that a significant portion of the package for Executive Directors is performance-related and delivered in shares to align their interests with shareholders. The balance between fixed pay (base salary, pension and benefits) and variable pay (annual bonus and LTIP) changes with performance. The variable proportion of total remuneration increases significantly for increased levels of performance. At least 60 per cent of the package is delivered through variable pay at mid-point performance and this proportion increases to at least three-quarters of the package at maximum levels of performance.

The charts below show the total remuneration potential of the Executive Directors, in accordance with the Remuneration Policy, under three performance scenarios.

GRAPH REMOVED

GRAPH REMOVED

	Opportunity	Minimum	Mid-point	Maximum
Fixed pay		Salary – Simon Roberts £941,850; Bláthnaid Bergin £650,000 Benefits – car allowance and private healthcare (in line with 2022/23 actuals) Pension – 7.5% of salary		
Annual bonus	Simon Roberts – 220% of salary Bláthnaid Bergin – 180% of salary	Nil	50% of maximum	100% of maximum
LTIP	Simon Roberts – 250% of salary Bláthnaid Bergin – 225% of salary	Nil	50% of maximum	100% of maximum

Impact of share price

As LTIP awards are granted in shares, the value can vary significantly depending on the movement of the share price over the relevant vesting and retention period. For example, if the share price increased by 50 per cent over the relevant vesting and retention period, the maximum values shown in the charts above would increase to £6.6 million for Simon Roberts and £4.1 million for Bláthnaid Bergin. Similarly, if the share price was to fall by 50 per cent, the maximum values shown in the charts above would reduce to £4.3 million for Simon Roberts and £2.6 million for Bláthnaid Bergin.

Our approach to recruitment

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

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

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

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

In the event of early termination without notice, any severance payment would be limited to one-year's salary and benefits (including pension), normally payable on a phased basis and subject to mitigation. Benefits payable may include certain one-off benefits in connection with termination such as legal costs and the costs of meeting any settlement agreement.

There are no specific terms in service contracts relating to a change of control.

The Executive Directors' service contracts are available for shareholders to view at the Company's registered office.

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

	'Bad leaver' (e.g. termination for cause, etc.)	**'Good leaver'** (e.g. cessation due to ill-health, injury, etc.)
Annual bonus	No entitlement following date notice served. Any unvested bonus shares lapse on cessation.	Bonus may be payable subject to performance. Awards normally pro-rated based on the period worked during the financial year, with payments usually occurring following the year-end. Any unvested bonus shares will normally vest in full, unless the Committee determines otherwise. Awards normally vest at the standard time, unless the Committee determines that awards should vest on an earlier date. On death, unvested awards will be released and vest in full.
Long-Term Incentive Plan	Unvested awards will lapse on notice.	Unvested awards normally vest at the normal time subject to performance. Awards normally will be pro-rated by reference to the proportion of the performance period that has elapsed since cessation, unless the Committee determines otherwise. Awards normally will remain subject to any applicable retention period. On death, awards vest early on cessation with performance measured at this time. Awards are pro-rated by reference to the proportion of the performance period that has elapsed at cessation. If the Director leaves in the first six months after the start of the performance period, the award normally lapses in full.
All-employee share plans		In line with HMRC rules.

Detailed provisions
All share awards are subject to the terms of the relevant plan rules under which the award has been granted. Since 2017 share awards are normally granted under the LTIP rules approved by shareholders at the 2016 AGM. The Committee may adjust or amend awards only in accordance with the provisions of the relevant plan rules. This includes making adjustments to awards to reflect one-off corporate events, such as a change in the Company's capital structure. In accordance with the plan rules, awards may be settled in cash rather than shares, where the Committee considers this appropriate.

On a change of control, bonus share awards would be released or vest in full. LTIP awards may vest taking account of relevant factors including progress against relevant performance conditions and may be pro-rated based on time.

In the event of a demerger or other significant distribution, share awards may be allowed to vest wholly or in part. A winding up, administration or a voluntary arrangement event would result in bonus share awards being released or vesting in full and LTIP awards would normally vest subject to achievement of the relevant performance conditions on the same time pro-rated basis as above.

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

The Committee may approve payments to satisfy commitments agreed prior to the implementation of this Policy where such commitment was either: (i) made prior to the implementation of the 2014 Remuneration Policy; or (ii) agreed during the term of, and was consistent with, the Remuneration Policy in force at the time. This includes previous incentive awards that are currently outstanding and unvested. The structure of these legacy awards is generally consistent with the Policy Table but the performance conditions applying may be different. Further details of outstanding awards are set out in the Annual Report on Remuneration.

The Committee may also approve payments outside of this policy, in order to satisfy any legacy arrangements made to a colleague prior to (and not in contemplation of) promotion to the Board of Directors. This policy applies equally to any individual who is required to be treated as a Director under the applicable regulations.

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

Remuneration Policy for the Non-Executive Chair and Non-Executive Directors

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

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

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

Non-Executive Director Remuneration Policy	
Approach to setting remuneration	The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. Fees may be paid in cash or shares. Typically reviewed annually in May. Judgement is used but consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and colleague pay increases. Where appropriate benefits may be provided such as colleague discount, private medical cover and annual medical assessment. Travel and other reasonable expenses (including any associated taxes) incurred in the course of performing their duties are reimbursed to Non-Executive Directors.
Opportunity	Fee opportunity reflects responsibility and time commitment. Additional fees are paid for additional time commitments or for further responsibilities such as chairing committees. The value of benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided in comparable roles. Fee levels for 2023/24: — Non-Executive Chair – £516,914 per annum — Basic fee – £73,466 per annum — Senior Independent Director, Chair of Remuneration, Audit Committee and Corporate Responsibility and Sustainability Committee additional fee – £20,280 per annum

Consideration of shareholder views

The Remuneration Committee values the views of the Company's shareholders and guidance from shareholder representative bodies. The Committee proactively consults extensively with our major shareholders to ensure that their views are represented in discussions on remuneration matters. As part of the review of the Remuneration Policy the Committee considered the latest proxy voting guidelines and guidance from major investors.

Approved by the Board on 26 April 2023.

Jo Harlow
Chair, Remuneration Committee

Additional statutory information

Additional statutory information required by the Accounts Regulations can be found below:

Directors' interests	The beneficial interests of the Directors and their connected persons in the shares of the Company are shown on pages 101 and 104. During the year, no Director had any material interest in any contract of significance to the Group's business.
Directors' indemnities	The Company maintains a Directors' and Officers' liability insurance policy which provides appropriate cover for legal action brought against its Directors. The Company has also executed deeds of indemnity for each of its Directors, to the extent permitted by law and the Company's Articles of Association. These indemnities were in force throughout the financial year and as at the date of this report. Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are in force, to the extent permitted by law, for the benefit of the Directors in relation to certain losses and liabilities incurred in connection with the execution of their powers, duties and responsibilities.
Research and development	In the ordinary course of business, the Company regularly develops new products and services. See page 10 for more information.
Employment policies	The Company values the different perspectives, experiences and abilities of all our colleagues. We ensure that those living with a disability or long-term health condition are fully and fairly considered for employment with the Company through well-developed policies for the equal treatment of all. We have a workplace adjustments process in place for our colleagues who find themselves with a disability or long-term health condition; workplace adjustments can be made at any point during a colleague's employment with us. We are committed to providing equal opportunities for all colleagues and applicants through recruitment, training, development and promotion. Further information can be found on pages 15 to 16.
Health and safety	The health and safety of our colleagues and customers is an essential part of our business operations. See page 16 for more information.
Colleague engagement	Details on how we engage with our colleagues can be found on page 31.
Political donations	The Company made no political donations in 2022/23 (2021/22: £nil).
Post balance sheet events	Note 40 on page 205 discloses details relating to post balance sheet events.
Financial risk management and financial instruments	Notes 28 and 29 on pages 164 to 177 disclose details relating to financial risk management and financial instruments.
Disclosure of information to the auditor	Each Director has confirmed that, so far as each Director is aware, there is no relevant audit information of which the auditor is unaware. Each Director has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. For further information, please see the Statement of Directors' responsibilities on page 118.
Dividends	Details of the payment of the final dividend can be found on page 148.
Ordinary shares	Details of the changes to the ordinary issued share capital during the year are shown on page 162. As at 21 April 2023, 2,356,866,697 ordinary shares of 28 4/7 pence have been issued, are fully paid up and are listed on the London Stock Exchange.
Share capital	Except as described below in relation to the Company's employee share plans, there are no restrictions on the voting rights attaching to the Company's ordinary shares or the transfer of securities in the Company; no person holds securities in the Company carrying special rights with regard to control of the Company; and the Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights. Further details of the rights, restrictions and obligations attaching to the share capital of the Company, including voting rights, are contained in the Company's Articles of Association. The Articles of Association may only be changed with the agreement of shareholders. Shares acquired for the Company's employee share plans by the trustees rank pari passu with shares in issue and have no special rights. Where, under the Company's All Employee Share Ownership Plan, participants are beneficial owners of the shares but the trust is the registered owner, the voting rights are normally exercised by the trustee of the plan at the direction of the participants. All shares held by the J Sainsbury Employee Share Ownership Trust are held on an unallocated basis. As such, the trustee waives their rights to vote and to receive dividends on these shares. Total dividends waived by the trustee during the financial year amounted to £4,309,440.24. Some of the Company's employee share plans include restrictions on the transfer of shares while the shares are held within the plan. At the Annual General Meeting held in July 2022, the Company was authorised by shareholders to purchase its own shares within certain limits and as permitted by the Articles of Association. The Company made no purchases of its own shares during the financial year.
Change of control	All of the Company's employee share plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Company's share plans may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time. A number of the Company's financing arrangements contain change of control clauses under which lenders may cancel their commitments and declare all outstanding amounts immediately due and payable. There are no other significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

Major interests in shares

As at 4 March 2023, the Company had been notified by the following investors of their interests in three per cent or more of the Company's shares. These interests were notified to the Company pursuant to DTR5 of the Disclosure Guidance and Transparency Rules:

	Date notified	Number of ordinary shares	% of voting rights[1]
Qatar Holdings LLC	4 May 2021	335,446,132	14.99
VESA Equity Investment S.à r.l.	4 March 2022	234,887,363	10.07
BlackRock, Inc.	27 August 2021	149,416,535	6.40
Schroders plc	31 March 2021	116,161,658	5.22
Pzena Investment Management, Inc	29 January 2021	104,292,488	4.69
Bestway Group Limited	27 January 2023	104,800,518	4.46

1. Percentages shown are as a percentage of the Company's issued share capital when the Company was notified of the change in holding.

As at 21 April 2023, no further changes had been notified.

Directors' Report

The Directors' Report comprises pages 1 to 116 of this Annual Report and Financial Statements. The following information required by Rule 9.8.4R of the UK Listing Rules (LR) is also incorporated into the Directors' Report:

Information requirement	Location within Annual Report
Interest capitalised	See note 14 of the consolidated financial statements
Publication of unaudited financial information	See note 28
Details of any long-term incentive plans	See Remuneration Report, Remuneration Policy and note 36
Shareholder waiver of dividends	See note 27
Shareholder waiver of future dividends	See note 27

Other information requirements set out in LR 9.8.4R are not applicable to the Company.

Streamlined energy and carbon reporting – 22/23 annual update

J Sainsbury plc has calculated and publicly reported its emissions of carbon dioxide and other greenhouse gases (GHG) for several years. We have measured our emissions since 2005 and set ourselves challenging targets throughout the years. In 2021, we announced our Plan for Better strategy. As part of this, for Scope 1 and 2, our targets include the reduction of GHG emissions from our own operations by 2035, aligning the business with the goal to limit global warming to 1.5°C, the highest ambition of the Paris Agreement.

Methodology

In line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), we will be reflecting the performance of Sainsbury's, Argos and Habitat emissions separately, as well as the combined Group performance. We have reported on all emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2022. The reporting period is the financial year 2022/23, the same as that covered by the Annual Report and Financial Statements. The boundaries of the GHG inventory are defined using the operational control approach. In general, the emissions reported are the same as those which would be reported based on a financial control boundary.

The following report compares Scope 1 and 2 Greenhouse gas emissions for 2022/23 and 2021/22.

UK and Global Annual Energy and Carbon

Sainsbury's Group Total Carbon Figures and Intensities

GHG emissions (tCO_2e) – location-based Emission source	2021/22	2022/23
Scope 1	518,033.32	461,692.37
Scope 2	257,834.04	220,215.26
Total (tCO_2e)	**775,867.36**	**681,907.63**
Intensity measurement (tCO_2e/'000 sq ft)	31.83	25.23

GHG emissions (tCO_2e) – market-based Emission source	2021/22	2022/23
Scope 1	518,033.32	461,692.37
Scope 2	228,647.20	–
Total (tCO_2e)	**746,680.51**	**461,692.37**
Intensity measurement (tCO_2e/'000 sq ft)	30.63	17.08

Sainsbury's breakdown
UK locations

	Energy Consumption kWh		Location-Based (tCO_2e)		Market-Based (tCO_2e)	
Emission source	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
Combustion of fuel and operation of facilities (Scope 1)	1,550,189,126.62	1,419,488,269.53	449,756.76	399,009.45	449,756.76	399,009.45
Electricity, heat, steam and cooling purchased for own use (Scope 2)	1,139,424,168.88	1,094,761,579.48	237,041.41	206,928.16	209,689.40	–
Total	**2,689,613,295.50**	**2,514,249,849.02**	**686,798.17**	**605,937.61**	**659,446.16**	**399,009.45**

Argos and Habitat Breakdown
UK locations

	Energy Consumption kWh		Location-Based (tCO_2e)		Market-Based (tCO_2e)	
Emission source	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
Combustion of fuel and operation of facilities (Scope 1)	294,753,765.44	267,876,532.86	68,021.04	62,491.85	68,021.04	62,491.85
Electricity, heat, steam and cooling purchased for own use (Scope 2)	82,800,914.30	59,788,562.13	17,581.12	11,524.76	18,957.79	–
Total	**377,554,679.74**	**327,665,094.99**	**85,602.16**	**74,016.60**	**86,978.83**	**62,491.85**

Global locations (excludes UK)

	Energy Consumption kWh		Location-Based (tCO_2e)		Market-Based (tCO_2e)	
Emission source	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
Combustion of fuel and operation of facilities (Scope 1)	1,258,907.15	1,046,760.04	255.52	191.08	255.52	191.08
Electricity, heat, steam and cooling purchased for own use (Scope 2)	6,485,933.73	5,067,132.31	3,211.51	1,762.35	–	–
Total	**7,744,840.88**	**6,113,892.35**	**3,467.03**	**1,953.42**	**255.52**	**191.08**

Dual emissions reporting

Overall emissions have been presented to reflect both location and market-based methodologies, affecting both Scope 1 and Scope 2 emissions.

Scope 1: All Scope 1 emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2022 for all sources.

Scope 2: All Scope 2 Location based emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2022. Market-based Electricity is covered by either a Power Purchase Agreement, a certified green tariff or falls within on-site renewable generation from wind and solar energy.

Energy Efficiency Actions

To grow our business sustainably, we are continuously working to cut GHG Emissions, whilst also ensuring that we maximise energy efficiency. A few of the projects we have implemented this year include:

- Developing a detailed roadmap outlining the key activities throughout the business that are required to achieve Net Zero by 2035, focusing on improving energy efficiency and driving down Carbon through engineering solutions, underpinned by continuous innovation
- LED lighting upgrades at 388 sites, saving approximately 17,735,870 kWh. This has fulfilled our commitment to be fully LED across the entire estate by the end of FY 2022/23
- Further optimising the existing Solar PV arrays across our estate, maximising on-site generation
- Installing new Solar PV arrays on new and existing stores
- The replacement of refrigeration systems with more efficient technology, whilst also removing HFC refrigerant gases and replacing with natural alternatives
- The use of an innovative single system to provide store refrigeration, cooling and heating requirements. This reduces energy consumption in a store by up to 30 per cent whilst maintaining a high quality environment, which is warm in winter and cool in summer, by reusing any 'heating' or 'cooling' throughout the year. We call it 'RIHC', Refrigeration Integrated Heating and Cooling
- Delivering the most efficient new stores through the installation of highly efficient Zero Carbon technology
- Reducing uncontrolled air infiltration in stores to improve thermal comfort and reduce heating and refrigeration energy consumption
- The Transport Strategy and Change team have been working on a number of projects to reduce mileage on the road and encourage fewer, fuller vehicles
- The announcement that we will invest a minimum of £5 million over the next four years into start-up businesses, commercialising innovative, sustainable technologies that look to reduce operational carbon emissions and water usage through our Sainsbury's Innovation Investments initiative, in partnership with WAE

By order of the Board

Tim Fallowfield OBE
Company Secretary and Corporate Services Director
26 April 2023

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Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards. The Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and accounting estimates that are reasonable and prudent;

— state whether UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; and

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable.

The Board believes that the disclosures set out in this Annual Report provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

Each of the Directors, whose names and functions are listed on pages 62 to 65, confirms that, to the best of their knowledge:

— the financial statements, which have been prepared in accordance with the relevant financial reporting framework give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and

— the Strategic Report and Directors' Report contained in the Annual Report and Financial Statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the emerging and principal risks and uncertainties that it faces; and

— the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Tim Fallowfield OBE
Company Secretary and Corporate Services Director
26 April 2023

Independent Auditor's Report to the Members of J Sainsbury plc

Opinion

In our opinion:

- J Sainsbury plc's Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 4 March 2023 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of J Sainsbury plc (the 'Parent Company') and its subsidiaries (the 'Group') for the 52 week period ended 4 March 2023 which comprise:

Group	Parent company
Consolidated balance sheet as at 4 March 2023	Balance sheet as at 4 March 2023
Consolidated income statement for the period then ended	Statement of changes in equity for the period then ended
Consolidated statement of comprehensive income for the period then ended	Related notes 1 to 8 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the period then ended	
Consolidated statement of cash flows for the period then ended	
Related notes 1 to 41 to the financial statements, (except for the sections marked as "unaudited" in Note 28) including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of the directors' going concern assessment process.
- Assessing the adequacy of the going concern assessment to 26 April 2024 and considering the existence of any significant events or conditions beyond this period.
- Verifying going concern model inputs against board-approved forecasts.
- Reviewing borrowing facility documentation to confirm availability to the Group through the going concern period and verifying that management had appropriately identified and assessed financial covenant compliance.
- Assessing management's forecasting process and the consistency of the assessment with information obtained from other areas of the audit, such as accounting estimates.
- Testing the assessment, including forecast liquidity under base and downside scenarios, for clerical accuracy.
- Assessing whether assumptions made (such as future costs including the impact of inflation and forecast margin) were reasonable with reference to information obtained elsewhere in the audit and, in the case of downside scenarios, appropriately severe in light of the Group's relevant principal risks and uncertainties and whether climate risk may materially impact the going concern assessment.
- Challenging the amount and timing of identified mitigating actions available to respond to a 'severe but plausible' downside scenario, and whether those actions are feasible and within the Group's control.
- Performing independent sensitivity analyses on assumptions to assess the impact on headroom.
- Performing reverse stress testing in order to identify and understand which factors and how severe the downside scenarios would have to be to result in the Group utilising all liquidity or breaching a financial covenant during the going concern period.
- Assessing the appropriateness of going concern disclosures.

Our key observations

In management's base case and downside scenarios, there is significant headroom without taking into consideration the benefit of any identified mitigations.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for the period to 26 April 2024.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope

— We performed an audit of the complete financial information of 15 components and audit procedures on specific balances for a further 11 components.

— The components where we performed full or specific audit procedures accounted for 97% of Profit before tax, 100% of Revenue and 99% of Total assets.

Key audit matters

— Supplier arrangements

— Aspects of revenue recognition

— Measurement of provision for impairment of loans and advances to financial services customers

— Carrying value of non-current assets – store impairment

— Valuation of defined benefit pension scheme

— IT environment

Materiality

— Overall Group materiality of £34 million which represents 4.8% of Profit before tax, adjusted for non-recurring items

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent Internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 111 reporting components of the Group, we selected 26 components covering entities within the UK, which represent the principal business units within the Group.

Of the 26 components selected, we performed an audit of the complete financial information of 15 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 11 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The table below shows the coverage obtained from the work performed by our audit teams. Scoping changes from the prior year are not significant.

		Group Profit before tax (as measured on an absolute basis) %		Group Revenue %		Total assets %	
	Number of components	2022/23	2021/22	2022/23	2020/21	2022/23	2020/21
Full scope	15	73%	62%	99%	99%	84%	77%
Specific scope	11	24%	38%	1%	1%	15%	23%
Full and specific scope coverage	**26**	**97%**	**100%**	**100%**	**100%**	**99%**	**100%**
Remaining components	85	3%	0%	0%	0%	1%	0%
Total reporting components	**111**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

The audit scope of these specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 85 components that together represent 3% of the Group's Profit before tax as measured on an absolute basis, none are individually greater than 1% of the Group's Profit before tax on an absolute basis. For these components, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 15 full scope components, audit procedures were performed on 13 of these directly by the primary audit team and on 2 by component teams in Edinburgh and Luton. For the 11 specific scope components, work was performed by the primary audit team on 7 components and on 4 components by EY component teams in Edinburgh and Luton. For the full and specific scope components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the current year's audit cycle, the Senior Statutory Auditor visited Edinburgh to discuss and direct the audit approach of the component team, meet with members of local management and attend planning meetings. The primary team met with the Luton component team several times during the year end audit. Virtual visits were also performed to Luton and Edinburgh at the year end, using video technology and our virtual audit software, meeting with members of local management, attending closing meetings, reviewing relevant working papers including in response to the risk areas for which component teams perform procedures, including supplier arrangements, aspects of revenue recognition and the measurement of the provision for impairment of loans and advances to customers. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed relevant working papers, retaining those that were considered key, and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact J Sainsbury plc. The Group has determined that the most significant future impacts from climate change on its operations will be from physical risks, such as extreme weather events including heat events, drought and flooding, together with transition risks including regulation and changes in consumer preferences. These are explained on pages 18-28 in the required Task Force for Climate-related Financial Disclosures and on page 50 in the principal risks and uncertainties. The Group has also explained their climate commitments as part of the Plan for Better strategy on pages 13-17. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

As explained in Note 2 of the consolidated financial statements, the Group has considered the impact of physical and transitional climate change risks on estimates made in the financial statements. The Group has concluded that the impact is not material to the financial statement estimates. These disclosures also explain that policy, technology and market responses to climate change risks are still developing and there is therefore an element of uncertainty in the estimation of asset and liability valuation. Significant judgements and estimates relating to climate change have been described in Note 4. In Notes 14, 17, 25 and 35 to the financial statements, narrative explanations of the impact of reasonably possible changes in key assumptions have been provided.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transitional, their climate commitments, the effects of material climate risks disclosed on pages 23-24 and the significant judgements and estimates disclosed in Note 4 and whether these have been appropriately reflected in the valuation of assets and liabilities, the useful economic lives of property, plant and equipment and the cashflow forecasts used in the assessment of impairment of non-financial assets. As part of this evaluation, we performed our own risk assessment supported by our climate change internal specialists to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter, though climate change risk was considered by the Group in assessing the carrying value of the Retail store assets, a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk

Supplier arrangements

Refer to the Accounting policy and Note 8 of the Consolidated Financial Statements (page 142).

The Group, through its Retail divisions, receives material discounts and incentives, fixed amounts (including promotions and utilisation of specific space), volume-based rebates and marketing and advertising income from suppliers, collectively referred to as supplier arrangements. The terms of agreements with suppliers can be complex and varied. In addition, there can be performance conditions or promotional periods that span the Group's reporting date.

Amounts recognised as deductions to Cost of sales for the period ended 4 March 2023 were £383 million (2021/2022: £381 million), with related balance sheet entries recognised in inventory, current trade receivables and current trade payables.

Accounting for rebate arrangements with suppliers requires judgement and estimation in determining the extent to which deal terms have been met, especially those spanning the Group's reporting date, impacting cut-off. High deal volumes are recorded just prior to the Group's reporting date which raises the risk that fixed amounts may be misstated. High levels of manual intervention within the marketing and advertising and discounts and incentives categories raise the risk of an error occurring in the calculation of income, either accidentally or purposefully through management override of controls.

The risk has remained the same in the current year as the complexity around the arrangements is similar year on year.

Our response to the risk

We performed procedures over supplier arrangements at both the Sainsbury's Supermarkets Ltd and Argos Ltd components.

- We walked through and assessed the design effectiveness of the key controls in place within the supplier arrangements process.
- We selected a sample of suppliers across the categories of supplier arrangements, to whom we sent confirmations across certain 'deal' types to confirm key deal input terms. Where we did not receive a response from the supplier, we performed alternative procedures, including obtaining evidence of initiation (such as authorised deal forms) and if settled, settlement of the arrangement.
- We tested the existence and valuation of balance sheet amounts recognised in accounts receivable or as an offset to accounts payable by reviewing post-period end settlement. We also performed a 'look-back' analysis of prior period balance sheet amounts to check that these amounts were appropriately recovered.
- We tested the settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by offset to accounts payable.
- Using data extracted from the accounting system, we analysed the correlation between the Income Statement and Balance Sheet accounts related to Supplier Arrangements. We also tested the appropriateness of journal entries and manual adjustments, meeting a pre-defined criteria, to corroborating evidence such as third party invoices.
- We tested cut-off for deals recorded pre and post period end by obtaining the supplier agreement to validate that the deal was recorded in the correct period.
- We assessed the adequacy of the financial statements disclosures in respect of supplier arrangements and their compliance with accounting standards including the completeness and accuracy of amounts disclosed.

Key observations communicated to the Audit Committee

Supplier arrangement amounts are appropriately recognised in the income statement and balance sheet and the disclosures in the financial statements are appropriate.

Risk

Aspects of revenue recognition

Refer to the Accounting policy and Note 6 of the Consolidated Financial Statements (page 137)

Revenue recognised, including the effects of manual adjustments, for the period ended 4 March 2023 totalled £31,491 million (2021/2022: £29,895 million).

There are a number of areas within revenue which require management to exercise accounting judgement in recording manual adjustments where the recognition of revenue does not directly correspond to cash receipts. Such adjustments primarily include commission-based arrangements, deferral of revenue relating to Nectar points and accounting for coupons and vouchers.

There is a risk that these adjustments are not complete and accurate for the period ended 4 March 2023 and that accounting judgements taken are inappropriate, particularly in respect of deferral of revenue. The opportunity exists through management override of controls, such as the posting of manual journals, to misstate revenue in the period.

The risk has remained the same in the current year as there continues to be a focus on business performance.

Our response to the risk

We performed procedures over adjustments to revenue at the Sainsbury's Supermarkets Ltd, Nectar 360 Ltd and Argos Ltd components.

- We gained an understanding of and documented the key processes used to record revenue transactions by performing walkthroughs and assessing the design effectiveness of key controls.
- We tested the appropriateness of the Group's revenue recognition policy by comparing to the criteria set out in IFRS 15 *Revenue from contracts with customers*.
- We performed journal analysis to identify manual sales journals that did not result in cash receipts (including coupons and vouchers), obtaining supporting evidence of collection and settlement to verify revenue was recognised correctly.
- In relation to the calculation of deferred revenue for Nectar points, we examined and critically assessed input data which included:
  - Obtaining details of points balances earned and redeemed for the period ended 4 March 2023 and agreeing a sample of points in issue to Nectar partner confirmations;
  - Challenging and analysing management's accounting judgements in respect of breakage (the proportion of points which are unlikely to ever be redeemed); and
  - Recalculating the fair value per point, applied to the number of points in circulation to determine the amount of deferred revenue at 4 March 2023.

— Using data extracted from the accounting system, we tested the appropriateness of manual journal entries, meeting pre-defined criteria and impacting revenue, as well as other adjustments (consolidation journals) made in the preparation of the financial statements.

— We completed detailed analytical review procedures to understand if there had been significant or unusual activity in the period, including assessing changes in the number of and nature of manual adjustments to verify completeness.

Key observations communicated to the Audit Committee
Revenue has been correctly recognised in accordance with IFRS 15.
We did not identify any exceptions in our testing of the manual entries.

Risk

Measurement of provision for impairment of loans and advances to financial services customers
Refer to the Audit Committee Report (page 88); Accounting policy (page 167); and Notes 21 and 28 of the Consolidated Financial Statements (page 159 and page 164)

Non-current loans and advances to customers (2022/2023: £1,959 million; 2021/2022: £2,069 million)

Impairment of non-current loans and advances (2022/2023: £51 million; 2021/2022: £43 million)

Current loans and advances to customers (2022/2023: £3,573 million; 2021/2022: £3,202 million)

Impairment of current loans and advances (2022/2023: £189 million; 2021/2022: £160 million)

Customer receivables comprise unsecured personal loans, credit cards, mortgages (Sainsbury's Bank) and store cards (Argos Financial Services).

Credit provisions represent management's best estimate of impairment and significant judgements and estimates are made in determining the timing and measurement of expected credit loss ("ECL"). The key judgements and estimates in respect of the timing and measurement of ECL include:

(a) The accounting interpretations and modelling assumptions used to build the models that calculate ECL;

(b) Input and assumptions used to estimate the impact of the multiple economic scenarios ("MES");

(c) Allocation of assets to stage 1, 2 or 3 using criteria in accordance with IFRS 9 *Financial instruments*;

(d) Completeness and valuation of post model adjustments ("PMAs"); and

(e) Accuracy and adequacy of the financial statement disclosures.

We consider the risk related to the ECL provisions continues to be heightened as a result of ongoing economic uncertainty. The accuracy of underlying data upon which the ECL is calculated is also a key factor in the overall estimate.

Our response to the risk
We performed procedures over ECL for Sainsbury's Bank plc and Argos Financial Services entities.

— We assessed the design effectiveness of key controls across the processes relevant to the impairment provision calculation, involving EY specialists to assist us in performing our procedures where appropriate. This included consideration of model governance, data accuracy and completeness, multiple economic scenarios, and the allocation of assets into stage 1, 2 and 3.

— We reviewed the minutes of the Model and Risk Committees where inputs, assumptions and adjustments to the ECL were discussed and approved.

— We tested the data used in the ECL calculation by independently reconciling a sample of data feeding the models to source systems and underlying documentation where applicable.

— We considered the assumptions, inputs and formulas used across the entire population of ECL models. This included assessing the appropriateness of model design and the formulae used, considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default for a sample of the models.

— With the support of our internal modelling specialists, we performed testing over models implemented during the year to validate that they were functioning as intended.

— We tested the assumptions and inputs used in the ECL models with the support of our internal modelling and economic specialists. In particular, we challenged the correlation and impact of the macroeconomic factors to the ECL and independently recalculated critical components of the ECL. In addition, we assessed the base and alternative economic scenarios, including challenging probability weights and comparing to other scenarios from a variety of external sources, as well as EY internally developed forecasts.

— We challenged the criteria used to allocate an asset to stage 1, 2 and 3 in accordance with IFRS 9 and substantively reperformed in full the staging calculation to ensure that assets in stages 1, 2, and 3 were allocated to the appropriate stage.

— We challenged PMAs for appropriateness and completeness using our knowledge and experience across the industry. We performed testing over material PMAs together with our internal modelling specialists. We undertook analysis and benchmarking to assess whether sufficient consideration was given to the uncertainty arising as a result of inflationary and interest rate pressures on borrowers, which may not be captured in modelled outputs given limitations over historic data.

— We performed stand-back analysis through industry benchmarking to peers and other available sources of information to help assess the appropriateness of the ECL provision overall.

— We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards.

Key observations communicated to the Audit Committee
We are satisfied that provisions for the impairment of loans and advances to customers were reasonable and recognised in accordance with the applicable reporting framework based on our procedures performed.

Risk

Carrying value of non-current assets – store impairment
Refer to the Audit Committee Report (page 88); Accounting policy (page 154) and Note 17 of the Consolidated Financial Statements (page 154).

The Group has £8,201 million of property, plant and equipment ("PPE") (2021/2022: £8,402 million), £5,345 million right of use assets (2021/2022: £5,560 million) and £1,024 million intangible assets (2021/2022: £1,006 million). An impairment charge of £281 million has been recognised as a non-underlying item in relation to Sainsbury's Supermarkets Ltd and Argos Ltd stores.

For the purpose of impairment testing, non-current assets are split into cash generating units ("CGUs") being the lowest level of independent cash inflows (stores), to which a proportion of central assets are allocated. CGUs are required to be tested for impairment, in accordance with IAS 36 *Impairment of assets*, when indicators of impairment are identified. Such indicators in the current year included increased market interest rates and uncertainty in the macroeconomic retail environment. As a result, management has performed a full impairment assessment of Retail non-current assets to determine whether the carrying value of stores and related assets may be higher than the recoverable amount, where the recoverable amount is determined based on the higher of 'value in use' or 'fair value less costs of disposal'.

Management's impairment assessment was performed at two levels of CGU; firstly at a Retail store level, and all other assets assessed at a corporate level. Our risk is focused on the Retail store level assessment as this covers 88% of the Group's intangible assets, PPE and right of use assets. There has been, and continues to be, significant headroom at the corporate level.

As set out in Note 17 to the Group financial statements, management assessed the recoverable amount of each CGU by calculating the value in use, as the net present value of future cash flows. These projections are based on the latest Board approved forecasts. These forecasts take into consideration current and potential economic trading conditions.

This impairment assessment includes significant areas of estimation, uncertainty and judgement over the future performance of the business. The outcome of the impairment assessment depends upon assumptions, the key of these being discount rates, short term and long term profit growth, each of which are susceptible to the risk of management bias.

Our response to the risk

- We have obtained and discussed with management the impairment models and compared these to the requirements of IAS 36 *Impairment of assets*.
- We understood the design and implementation of management's key controls over the impairment assessment process.
- We evaluated management's assessment of the existence of impairment indicators and challenged the completeness of this assessment.
- We tested the integrity and logic of management's impairment model calculations using advanced analytical techniques, as well as reconciling the verifiable input data to supporting schedules (for example the 2022/2023 fixed asset register and lease register).
- We challenged management's determination of the identified CGUs including the completeness of assets, and the allocation of central assets, to store CGUs.
- We challenged and assessed the assumptions applied in calculating the future cash flows of the stores, including;
  - Understanding the process of allocating 2023/2024 budgeted performance from the Group corporate plan level forecast to individual stores;
  - Challenging the level and impact of future capital expenditure, including whether climate related expenditure had been considered;
  - Challenging management on the achievability of forecasts and business plans, taking into account the historical accuracy of previous forecasts); and
  - Comparing forecast revenue growth assumptions to external benchmarks.
- We challenged management's determination of fair value less costs of disposal and engaged internal property valuation experts to assess the appropriateness of the vacant possession methodology adopted by management, and to recalculate a valuation for a sample of freehold stores. We evaluated the competence, capability and objectivity of management's independent valuers.
- We performed our own independent sensitivity analysis using a range of scenarios to identify the key assumptions and understand the impact of changes in these assumptions on the impairment conclusions reached by management.
- For a sample of stores where we identified a higher risk of misstatement, we performed additional procedures to verify the level of impairment – these included review of store appraisal reports, discussions with Group personnel independent of the impairment modelling (such as the Property and Strategy departments) and obtaining third party evidence, where applicable, to verify management's conclusions were appropriate.
- We assessed the long-term growth rates applied over the lease term, and into perpetuality for owned stores, as well as the assumptions and judgement used when a store is expected to be operated beyond the current lease term.
- We engaged our valuation experts to assist us in assessing the reasonableness of the discount rate used by management by comparing the discount rates used to entities with similar risk profiles and external market information.
- We confirmed that the disclosure in the financial statements is in line with the requirements of IAS 36 *Impairment of assets*.

Key observations communicated to the Audit Committee

The impairment charge of £281 million relating to the Retail store non-current assets has been appropriately recognised in the period. The disclosures related to the impairment assessment and related sensitivities are in accordance with the requirements of IAS 36 *Impairment of Assets*.

Risk

Valuation of the defined benefit pension scheme

Refer to the Audit Committee Report (page 88); Accounting policy (page 194); and Note 35 of the Consolidated Financial Statements (page 194)

Retirement benefit surplus (2022/2023: £989 million; 2021/2022: £2,283 million).

Fair value of plan assets (2022/2023: £6,934 million; 2021/2022: £11,693 million).

Present value of funded and unfunded obligations (2022/2023: £5,945 million; 2021/2022: £9,410 million).

The valuation of the liabilities of the pension scheme is subject to the following significant assumptions which are determined by an external firm of pension actuaries:

a) Discount rate;
b) Inflation;
c) Future pension increases; and
d) Mortality.

Given the quantum of the defined benefit pension obligation, a movement in the actuarial assumptions could result in a material difference in its value.

In addition, the unquoted asset pools (2022/2023: £3,488 million; 2021/2022: £4,198 million) of the defined benefit pension scheme contain certain assets which are harder to value, increasing the risk of incorrect valuation.

The risks associated with the pension scheme remain elevated as a result of the economic environment, which has led to greater volatility in the liability assumptions and additional uncertainty over the valuation of pension assets, which drives the surplus calculation.

Our response to the risk

Our audit procedures covered the Sainsbury's Pension Scheme which has two sections: the Sainsbury's Section and the Argos Section.

- We gained an understanding of and documented the process used to record pension balances by performing a walkthrough and assessing the design effectiveness of key controls.
- With the support of EY pension actuaries we considered the appropriateness of the key assumptions supporting the valuation of the scheme liabilities, being the discount rate, inflation, future pension increases and mortality. We developed an independent range of reasonable assumptions upon which to assess those used by the Group and its external actuarial experts.
- We assessed the impact on pension liabilities of changes in financial, demographic and mortality assumptions and whether these were in line with our expectations. We also tested the completeness and accuracy of member data on which these assumptions are based.
- With respect to certain unquoted pension assets we obtained independent confirmations from the respective fund managers for the assets held. In conjunction with EY valuation specialists we independently valued a sample of assets and compared these to management's valuations, critically assessing management's valuation methodology.
- Where valuation adjustments had been made by management for changes in relevant market indices and to reflect cash received or paid between the dates of the fund managers' net asset value statements and the end of the Group's accounting period, we, in conjunction with EY valuation specialists, tested that the relevant assumptions used were appropriate.
- We evaluated the competence, capabilities and objectivity of management's external actuaries involved in the determination of the actuarial assumptions.
- We assessed the adequacy of the financial statements disclosures in respect of the defined benefit pension schemes and their compliance with accounting standards including the appropriateness of the key assumptions and sensitivities disclosed.

Key observations communicated to the Audit Committee

The assumptions used to value the defined benefit obligation are within an acceptable range. Our testing of the valuation of the pension assets, including certain harder to value assets, has not identified any misstatements.

Risk

IT environment

The IT systems across the Group are complex and there are varying levels of integration between them. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process.

During the current year we continued to report deficiencies in certain IT controls. These deficiencies related to IT systems that are part of the Group's control framework over financial reporting and required us to perform incremental procedures.

This risk remains unchanged from the prior year.

Our response to the risk

- Together with our IT specialists, we held discussions with management to understand the IT environment and walked through the key financial processes to understand where IT systems were integral to the Group's controls over financial reporting. From this we identified which IT systems to include in scope for our detailed IT testing.
- We assessed the IT general controls environment for the key systems impacting the accurate recording of transactions and the presentation of the financial statements.
- We designed our IT audit procedures to assess the IT environment, including an assessment of controls over changes made to the systems and controls over appropriate access to the systems.
- Where we found that adequate IT general controls were not in place, we performed incremental substantive audit procedures in response to the deficiencies identified for the systems within the scope of our audit.

Key observations communicated to the Audit Committee

We completed additional substantive testing in order to mitigate the risk of material misstatement due to limitations in the IT general control environment and did not identify issues from this testing.

In the prior year, our auditor's report included a key audit matter in relation to the treatment of business rates within an onerous contract. As that matter was specific to the Group's change in accounting policy in the prior year, there is no key audit matter to report in the current year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £34 million (2021/2022: £38 million), which is 4.8% (2021/2022: 4.0%) of Profit before tax, adjusted for non-recurring items. We believe that Profit before tax, adjusted for non-recurring items, provides us with the most relevant performance measure as it adjusts for the effects of items which do not relate to the ongoing trading of the Group.

We determined materiality for the Parent Company to be £126 million (2021/2022: £128 million), which is 2% (2021/2022: 2%) of net assets. For our testing of Parent Company balances that are consolidated into the Group financial statements, an allocation of Group performance materiality was used.

Starting basis	Profit before tax	£327 million
Adjustments	Adjust for non-recurring items These items are one-off in nature	£380 million
Materiality	Total materiality basis Materiality of £34 million (4.8%) of materiality basis	£707 million

During the course of our audit, we reassessed initial materiality and no change to the planned materiality was needed from our original assessment at planning.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2021/2022: 50%) of our planning materiality, namely £17 million (2021/2022: £19 million). We have set performance materiality at this percentage to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £3.4 million to £15.3 million (2021/2022: £3.8 million to £15.0 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.7 million (2021/2022: £1.9 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 116, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 59;
- Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 58;
- Directors' statement on whether they have a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on page 59;
- Directors' statement on fair, balanced and understandable set out on page 118;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 44;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 85; and
- The section describing the work of the audit committee set out on page 84.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 118, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA's (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:
  - Those that relate to the form and content of the financial statements, such as UK adopted international accounting standards, the UK Companies Act 2006, the UK Corporate Governance Code;
  - Those that relate to the Bank, such as the regulations, license conditions and supervisory requirements of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"); and
  - Industry-related such as compliance with the requirements of the Groceries Supply Code of Practice.
- We understood how J Sainsbury plc is complying with those frameworks by making enquiries of management, Internal audit and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee and attendance at all meetings of the Audit Committee, as well as consideration of the results of our audit procedures across the Group.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by making an assessment of the key fraud risks to the Group and the manner in which such risks may manifest themselves in practice, based on our previous knowledge of the Group as well as an assessment of the current business environment.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Where the risk was considered to be higher, we performed audit procedures to address each identified risk of material misstatement. These procedures included those referred to in the "Supplier arrangements" and "Aspects of revenue recognition" key audit matters section above. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of material fraud or error. We evaluated the design and operational effectiveness of controls put in place to address the risks identified, or that otherwise prevent, deter and detect fraud. We also considered performance targets and their influence on efforts made by management to manage earnings.
- If any instances of non-compliance with laws and regulations were identified, these were communicated to the relevant local EY teams/primary team who performed sufficient and appropriate audit procedures, supplemented by audit procedures at the Group level as necessary.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the Company on 8 July 2015 to audit the financial statements for the 52 weeks ended 12 March 2016 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is 8 years, covering the years ending 12 March 2016 to 4 March 2023.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Colin Brown
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
26 April 2023

Consolidated income statement

for the 52 weeks to 4 March 2023

		52 weeks to 4 March 2023			52 weeks to 5 March 2022		
	Note	Before non-underlying items £m	Non-underlying items (Note 5) £m	Total £m	Before non-underlying items £m	Non-underlying items (Note 5) £m	Total £m
Revenue	6	**31,491**	**–**	**31,491**	29,895	–	29,895
Cost of sales		**(28,996)**	**(413)**	**(29,409)**	(27,523)	9	(27,514)
Impairment loss on financial assets		**(78)**	**–**	**(78)**	(15)	–	(15)
Gross profit/(loss)		**2,417**	**(413)**	**2,004**	2,357	9	2,366
Administrative expenses		**(1,480)**	**(35)**	**(1,515)**	(1,352)	(78)	(1,430)
Other income		**35**	**38**	**73**	34	186	220
Operating profit/(loss)		**972**	**(410)**	**562**	1,039	117	1,156
Finance income	10	**18**	**56**	**74**	3	17	20
Finance costs	10	**(300)**	**(9)**	**(309)**	(312)	(10)	(322)
Profit/(loss) before tax		**690**	**(363)**	**327**	730	124	854
Income tax (expense)/credit	11	**(157)**	**37**	**(120)**	(154)	(23)	(177)
Profit/(loss) for the financial period		**533**	**(326)**	**207**	576	101	677

	Note	pence	pence
Earnings per share	12		
Basic earnings		**9.0**	29.8
Diluted earnings		**8.8**	28.8

Impairment loss on financial assets has been disclosed separately in the current year and prior year comparative. Refer to note 2 for further details.

The notes on pages 131 to 209 form an integral part of these financial statements.

Consolidated statement of comprehensive income/(loss)

for the 52 weeks to 4 March 2023

	Note	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Profit for the financial period		**207**	677
Items that will not be subsequently reclassified to the income statement			
Remeasurement on defined benefit pension schemes	35	**(1,398)**	1,457
Movements on financial assets at fair value through other comprehensive income		**1**	76
Cash flow hedges fair value movements – inventory hedges	30	**123**	73
Current tax relating to items not reclassified		**25**	–
Deferred tax relating to items not reclassified	11	**322**	(461)
		(927)	1,145
Items that may be subsequently reclassified to the income statement			
Currency translation differences		**4**	(1)
Movements on financial assets at fair value through other comprehensive income		**1**	(5)
Items reclassified from financial assets at fair value through other comprehensive income reserve		**(1)**	4
Cash flow hedges fair value movements – non-inventory hedges	30	**(30)**	131
Items reclassified from cash flow hedge reserve	30	**(18)**	7
Deferred tax on items that may be reclassified	11	**14**	(57)
		(30)	79
Total other comprehensive (loss)/income for the period (net of tax)		**(957)**	1,224
Total comprehensive (loss)/income for the period		**(750)**	1,901

The notes on pages 131 to 209 form an integral part of these financial statements.

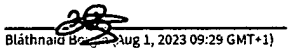
Consolidated balance sheet

At 4 March 2023 and 5 March 2022

	Note	4 March 2023 £m	5 March 2022 £m
Non-current assets			
Property, plant and equipment	14	**8,201**	8,402
Right-of-use assets	15	**5,345**	5,560
Intangible assets	16	**1,024**	1,006
Investments in joint ventures and associates		**2**	3
Financial assets at fair value through other comprehensive income	18	**515**	604
Trade and other receivables	20	**56**	65
Amounts due from Financial Services customers and other banks	21	**1,908**	2,026
Derivative financial assets	30	**217**	213
Net retirement benefit surplus	35	**989**	2,283
		18,257	20,162
Current assets			
Inventories	19	**1,899**	1,797
Trade and other receivables	20	**627**	683
Amounts due from Financial Services customers and other banks	21	**3,484**	3,163
Financial assets at fair value through other comprehensive income	18	**494**	196
Derivative financial assets	30	**70**	78
Cash and cash equivalents	31	**1,319**	825
		7,893	6,742
Assets held for sale	22	**8**	8
		7,901	6,750
Total assets		**26,158**	26,912
Current liabilities			
Trade and other payables	23	**(4,837)**	(4,546)
Amounts due to Financial Services customers and other deposits	24	**(4,880)**	(4,444)
Borrowings	33	**(53)**	(54)
Lease liabilities	15	**(1,533)**	(526)
Derivative financial liabilities	30	**(16)**	(29)
Taxes payable		**(155)**	(169)
Provisions	25	**(140)**	(100)
		(11,614)	(9,868)
Net current liabilities		**(3,713)**	(3,118)
Non-current liabilities			
Trade and other payables	23	**–**	(24)
Amounts due to Financial Services customers and other deposits	24	**(1,066)**	(815)
Borrowings	33	**(603)**	(707)
Lease liabilities	15	**(4,956)**	(6,095)
Derivative financial liabilities	30	**(58)**	(3)
Deferred income tax liability	11	**(476)**	(806)
Provisions	25	**(132)**	(171)
		(7,291)	(8,621)
Total liabilities		**(18,905)**	(18,489)
Net assets		**7,253**	8,423
Equity			
Called up share capital	26	**672**	668
Share premium	26	**1,418**	1,406
Merger reserve	26	**568**	568
Capital redemption reserve	27	**680**	680
Other reserves	27	**274**	341
Retained earnings		**3,641**	4,760
Total equity		**7,253**	8,423

The notes on pages 131 to 209 form an integral part of these financial statements.

The financial statements on pages 126 to 209 were approved by the Board of Directors on 26 April 2023, and are signed on its behalf by:



Simon Roberts
Chief Executive

Bláthnaid Bergin
Chief Financial Officer

Consolidated cash flow statement

for the 52 weeks to 4 March 2023

	Note	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Cash flows from operating activities			
Profit before tax		**327**	854
Net finance costs		**235**	302
Operating profit		**562**	1,156
Adjustments for:			
Depreciation expense	14, 15	**1,036**	1,069
Amortisation expense	16	**172**	151
Net impairment loss on property, plant and equipment, right-of-use assets, intangible assets	14, 15, 16	**315**	9
Financial Services movement in loss allowance for loans and advances to customers		**76**	19
Profit on sale of non-current assets and early termination of leases	31	**(15)**	(6)
Non-underlying fair value movements	5	**29**	(76)
Share-based payments expense	36	**59**	58
Defined benefit scheme (income)/expenses	35	**(2)**	4
Cash contributions to defined benefit scheme	35	**(44)**	(71)
Operating cash flows before changes in working capital		**2,188**	2,313
Changes in working capital	31		
Increase in inventories		**(105)**	(179)
(Decrease)/increase in financial assets at fair value through other comprehensive income		**(207)**	115
Decrease in trade and other receivables		**68**	33
(Increase)/decrease in amounts due from Financial Services customers and other deposits		**(307)**	161
Increase in trade and other payables		**280**	28
Increase/(decrease) in amounts due to Financial Services customers and other deposits		**687**	(1,030)
Decrease in provisions and other liabilities		**–**	(80)
Cash generated from operations		**2,604**	1,361
Interest paid		**(316)**	(329)
Corporation tax paid		**(103)**	(23)
Net cash generated from operating activities		**2,185**	1,009
Cash flows from investing activities			
Purchase of property, plant and equipment	31	**(525)**	(416)
Initial direct costs on new leases		**(16)**	(3)
Purchase of intangible assets	31	**(213)**	(278)
Proceeds from disposal of property, plant and equipment		**29**	46
Dividends and distributions received		**1**	2
Net cash used in investing activities		**(724)**	(649)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	26	**13**	21
Repayment of borrowings		**(95)**	(248)
Repayment of perpetual capital securities		**–**	(8)
Purchase of own shares		**(45)**	(48)
Capital repayment of lease obligations		**(514)**	(493)
Dividends paid on ordinary shares	13	**(319)**	(238)
Dividends paid on perpetual securities		**–**	(4)
Net cash used in financing activities		**(960)**	(1,018)
Net increase/(decrease) in cash and cash equivalents		**501**	(658)
Opening cash and cash equivalents		**818**	1,476
Closing cash and cash equivalents	31	**1,319**	818

The notes on pages 131 to 209 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the 52 weeks to 4 March 2023

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves* £m	Retained earnings* £m	Total equity £m
At 6 March 2022		**668**	**1,406**	**568**	**1,021**	**4,760**	**8,423**
Profit for the period		–	–	–	–	**207**	**207**
Other comprehensive income/(loss)	27	–	–	–	**80**	**(1,398)**	**(1,318)**
Tax relating to other comprehensive income/(loss)		–	–	–	**14**	**347**	**361**
Total comprehensive income/(loss) for the period ended 4 March 2023		–	–	–	**94**	**(844)**	**(750)**
Cash flow hedges losses transferred to inventory	27, 30	–	–	–	**(139)**	–	**(139)**
Transactions with owners:							
Dividends	13	–	–	–	–	(319)	(319)
Share-based payment	36	–	–	–	–	58	58
Purchase of own shares		–	–	–	(45)	–	(45)
Allotted in respect of share option schemes	26	4	12	–	23	(26)	13
Other adjustments		–	–	–	–	5	5
Tax on items charged to equity		–	–	–	–	7	7
At 4 March 2023		672	1,418	568	954	3,641	7,253

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves* £m	Retained earnings* £m	Total equity before perpetual securities	Perpetual convertible bonds	Total w
At 7 March 2021		637	1,173	568	814	3,261	6,453	248	6,701
Profit for the period		–	–	–	–	677	677	–	677
Other comprehensive income	27	–	–	–	285	1,457	1,742	–	1,742
Tax relating to other comprehensive income		–	–	–	(87)	(431)	(518)	–	(518)
Total comprehensive income for the period ended 5 March 2022		–	–	–	198	1,703	1,901	–	1,901
Cash flow hedges gains transferred to inventory	27, 30	–	–	–	28	–	28	–	28
Transactions with owners:									
Dividends	13	–	–	–	–	(238)	(238)	–	(238)
Share-based payment	36	–	–	–	–	60	60	–	60
Purchase of own shares		–	–	–	(48)	–	(48)	–	(48)
Allotted in respect of share option schemes	26	5	17	–	14	(15)	21	–	21
Conversion of perpetual convertible bonds		26	216	–	–	(2)	240	(240)	–
Redemption of perpetual capital securities		–	–	–	–	–	–	(8)	(8)
Other Adjustments		–	–	–	15	(12)	3	–	3
Tax on items charged to equity		–	–	–	–	3	3	–	3
At 5 March 2022		668	1,406	568	1,021	4,760	8,423	–	8,423

The notes on pages 131 to 209 form an integral part of these financial statements.

*In order to provide better visibility of reserves, the Group has presented the Own share reserve within Capital redemption and other reserves for the first time in the period. The Own Share Reserve of £68 million as at 5 March 2022 and £33 million as at 6 March 2021 has subsequently been reclassified from Retained Earnings to Capital redemption and other reserves. This is further described in note 27.

Notes to the consolidated financial statements

1 General information

J Sainsbury plc is a public limited company (the 'Company') incorporated in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 33 Holborn, London EC1N 2HT, United Kingdom.

The financial year represents the 52 weeks to 4 March 2023 (prior financial year: 52 weeks to 5 March 2022). The consolidated financial statements for the 52 weeks to 4 March 2023 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

The Group's principal activities are Food, General Merchandise and Clothing retailing and Financial Services.

2 Significant accounting policies

2.1 Basis of preparation

The Group's financial statements have been prepared in accordance with UK-adopted international accounting standards.

The financial statements are presented in pound sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared under the historical cost convention, except for derivative financial instruments, defined benefit pension scheme assets and financial assets at fair value through other comprehensive income.

Sainsbury's Bank plc and its subsidiaries have been consolidated for the twelve months to 28 February 2023 being the Bank's year-end date (prior financial year: 28 February 2022). There have been no significant transactions or events that occurred between this date and the Group's balance sheet date, and therefore no adjustments have been made to reflect the difference in year-end dates.

Significant accounting policies have been included in the relevant notes to which the policies relate, and those relating to the financial statements as a whole can be read further below. Unless otherwise stated, significant accounting policies have been applied consistently to all periods presented in the financial statements.

Impairment of financial assets disclosure

In accordance with IAS 1 Presentation of Financial Statements, Impairment loss on financial assets has been separately disclosed within the Consolidated income statement. Previously, this amount was included within Cost of sales, which has therefore been restated from £27,538 million to £27,523 million before non-underlying items; and from £27,529 million to £27,514 million in total. There is no impact to Gross profit, Operating profit or Profit before tax.

Climate change considerations

In preparing the Group's financial statements, consideration has been given to the impact of both physical and transition climate change risks, as described within the Task Force on Climate-Related Financial Disclosures section on page 18, and how these impact the financial statements. The Group has implemented processes to identify, assess and manage these risks, including scenario analysis and stress testing to understand the potential financial impact on our operations and assets. We have also considered the potential impact of policy, technology and market changes that are being developed in response to climate change, and their interdependence on each other. While it is not believed that these climate change risks have a material impact on the Group's financial statements, we recognise that the uncertainty and complexity of these issues may make it challenging to fully capture their potential impact. Our ongoing assessment of these risks will be included in future financial statements as they become clearer, taking into account the requirements of UK adopted international accounting standards. We also continue to monitor and assess the regulatory environment and any new standards that may be developed in the future. Further narrative disclosure has been provided in the following disclosure notes:

— Going Concern – note 2.2

— Significant accounting judgements, estimates and assumptions – note 4

— Property, plant and equipment – note 14

— Impairment of non-financial assets – note 17

— Provisions – note 25

— Retirement benefit obligations – note 35

The policy, technology and market changes in response to climate change are still developing, and these are interdependent upon each other, and consequently the financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

2.2 Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for a period of at least 12 months from the date of approval. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The assessment period for the purposes of considering going concern is the 12 months to 26 April 2024.

In assessing the Group's ability to continue as a going concern, the Directors have considered the Group's most recent corporate planning and budgeting processes. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecasted future funding requirements over three years, with a further two years of indicative movements.

The Group manages its financing by diversifying funding sources, structuring core borrowings with phased maturities to manage refinancing risk and maintaining sufficient levels of standby liquidity via the Revolving Credit Facility. This seeks to minimise liquidity risk by maintaining a suitable level of undrawn additional funding capacity.

The Group successfully reduced net debt over the past year as part of the continued focus on deleveraging. Furthermore, the committed Revolving Credit Facility, which enables the Group to maintain sufficient levels of contingent funding, has been successfully refinanced and right-sized during the year with a new £1,000 million facility comprising two £500 million tranches. Tranche A has a final maturity of December 2026 and Tranche B has a final maturity of December 2027. As at 4 March 2023, the Revolving Credit Facility was undrawn. In addition, the Group successfully arranged a £575 million committed term loan facility with maturity of March 2026 in order to part fund the acquisition of a property portfolio (refer note 33).

In assessing going concern, scenarios in relation to the Group's principal risks have been considered in line with those disclosed in the viability statement on page 58 by overlaying them into the corporate plan and assessing the impact on cash flows, net debt, funding headroom and financial covenants. These severe but plausible scenarios included modelling inflationary pressures on both food margins and general recession-related risks, the impact of any regulatory fines, and the failure to deliver planned cost savings.

In performing the above analysis, the Directors have made certain assumptions around the availability and effectiveness of the mitigating actions available to the Group. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses and dividend payments.

The Group's most recent corporate planning and budgeting processes includes assumed cashflows to address climate change risks, including costs associated with initiatives in place as part of the Plan for Better commitment which include reducing environmental impacts and meeting customer expectations in this area, notably through reducing packaging and reducing energy usage across the estate. Climate-related risks do not result in any material uncertainties affecting the Group's ability to continue as a going concern.

As a consequence of the work performed, the Directors considered it appropriate to adopt the going concern basis in preparing the Financial Statements with no material uncertainties to disclose.

2 Significant accounting policies continued

2.3 Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities, including structured entities (see below) over which the Group has control. This is when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the income statement from the date of acquisition or, in the case of disposals, up to the effective date of disposal. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

Sainsbury's Property Scottish Partnership, Sainsbury's Property Scottish Limited Partnership, Sainsbury's Thistle Scottish Limited Partnership and Nectar 360 Services LLP, are partnerships which are fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships ('Accounts') Regulations 2008 and has therefore not appended the accounts of these qualifying partnerships to these accounts.

Significant judgement – Consolidation of structured entities

Sainsbury's Thistle Scottish Limited Partnership ("the Partnership") is a structured entity which the Group fully consolidates.

A structured entity is one in which the Group does not hold the majority interest but for which management has concluded that voting rights are not the dominant factor in deciding who controls the entity. The Partnership, in which both the Group and Pension Scheme Trustee hold an interest, was established following the 2018 triennial valuation of the Group's defined benefit scheme.

The Group has determined that the relevant activities of the Partnership are the funding of the Scheme and whether the funding targets have been met. Furthermore, a general partner wholly owned by the Group has exclusive responsibility for the management and control of the Partnership and sole authority to exercise the Partnership's rights. This includes the ability to make additional contributions to the Scheme such that the funding targets are met. As the Group can direct the Partnership's relevant activities and affect its returns (through reaching the Scheme's funding targets), it has been concluded that the Group controls the Partnership, despite not having a majority interest. It is therefore consolidated in the Group accounts. Further information is included in note 35.

b) Joint ventures and associates

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Associates are entities over which the Group has significant influence but not control.

Investments in joint ventures and associates are carried in the Group balance sheet at historical cost plus post acquisition changes in the Group's share of net assets of the entity, less any provision for impairment. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

A full list of the Group's joint ventures is included in note 41. Joint ventures with a different year-end date to the Group are reported to include the results up to 28 February 2023, the nearest month-end to the Group's year-end. Adjustments are made for the effects of significant transactions or events that occurred between 28 February and the Group's balance sheet date. No joint venture arrangements are considered significant to the Group.

c) Foreign currencies

The consolidated financial statements are presented in pound sterling, which is the ultimate parent company's functional currency.

Foreign operations

The Group has operations in Asia that source and purchase certain general merchandise and clothing inventory. In addition the Group has a trading entity in Ireland. On consolidation, assets and liabilities of foreign operations are translated into pound sterling at year-end exchange rates. The results of foreign operations are translated into pound sterling at average rates of exchange for the year. Exchange differences arising are recognised in the Group statement of comprehensive income/(loss) and are included in the Group's translation reserve.

Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

2.4 Amendments to published standards

Effective for the Group and Company in these financial statements:

The Group has considered the following amendments to published standards that are effective for the Group for the financial year beginning 6 March 2022 and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements other than disclosures.

- Amendments to IFRS 3 'Business Combinations' – Reference to the Conceptual Framework
- Amendments to IAS 16 'Property, Plant and Equipment' – Proceeds before Intended Use
- Amendments to IAS 37 'Provisions, Contingent Assets and Contingent Liabilities' – Onerous Contracts – Costs of Fulfilling a Contract
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' – Subsidiary as a first time adopter
- Amendments to IFRS 9 'Financial Instruments' – Fees in the '10 per cent' test for derecognition of financial liabilities
- Amendments to IAS 41 'Agriculture' – Taxation in fair value measurements

The accounting policies have remained unchanged from those disclosed in the Annual Report for the year ended 5 March 2022.

Standards and revisions effective for future periods:

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

- Amendments to IAS 1 'Presentation of Financial Statements' on the classification of liabilities as current or non-current
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements' on the disclosure of accounting policies
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of accounting estimates
- Amendments to IAS 12 'Income Taxes' on Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 16 'Leases' on Lease Liability in a Sale and Leaseback
- Amendments to IAS 1 'Presentation of Financial Statements' on Non-current Liabilities with Covenants

The Group has considered the impact of the remaining above standards and revisions and have concluded that they will not have a significant impact on the Group's financial statements.

3 Alternative Performance Measures (APMs)

In the reporting of financial information, the Directors use various APMs. These APMs should be considered in addition to, and are not intended to be a substitute for, IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies' APMs.

The Directors believe that these APMs provide additional useful information for understanding the financial performance and health of the Group. They are also used to enhance the comparability of information between reporting periods (such as like-for-like sales and underlying profit) by adjusting for non-recurring factors which affect IFRS measures, and to aid users in understanding the Group's performance. Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes.

The APMs used by the Group are detailed on pages 219 to 223 of this report. This includes further information on the definition, purpose and reconciliation to the closest IFRS measure. All APMs relate to the current and comparative periods and are consistent with those used previously. There have been no changes to APMs in the year.

4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those which are significant to the Group are discussed separately below:

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

— Consolidation of structured entities – refer to note 2.3

— Non-underlying items – refer to note 5

— Aggregation of operating segments – refer to note 7

— Lease term – refer to note 15

Sources of estimation uncertainty

The areas where estimates and assumptions are significant to the financial statements are as listed below. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

— Nectar accounting (breakage estimates) – refer to note 6

— Lease liabilities (derivation of discount rates) – refer to note 15

— Impairment of non-financial assets – refer to note 17

— Provisions – refer to note 25

— Impairment of financial assets – refer to note 28

— Post-employment benefits (assets and liabilities) – refer to note 35

In assessing the Group's judgements and sources of estimation uncertainty, consideration has been given to the impact of climate change risk on these. Aside from impairment of non-financial assets (refer to note 17) and post-employment benefits (refer to note 35), climate change risks do not have any impacts on the Group's judgements or sources of estimation uncertainty.

5 Profit before non-underlying items

In order to provide shareholders with additional insight into the year on year performance of the business, an adjusted measure of profit (underlying profit before tax) is provided to supplement the reported IFRS numbers, which reflects how the business measures performance internally. This adjusted measure excludes items recognised in reported profit or loss before tax which, if included, could distort comparability between periods.

Determining which items are to be adjusted requires judgement, in which the Group considers items which are significant either by virtue of their size and/or nature, or that are non-recurring. The same assessment is applied consistently to any reversals of prior non-underlying items.

Underlying profit is not an IFRS measure and therefore not directly comparable to other companies.

Below highlights the grouping in which non-underlying items have been allocated and provides further detail on why such items have been recognised within non-underlying items.

	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/ (costs) £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Income recognised in relation to legal disputes	–	–	30	–	30	(6)	24
Restructuring and impairment							
Restructuring programmes	(103)	(14)	11	–	(106)	7	(99)
Impairment of non-financial assets	(281)	–	–	–	(281)	38	(243)
Total restructuring and impairment	(384)	(14)	11	–	(387)	45	(342)
Property, finance, pension and acquisition adjustments							
ATM business rates reimbursement	3	–	–	–	3	(1)	2
Property related transactions	(3)	(3)	(3)	–	(9)	2	(7)
Non-underlying finance and fair value movements	(29)	–	–	(9)	(38)	7	(31)
IAS 19 pension income	–	2	–	56	58	(11)	47
Acquisition adjustments	–	(20)	–	–	(20)	4	(16)
Total property, finance, pension and acquisition adjustments	(29)	(21)	(3)	47	(6)	1	(5)
Tax adjustments							
Over provision in prior years	–	–	–	–	–	2	2
Difference due to change in applicable rate of deferred tax	–	–	–	–	–	(5)	(5)
Total adjustments	(413)	(35)	38	47	(363)	37	(326)

Income recognised in relation to legal disputes

In the prior year, agreements were reached in relation to overcharges from payment card processing fees, which largely reflect inter-bank "interchange fees". This led to net income of £167 million being recognised. During the current period a further agreement has been reached resulting in net income of £30 million being recognised.

Net cash of £30 million was received during the year.

5 Profit before non-underlying items continued

Restructuring programmes

In the year ended 6 March 2021, the Group announced a restructuring programme to accelerate the structural integration of Sainsbury's and Argos and further simplify the Argos business; create a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos; and further rationalise/repurpose the Group's supermarkets and convenience estate. The programme also considered the Group's Store Support Centre ways of working.

The programme is a multi-year activity and has continued into the current year. Total cumulative costs to 4 March 2023 are £(746) million split between £(640) million in the prior years and £(106) million in the current period as detailed in the table below. Total expected costs are still in the range of £900 million to £1 billion to March 2024, with the majority in the period to March 2024.

(Costs)/gains recognised in the current year are as follows:

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Write downs of property, plant and equipment [a]	**(8)**	(6)
Write downs of leased assets [a]	**(21)**	(3)
Write downs of intangible assets	**(5)**	–
Closure provisions [b]	**1**	(24)
Accelerated depreciation of assets [c]	**(20)**	(33)
Redundancy provisions [d]	**(54)**	(40)
Consultancy costs	**(12)**	(18)
Gain on lease terminations [e]	**2**	9
Property profits [f]	**11**	12
Recognition of sub lease debtor	–	11
Total restructuring costs	**(106)**	(92)

a) Write down of assets associated with Argos stores and IT assets as a result of the overall restructuring programme to accelerate the structural integration of Sainsbury's and Argos and further simplify the Argos business.
b) Closure provisions relate to onerous contract costs, dilapidations and strip out costs on leased sites that have been identified for closure. Upon initial recognition of closure provisions, management uses its best estimates of the relevant costs to be incurred as well as expected closure dates. Business rates on leased property where the Group no longer operates from are recognised in the period they are incurred. The current year includes amounts reversed in relation to sites no longer being exited as part of the programme.
c) The remaining useful economic lives of corresponding sites have been reassessed to align with closure dates, resulting in an acceleration in depreciation of these assets. The existing depreciation of these assets (depreciation that would have been recognised absent of a closure decision) is recognised within underlying expenses, whereas accelerated depreciation above this is recognised within non-underlying expenses.
d) Redundancy costs are recognised as the plan is announced and a valid expectation raised with the affected colleagues. The current year charge relates to redundancies announced as part of Argos store closures, depot closures, and the exit of operations in Ireland.
e) Gains on lease terminations relate to sites impaired in the prior year for which it has been negotiated to exit the leases before the contractual end date. This includes the release of any lease liabilities, as well as any closure provisions previously recognised.
f) Property profits relate to profits recognised in the period as sites previously impaired as part of the restructuring programmes have been sold.

As the costs incurred facilitate future underlying cost savings, it was considered whether it was appropriate to report these costs within underlying profit. Whilst they arise from changes in the Group's underlying operations, they can be separately identified, are material in size and do not relate to ordinary in-year trading activity. In addition, the areas being closed or restructured no longer relate to the Group's remaining underlying operations and their exclusion provides meaningful comparison between financial years.

Impairment of non-financial assets

In addition to the above, in line with IAS 36 'Impairment of Non-financial Assets', the Group is required to assess whether there is any indication that an asset (or cash-generating unit (CGU)) may be impaired.

Management considered whether the level of uncertainty within the wider macroeconomic environment, including sustained increases in the Bank of England gilt rates, represented an indicator of impairment at the reporting date. It was determined that the increase in discount rates was a significant impairment indicator and therefore a full impairment review was undertaken.

A non-cash impairment charge of £281 million has been recognised in the period and comprises the below amounts, and has all been recognised within the Retail segment. Further details of the impairment charge are included within note 17.

	£m
Write downs of property, plant and equipment	**(141)**
Write downs of leased assets	**(122)**
Write downs of intangible assets	**(18)**
Impairment of non-financial assets	**(281)**

5 Profit before non-underlying items continued

Property, finance, pension and acquisition adjustments

- A further £3 million of ATM rates reimbursement income is due to be received from the Valuation Office following the Supreme Court's ruling that ATMs outside stores should not be assessed for additional business rates on top of normal store rates. The total cumulative amount recognised to 4 March 2023 is £45 million.
- Property related transactions relate to the loss on disposal of non trading properties, which comprised of £(3) million in the financial period, and £(6) million of costs relating to a property transaction. These are excluded from underlying profit as such profit is not related to the ongoing operating activities of the Group.

  Non underlying finance movements for the financial period comprised £(38) million for the Group. These include fair value remeasurements on derivatives not in a hedging relationship and lease interest on impaired non trading sites, including site closures. The fair value movements are driven by external market factors and can significantly fluctuate year-on-year. They are therefore excluded to ensure consistency between periods. Lease interest on impaired, non-trading sites is excluded as they do not contribute to the operating activities of the Group. Included within cost of sales is £(20) million in relation to unfavourable movements on long-term, fixed price power purchase arrangements (PPAs) with independent producers. These are accounted for as derivative financial instruments, however are not designated in hedging relationships, therefore gains and losses are recognised in the income statement. Decreases in electricity forward prices in the year have led to losses on the related derivative financial instruments. Non-underlying finance and fair value movements also includes lease interest on impaired non trading sites, including site closures. Lease interest on impaired, non-trading sites is excluded as they do not contribute to the operating activities of the Group. The remaining movements of £(9) million within finance income and costs are analysed further in note 10.
- Defined benefit pension interest and expenses comprises pension finance income of £57 million, settlement credit of £8 million and scheme expenses of £(6) million (see note 35). Although a recurring item, the Group has chosen to exclude net retirement benefit income and costs from underlying profit as, following closure of the defined benefit scheme to future accrual, it is not part of the ongoing operating activities of the Group and its exclusion is consistent with how the Directors assess the performance of the business.
- Acquisition adjustments of £(20) million reflect the unwind of non cash fair value adjustments arising from Home Retail Group and Nectar UK acquisitions. The Group would not normally recognise these as assets outside of a business combination. Therefore the unwinds are classified as non-underlying and are recognised as follows:

	52 weeks to 4 March 2023			52 weeks to 5 March 2022		
	Argos £m	Nectar £m	Total Group £m	Argos £m	Nectar £m	Total Group £m
Cost of sales	**1**	–	**1**	–	–	–
Depreciation	**1**	–	**1**	3	–	3
Amortisation	**(18)**	**(4)**	**(22)**	(18)	(5)	(23)
	(16)	**(4)**	**(20)**	(15)	(5)	(20)

Comparative information

	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/ (costs) £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Income recognised in relation to legal disputes	–	13	167	–	180	(35)	145
Restructuring and integration							
Restructuring programmes	(69)	(35)	12	–	(92)	17	(75)
Financial Services transition and other	–	(11)	–	–	(11)	2	(9)
Total restructuring and integration	(69)	(46)	12	–	(103)	19	(84)
Software as a service accounting adjustment	–	(21)	–	–	(21)	4	(17)
Property, finance, pension and acquisition adjustments							
ATM business rates reimbursement	2	–	–	–	2	–	2
Profit on disposal of properties	–	–	7	–	7	–	7
Non-underlying finance and fair value movements	76	–	–	(8)	68	(13)	55
IAS 19 pension expenses	–	(4)	–	15	11	(2)	9
Acquisition adjustments	–	(20)	–	–	(20)	4	(16)
Total property, finance, pension and acquisition adjustments	78	(24)	7	7	68	(11)	57
Tax adjustments							
Over provision in prior years	–	–	–	–	–	(2)	(2)
Difference due to change in applicable rate of deferred tax	–	–	–	–	–	9	9
Other tax adjustments	–	–	–	–	–	(7)	(7)
Total adjustments	9	(78)	186	7	124	(23)	101

5 Profit before non-underlying items continued

Cash flow statement

The table below shows the impact of non-underlying items on the Group cash flow statement:

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Cash flows from operating activities		
IAS 19 pension expenses	**(7)**	(7)
Financial Services transition and other	**–**	(13)
Restructuring programmes	**(50)**	(114)
Income recognised in relation to legal disputes	**30**	93
ATM rates reimbursement	**3**	14
Property related transactions	**(6)**	–
Cash used in operating activities	**(30)**	(27)
Cash flows from investing activities		
Proceeds from property disposals[1]	**29**	46
Cash generated from investing activities	**29**	46
Net cash flows	**(1)**	19

1. £26 million of the current period proceeds from property disposals are a result of restructuring programmes (2022: £19 million).

6 Revenue

Accounting policies

Revenue is income arising from the sale of goods and services in the course of the Group's ordinary activities, net of returns, related discounts and excluding Value Added Tax (VAT) and, in the case of Financial Services, interest receivable, fees and commissions. Revenue is recognised when the Group has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation.

Retail sales

a) Sale of goods

Revenue from the sale of goods is recognised at point of sale or, where later, upon collection by, or delivery to, the customer as this is the point in which control has passed. Where consideration has been received in advance of the performance obligation being satisfied, a contract liability is recognised.

b) Other revenue items

Other revenue items comprise income from commissions and concessions, and wholesale sales made directly to third-party customers.

Commission revenue relates to the sale of third-party products where it has been determined that the Group is acting as an agent. When assessing whether the Group should recognise revenue as a principal, or as an agent, management will assess whether there is control of the related goods prior to sale to the end consumer. Sales commission from third-parties is recognised when the related goods or services are sold as the net amount to be retained. The Group's relevant contracts are not complex and therefore the level of judgement involved is not considered significant to the Group.

Wholesale revenue is recognised when the goods are delivered to the customer.

c) Nectar points

The issuance of Nectar points within the Group creates a separate performance obligation and therefore a portion of the transaction price is allocated to the loyalty programme using the relative standalone selling price of points issued, and the corresponding revenue deferred. The deferral is treated as a deduction from revenue and recognised as a contract liability within deferred income (see note 23). The fair value of the points awarded is determined with reference to the value per point to a customer and considers expected redemption rates (breakage) and the money off that each point entitles a customer to. The revenue deferred is subsequently recognised when the Nectar points are redeemed by the customer.

Significant estimate – Fair value of Nectar points

The Group estimates the fair value of points awarded under the Nectar programme by reference to the value per point to a customer, multiplied by expected breakage assumptions. Breakage represents management's estimate of points issued that will never be redeemed and is therefore subject to uncertainty. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns.

As at the year-end, if the breakage estimate used in determining the deferred revenue for the Group had been 1.0 per cent lower, the deferred points liability would have been £50 million higher. If the breakage estimate had been 1.0 per cent higher, the deferred points liability would have been £51 million lower.

6 Revenue continued

Financial Services

Financial services revenue consists of interest, fees and commission income from the provision of retail banking and insurance related activities.

a) Interest income

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

The effective interest rate of a financial asset is calculated on initial recognition and is applied to the gross carrying amount of the asset. For financial assets that have become credit impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset net of impairment. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis. In calculating the effective interest rate of a financial instrument the Group takes into account all amounts that are integral to the yield of a financial instrument as well as incremental transaction costs.

b) Fees and commission income

Fees and commissions that are not integral to the effective interest rate calculation relate primarily to certain credit card and storecard fees, ATM interchange fees, insurance introduction commission and warranty commission receivable. These are recognised in the income statement on an accruals basis as performance obligations are satisfied. Where in the case of insurance commissions the income comprises an initial commission and profit share, both are recognised on completion of the service to the extent reliably measurable. Where there is a risk of potential clawback, an appropriate element of the commission receivable is deferred and amortised over the clawback period. These are recognised in the income statement on an accruals basis as performance obligations are satisfied in accordance with IFRS 15.

Margin from the sale of travel money, representing the difference between the cost price and the selling price, is recognised when the sale to the customer takes place.

Other income

Other income generally consists of profits and losses on disposal of assets.

Disaggregated revenue recognised

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Grocery and General Merchandise & Clothing (GM&C)	**25,993**	25,440
Fuel	**4,967**	4,023
Total retail sales	**30,960**	29,463
Financial Services interest receivable	**394**	322
Financial Services fees and commission	**137**	110
Total Financial Services income	**531**	432
Total revenue	**31,491**	29,895

7 Segment reporting

Background

The Group's operating segments have been determined based on the information regularly provided to the Chief Operating Decision Maker (CODM), which has been determined to be the Group Operating Board, which is used to make optimal decisions on the allocation of resources and assess performance.

Significant judgement – aggregation of operating segments

The CODM is presented information for the following operating segments:

— Retail – Food

— Retail – General Merchandise and Clothing

— Financial Services

In determining the Group's reportable segments, management have considered the economic characteristics, in particular average gross margin, similarity of products, production processes, customers, sales methods and regulatory environment of its two Retail segments. In doing so it has been concluded that they should be aggregated into one 'Retail' segment within the financial statements given the similar economic characteristics between the two. This aggregated information provides users the financial information needed to evaluate the business and the environment in which it operates.

Operating segments

The Group's reportable operating segments have therefore been identified as follows:

Retail; comprising the sale of food, household, general merchandise, clothing and fuel primarily through store and online channels.

— Financial Services; comprising banking and insurance services through Sainsbury's Bank and Argos Financial Services.

The CODM uses underlying profit before tax as the key measure of segmental performance as it represents the ongoing trading performance with additional insight into year on year performance that is more comparable over time. The use of underlying profit before tax aims to provide parity and transparency between users of the financial statements and the CODM in assessing the core performance of the business and performance of management. This is further disclosed in note 3 and within the glossary on page 224.

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

Segment revenue presents a disaggregation of revenue from customers consistent with the Group's primary revenue streams.

7 Segment reporting continued

Income statement and balance sheet

52 weeks to 4 March 2023	Retail £m	Financial Services £m	Group £m
Segment revenue			
Retail sales to external customers	30,960	–	30,960
Financial Services to external customers	–	531	531
Revenue	30,960	531	31,491
Underlying operating profit	926	46	972
Underlying finance income	18	–	18
Underlying finance costs	(300)	–	(300)
Underlying profit before tax	644	46	690
Non-underlying expense (note 5)			(363)
Profit before tax			327
Income tax expense (note 11)			(120)
Profit for the financial year			207
Assets	18,925	7,231	26,156
Investment in joint ventures and associates	2	–	2
Segment assets	18,927	7,231	26,158
Segment liabilities	(12,584)	(6,321)	(18,905)
Other segment items			
Additions to non-current assets			
Property, plant and equipment	532	2	534
Intangible assets	194	19	213
Right-of-use assets	398	–	398
Depreciation expense[1]			
Property, plant and equipment	565	1	566
Right-of-use assets	469	1	470
Amortisation expense[2]			
Intangible assets	141	31	172
Impairment of non-financial assets	315	–	315
Impairment loss on financial assets	2	76	78
Share based payments	54	5	59

1. Depreciation within the Retail segment includes a £(1) million credit in relation to the unwind of fair value adjustments recognised on acquisition of HRG.
2. Amortisation within the Retail segment includes a £22 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

7 Segment reporting continued

52 weeks to 5 March 2022	Retail £m	Financial Services £m	Group £m
Segment revenue			
Retail sales to external customers	29,463	–	29,463
Financial Services to external customers	–	432	432
Revenue	29,463	432	29,895
Underlying operating profit	1,001	38	1,039
Underlying finance income	3	–	3
Underlying finance costs	(312)	–	(312)
Underlying profit before tax	692	38	730
Non-underlying expense			124
Profit before tax			854
Income tax expense			(177)
Profit for the financial year			677
Assets	20,368	6,541	26,909
Investment in joint ventures and associates	3	–	3
Segment assets	20,371	6,541	26,912
Segment liabilities	(12,870)	(5,619)	(18,489)
Other segment items			
Additions to non-current assets			
Property, plant and equipment	417	–	417
Intangible assets	229	49	278
Right-of-use assets	1,294	–	1,294
Depreciation expense[1]			
Property, plant and equipment	590	1	591
Right-of-use assets	477	1	478
Amortisation expense[2]			
Intangible assets	130	21	151
Impairment of non-financial assets	8	1	9
Impairment (reversal)/loss on financial assets	(4)	19	15
Share based payments	53	5	58

1. Depreciation within the Retail segment includes a £(3) million credit in relation to the unwind of fair value adjustments recognised on acquisition of HRG.
2. Amortisation within the Retail segment includes a £23 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

Geographical segments

The Group trades predominantly in the UK and the Republic of Ireland and consequently the majority of revenues, capital expenditure and segment net assets arise there. The profits, turnover and assets of the businesses in the Republic of Ireland are not material to the Group.

7 Segment reporting continued

Cash flow

	APM reference	52 weeks to 4 March 2023 Retail £m	Financial Services £m	Group £m	52 weeks to 5 March 2022 Retail £m	Financial Services £m	Group £m
Profit before tax		**284**	**43**	**327**	833	21	854
Net finance costs		**235**	–	**235**	304	(2)	302
Operating profit		**519**	**43**	**562**	1,137	19	1,156
Adjustments for:							
Depreciation and amortisation expense		**1,175**	**33**	**1,208**	1,197	23	1,220
Net impairment charge on property, plant and equipment, right-of-use assets and intangible assets		**315**	–	**315**	8	1	9
Financial Services movement in loss allowance for loans and advances to customers		–	**76**	**76**	–	19	19
Profit on sale of non-current assets and early termination of leases		**(15)**	–	**(15)**	(6)	–	(6)
Non-underlying fair value movements		**29**	–	**29**	(76)	–	(76)
Share-based payments expense		**54**	**5**	**59**	53	5	58
Non-cash defined benefit scheme expenses		**(2)**	–	**(2)**	4	–	4
Cash contributions to defined benefit scheme		**(44)**	–	**(44)**	(71)	–	(71)
Operating cash flows before changes in working capital		**2,031**	**157**	**2,188**	2,246	67	2,313
Changes in working capital							
Movements in working capital		**185**	**231**	**416**	(306)	(646)	(952)
Cash generated from operations		**2,216**	**388**	**2,604**	1,940	(579)	1,361
Interest paid	a	**(307)**	**(9)**	**(316)**	(319)	(10)	(329)
Corporation tax paid		**(99)**	**(4)**	**(103)**	(23)	–	(23)
Net cash generated from/(used in) operating activities		**1,810**	**375**	**2,185**	1,598	(589)	1,009
Cash flows from investing activities							
Purchase of property, plant and equipment		**(523)**	**(2)**	**(525)**	(416)	–	(416)
Initial direct costs on new leases		**(16)**	–	**(16)**	(3)	–	(3)
Purchase of intangible assets		**(194)**	**(19)**	**(213)**	(229)	(49)	(278)
Proceeds from disposal of property, plant and equipment		**29**	–	**29**	46	–	46
Dividends and distributions received/(paid)	e	**51**	**(50)**	**1**	2	–	2
Net cash used in investing activities		**(653)**	**(71)**	**(724)**	(600)	(49)	(649)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	d	**13**	–	**13**	21	–	21
Repayment of borrowings	c	**(40)**	**(55)**	**(95)**	(248)	–	(248)
Repayment of perpetual capital securities	c	–	–	–	(8)	–	(8)
Purchase of own shares	d	**(45)**	–	**(45)**	(48)	–	(48)
Capital repayment of lease obligations	b	**(512)**	**(2)**	**(514)**	(491)	(2)	(493)
Dividends paid on ordinary shares		**(319)**	–	**(319)**	(238)	–	(238)
Dividends paid on perpetual securities	a	–	–	–	(4)	–	(4)
Net cash used in financing activities		**(903)**	**(57)**	**(960)**	(1,016)	(2)	(1,018)
Net increase/(decrease) in cash and cash equivalents		**254**	**247**	**501**	(18)	(640)	(658)

8 Supplier arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and directly affect the Group's reported margin.

Income is recognised when earned by the Group when all obligations per the terms of the contract have been satisfied. Any supplier arrangements which are linked to inventory purchases are included within the cost of the related inventory, and therefore recognised within cost of sales once the inventory is sold. Unpaid amounts relating to supplier arrangements are recognised within trade and other receivables, unless there is a legal right of offset, in which case it is recognised within trade and other payables. Amounts which have been invoiced at the balance sheet date are categorised as supplier arrangements due and those not yet invoiced are categorised as accrued supplier arrangements.

The types of supplier arrangements applicable to the Group are as follows:

— **Discounts and supplier incentives** – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.

— **Fixed amounts** – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space.

— **Supplier rebates** – these are typically agreed on an annual basis, aligned with the Group's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes.

— **Marketing and advertising income** – advertising income from suppliers through the Group's subsidiary Nectar 360 Services LLP and online marketing and advertising campaigns within Argos.

Amounts recognised in the income statement during the year for fixed amounts, volume-based rebates and marketing and advertising income are shown below. Discounts and supplier incentives are not shown as they are deemed to be part of the cost price of inventory.

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Fixed amounts	**192**	208
Supplier rebates	**94**	94
Marketing and advertising income	**97**	79
Total supplier arrangements	**383**	381

Of the above amounts, the following was outstanding and held on the balance sheet at the period-end:

	4 March 2023 £m	5 March 2022 £m
Within inventory	**(4)**	(4)
Within current trade receivables		
Supplier arrangements due	**45**	39
Accrued supplier arrangements	**43**	37
Within current trade payables		
Supplier arrangements due	**49**	47
Accrued supplier arrangements	**2**	2
Total supplier arrangements	**135**	121

9 Operating profit

Accounting policies

Cost of sales

Cost of sales consists of all costs that are directly attributable to the point of sale including warehouse, transportation costs and all the costs of operating retail outlets. In the case of Financial Services, cost of sales includes interest expense on operating activities, calculated using the effective interest method.

Operating profit is stated after charging/(crediting) the following items:

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Employee costs (note 34)	**3,578**	3,600
Depreciation expense[1] (note 14 and 15)	**1,036**	1,069
Amortisation expense[2] (note 16)	**172**	151
Profit on disposal of non-current assets[3] (note 31)	**(15)**	(6)
Foreign exchange gains	**(18)**	(19)
Impairment of non-financial assets (note 17)	**315**	9

1. Depreciation expense includes £(1) million credit (2022: £(3) million credit) in relation to the unwind of acquisition adjustments.
2. Amortisation expense includes £22 million charge (2022: £23 million) in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.
3. Includes £(8) million in relation to disposals of property, plant and equipment (2022: £(19) million), gain on disposals of intangible assets of £(1) million (2022: loss of £4 million), gains on lease terminations of £(6) million (2022: £(12) million) and adjustments in relation to software as a service accounting of £nil (2022: £21 million).

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	**1.2**	1.1
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**2.6**	2.4
Audit related assurance services	**0.2**	0.1
Non-audit services	**0.1**	0.9
Total fees	**4.1**	4.5

Non-audit services relate to services provided by the Group's auditor in relation to issuance of Sainsbury's Bank Tier 2 Capital in September 2022 (refer to note 33). In the prior year, non-audit services related to services provided by the Group's auditor in the capacity of reporting accountant.

10 Finance income and finance costs

Accounting policies

Finance income and costs, excluding those arising from Financial Services, are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method. For Financial Services, finance income and finance costs are recognised in revenue and cost of sales.

Fair value remeasurements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship.

	52 weeks to 4 March 2023			52 weeks to 5 March 2022		
	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Interest on bank deposits and other financial assets	**16**	–	**16**	1	–	1
Fair value measurements	–	–	–	–	2	2
IAS 19 pension financing income	–	**56**	**56**	–	15	15
Finance income on net investment in leases	**2**	–	**2**	2	–	2
Finance Income	**18**	**56**	**74**	3	17	20
Secured borrowings	**(41)**	–	**(41)**	(40)	–	(40)
Unsecured borrowings	**(2)**	–	**(2)**	(2)	–	(2)
Lease liabilities	**(258)**	**(9)**	**(267)**	(271)	(10)	(281)
Provisions – amortisation of discount	–	–	–	(1)	–	(1)
Interest capitalised – qualifying assets	**1**	–	**1**	2	–	2
Finance costs	**(300)**	**(9)**	**(309)**	(312)	(10)	(322)

11 Taxation

Accounting policies

Current tax

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

Deferred tax

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

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

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

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

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

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Current year UK tax	**105**	131
Current year overseas tax	**3**	6
Over-provision in prior years	**2**	5
Total current tax expense	**110**	142
Origination and reversal of temporary differences	**9**	52
Under/(over)-provision in prior years	**3**	(35)
Adjustment from change in applicable rate of deferred tax	**(2)**	23
Derecognition of capital losses	**–**	(5)
Total deferred tax expense	**10**	35
Total income tax expense in income statement	**120**	177
Analysed as:		
Underlying tax	**157**	154
Non-underlying tax	**(37)**	23
Total income tax expense in income statement	**120**	177
Underlying tax rate	**22.8%**	21.1%
Effective tax rate	**36.7%**	20.7%

11 Taxation continued

The effective tax rate of 36.7 per cent (2022: 20.7 per cent) is higher than (2022: higher than) the standard rate of corporation tax in the UK of 19 per cent. The differences are explained below:

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Profit before tax	**327**	854
Income tax at UK corporation tax rate of 19.00%	**62**	162
Effects of underlying items:		
Disallowed depreciation on UK properties	**27**	25
Under/(over)-provision in prior years	**7**	(28)
Difference due to change in applicable rate of deferred tax	**(7)**	14
Disallowed depreciation on right of use assets	**3**	5
Other	**(3)**	–
Effects of non-underlying items:		
Loss on disposal of properties	**–**	(1)
Over-provision in prior years	**(2)**	(2)
Difference due to change in applicable rate of deferred tax	**5**	9
Restructuring programmes	**13**	–
Impairment of non-financial assets	**15**	–
Derecognition of capital losses	**–**	(5)
Other	**–**	(2)
Total income tax expense in income statement	**120**	177

It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25 per cent from 1 April 2023. This change was enacted during the previous accounting period, and deferred tax was revalued accordingly.

The Spring Budget on 21 March 2023 confirmed the introduction of Pillar 2 reporting requirements for the UK. This has not been enacted to date, but the rules are expected to apply to the Group. Pillar 2 reporting will see the introduction of a global minimum 15 per cent tax rate by the end of 2023, and the Group will be required to file certain returns evidencing the payment of tax at this rate. The potential impact of this is currently being assessed, but the Group does not consider there to be a material exposure at this stage.

Income tax charged or (credited) to equity and/or other comprehensive income during the year is as follows:

	Share-based payment reserve £m	Actuarial reserve £m	Fair value movements £m	Total £m
52 weeks to 4 March 2023				
Current tax in equity or other comprehensive income	**(3)**	**(25)**	**–**	**(28)**
Deferred tax in equity or other comprehensive income	**(4)**	**(322)**	**(14)**	**(340)**
	(7)	**(347)**	**(14)**	**(368)**
52 weeks to 5 March 2022				
Current tax in equity or other comprehensive income	(1)	–	–	(1)
Deferred tax in equity or other comprehensive income	(2)	431	87	516
	(3)	431	87	515

11 Taxation continued

The current and deferred tax in relation to the Group's defined benefit pension scheme's remeasurements and available-for-sale fair value movements have been charged or credited through other comprehensive income where appropriate.

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

	Accelerated capital allowances £m	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payments £m	Leases £m	Other £m	Total £m
6 March 2022	**(173)**	**87**	**(133)**	**(93)**	**(640)**	**18**	**132**	**(4)**	**(806)**
Prior year adjustment to income statement	**(9)**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**(3)**
Credit/(charge) to income statement	**12**	**–**	**13**	**–**	**(11)**	**8**	**(20)**	**(11)**	**(9)**
Credit to equity or other comprehensive income	**–**	**–**	**14**	**–**	**328**	**3**	**–**	**–**	**345**
Revaluation adjustment to income statement	**4**	**–**	**4**	**–**	**(1)**	**2**	**(3)**	**(4)**	**2**
Revaluation adjustment to equity or other comprehensive income	**–**	**–**	**–**	**–**	**(6)**	**1**	**–**	**–**	**(5)**
4 March 2023	**(166)**	**87**	**(102)**	**(93)**	**(330)**	**32**	**109**	**(13)**	**(476)**
7 March 2021	(141)	64	(48)	(81)	(192)	9	126	8	(255)
Prior year adjustment to income statement	(7)	(3)	2	6	–	–	(1)	38	35
Credit/(charge) to income statement	16	5	4	4	(11)	4	(21)	(48)	(47)
(Charge)/credit to equity or other comprehensive income	–	–	(59)	–	(276)	2	–	–	(333)
Revaluation adjustment to income statement	(41)	21	(4)	(22)	(6)	3	28	(2)	(23)
Revaluation adjustment to equity or other comprehensive income	–	–	(28)	–	(155)	–	–	–	(183)
5 March 2022	(173)	87	(133)	(93)	(640)	18	132	(4)	(806)

	2023 £m	2022 £m
Total deferred income tax liabilities	**(704)**	(1,043)
Total deferred income tax assets	**228**	237
Net deferred income tax liability recognised in non-current liabilities	**(476)**	(806)

Deferred income tax assets have been recognised in respect of all income tax losses and other temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered, with the exception unrecognised capital losses of £194 million (2022: £194 million) following Finance Act 2020 which restricts the amount of chargeable (capital) gains that a company can relieve with its carried-forward capital losses. These capital losses have no date of expiry. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority.

12 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of J Sainsbury plc by the weighted average number of Ordinary shares in issue during the year, excluding own shares held by the J Sainsbury Employee Share Ownership Trust (ESOT).

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary shareholders of J Sainsbury plc by the weighted average number of Ordinary shares in issue during the year, excluding own shares held, and adjusted for the effects of potentially dilutive shares. The dilutive impact is calculated as the weighted average of all potentially diluted ordinary shares. These represent share options granted by the Group, including performance-based options, where the scheme to date performance is deemed to have been earned.

For the comparative period, the weighted average number of dilutive shares includes the number of shares that would have been issued if all perpetual subordinated convertible bonds are assumed to be converted at the beginning of the period.

In addition, underlying basic earnings per share and underlying diluted earnings per share are presented to reflect the underlying profit attributable to ordinary shareholders of J Sainsbury plc and the underlying trading performance of the Group. In calculating the APMs, the profit attributable is adjusted for items considered non-underlying as defined in note 5. No adjustments have been made to the weighted average number of Ordinary or potentially dilutive shares which continue to be determined in accordance with IAS.

All operations are continuing for the periods presented.

	2023 million	2022 million
Weighted average number of shares in issue	**2,312.6**	2,271.8
Weighted average number of dilutive share options	**39.6**	39.6
Weighted average number of dilutive subordinated perpetual convertible bonds	**–**	39.6
Total number of shares for calculating diluted earnings per share	**2,352.2**	2,351.0

	£m	£m
Profit for the financial period attributable to ordinary shareholders	**207**	677
Diluted earnings for calculating diluted earnings per share	**207**	677
Profit for the financial period attributable to ordinary shareholders of the parent	**207**	677
Adjusted for non-underlying items (note 5)	**363**	(124)
Tax on non-underlying items (note 5)	**(37)**	23
Underlying profit after tax attributable to ordinary shareholders of the parent	**533**	576
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**533**	576

	Pence per share	Pence per share
Basic earnings	**9.0**	29.8
Diluted earnings	**8.8**	28.8
Underlying basic earnings	**23.0**	25.4
Underlying diluted earnings	**22.7**	24.5

13 Dividends

	2023 pence per share	2022 pence per share	2023 £m	2022 £m
Amounts recognised as distributions to ordinary shareholders in the year.				
Final dividend of prior financial year	**9.9**	7.4	**229**	164
Interim dividend of current financial year	**3.9**	3.2	**90**	74
	13.8	10.6	**319**	238
Proposed final dividend at financial year end	**9.2**	9.9	**213**	230

The proposed final dividend was approved by the Board on 26 April 2023 and is subject to shareholders' approval at the Annual General Meeting. If approved, it will be paid on 14 July 2023 to shareholders on the register as at 9 June 2023. No amount for the proposed final dividend has been recognised at the balance sheet date.

Distributions to shareholders will have no tax consequences to the Group.

14 Property, plant and equipment

Accounting policies

a) Land and buildings

Land and buildings are held at historical cost less accumulated depreciation and any recognised provision for impairment. Capital work in progress is held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for intended use.

b) Fixtures and equipment

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and its intended use.

c) Depreciation

Depreciation is calculated to write down the cost of the assets to their residual values, on a straight-line basis over their useful economic life, using the following rates:

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

Capital work in progress is not depreciated prior to being available for its intended commercial use. Capital work in progress does not include land.

d) Disposals and retirement

Disposals of property, plant and equipment are recognised when the control over the asset is transferred to another party and the company has no further obligations or involvement with the asset. The gain or loss on disposal is determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and is recognised within operating profit.

e) Impairment

The carrying amount of PPE is reviewed on an ongoing basis to determine whether there is any indication of impairment – See note 17.

f) Climate Change Impacts

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. This includes consideration over climate change related risks which may impact the useful lives or residual values of the Group's assets, such as the impact of flood risks on store and non-store assets, changes in regulations related to carbon emissions and any anticipated replacement of existing assets with new technologies. During the year, no changes were made to the remaining useful lives or residual values of the Group's assets as a result of climate change risks.

g) Capitalisation of interest

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

14 Property, plant and equipment continued

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 6 March 2022	**9,693**	**5,288**	**14,981**
Additions	**250**	**284**	**534**
Disposals	**(71)**	**(540)**	**(611)**
Transfer to assets held for sale	**(7)**	**(3)**	**(10)**
At 4 March 2023	**9,865**	**5,029**	**14,894**
Accumulated depreciation and impairment			
At 6 March 2022	**2,917**	**3,662**	**6,579**
Depreciation expense for the year	**184**	**382**	**566**
Impairment loss for the year	**110**	**39**	**149**
Disposals	**(56)**	**(540)**	**(596)**
Transfer to assets held for sale	**(2)**	**(3)**	**(5)**
At 4 March 2023	**3,153**	**3,540**	**6,693**
Net book value at 4 March 2023	**6,712**	**1,489**	**8,201**
Capital work-in-progress included above	**206**	**314**	**520**
Cost			
At 7 March 2021	9,655	5,288	14,943
Additions	87	330	417
Disposals	(40)	(330)	(370)
Transfer to assets held for sale	(9)	–	(9)
At 5 March 2022	9,693	5,288	14,981
Accumulated depreciation and impairment			
At 7 March 2021	2,793	3,563	6,356
Depreciation expense for the year	170	421	591
Impairment loss for the year	–	6	6
Disposals	(37)	(328)	(365)
Transfer to assets held for sale	(9)	–	(9)
At 5 March 2022	2,917	3,662	6,579
Net book value at 5 March 2022	6,776	1,626	8,402
Capital work-in-progress included above	103	314	417

Interest capitalised

Interest capitalised included in additions amounted to £1 million (2022: £2 million) for the Group. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £336 million (2022: £335 million) for the Group. Accumulated interest capitalised held at net book value in property, plant and equipment amounted to £281 million (2022: £284 million) for the Group. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.1 per cent (2022: 6.2 per cent).

Security

Property, plant and equipment pledged as security is as follows:

	2023		2022	
	Number of properties	Net book value £bn	Number of properties	Net book value £bn
Loan due 2031	**48**	**0.9**	48	0.9
Revolving Credit Facility	**–**	**–**	60	1.3
Asset backed pension contribution scheme	**48**	**1.1**	48	1.2
Other	**6**	**0.1**	6	0.1
	102	**2.1**	162	3.5

15 Leases

Group as lessee

The Group's lease portfolio is principally comprised of property leases of land and buildings in relation to stores, distribution centres and support offices, but also includes other assets such as motor vehicles. The leases have varying terms and often include break clauses or options to renew beyond the non-cancellable periods.

Accounting policies

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease, when the underlying asset is available for use. The cost of right-of-use assets comprises the amount of lease liabilities recognised, any initial direct costs incurred, lease payments made at or before the commencement date and less any lease incentives received. Right of use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities.

The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease and are measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments and variable lease payments that depend on an index or a rate (using the relevant rate at the commencement date of the lease), less any lease incentives receivable. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs. For agreements which contain both lease and non-lease components, such as cleaning and maintenance services, the non-lease component is excluded from the lease payments used to measure the lease liabilities.

The IBRs depend on the start date and term of the lease, and are determined based on a reference (risk free) rate and adjustments to reflect the Group's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the group and quoted credit default swaps (CDS). IBRs are determined quarterly.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease (a break clause), if it is reasonably certain not to be exercised.

After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is remeasured when there is a change in the future lease payments due to a change in the lease term such as a recognition of an extension or break option, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to groups of underlying leases where the underlying assets leased are considered uniformly low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are expensed to the income statement.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Net book value	Land and buildings £m	Equipment £m	Total £m
At 6 March 2022	**5,266**	**294**	**5,560**
New leases and modifications[1]	**283**	**115**	**398**
Depreciation charge	**(375)**	**(95)**	**(470)**
Impairment charge	**(142)**	**(1)**	**(143)**
At 4 March 2023	**5,032**	**313**	**5,345**
At 7 March 2021	4,414	333	4,747
New leases and modifications[1]	1,244	50	1,294
Depreciation charge	(389)	(89)	(478)
Impairment charge	(3)	–	(3)
At 5 March 2022	5,266	294	5,560

1. Includes new leases, terminations, modifications and reassessments.

15 Leases continued

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2023 £m	2022 £m
At 6 March 2022 and 7 March 2021	**6,621**	5,834
New leases and modifications	**382**	1,280
Interest expense	**267**	281
Payments	**(781)**	(774)
At 4 March 2023 and 5 March 2022	**6,489**	6,621
Current	**1,533**	526
Non-current	**4,956**	6,095

Maturity analysis

	2023 £m	2022 £m
Contractual undiscounted cash flows		
Less than one year	**1,798**	773
One to two years	**680**	1,683
Two to three years	**632**	627
Three to four years	**591**	575
Four to five years	**541**	542
Total less than five years	**4,242**	4,200
Five to ten years	**2,473**	2,416
Ten to fifteen years	**1,981**	2,005
More than fifteen years	**3,505**	3,338
Total undiscounted lease liability	**12,201**	11,959
Lease liability included in the statement of financial position	**6,489**	6,621
Current	**1,533**	526
Non-current	**4,956**	6,095

The Group presents additions to lease liabilities and right-of-use assets in line with the disclosure requirements of IFRS 16 'Leases'. In doing so, additions to right-of-use assets and lease liabilities above include the net impact of new leases, terminations, modifications, and reassessments. In the prior year, the Group exercised purchase options on 21 leased supermarkets held by a property investment pool in which the Group holds an interest. The purchase options were first included within the lease liability in the prior financial year when the Group exercised them. During the current year, the Group reached an agreement on an acquisition price on these 21 supermarkets and thus this acquisition price was used to remeasure the lease liabilities.

Significant judgement – lease terms

The inclusion of a lease extension period or lease break period in the lease term is a key judgement for the Group and considers all relevant factors that create an economic incentive for it to exercise them. For leased properties, this includes the current and expected profitability of the respective site, as well as the length of time until the option can be exercised. Any changes to the Group's judgement over lease terms will impact both the right-of-use asset and lease liability.

Set out below are the undiscounted future rental payments not currently included within the reported lease liability for where lease extensions have not been included, or where lease breaks have been assumed:

	2023 £m	2022 £m
Extension options expected to not be exercised	**4,781**	4,681
Lease breaks expected to be exercised	**425**	458

Significant estimate – discount rates

As noted above, lease liabilities are measured at the present value of lease payments to be made over the lease term, discounted using the IBR at the lease commencement date (for additions) or at the lease modification date (for modifications).

The IBRs depend on the start date and term of the lease, and are determined based on a number of inputs including a reference (risk free) rate and adjustments to reflect the Group's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the Group and quoted credit default swaps (CDS).

The following table summarises the impact that a reasonable possible change in the IBR would have had on the lease liability additions and modifications recognised during the year:

	Increase/ (decrease) in lease liability recognised £m
Increase in IBR of 3%	**(68)**
Decrease in IBR of 3%	**65**

15 Leases continued

Amounts recognised in profit or loss

The following are the amounts recognised in profit or loss:

	2023 £m	2022 £m
Depreciation of right-of-use assets	**(470)**	(478)
Impairment of right-of-use assets	**(143)**	(3)
Interest on lease liabilities	**(267)**	(281)
Variable lease payments not included in the measurement of lease liabilities	**(1)**	–
Finance income from sub-leasing of right-of-use assets	**2**	2
Operating sublet income	**48**	56
Expense relating to short-term leases	**(26)**	(32)
Expense relating to leases of low-value assets	**(2)**	(2)
Total amount recognised in profit or loss	**(859)**	(738)
Total cash outflow for leases (excludes sublet income)	**(810)**	(808)

There were no leases with residual value guarantees. There have been no sale or leaseback transactions during the period. All the right of use assets are recognised on a historic cost convention. Approximately £2,795m (2022: £2,807m) of the Group's lease liabilities are subject to inflation-linked rentals and a further £241m (2022: £255m) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis. The Group is committed to payments totalling £101m (2022: £nil) in relation to leases that have been signed but not yet commenced.

Group as lessor

Lessor accounting

The Group leases out owned properties and sublets leased properties under operating and finance leases. Such properties include mall units, stores and units within stores. Where the Group subleases assets, the sublease classification is assessed with reference to the head lease right-of-use asset. This assessment considers, among other factors, whether the sublease represents the majority of the remaining life of the head lease. The ratio of rental income to head lease rental payments is used to determine how much of the right-of-use asset should be derecognised, or analysis of square foot leased in the head lease and sublease where appropriate. This assessment takes into consideration whether the sublease/head lease are above or below market rate.

Amounts due from lessees under finance leases are recorded as a receivable at an amount equal to the net investment in the lease. This is initially calculated and recognised using the IBR prevalent in the underlying headlease at the recognition date. Any difference between the derecognised right-of-use asset and the newly recognised amounts due for leases under finance leases is immediately recognised in the income statement. The Group recognises finance income over the lease term, reflecting a constant periodic rate of return on the Group's net investment in the lease. Operating lease income is recognised as earned on a straight-line basis over the lease term.

The below table sets out the maturity analysis of lease receivables classified as finance leases:

	2023 £m	2022 £m
Contractual undiscounted cash flows		
Less than one year	**10**	7
One to five years	**27**	36
More than five years	**9**	5
Total undiscounted net investment in lease receivable	**46**	48
Lease receivable included in the statement of financial position	**35**	41
Current	**8**	5
Non-current	**27**	36

The below table sets out the maturity analysis of lease receivables classified as operating leases:

	2023 £m	2022 £m
Less than one year	**19**	18
One to two years	**16**	16
Two to three years	**13**	13
Three to four years	**11**	11
Four to five years	**9**	10
Five to ten years	**31**	30
Ten to fifteen years	**9**	9
More than fifteen years	**12**	10
Total undiscounted lease payments receivable	**120**	117

The net book value of property, plant and equipment subject to operating leases at year-end is not material to the accounts.

16 Intangible assets

Accounting policies

a) Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

b) Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are amortised on a straight-line basis over their useful economic lives of five to fifteen years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38, 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of five to fifteen years within administrative expenses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Costs associated with maintaining computer software are recognised as an expense as incurred.

c) Cloud computing arrangements

Software as a Service (SaaS) arrangements are service contracts providing the Group with the right to access a cloud provider's application software over the contract period. Typically such arrangements involve ongoing licence fees to obtain access to the cloud provider's application software, as well as upfront costs incurred to configure or customise the SaaS solution.

Configuration and customisation costs are capitalised in the following instances as intangible assets:

— The Group has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor.

— The costs incurred meet the definition of and recognition criteria for an intangible asset. This includes for example the development of software code that enhances or modifies, or creates additional capability to, existing systems controlled by Sainsbury's.

Where these conditions are not met, costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Where the configuration or customisation of a SaaS solution is performed by the SaaS vendor, consideration is given to whether this activity is distinct from the provision of the solution itself. This assessment considers the nature of the activities, and whether Sainsbury's can benefit from any of the services in isolation. Where the activity is not considered distinct, the costs are capitalised as a prepayment and amortised over the expected useful life of the solution.

16 Intangible assets continued

d) Acquired intangible assets

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

Refer to note 17 for details of impairment policies.

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Total £m
Cost					
At 6 March 2022	**392**	**1,077**	**229**	**32**	**1,730**
Additions	**–**	**213**	**–**	**–**	**213**
Disposals	**(1)**	**(185)**	**–**	**–**	**(186)**
At 4 March 2023	**391**	**1,105**	**229**	**32**	**1,757**
Accumulated amortisation and impairment					
At 6 March 2022	**26**	**521**	**147**	**30**	**724**
Amortisation expense for the year	**–**	**150**	**20**	**2**	**172**
Impairment loss for the year	**14**	**9**	**–**	**–**	**23**
Disposals	**(1)**	**(185)**	**–**	**–**	**(186)**
At 4 March 2023	**39**	**495**	**167**	**32**	**733**
Net book value at 4 March 2023	**352**	**610**	**62**	**–**	**1,024**
Cost					
At 7 March 2021	394	899	229	32	1,554
Additions	–	278	–	–	278
Disposals[1]	(2)	(100)	–	–	(102)
At 5 March 2022	392	1,077	229	32	1,730
Accumulated depreciation and impairment					
At 7 March 2021	28	457	127	28	640
Amortisation expense for the year	–	129	20	2	151
Disposals	(2)	(65)	–	–	(67)
At 5 March 2022	26	521	147	30	724
Net book value at 5 March 2022	**366**	**556**	**82**	**2**	**1,006**

1. Disposals included write offs of software-as-a-service balances.

Goodwill balances are detailed in note 17.

17 Impairment of non-financial assets

Accounting policies

Goodwill

Goodwill is not amortised but tested for impairment annually or more frequently where there is an indication that the asset may be impaired.

At the acquisition date goodwill is allocated to the CGU or group of CGUs within the Retail or Financial Services segments that are expected to benefit from the combination.

Impairment is assessed by measuring the recoverable amount of the CGU, calculated as the higher of fair value less cost to dispose and value-in-use, at the level at which this is monitored by management. Where the carrying value of the CGU exceeds the recoverable amount an impairment loss is recognised in the income statement. The impairment charge is allocated first against goodwill and then pro-rata over other assets within the CGU by reference to the carrying amount of each remaining asset in the unit. Impairment losses recognised for goodwill are not subsequently reversed.

Property, plant and equipment, right-of-use assets, and finite lived intangible assets

Property, plant and equipment (PPE), right-of-use assets, and finite-lived intangible assets are assessed on an ongoing basis to determine whether there is an indication that the net book value is no longer supportable. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value-in-use, is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognised immediately in the income statement.

Where there has been a change in the estimates used to determine the recoverable amount and an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or CGU in prior years. An impairment loss reversal is recognised in the income statement.

17 Impairment of non-financial assets continued

Identification of cash generating units

Cash generating units are deemed the smallest group of assets that independently generate cash inflows and are independent of the cash flows generated by other assets. The CGUs identified within the respective reportable operating segments are as follows:

Retail

Cash generating units are deemed to be corporate level business units, trading stores, store pipeline development sites or in certain cases for Argos, a cluster of stores.

PPE, intangible assets and right-of-use assets are allocated to the store CGU they are associated with. For non-store assets, including depots and IT assets, these are allocated to store CGUs where it can be done on a reasonable and consistent basis, otherwise these are allocated to the CGU corporate level to which they relate.

Goodwill recognised on acquisition of retail chains of stores (Bells and Jacksons) is allocated to its respective store CGUs. Goodwill arising on the purchase of Home Retail Group is allocated to the Home Retail Group CGU. Nectar is a separate CGU.

Financial Services

Cash generating units are deemed to be each respective product or product group that is capable of generating cash flows independent of other products. Non-product assets are reviewed separately as collective CGUs with the products that they support.

Goodwill arising on the purchase of Sainsbury's Bank plc is allocated to the Financial Services CGU.

Identification of a triggering event

Management considered whether the level of uncertainty within the wider macroeconomic environment, including sustained increases in the Bank of England gilt rates, represented an indicator of impairment at the reporting date. It was determined that the increase in discount rates was a significant impairment indicator and therefore a full impairment review was undertaken.

Approach and assumptions

The recoverable amount for CGUs have been determined based on the fair value less cost to dispose and a value-in-use calculation which is based upon the cash flows expected to be generated, derived from the latest budget and forecast data which are reviewed by the Board. Budget and forecast data reflects both past experience and future expectations of market conditions.

A vacant possession valuation basis is used to approximate the fair value less costs to dispose. This is not considered to be a significant accounting judgement.

The key assumptions in measuring the value-in-use are as follows:

Assumption	Retail Segment	Financial Services Segment
Cash flow years/ assumptions	— Derived from the Board approved cash flow projections for four years and then for owned stores, extrapolated into perpetuity with an assumed growth rate of 2.0%. — For leased stores, cash flows are taken to lease end with an assumed growth rate of 2.0% beyond the four-year forecast period. — In the case of properties identified for closure, cash flow years relate to the remaining period that the store will trade for. — Online grocery sales are fulfilled by individual stores and therefore these cash flows are allocated to the individual store CGUs which fulfil the online sales. In Argos, online GM&C sales for Click & Collect are allocated to the individual store CGUs which fulfil the online sales.	— Derived from the Board approved cash flow projections for four years and then extrapolated over the remaining useful lives of the assets being tested for impairment with no assumed growth rate.
Discount rate	— A post-tax discount rate representing the Retail segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 9.1%. — The post-tax WACC has been calculated using the capital asset pricing model, the inputs of which include a 20-year average risk-free rate for the UK, a UK equity risk premium, levered debt premium and risk adjustment and an average beta for the Group. — The discount rate is applied consistently to all individual store CGUs and the Group of CGUs supported by Sainsbury's or Argos stores.	— A post-tax discount rate representing the Financial Services segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 15.1%. — The post-tax WACC has been calculated using a combination of adjusted market analysis and the actual cost of debt on Tier 2 capital instruments. — The discount rate is applied consistently to all individual product CGUs and the collective CGUs which support the products.

For store pipeline development sites, where there are plans to develop the store, the carrying value of the asset is compared with its value-in-use using a methodology consistent with the store CGU approach described above. Future cash flows include the estimated costs to completion. For sites where there is no plan to develop a store, the recoverable amount is based on its fair value less costs to dispose.

17 Impairment of non-financial assets continued

Climate change considerations

The Group's scenario analysis performed as part of the Task Force on Climate-Related Financial Disclosures (TCFD) report (refer to page 18) identified that the most material climate-related risks were heat events, labour capacity, drought, flooding, regulation and changes in consumer preferences. Produce, Cotton, Coffee, Tea, Clothing, Meat, Fish and Poultry (MFP), and Fuel were the product categories most exposed to the climate-related risks.

The most material transitional climate risk was in fuel. As such, the Group's current year impairment review included cash flow assumptions in relation to the expected future revenue loss within the fuel category. As such, the impairment conclusions reached have incorporated the expected climate-related risks associated with fuel sales.

Other than fuel, changes in consumer preferences in MFP was identified as the risk most vulnerable to transitional risks and modelling this risk in isolation to 2030 in a 1.5°C scenario calculated a £300 million to £350 million loss in revenue. The Group has considered what the impact that this revenue loss (if unmitigated) could have on the carrying value of the Group's store assets. In doing so, a corresponding reduction in margin and therefore cash flows has been modelled. Immaterial impairment risks were identified. As such, all other climate change related risks do not have a material impact on the Group's impairment considerations.

Output and sensitivities

Impairment charges recognised in the Retail Segment relate to both sites identified for closure as part of the restructuring programme as well as impairments on stores that will continue to trade but for which the cash flows no longer support the carrying amount of the assets. There were no charges recognised in the Financial Services Segment. The overall charges are as follows:

	Restructuring programme £m	Impairments £m	Total £m
Impairment of property, plant and equipment	**8**	**141**	**149**
Impairment of leased assets	**21**	**122**	**143**
Impairment of intangible assets	**5**	**18**	**23**
	34	**281**	**315**

Of the above assumptions, the value-in-use calculations are most sensitive to changes in the discount rate, forecast cash flows, and the long-term growth rate used beyond the forecast four-year forecast period. The table below sets out the key sensitivities performed on the value-in-use models and considered the reasonable possible changes in these assumptions. The impact of changing one sensitivity does not have a consequential impact on other sensitivities.

Sensitivity area	Sensitivities	Increase/(decrease) in impairment £m
Discount rate	Increase of 2%	163
	Decrease of 2%	(105)
Cash flows	Increase of 10%	(77)
	Decrease of 10%	57
Long-term growth rate	Increase of 0.5%	(30)
	Decrease of 1%	58

Goodwill

Goodwill was separately tested at the year-end as required under IAS 36. Goodwill comprises the following:

	2023 £m	2022 £m
Jacksons Stores Limited	**18**	28
Home Retail Group	**119**	119
Sainsbury's Bank plc	**45**	45
Nectar	**147**	147
Bells Stores Limited	**5**	9
Other	**18**	18
	352	366

Value in use calculations used to derive the recoverable amount of the CGU to which the respective goodwill has been allocated are based on the following key assumptions:

Assumption	
Cash flow years/ assumptions	Cash flows relating to Home Retail Group, Sainsbury's Bank plc and Nectar are derived from Board approved cash flow projections for four years and then extrapolated into perpetuity with an assumed growth rate of 2.0%. Cash flows relating to goodwill attributable to stores are consistent with the assumptions detailed above.
Discount rate	A post-tax discount rate representing the Retail segment's WACC, as detailed above, has been used for all goodwill balances, except Sainsbury's Bank plc where the post-tax discount rate representing the Financial Services segment's WACC, as detailed above, has been used.

17 Impairment of non-financial assets continued

Jackson Stores Limited and Bells Stores Limited goodwill balances are allocated to individual store CGUs to which they relate, within the Retail segment detailed above. Home Retail Group goodwill is allocated to the collective Argos store and non-store CGUs. Sainsbury's Bank plc goodwill is allocated to the Financial Services collective CGUs, as noted above. Nectar is a separate CGU.

Goodwill impairments of £14 million were recognised in the year as part of the year-end impairment review, detailed above. This impairment was in relation to the store CGUs to which Jacksons Stores Limited and Bells Stores Limited goodwill amounts are allocated to. There was no impairment identified at the collective CGU level for Argos nor Financial Services, thus there was nil impairment in the Home Retail Group or Sainsbury's Bank plc goodwill amounts. No impairments were recognised to Nectar goodwill.

Sensitivity analysis on the impairment tests for each group of cash-generating units to which goodwill has been allocated has been performed. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill.

While goodwill impairments of £14 million were noted on certain store CGUs to which Jacksons Stores Limited and Bells Stores Limited goodwill amounts are allocated to, any reasonable possible changes in assumptions would not lead to changes in this impairment amount of more or less than £2 million

The headroom disclosed below for goodwill in Jacksons Stores Limited and Bells Stores Limited relates to all store CGUs to which these goodwill amounts are allocated. Overall, management are satisfied that there are no reasonable possible changes to assumptions that would lead to further impairments in Jacksons Stores Limited, or impairments in any other goodwill.

			Sensitivities (revised headroom)			
			Discount rate		Cash flows	
	Carrying amount £m	Headroom £m	Decrease of 2% £m	Increase of 2% £m	Decrease of 10% £m	Increase of 10% £m
Jacksons Stores Limited	**18**	13	20	9	10	15
Home Retail Group	**119**	1,257	2,072	803	1,050	1,464
Sainsbury's Bank plc	**45**	418	525	338	358	477
Nectar UK	**147**	1,165	1,692	871	1,031	1,300
Bells Stores Limited	**5**	1	1	–	–	1
Other	**18**	21	41	10	16	27

18 Financial assets at fair value through other comprehensive income

Accounting policies

Financial assets that are held for both the purpose of collecting contractual cash flows and to sell are classified as fair value through other comprehensive income (FVOCI). They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Equity investments have been irrevocably designated as fair value through other comprehensive income. Subsequent to initial recognition at fair value plus transaction costs, these assets are recorded at fair value at each period end with the movements recognised in other comprehensive income until derecognition or impaired. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income reserves is recognised in the income statement for debt instruments. Gains and losses on equity instruments are never recycled to the income statement. Dividends on financial assets at fair value through other comprehensive income are recognised in the income statement when the entity's right to receive payment is established.

Interest on financial assets at fair value through other comprehensive income debt instruments is recognised using the effective interest method.

	4 March 2023 £m	5 March 2022 £m
Non-current		
Equity		
Other financial assets	**17**	382
Debt		
Financial Services related investment securities	**498**	222
	515	604
Current		
Equity		
Other financial assets	**366**	–
Debt		
Financial Services related investment securities	**128**	196
	494	196
	1,009	800

The other financial assets predominantly represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of 0 per cent (2022: 0 per cent) and a discount rate of nine per cent (2022: seven per cent). There were no disposals in the current year (2022: nil) and no impairment provisions in either the current or the previous financial year. Sensitivities are included in note 28. This is recognised as a current asset as the property investment pool ends in the next 12 months.

19 Inventories

Accounting policies

Inventories comprise goods held for resale and are valued on a standard cost or weighted average cost basis which approximates to actual cost, and carried at the lower of cost or net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition. Provision is made for obsolete, slow moving or damaged items where appropriate.

	4 March 2023 £m	5 March 2022 £m
Gross finished goods	**2,026**	1,930
Inventory provision	**(127)**	(133)
Inventory recognised on Group balance sheet	**1,899**	1,797

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 4 March 2023 was £25,198 million (2022: £22,499 million).

Inventory losses and provisions recognised as an expense for the year were £613 million (2022: £511 million).

20 Trade and other receivables

(a) Trade and other receivables

Accounting policies

Trade and other receivables are non-interest bearing and are on commercial terms. They are initially recognised at fair value and subsequently measured at amortised cost less allowances for expected credit losses, using the simplified approach under IFRS 9, with adjustments for factors specific to each receivable.

	2023 £m	2022 £m
Non-current		
Other receivables	**28**	41
Prepayments	**28**	24
	56	65
Current		
Trade receivables	**141**	148
Other receivables	**308**	363
Accrued income	**4**	–
Prepayments	**174**	172
	627	683

Trade and other receivables include £88 million (2022: £76 million) relating to supplier arrangements where there is no right of offset. Refer to note 8. In addition, current other receivables of £308 million (2022: £363 million) include £142 million (2022: £171 million) of bank funds in the course of settlement. The carrying amounts of trade and other receivables are denominated in pound sterling.

(b) Allowance for expected credit losses

The Group's exposure to credit risk arising from its retail operations is minimal given that the customer base is large and unrelated and that the overwhelming majority of customer transactions are settled through cash or secure electronic means. New parties wishing to obtain credit terms with the Group are credit checked prior to invoices being raised and credit limits are determined on an individual basis.

2023	Not past due £m	0 to 6 months past due £m	6 to 12 months past due £m	Over 1 year past due £m	Total £m
Trade receivables	**112**	**25**	**7**	**12**	**156**
Other receivables	**336**	**6**	**1**	**8**	**351**
Gross carrying amount – Trade and other receivables	**448**	**31**	**8**	**20**	**507**
Allowance for expected credit losses	**(7)**	**(2)**	**(5)**	**(16)**	**(30)**
Net carrying amount on balance sheet	**441**	**29**	**3**	**4**	**477**

2022	Not past due £m	0 to 6 months past due £m	6 to 12 months past due £m	Over 1 year past due £m	Total £m
Trade receivables	136	15	6	5	162
Other receivables	403	5	2	10	420
Gross carrying amount – Trade and other receivables	539	20	8	15	582
Allowance for expected credit losses	(6)	(5)	(7)	(12)	(30)
Net carrying amount on balance sheet	533	15	1	3	552

(c) Major counterparties

The Group has four (2022: five) major counterparties totalling £176 million (2022: £124 million). No major counterparty balances are considered overdue or impaired.

21 Amounts due from Financial Services customers and other banks

Accounting policies

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

Refer to note 29 for a detailed description of the accounting policies applicable to financial assets and note 28 for the accounting policies applicable to impairment of financial assets.

	2023 £m	2022 £m
Non-current		
Loans and advances to customers	**1,959**	2,069
Impairment of loans and advances to customers	**(51)**	(43)
	1,908	2,026
Current		
Loans and advances to customers	**3,573**	3,202
Loans and advances to banks	**100**	121
Impairment of loans and advances to customers	**(189)**	(160)
	3,484	3,163

Eligible personal and mortgage loans with applicable haircuts are used as collateral for the bilateral personal loans securitisation facility and the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized enterprises (TFSME) and Indexed Long-term Repo (ILTR) facilities.

As at 4 March 2023, £494 million (2022: £638 million) of Personal Loans assets, including £80 million (£80 million) of loans indirectly encumbered via the Bank's securitisation facilities, and £459 million (2022: £626 million) of Mortgage assets were pledged to the Bank of England facilitating funding of £660 million (2022: £661 million) from the TFSME and £nil (2022: £225 million) from the ILTR.

A further £137 million (2022: £69 million) of Personal Loans assets were pledged indirectly via the Bank's securitisation facilities generating £100 million (2022: £50 million) of funding via sale and repurchase agreements and collateral swaps.

Refer to note 28 for further details on Financial Services impairments of loans and advances.

22 Assets held for sale

Accounting policies

Assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable within one year from the date of classification and the assets are available for sale in their present condition. Assets held for sale are stated at the lower of the carrying amount and fair value less costs to dispose.

	2023 £m	2022 £m
Opening balance	**8**	24
Classified as held for sale in the year	**5**	–
Sold in the year	**(5)**	(16)
Closing balance	**8**	8

For the remaining assets, the sale is still considered probable in the next financial year and so they remain classified as held for sale. The fair value of assets held for sale is based on independent market valuations of the assets.

23 Trade and other payables

Accounting policies

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Amounts are presented net of supplier arrangements due where there is a contractual right of offset.

	2023 £m	2022 £m
Current		
Trade payables	**3,361**	2,965
Other payables	**596**	675
Accruals	**538**	565
Deferred income	**342**	341
	4,837	4,546
Non-current		
Other payables	–	11
Accruals	–	2
Deferred income	–	11
	–	24

Deferred income

The following table presents a reconciliation of deferred income during the year:

	2023 £m	2022 £m
Opening balance	**352**	406
Revenue deferred in the year	**340**	282
Revenue recognised in the year which has previously been deferred	**(350)**	(336)
Closing balance	**342**	352

The deferred revenue balance includes £315 million (2022: £327 million) in relation to deferred Nectar points.

Foreign currency risk

The Group has net euro denominated trade payables of £35 million (2022: £53 million) and US dollar denominated trade payables of £86 million (2022: £119 million).

Supplier financing arrangements

The Group has supply chain finance programmes in place. The programmes act as an alternative source of financing for the suppliers who have the option to trade their invoices with funding providers in order to receive cash earlier than the invoice due dates. The payment terms offered to suppliers who are party to the supply chain finance programmes are within standard supplier payment terms and agreed directly between the Group and the supplier.

Balances outstanding under the supplier financing arrangements are classified as trade payables, and cash flows are included in operating cash flows, since the financing arrangements are agreed between the supplier, the funding providers and the third-party platform providers. The Group does not provide additional credit enhancement nor obtain any working capital benefit from the arrangements.

Included in trade payables at 4 March 2023 are amounts of £607 million (2022: £355 million) drawn by suppliers who are party to the supply chain finance programmes.

24 Amounts due to Financial Services customers and banks

Accounting policies

With the exception of fixed rate bonds, amounts due to Financial Services customers are generally repayable on demand and accrue interest at retail deposit rates.

	2023 £m	2022 £m
Current		
Customer accounts	**4,360**	4,083
Other deposits	**520**	361
	4,880	4,444
Non-current		
Customer accounts	**374**	152
Other deposits	**692**	663
	1,066	815

Other deposits of £1,212 million (2022: £1,024 million) relate to deposits from wholesale counterparties, including the Bank of England.

25 Provisions

Accounting policies and key information

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic recourses will be required to settle the obligation and where the amount can be reliably estimated.

Provisions are measured at managements best estimate of the consideration required to settle the obligation at the reporting date and discounted using a pre-tax rate that reflects current market assessments where the time value of money is deemed material. An increase in the provision due to the passage of time is recognised as an interest expense.

Provisions for onerous contracts are recognised when the Group believes that the unavoidable costs of meeting or novating the contract exceed the economic benefits expected to be received under it. Where assets are dedicated to the fulfilment of a contract that cannot be redirected to other parts of the Group, an impairment charge would be recognised to reduce the carrying value of the assets to nil before recognising a separate onerous contract.

A restructuring provision is recognised when the Group has developed a detailed formal plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

Property provisions

Where the Group no longer operates from a leased property, onerous property contract provisions are recognised for the least net cost of exiting from the contract. The amounts provided are based on the Group's best estimates of the likely committed outflows and site closure dates. These provisions do not include rent in accordance with IFRS 16, however do include unavoidable costs related to the lease such as service charges and insurance.

Property provisions also include provisions for dilapidations which are recognised where the Group has the obligation to make-good its leased properties, which is when a decision to exit a lease has been made. This is the point at which a reliable estimate of the expected cost for dilapidations can be made. These provisions are recognised based on historically settled dilapidations which form the basis of the estimated future cash outflows. Any difference between amounts expected to be settled and the actual cash outflow will be accounted for in the period when such determination is made.

Where the Group is able to exit lease contracts before the expiry date or agree sublets, this results in the release of any associated property provisions. Such events are subject to the agreement of landlords, therefore the Group makes no assumptions on the ability to either exit or sublet a property until a position is agreed. Utilisation of the above amounts is expected to be incurred in conjunction with the profile of the leases to which they relate.

Insurance provisions

The provision relates to the Group's outstanding insurance claims liabilities in relation to public and employer's liability claims, and third party motor claims. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent actuary and are intended to provide a best estimate of the most likely or expected outcome.

Restructuring provisions

The current year charge relates to redundancies announced as part of Argos store closures, depot closures, and the exit of operations in Ireland. Utilisation of restructuring provisions is expected to be incurred in line with the closure date of the site to which the provision relates.

Financial Services related provisions

Financial Services loan commitment provisions reflect expected credit losses modelled in relation to loan commitments not yet recognised on the balance sheet, including on credit cards and Argos store cards.

Other Financial Services related provisions are primarily in relation to Argos Financial Services customers in respect of potential redress payable arising from the historic sales of Payment Protection Insurance (PPI).

The eventual cost is dependent on response rates, uphold rates, complaint rates, redress costs and claim handling costs. The provision represents management's best estimate of future costs. These assumptions are inherently uncertain and the ultimate financial impact may differ from the amount provided.

	Property provisions £m	Insurance provisions £m	Restructuring £m	Financial Services related provisions £m	Other provisions £m	Total £m
At 6 March 2022	**140**	**62**	**29**	**26**	**14**	**271**
Additional provisions	**26**	**30**	**64**	**5**	**–**	**125**
Unused amounts reversed	**(33)**	**(4)**	**(3)**	**(1)**	**(1)**	**(42)**
Utilisation of provision	**(19)**	**(29)**	**(32)**	**(2)**	**–**	**(82)**
At 4 March 2023	**114**	**59**	**58**	**28**	**13**	**272**
Current	**55**	**19**	**30**	**28**	**8**	**140**
Non-current	**59**	**40**	**28**	**–**	**5**	**132**
At 7 March 2021	164	67	54	26	38	349
Additional provisions	9	34	44	6	1	94
Unused amounts reversed	(7)	(5)	(16)	(3)	(24)	(55)
Utilisation of provision	(27)	(34)	(53)	(3)	(1)	(118)
Amortisation of discount	1	–	–	–	–	1
At 5 March 2022	140	62	29	26	14	271
Current	16	22	28	26	8	100
Non-current	124	40	1	–	6	171

25 Provisions continued

Climate change considerations

The Group takes into account the potential impact of climate change on its legal and constructive obligations, such as potential changes in regulations related to carbon emissions, environmental liabilities and natural disasters. The Group also considers the potential impact of climate change on the costs of complying with environmental regulations and the costs of natural disasters. The Group has reviewed its provisions and concluded that no adjustments need to be made for climate change risks, nor that any new provisions need to be recognised for climate-related matters.

Significant estimate – provisions

The Group's provisions are estimates of the actual costs and timing of future cash flows, which are dependent on future events and market conditions. Thus there is inherently an element of estimation uncertainty within the provisions recognised by the Group. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

The provisions are most sensitive to estimates of the future cash outflows. The following table summarises the impact that a reasonable possible change in expenditure required to settle the present obligation at the end of the reporting period would have had on the amounts recognised during the year.

	Increase/(decrease) in provisions recognised				
	Property provisions £m	Insurance provisions £m	Restructuring £m	Other provisions £m	Total £m
Increase in cash outflow of 5%	6	3	3	1	13
Decrease in cash outflows of 5%	(6)	(3)	(3)	(1)	(13)

Sensitivities on Financial Services ECL provisions are included in note 28, therefore not included in the above.

26 Called up share capital, share premium and merger reserve

Accounting policies

Ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	2023 million	2022 million	2023 £m	2022 £m
Called up share capital				
Allotted and fully paid ordinary shares 28 4/7p	**2,352**	2,336	**672**	668
Share premium account				
Share premium			**1,418**	1,406

The movements in the called up share capital, share premium and merger reserve are set out below:

	Number of ordinary shares million	Ordinary shares £m	Share premium account £m	Merger reserve £m
At 5 March 2022	**2,336**	**668**	**1,406**	**568**
Allotted in respect of share option schemes	**16**	**4**	**12**	–
At 4 March 2023	**2,352**	**672**	**1,418**	**568**
At 6 March 2021	2,231	637	1,173	568
Allotted in respect of share option schemes	14	5	17	–
Allotted in respect of Hybrid Convertible bond payment	91	26	216	–
At 5 March 2022	2,336	668	1,406	568

For the year ended 4 March 2023, 15,987,425 Ordinary shares (2021/22: 14,541,968) with a nominal value of 28 4/7p each were issued for consideration of £16 million (2021/22: £22 million) to satisfy awards under the Group's share options schemes.

During the year ended 5 March 2022, the Group redeemed the £250 million perpetual convertible bonds, of which £242 million were converted to shares. As such, the Group issued 91,026,265 Ordinary shares to settle its liability, increasing share capital and share premium by £26 million and £216 million respectively.

27 Capital redemption and other reserves

Movements in retained earnings during the reported periods are presented within the consolidated statement of changes in equity. Movements within individual reserves that are accumulated and presented as 'Other Reserves' within the consolidated statement of changes in equity are as follows:

	Currency translation reserve £m	Own Share Reserve £m	Financial assets at fair value through other comprehensive income £m	Cash flow hedge £m	Total other reserves £m	Capital redemption reserve £m
At 6 March 2022	**(1)**	**(68)**	**293**	**117**	**341**	**680**
Currency translation differences	**4**	–	–	–	**4**	–
Financial assets at fair value through other comprehensive income movements	–	–	**2**	–	**2**	–
Cash flow hedges gains and losses transferred to inventory	–	–	–	**(139)**	**(139)**	–
Items reclassified from financial assets at fair value through other comprehensive income reserve	–	–	**(1)**	–	**(1)**	–
Cash flow hedges effective portion of fair value movements	–	–	–	**93**	**93**	–
Items reclassified from cash flow hedge reserve	–	–	**(1)**	**(17)**	**(18)**	–
Purchase of own shares	–	**(45)**	–	–	**(45)**	–
Allotted in respect of share schemes	–	**23**	–	–	**23**	–
Deferred tax	–	–	–	**14**	**14**	–
At 4 March 2023	**3**	**(90)**	**293**	**68**	**274**	**680**
At 7 March 2021	–	(33)	251	(84)	134	680
Currency translation differences	(1)	–	–	–	(1)	–
Financial assets at fair value through other comprehensive income movements	–	–	71	–	71	–
Cash flow hedges gains and losses transferred to inventory	–	–	–	28	28	–
Items reclassified from financial assets at fair value through other comprehensive income reserve	–	–	4	–	4	–
Cash flow hedges effective portion of fair value movements	–	–	–	204	204	–
Items reclassified from cash flow hedge reserve	–	–	–	7	7	–
Purchase of own shares	–	(48)	–	–	(48)	–
Allotted in respect of share schemes	–	14	–	–	14	–
Other adjustments	–	(1)	–	16	15	–
Deferred tax	–	–	(33)	(54)	(87)	–
At 5 March 2022	(1)	(68)	293	117	341	680

The Group has reclassified the Own Share Reserve of £68 million as at 5 March 2022 and £33 million as at 6 March 2021 from Retained earnings to Capital redemption and other reserves to provide greater clarity to users over the Group's accumulated profits and losses as well as to better align the nature of reserves presented cumulatively within the Statement of changes in equity. Retained earnings and Capital redemption and other reserves have subsequently been adjusted for the year ended 5 March 2022 from £4,692 million and £1,089 million to £4,760 million and £1,021 million respectively, and at 6 March 2021 from £3,228 million and £847 million to £3,261 million and £814 million respectively.

Currency translation reserve

The currency translation reserve accumulates foreign exchange differences arising on the translation of net assets in foreign operations which are recognised in Other Comprehensive Income. The cumulative amount is reclassified to retained earnings when the related investment is disposed.

Own share reserve

The own share reserve represents the cost of shares in the Company held by the ESOT. The number of shares held by the ESOT, outlined in the table below, are held for potential awards under outstanding employee share award plans.

	4 March 2023			5 March 2022		
	Market Value £m	Nominal Value £m	Number of Ordinary shares million	Market Value £m	Nominal Value £m	Number of Ordinary shares million
Investment in own shares	**99**	**10.7**	**37.3**	66	7.6	26.6
Maximum number of shares held during the period	**83**	**10.9**	**38.0**	75	7.7	27.0

Investment in own shares are recorded at cost, net of directly attributable costs for the purchase of issued, or issuance of new shares. Costs related to administering the ESOT are recognised within the Income Statement when incurred. The related cost is transferred to retained earnings when shares are issued by the ESOT to employees to satisfy employee share awards.

During the period, the ESOT acquired 20.0 million of the Company's Ordinary shares via market purchase for cash consideration of £45 million (2022: 16.3 million shares via market purchase for cash of £48 million). The ESOT subsequently disposed of 9.3 million (2022: 6.9 million) Ordinary shares in the Company by way of distribution to settle outstanding employee share awards.

The ESOT has waived its right to receive dividends and has agreed to abstain from exercising their right to vote.

27 Capital redemption and other reserves continued

Financial assets at fair value through other comprehensive income
The financial assets at fair value through other comprehensive income reserve represents the fair value gains and losses on the financial assets at fair value through other comprehensive income held by the Group.

Cash flow hedge reserve
The cash flow hedge reserve represents the effective portion of gains or losses on derivatives designated and that qualify as cash flow hedges. Amounts are transferred to the balance sheet and included within the initial cost of the asset in which is being hedged, or to the income statement, as appropriate.

Capital redemption reserve
The capital redemption reserve represents the aggregated nominal value of shares redeemed and subsequently cancelled by the Group. The balance relates to the redemption of class B shares following shareholder approval at the Company's Extraordinary General Meeting on 12 July 2004 to return £680 million of share capital. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

28 Financial risk management

The principal financial risks faced by the Group relate to liquidity risk, credit risk, market risk (foreign currency risk, interest rate risk and commodity risk) and capital risk.

Financial risk management is managed by a central treasury department in accordance with policies and guidelines which are reviewed and approved by the Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying financial exposures and setting appropriate risk limits and controls. The risk management policies also ensure sufficient liquidity is available to the Group to meet foreseeable financial obligations and that cash assets are invested safely.

Financial risk management with respect to Financial Services is separately managed within the Financial Services' governance structure.

Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its financial obligations as they fall due.

The principal operational cash flow of the Group is largely stable and predictable reflecting the low business risk profile of the food retail sector and the cyclical profile of the non-food retail sector. Cash flow forecasts are produced to assist management in identifying future liquidity requirements. The Group's liquidity policy sets a minimum funding headroom of £500 million in excess of forecast funding requirements over a rolling 12-month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding contingent committed credit facilities.

The Group has a £1,575 million unsecured committed facility which consists of a £1,000 million Revolving Credit Facility and a £575 million Term Loan. The Revolving Credit Facility is split into two Facilities, a £500 million Facility (A) and a £500 million Facility (B). Facility A has a maturity of December 2026 and Facility B has a maturity of December 2027. The Term Loan has a maturity of March 2026. The Revolving Credit Facility and Term Loan were undrawn at 4 March 2023.

As detailed in note 23, some suppliers have access to supply chain finance facilities, which allows these suppliers to benefit from the Group's credit profile. The total size of the facility at 4 March 2023 was £1,054 million (2022: £1,101 million) across a number of banks and platforms. The amount utilised was £607 million with headroom of £447 million. The level of utilisation is dependent on the individual supplier requirements and varies significantly over time.

28 Financial risk management continued

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows or an estimate of cash flows in respect of floating interest rate liabilities.

At 4 March 2023	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
Non-derivative financial liabilities				
Secured loans:				
Loan due 2031[1]	**(79)**	**(82)**	**(272)**	**(289)**
Trade and other payables	**(4,495)**	**–**	**–**	**–**
Amounts due to Financial Services customers and banks[2]	**(5,101)**	**(359)**	**(766)**	**–**
Derivative contracts – net settled				
Commodity contracts	**(1)**	**1**	**–**	**–**
Interest rate swaps in hedging relationships[1,3]	**28**	**13**	**4**	**4**
Other interest rate swaps – Sainsbury's Bank	**4**	**–**	**–**	**–**
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[4]	**(1,560)**	**(222)**	**–**	**–**
Foreign exchange forwards – inflow[4]	**1,602**	**220**	**–**	**–**
Commodity contracts – outflow	**(16)**	**(28)**	**(59)**	**(164)**
Commodity contracts – inflow	**44**	**58**	**116**	**200**

At 5 March 2022	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
Non-derivative financial liabilities				
Secured loans:				
Loan due 2031[1]	(76)	(80)	(265)	(378)
Unsecured loans				
Bank overdraft	(7)	–	–	–
Trade and other payables	(4,205)	(13)	–	–
Amounts due to Financial Services customers and banks[2]	(4,444)	(109)	(708)	–
Derivative contracts – net settled				
Commodity contracts	22	2	–	–
Interest rate swaps in hedging relationships[1,3]	(4)	7	4	1
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[4]	(1,680)	(233)	–	–
Foreign exchange forwards – inflow[4]	1,707	234	–	–
Commodity contracts – outflow	(13)	(25)	(61)	(56)
Commodity contracts – inflow	82	55	102	109

Assumptions:

1. Cash flows relating to debt and swaps linked to inflation rates have been calculated using a RPI of 5 per cent for the year ended 4 March 2023, 5.0 per cent for the year ending 2 March 2024 and 5.0 per cent for future years (2022: RPI of 1.4 per cent for the year ending 5 March 2022 and 5 per cent for years 2023 and beyond).
2. Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.
3. The swap rate that matches the remaining term of the interest rate swap as at 4 March 2023 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2022: 5 March 2022).
4. Cash flows in foreign currencies have been translated using spot rates as 4 March 2023 and 5 March 2022.

Financial services

Liquidity risk is the risk that Sainsbury's Bank and its subsidiaries (the Bank) cannot meet its payment obligations as they fall due, or can only do so at excessive cost. The Bank seeks to ensure that financial obligations can be met at all times, even under liquidity stress conditions.

The annual Internal Liquidity Adequacy Assessment Process (ILAAP) enables the Bank to:

(1) Identify and assess its most relevant liquidity risk drivers;

(2) Quantify its liquidity needs under various stress scenarios; and

(3) Put in place appropriate limits and controls to mitigate liquidity risks.

In meeting its internal limits as well as PRA requirements, the Bank maintains a stock of high quality liquid assets that can be readily monetised by outright sale or repurchase agreement to meet the Bank's obligations to depositors and other creditors.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside cash flow and funding ratios. Long term and short term forecasts are prepared to assess liquidity requirements, taking into account factors such as ATM cash management, contractual maturities and customer deposit patterns (stable or less stable deposits) as well as outflows regarding undrawn commitments. These reports support daily liquidity management, with early warning indicators reviewed on a daily basis and appropriate triggers for escalation and action in line with risk appetite. Liquidity and Funding Policy and Liquidity Contingency Plan. Asset encumbrance ratios and risk indicators for wholesale funding are also regularly monitored and reported to the Asset-Liability Committee (ALCO).

28 Financial risk management continued

Asset encumbrance

	2023		2022	
	Carrying value of encumbered assets £m	Matching liabilities, contingent liabilities or securities lent £m	Carrying value of encumbered assets £m	Matching liabilities, contingent liabilities or securities lent £m
Loans and advances to customers	**1,116**	**760**	1,365	885
Debt securities	–	–	157	75
Other assets	**64**	–	40	27
Cash and balances with central banks	**15**	–	15	–

The primary sources of encumbrance in the Bank relate to margin requirements for derivative transactions and collateral relating to secured funding transactions. Cash collateral is advanced and received as variation margin on derivative transactions, whilst eligible treasury assets (primarily Gilts and Treasury bills) are pledged as collateral for initial margin requirements on derivatives which are centrally cleared. Eligible personal loans and mortgages, with applicable haircuts, are used as collateral for Bank of England funding facilities, the Term Funding Scheme with additional incentives for SMEs (TFSME) and Indexed Long Term Repo (ILTR) facilities.

Credit risk

a. Retail credit risk management

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of the Group's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers.

Specifically within Financial Services, retail credit risk is the possibility of losses arising from a retail customer failing to meet their agreed repayment terms as they fall due under mortgage, unsecured personal loan, credit card, store card or monthly payment plan arrangements. The Financial Services division utilise automated scorecards to assess the credit worthiness and affordability criteria of new applicants and ongoing behavioural characteristics of existing customers. The outcome from all scorecard models is monitored utilising a set of credit quality metrics to ensure actual performance is in line with agreed expectations. Additional expert underwriting of credit applications is undertaken by a specialist operational team where further consideration is appropriate.

The Retail Credit Risk Committee of Sainsbury's Bank provide portfolio oversight control over credit strategy to maintain lending in line with the Board approved risk appetite, with additional oversight and control provided by the Executive Risk Committee and Board Risk Committee. Internal Audit provide additional assurance by undertaking regular reviews on the adequacy of credit risk policies and procedures.

b. Wholesale and derivative credit risk management

The Group (excluding Financial Services) sets counterparty limits for each of its banking and investment counterparties based on their credit ratings and credit default swap pricing. The minimum long-term credit rating accepted by the Group is BBB- (Standard & Poor's and Fitch) or Baa3 (Moody's) or, in the case of pound sterling liquidity funds, AAA or Aaa/MR1+ from Moody's. In the event of a split credit rating, the lower rating applies.

The table below analyses the Group's (including Financial Services) cash and cash equivalents by credit exposure excluding bank balances, store cash, cash in transit and cash at ATMs.

Counterparty	Long-term rating	Group 2023 £m	Group 2022 £m
Financial institutions – Money market funds	AAA/Aaa	**140**	–
Financial institutions – Money market deposits	AAA/Aaa	**50**	–
Financial institutions – Money market deposits	AA+/Aa1 to A/A2	**215**	25
Deposits at central banks	AA+/Aa1	**345**	234

The table below analyses the fair value of the Group's derivative financial assets by credit exposure, excluding any collateral held.

Counterparty	Long-term rating	Group 2023 £m	Group 2022 £m
Interest rate swaps	AA+/Aa1 to A/A2	**99**	35
Inflation rate swaps	AA+/Aa1 to A/A2	**2**	5
FX forward contracts	AA+/Aa1 to A/A2	**49**	46
Commodity forward contracts	AA+/Aa1 to A/A2	**7**	25

The Bank's treasury portfolio is held primarily for liquidity management purposes and in the case of derivatives, for the purpose of managing market risk. The liquidity portfolio is invested in eligible investment securities that qualify for the regulatory Liquidity Coverage Ratio (LCR) and internal Operational Liquidity Pool (OLP). These investments include the Bank of England's (BoE) reserve account, UK government securities (gilts or Treasury bills), multilateral development bank securities, government guaranteed agency securities, UK regulated covered bond programmes and asset backed securities.

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings. Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark to market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures. Daily monitoring is undertaken by the Bank's Treasury and Financial Risk Teams, including early warning indicators with appropriate triggers for escalation.

28 Financial risk management continued

c. Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	2023 £m	2022 £m
Credit risk exposures relating to on balance sheet items		
Loans and advances to customers and other banks	**5,392**	5,189
Cash and balances with central banks	**1,319**	825
Derivative financial instruments (excludes level 3 instruments)	**156**	111
Investment securities	**626**	418
Other assets	**477**	552
Credit risk exposures relating to off balance sheet items		
Loan commitments	**11**	26
Total credit risk exposures	**7,981**	7,121

The commitments to lend disclosed in the above table do not include undrawn limits on credit cards and store cards of £8,674 million (2022: £8,777 million). These are not considered contractual commitments but, because in practice Financial Services does not expect to withdraw these credit limits from customers, they are within the scope of impairment provisioning.

d. Impairment of financial assets

Accounting policies

Impairments on financial assets are accounted for using a 3-stage forward-looking expected credit loss (ECL) approach in line with IFRS 9. The Group is required to record an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

ECL's are based on the difference between the cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For Financial Services portfolios of loans, such as credit card lending, storecard lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level. The allowance is calculated by reference to the estimated probability of default (PD), exposure at default (EAD) and loss given default (LGD).

- The probability of default represents the likelihood of a borrower defaulting within 12 months from the balance sheet date or within the expected lifetime of the borrower.
- Exposure at default represents the expected amount due from the borrower at the point of default by reference to exposure at the balance sheet date adjusted for expected future changes including repayments and utilisation of undrawn facilities.
- Loss given default represents the expected percentage loss at the point of default relative to the EAD. The estimate takes into account utilisation of any expected collections and recoveries strategies, debt sale arrangements and collateral.

ECL 3 stage model

- Stage 1 – Impairment allowance on financial assets that have not significantly increased in credit risk since origination, nor are credit impaired, is calculated using the probability that a borrower will default within 12 months from the balance sheet date. Interest income is recognised on the gross carrying value of the financial asset.
- Stage 2 – Where a financial asset exhibits a significant increase in credit risk (SICR) but is not yet considered to be credit impaired, the probability of default considered in the impairment allowance is based upon the lifetime probability of the borrower defaulting. Interest income continues to be recognised on the gross carrying value of the financial asset.
- Stage 3 – Assets considered to be credit impaired resulting from one or more events that have occurred that has resulted in a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets will continue to recognise lifetime expected impairment losses (with a 100% probability of default) and interest income will be recognised on the net carrying amount (i.e. gross amount less impairment allowance).

Significant increases in credit risk

The Group determines whether there has been a significant increase in credit risk by reference to quantitative thresholds, qualitative indicators and the backstop presumption that credit risk has significantly increased if contractual payments are more than 30 days past due.

Quantitative thresholds have been determined that when the lifetime PD of an instrument as at the reporting date has increased to greater than a specified multiple of the origination lifetime PD, a significant increase in credit risk is deemed to have occurred.

Qualitative tests are based around the Group's credit origination policy rules for Financial Services customers. These rules are in place at account origination in order to decline accounts that may demonstrate risk factors outside of risk appetite that are not yet reflected in PD measures. At the reporting date, if an account satisfies any policy decline rules that it had not at the point of origination, it will be considered to have significantly increased in credit risk.

There is no probationary period applied in respect of accounts that cure from stage 2 to stage 1. Transfer criteria have been subject to extensive analysis to ensure that they appropriately reflect the flow of accounts from origination to default so as to maximise the number of accounts that flow through the stages and minimise accounts that jump from stage 1 to stage 3, or that fail to enter stage 3 from stage 2.

The Group has applied the low credit risk exemption in respect of its high quality treasury portfolio held for liquidity purposes. This exemption permits low credit risk debt securities (i.e. those considered investment grade) to remain in Stage 1 without an assessment of significant increase in credit risk.

28 Financial risk management continued

Definition of default
The Group's definition of default is used in determining those accounts classified as stage 3 (i.e. credit impaired). The Group has chosen not to rebut the backstop presumption prescribed by IFRS 9 that where an account is 90 days or more past its due date then default has occurred.

The Group has also defined a number of unlikeliness-to-pay criteria that result in an account being deemed to have defaulted. These include:

— Where operational collections activities have been exhausted on accounts that are less than 90 days past due and the account is subject to recoveries processes
— If any forbearance has been granted on the account (see forbearance definition below).
— Where the customer is subject to insolvency proceedings
— Where the customer is deceased

Where an account no longer meets any of the default criteria, such as by bringing payments back up to date, the Group will continue to consider the account as being in default for the probation period (24 months for Loans and Cards, and 12 months for Storecards) from the date when it last met the definition of default.

Write-off
Loans and advances to customers are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off.

Subsequent recoveries of amounts previously written off result in impairment gains recorded in the statement of comprehensive income.

Expected lifetime
For the purposes of considering the lifetime probability of default, the expected lifetime of a financial asset is the contractual term where this is fixed within the contract, or in the case of revolving products such as credit cards a behavioural life is determined by reference to historic trends.

Modified financial assets
When the contractual cash flows of a financial asset have been renegotiated or modified and the financial asset was not derecognised, its gross carrying amount is recalculated as the present value of the modified contractual cash flows, discounted at the original effective interest rate with a gain or loss recognised in the income statement.

28 Financial risk management continued

Loans and advances to customers per stage

The tables below summarise the breakdown of the gross carrying amount of loans and advances to customers per stage. Unsecured lending represents Sainsbury's Bank credit cards and personal loan lending in addition to Argos storecards and monthly payment plan. Secured lending represents Sainsbury's Bank mortgage lending.

At 4 March 2023 Unsecured lending	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impaired				
Less than 3 months, but impaired	–	–	31	31
Over 3 months	–	–	91	91
Recoveries	–	–	81	81
Total gross impaired loans	–	–	203	203
Past due 30 days to 3 months	–	23	–	23
Past due less than 30 days	10	26	–	36
Not past due	4,302	430	–	4,732
Total gross amount due	4,312	479	203	4,994
Impairment				
Impairment on gross balance	(45)	(51)	(144)	(240)
Undrawn commitments impairment	(12)	(7)	-	(19)
Total impairment	(57)	(58)	(144)	(259)
Coverage	1.3%	12.1%	70.9%	5.2%

At 4 March 2023 Secured lending	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impaired				
Less than 3 months, but impaired	–	–	5	5
Over 3 months	–	–	1	1
Recoveries	–	–	–	–
Total gross impaired loans	–	–	6	6
Past due 30 days to 3 months	–	–	–	–
Past due less than 30 days	–	1	–	1
Not past due	533	41	–	574
Total gross amount due	533	42	6	581
Impairment				
Impairment on gross balance	-	-	-	-
Undrawn commitments impairment	-	-	-	-
Total impairment	-	-	-	-
Coverage	0.0%	0.1%	10.4%	0.1%

28 Financial risk management continued

At 5 March 2022 Secured lending	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impaired				
Less than 3 months, but impaired	–	–	31	31
Over 3 months	–	–	75	75
Recoveries	–	–	59	59
Total gross impaired loans	–	–	165	165
Past due 30 days to 3 months	–	20	–	20
Past due less than 30 days	11	29	–	40
Not past due	3,815	465	–	4,280
Total gross amount due	3,826	514	165	4,505
Impairment				
Impairment on gross balance	(34)	(47)	(120)	(201)
Undrawn commitments impairment	(10)	(8)	(1)	(19)
Total impairment	(44)	(55)	(121)	(220)
Coverage	1.2%	10.7%	73.3%	4.9%

At 5 March 2022 Secured lending	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Impaired				
Less than 3 months, but impaired	–	–	8	8
Over 3 months	–	–	1	1
Recoveries	–	–	–	–
Total gross impaired loans	–	–	9	9
Past due 30 days to 3 months	–	–	–	–
Past due less than 30 days	–	1	–	1
Not past due	713	59	–	772
Total gross amount due	713	60	9	782
Impairment				
Impairment on gross balance	–	–	(2)	(2)
Undrawn commitments impairment	–	–	–	–
Total impairment	–	–	(2)	(2)
Coverage	0.1%	0.7%	23.6%	0.4%

28 Financial risk management continued

The tables below present the reconciliations of ECL allowances on loans and advances to customers, and to overall amounts held on the balance sheet:

At 4 March 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross exposure				
Impaired	–	–	209	209
Past due but not impaired	10	50	–	60
Neither past due nor impaired	4,835	471	–	5,306
	4,845	521	209	5,575
Allowance for expected credit loss				
Opening loss allowance	(34)	(47)	(122)	(203)
Transfers between stages	(11)	22	(11)	–
Additional provisions less amounts recovered	(8)	(2)	8	(2)
Write-offs	–	4	35	39
Changes in credit risk during the year	8	(28)	(54)	(74)
Closing loss allowance	(45)	(51)	(144)	(240)
Net exposure	4,800	470	65	5,335
Hedging fair value adjustment				(43)
Loans and advances to other banks				100
Net book value within amounts due from financial services customers on balance sheet				5,392

At 5 March 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross exposure				
Impaired	–	–	174	174
Past due but not impaired	11	50	–	61
Neither past due nor impaired	4,528	524	–	5,052
	4,539	574	174	5,287
Allowance for expected credit loss				
Opening loss allowance	(40)	(63)	(160)	(263)
Transfers between stages	8	(3)	(5)	–
Additional provisions less amounts recovered	(6)	2	13	9
Write-offs	–	1	78	79
Changes in credit risk during the year	4	16	(48)	(28)
Closing loss allowance	(34)	(47)	(122)	(203)
Net exposure	4,505	527	52	5,084
Hedging fair value adjustment				(16)
Loans and advances to other banks				121
Net book value on balance sheet				5,189

Financial commitments

Sainsbury's Bank has off-balance sheet commitments to extend credit to customers of £11 million (2022: £26 million). These commitments do not include undrawn limits on credit cards and store cards of £8,674 million (2022: £8,777 million). These are not considered contractual commitments but, because in practice Financial Services does not expect to withdraw these credit limits from customers, they are within the scope of impairment provisioning.

At the year-end, £20 million of expected credit loss provisions are recognised in respect of off-balance sheet loan commitments and undrawn limits in line with IFRS 9 (2022: £19 million).

28 Financial risk management continued

Credit quality per class of loans and advances

The Group defines the following classifications for all loans and advances to customers: High, Satisfactory, Low and Credit impaired. These are segmented by 12 month probability of default (PD) under IFRS 9.

	IFRS 9 12 month PD
High quality:	<=3.02%
Satisfactory quality	>=3.03% – 11.10%
Low quality	>=11.11%
Credit impaired	100%

Unsecured lending

At 4 March 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
High quality	**3,593**	**125**	**–**	**3,718**
Satisfactory quality	**641**	**215**	**–**	**856**
Low quality	**78**	**139**	**–**	**217**
Credit impaired	**–**	**–**	**203**	**203**
Total	**4,312**	**479**	**203**	**4,994**

At 5 March 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
High quality	3,401	233	–	3,634
Satisfactory quality	381	181	–	562
Low quality	44	100	–	144
Credit impaired	–	–	165	165
Total	3,826	514	165	4,505

Secured lending

At 4 March 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
High quality	**533**	**30**	**–**	**563**
Satisfactory quality	**–**	**10**	**–**	**10**
Low quality	**–**	**2**	**–**	**2**
Credit impaired	**–**	**–**	**6**	**6**
Total	**533**	**42**	**6**	**581**

At 5 March 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
High quality	713	59	–	772
Satisfactory quality	–	1	–	1
Low quality	–	–	–	–
Credit impaired	–	–	9	9
Total	713	60	9	782

e. Significant estimate – macro-economic scenarios

IFRS 9 requires that the measurement of ECL should reflect an unbiased and probability weighted amount that is determined by evaluating a range of forward-looking economic assumptions. The Group has engaged an external supplier to provide economic forecasts which are subject to review, challenge and approval through the Bank's governance processes.

The ECL models utilise 4 scenarios (2022: 4 scenarios) including a 'base case' scenario considered to be the most likely outcome together with an upside, downside scenario and severe downside. The base case has been assigned a probability weighting of 40% with the upside, downside and severe downside scenarios weighted 30%, 25%, 5% respectively (2022: base scenario 45%; upside, downside and severe downside scenarios weighted 35%, 15%, 5% respectively).

28 Financial risk management continued

The key macro-economic assumptions included in the ECL calculation (shown as five-year averages from the reporting date) were:

	As at 4 March 2023			
	Base %	Upside %	Downside %	Severe downside %
Unemployment rate	5.3	4.5	6.2	7.6
Consumer price growth	3.4	2.9	3.8	4.3
GDP	0.8	1.4	0.3	(0.3)
Mortgage debt as a percentage of household income	99.9	97.6	102.0	104.5
Real household disposable income	0.8	1.2	0.2	(0.3)
Probability weighting (%)	40%	30%	25%	5%
Sensitivity analysis impact on impairment of 100 per cent weighting	£(2.5)m	£(12.5)m	£12.9m	£44.5m

f. Management overlays and post model adjustments (PMAs)

Overlays and PMAs are short-term increases or decreases to the ECL at either a customer or portfolio level to account for items that have not been fully reflected in the existing models. Consistent with the most recent recommendations of the Taskforce on Disclosures about Expected Credit Losses (DECL), the Group has defined overlays as adjustments made outside of the granular account level ECL calculation and PMAs as being calculated at granular account level, most often in respect of known data or model limitations.

Internal governance is in place to regularly monitor management overlays and to reduce the reliance on management overlays through model recalibration or redevelopment, as appropriate.

Management overlays and PMAs applied in estimating the reported ECL at 4 March 2023 are set out in the following table. The table includes adjustments in relation to data and model limitations resulting from economic uncertainty related to the cost of living crisis. It shows the adjustments applicable to the scenario weighted ECL numbers.

	At 4 March 2023 £m	At 5 March 2022 £m
Economic adjustment	(4)	10
Operational overlays	1	5
Total	(3)	15

The proportion of net overlays and post model adjustments is (1)% of the total ECL provision as at 4 March 2023 (2022: 9%).

Economic overlays are included where management judge the underlying models do not respond adequately to the economic scenarios. During the year, the historic economic post model adjustment relating to COVID-19 was released, however, a new economic post model adjustment was introduced given the cost of living crisis and uncertainty around the potential impact the large inflation increase may have on customer behaviour or change in economic outlook.

The majority of the Operational overlays relate to model or data limitations that are manually corrected, whilst a permanent fix is being developed.

g. Collateral relating to loans and advances to customers

Mortgages held over residential properties represent the only collateral held by the Group for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired was £17 million (2022: £23 million).

An analysis by loan-to-value (LTV) ratio of the Group's residential mortgage lending is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices.

At 4 March 2023	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Less than 70%	519	41	5	565
70% to 80%	14	1	1	16
80% to 90 %	–	–	–	–
90% to 100%	–	–	–	–
Greater than 100%	–	–	–	–
Total mortgages	533	42	6	581

At 5 March 2022	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Less than 70%	607	57	8	672
70% to 80%	102	2	1	105
80% to 90%	4	1	–	5
90% to 100%	–	–	–	–
Greater than 100%	–	–	–	–
Total mortgages	713	60	9	782

28 Financial risk management continued

h. Forbearance

The Group provides support to customers who are experiencing financial difficulties. Forbearance is defined as relief granted by a lender to assist customers in financial difficulty, through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or the Group where financial difficulty would prevent repayment within the original terms and conditions of the contract.

The main aim of forbearance is to support customers in returning to a position where they are able to meet their contractual obligations.

The Group has well defined forbearance policies and processes. A number of forbearance options are made available to customers. These include arrangements to repay arrears over a period of time by making payments above the contractual amount, that ensure the loan is repaid within the original repayment term and short-term concessions, where the borrower is allowed to make reduced repayments (or in exceptional circumstances, no repayments) on a temporary basis to assist with short-term financial hardship.

The table below details the values of secured and unsecured advances that are subject to the Group's forbearance programmes:

	2023			2022		
	Gross loans and advances subject to forbearance £m	**Forbearance as a total of loans and advances %**	**Forbearance covered by impairment provision %**	Gross loans and advances subject to forbearance £m	Forbearance as a total of loans and advances %	Forbearance covered by impairment provision %
Unsecured	**61**	**1.2**	**69.1**	52	1.2	72.0
Secured	**1**	**0.2**	**4.5**	2	0.3	25.7
Total	**62**	**1.1**	**68.1**	54	1	70.1

Market risk

The Group uses forward contracts to hedge foreign exchange and commodity exposures, and interest rate swap contracts to hedge interest rate exposures. The use of financial derivatives is governed by Board approved policies which prohibits the use of derivative financial instruments for speculative purposes.

a. Foreign currency risk

Currency risk is the risk of increased costs arising from unexpected movements in exchange rates impacting the Group's foreign currency denominated supply contracts.

The Group's currency risk policy seeks to limit the impact of fluctuating exchange rates on the Group's income statement by requiring highly probable foreign currency cash flows to be hedged. Highly probable foreign currency cash flows, which may be either contracted or uncontracted, are hedged on a layered basis using foreign currency forward contracts.

The Group has exposure to currency risk on balances held in foreign currency denominated bank accounts, which may arise due to short-term timing differences on maturing hedges and underlying supplier payments.

The Group considers that a ten per cent movement in exchange rates against pound sterling is a reasonable measure of volatility. The impact of a ten per cent movement in the exchange rate of US dollar and euro versus pound sterling as at the balance sheet date, with all other variables held constant, is summarised in the table below:

Group	**2023 Change in exchange rate impact on post-tax profit +/-10% £m**	**2023 Change in exchange rate impact on cash flow hedge reserve +/-10% £m**	2022 Change in exchange rate impact on post-tax profit +/-10% £m	2022 Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	**5/(6)**	**(110)/135**	3/(3)	(115)/141
EUR/GBP	**2/(3)**	**(32)/40**	3/(3)	(29)/36

Financial Services

The Bank is exposed to foreign exchange (FX) risk through its holding of cash denominated in foreign currencies, primarily Euro and US Dollar, within its travel money bureaux in Sainsbury's stores and its currency dispensing ATM machines. The FX positions are hedged on a regular basis.

b. Interest rate risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates impacting the Group's borrowing and investment portfolios. The Group's interest rate policy seeks to limit the impact of fluctuating interest and inflation rates by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

Interest on financial instruments is classified as fixed rate if interest resets on the borrowings are less frequent than once every 12 months. Interest on financial instruments is classified as floating rate if interest resets on the borrowings occur every 12 months or more frequently. Floating rate instruments are considered variable capped rate if the nominal interest rate is subject to a cap.

28 Financial risk management continued

The mix of the Group's financial assets and liabilities at the balance sheet date was as follows:

	Fixed £m	Floating £m	Variable capped £m	Total £m
Interest bearing financial assets at fair value through other comprehensive income	**25**	**664**	**–**	**689**
Amounts due from Financial Services customers and other banks	**2,690**	**2,702**	**–**	**5,392**
Cash and cash equivalents	**456**	**863**	**–**	**1,319**
Borrowings	**(122)**	**–**	**(539)**	**(661)**
Amounts due to Financial Services customers and banks	**(1,477)**	**(4,469)**	**–**	**(5,946)**
Derivative effect:				
Interest rate swaps	**(1,143)**	**1,143**	**–**	**–**
Inflation linked swaps	**(490)**	**–**	**490**	**–**
At 4 March 2023	**(61)**	**903**	**(49)**	**793**

	Fixed £m	Floating £m	Variable capped £m	Total £m
Interest bearing financial assets at fair value through other comprehensive income	121	297	–	418
Amounts due from Financial Services customers and other banks	2,799	2,390	–	5,189
Cash and cash equivalents	547	278	–	825
Bank Overdrafts	–	(7)	–	(7)
Borrowings	(179)	–	(575)	(754)
Amounts due to Financial Services customers and banks	(603)	(4,656)	–	(5,259)
Derivative effect:				
Interest rate swaps	(1,952)	1,952	–	–
Inflation linked swaps	(490)	–	490	–
At 5 March 2022	243	254	(85)	412

(i) Cash flow sensitivity for floating rate instruments

The Group considers that a 100 basis point movement in interest rates is a reasonable measure of volatility. The sensitivity of floating rate balances to a change of 100 basis points in the interest rate (or such lesser amount as would result in a zero rate of interest) at the balance sheet date is shown below:

	2023 Impact on post-tax profit £m	2023 Impact on cash flow hedge reserve £m	2022 Impact on post-tax profit £m	2022 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**1/2**	**(0)/0**	(5)/9	(0)/0

(ii) Cash flow sensitivity for variable capped rate liabilities

The Group holds £539 million of capped inflation linked borrowings (2022: £575 million) of which £490 million (2022: £490 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing on 19 April 2023.

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

	2023 Impact on post-tax profit £m	2023 Impact on cash flow hedge reserve £m	2022 Impact on post-tax profit £m	2022 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**0/(0)**	**1/(1)**	(0)/0	5/(6)

28 Financial risk management continued

Financial Services
Interest Rate Risk in the Banking Book (IRRBB) arises from interest rate movements which impact the present value and timing of future cash flows resulting in changes in the underlying value of a bank's assets and liabilities and hence its economic value. Interest rates movements also affect a bank's earnings by altering interest-sensitive income and expenses, affecting its net interest income.

The main types of interest rate risk faced by the Bank are:

— Repricing gap risk: the risk arising from timing differences in the interest rate changes of bank assets and liabilities (e.g. fixed rate personal loans and instant access savings accounts).
— Yield curve risk: the risk arising from changes in the slope and shape of the yield curve.
— Basis risk: risk arising from imperfect correlation between different interest rate indices (e.g. administered rate on savings products and treasury assets linked to SONIA).
— Prepayment risk: the risk arising from the timing of customer prepayments which differ from planning and hedging assumptions.
— Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for the Bank.
— Credit Spread Risk: the risk of adverse effects resulting from a change in credit spreads, arising via the Bank's Treasury portfolio.

Interest risk exposure is actively managed within limits that are aligned with the Bank's risk appetite by using financial instruments such as interest rate swaps and by taking into account natural hedges between assets and liabilities with similar repricing characteristics. Hedging strategies are implemented and reviewed to ensure the Bank remains within its limits.

The Bank's market risk appetite statements defines limits for the following market risk measures:

— Capital at Risk: an aggregate measure based on assessing each of the IRRBB risks and allocating a capital charge against each risk driver using a series of plausible but severe interest rate stresses. This includes parallel and non-parallel movements of the yield curve. Where applicable a customer behavioural repayment profile is applied.
— Annual Earnings at Risk: measures the sensitivity of the Bank's earnings over the next 12 months, in response to adverse movements in interest rates.

c. Commodity Risk
Commodity risk is the risk of increased costs arising from unexpected movements in commodity prices impacting the Group's own use consumption of electricity, gas and diesel. The Group hedges own use consumption of electricity and gas with forward purchases under flexible purchasing arrangements with its suppliers as well as power purchase agreements for electricity. The Group uses a combination of purchasing agreements and financial derivatives to hedge fuel exposures on a layered basis using contracts for difference. See note 30 for derivative disclosures.

Capital risk management
The Group defines capital as total equity plus net debt.

The Board's capital objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide optimal returns for shareholders and safeguard the Group's status as a going concern. There has been no change to capital risk management policies during the year.

The Board monitors a broad range of financial metrics including return on capital employed, balance sheet gearing and fixed charge cover.

The Board can manage the Group's capital structure by diversifying the debt portfolio, adjusting the size and timing of dividends paid to shareholders, recycling capital through sale and leaseback transactions, issuing new shares or repurchasing shares in the open market and flexing capital expenditure.

From time-to-time, the ESOT may purchase shares in the Company from the open market for the purpose of satisfying awards under the Group's employee share plans however the Group does not currently operate a defined share buy-back plan.

The Revolving Credit Facility and Term Loan have a single repeating financial covenant. Part of the Group's capital risk management is to ensure compliance with both the financial and general covenants included within the Group's borrowing facilities. Examples of general covenants include restrictions on the permitted value of asset disposals and incremental indebtedness. In addition to there being no breaches of financial and general covenants in the financial year ended 4 March 2023, there is healthy headroom within all covenants as at 4 March 2023.

Financial Services capital resources (unaudited)
The following table analyses the regulatory capital resources under CRD IV. From a prudential perspective, Sainsbury's Bank is monitored and supervised on a consolidated basis with its subsidiary, Home Retail Group Card Services Limited, from the point of acquisition of Argos Financial Services in September 2016. The Bank has obtained an individual consolidation waiver from the PRA, which allows the Bank to monitor its capital position on a consolidated basis only. Therefore, the capital position shown below is on a regulatory consolidated basis.

The Bank implemented IFRS 9, effective 1 March 2018. The following table analyses the regulatory capital resources under CRD IV and aligns to the phase-in approach of IFRS 9 impacts on capital, over a five-year period.

	Transitional 2023 IFRS 9 £m	Full impact 2023 IFRS 9 £m	Transitional 2022 IFRS 9 £m	Full impact 2022 IFRS 9 £m
Common Equity Tier 1 (CET 1) capital:				
Ordinary share capital	**701**	**701**	701	701
Allowable reserves	**165**	**165**	126	126
Regulatory adjustments	**(144)**	**(167)**	(142)	(180)
Tier 1 capital	**722**	**699**	685	647
Tier 2 capital (loan notes – listed)	**113**	**113**	109	109
Total capital	**835**	**812**	794	756

28 Financial risk management continued

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV) and aligns to the phase-in approach of IFRS 9 impacts on capital, over a 5-year period from 1 March 2018, as enacted in the UK. Common Equity Tier 1 (CET 1) capital includes ordinary share capital, other reserves, losses and regulatory deductions.

The movement of CET 1 capital during the financial year is analysed as follows:

	Transitional 2023 IFRS 9 £m	Full impact 2023 IFRS 9 £m	Transitional 2022 IFRS 9 £m	Full impact 2022 IFRS 9 £m
At 1 March 2022 and 1 March 2021	**685**	**647**	791	726
Verified profits attributable to shareholders	**38**	**38**	22	22
Foreseeable dividend	–	–	(50)	(50)
Transitional adjustments	**(15)**	–	(27)	–
Other reserve movements	**1**	**1**	(2)	(2)
Movement in additional value adjustments	**(1)**	**(1)**	1	1
Movement in intangible assets	**15**	**15**	(50)	(50)
Movement in Non Performing Exposures insufficient coverage	**(1)**	**(1)**	–	–
At 28 February 2023 and 28 February 2022	**722**	**699**	685	647

Leverage ratio (unaudited)

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets, which is measured below on a regulatory consolidated basis. The denominator represents the total non-risk weighted assets of the regulatory group (Bank and Home Retail Group Card Services Limited) adjusted for certain off balance sheet exposures assets and regulatory deductions and provides a non-risk-weighted 'backstop' capital measure. The leverage ratio is calculated below as at 28 February 2023 on the UK basis which allows central bank assets to be excluded from the leverage exposures. The Bank's leverage ratio of 9.6% exceeds the minimum Basel leverage ratio of 3%.

	Transitional 2023 IFRS 9 £m	Full impact 2023 IFRS 9 £m	Transitional 2022 IFRS 9 £m	Full impact 2022 IFRS 9 £m
Components of the leverage ratio				
Total assets as per published financial statements (Sainsbury's Bank plc consolidated group)[1]	**7,209**	**7,209**	6,516	6,516
Movement on consolidation of subsidiary undertakings[1]	**(6)**	**(6)**	–	–
Exposure value for derivatives and securities financing transactions	**32**	**32**	37	37
Off balance sheet exposures: unconditionally cancellable (10%)	**867**	**867**	878	878
Off balance sheet: other (100%)	**2**	**2**	5	5
Other adjustments	**(242)**	**(265)**	(169)	(207)
Central Bank Claims	**(331)**	**(331)**	(219)	(219)
	7,531	**7,508**	7,048	7,010
Tier 1 capital	**722**	**699**	685	647
Leverage ratio	**9.6%**	**9.3%**	9.7%	9.2%

1. As a result of Sainsbury's Bank moving to prepare consolidated accounts, the prior year comparatives have been restated to use the total assets of the Consolidated Financial Services sector. A deconsolidation adjustment is then applied to get the total assets of the prudential regulated group.

Capital management

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. Capital adequacy is monitored on an ongoing basis by senior management, the ALCO, the Executive Risk Committee and the Board Risk Committee. Our submissions to the PRA in the year have shown that the Bank has complied with all externally imposed capital requirements.

The Bank will disclose Pillar 3 information as required by the Capital Requirements Regulations and PRA prudential sourcebook on the J Sainsbury plc external website.

29 Financial instruments

Accounting policies

a) Financial assets

The Group classifies all of its financial assets as either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The Group's non-derivative financial assets comprise:

— Cash and cash equivalents (note 31)

— Trade and other receivables, excluding prepayments and accrued income (note 20)

— Amounts due from Financial Services customers and other banks (note 21)

— Financial assets at FVOCI (note 18)

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The business model assessment reflects how the Group manages the risks relating to the underlying financial assets, including whether the Group's principal objective is to collect the contractual cash flows arising from the instruments (amortised cost), to sell the financial instruments (FVTPL) or a combination thereof (FVOCI).

Financial instruments at amortised cost

Financial assets that are principally held for the collection of contractual cash flows and which pass the SPPI test are classified as amortised cost. For the Group this includes cash, receivables and amounts due from Financial Services customers and other banks. The Group has no intention of trading these assets. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures these financial assets at fair value plus transaction costs. Subsequently these assets are carried at amortised cost less impairment using the effective interest rate method. Income from these financial assets is calculated on an effective interest rate basis and is recognised in the income statement.

Financial assets at fair value through other comprehensive income

Accounting policies are detailed in note 18.

Financial assets at fair value through profit and loss

The Group's derivatives are classified as fair value through profit or loss. They are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

Financial assets are derecognised when the contractual cash flows from the asset have expired or have been transferred, usually by sale, and with them either substantially all the risks and rewards of the asset or significant risks and rewards, along with the unconditional ability to sell or pledge the asset.

b) Financial liabilities

The Group recognises all of its financial liabilities at amortised cost and all derivative financial liabilities are classified as FVTPL. Financial liabilities costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The Group's non-derivative financial liabilities comprise:

— Borrowings (note 33)

— Trade and other payables, excluding deferred income, other taxes and social security costs payable, and other accruals (note 23)

— Amounts due to Financial Services customers and banks (note 24)

— Lease liabilities (note 15)

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

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled, or expires.

Financial assets and liabilities by category

The carrying amount of the Group's financial assets, financial liabilities and derivative financial instruments as at the balance sheet date are as follows:

	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	1,319	–	–	1,319
Trade and other receivables	477	–	–	477
Amounts due from Financial Services customers and other banks	5,392	–	–	5,392
Financial assets at FVOCI	–	1,009	–	1,009
Trade and other payables	(4,495)	–	–	(4,495)
Borrowings	(656)	–	–	(656)
Amounts due to Financial Services customers and banks	(5,946)	–	–	(5,946)
Derivative financial instruments	–	–	213	213
Lease liabilities	(6,489)	–	–	(6,489)
At 4 March 2023	**(10,398)**	**1,009**	**213**	**(9,176)**

29 Financial instruments continued

	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	825	–	–	825
Trade and other receivables	552	–	–	552
Amounts due from Financial Services customers and other banks	5,189	–	–	5,189
Financial assets at FVOCI	–	800	–	800
Trade and other payables	(4,218)	–	–	(4,218)
Borrowings	(761)	–	–	(761)
Amounts due to Financial Services customers and banks	(5,259)	–	–	(5,259)
Derivative financial instruments	–	–	259	259
Lease liabilities	(6,621)	–	–	(6,621)
At 5 March 2022	(10,293)	800	259	(9,234)

c) Fair value estimation

Set out below is a comparison of the carrying amount and the fair value of financial instruments that are carried in the financial statements at a value other than fair value. The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, other receivables, overdrafts and payables and lease liabilities are assumed to approximate to their book values.

At 4 March 2023	Carrying amount £m	Group fair value £m
Financial assets		
Amounts due from Financial Services customers[1]	**5,392**	**5,340**
Financial liabilities		
Loans due 2031	**(539)**	**(639)**
Tier 2 capital due 2028	**(122)**	**(131)**
Amounts due to Financial Services customers and other banks	**(5,946)**	**(5,954)**

At 5 March 2022	Carrying amount £m	Group fair value £m
Financial assets		
Amounts due from Financial Services customers[1]	5,189	5,216
Financial liabilities		
Loans due 2031	(575)	(717)
Tier 2 capital due 2023	(179)	(180)
Amounts due to Financial Services customers and other banks	(5,259)	(5,260)

1. Included within a portfolio fair value hedging relationship with £3,033 million (2022: £3,235 million) of interest rate swaps.

The fair value of financial liabilities have been calculated by discounting cash flows at prevailing interest rates and are within Level 2 of the fair value hierarchy, with the exception of the Tier 2 Capital, where the fair value is calculated using prevailing market prices and is therefore Level 1.

29 Financial instruments continued

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are recognised at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

— Level 1 fair value measurements are derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities at the balance sheet date. This level includes listed equity securities and debt instrument on public exchanges;

— Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates; and

— Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 4 March 2023				
Financial instruments at fair value through other comprehensive income				
Other financial assets	–	**383**	–	**383**
Investment securities	**626**	–	–	**626**
Derivative financial assets	–	**156**	**131**	**287**
Derivative financial liabilities	–	**(74)**	–	**(74)**
At 5 March 2022				
Financial instruments at fair value through other comprehensive income				
Other financial assets	–	15	367	382
Investment securities	418	–	–	418
Derivative financial assets	–	111	180	291
Derivative financial liabilities	–	(32)	–	(32)

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

	Commodity derivatives £m	Total £m
At 6 March 2022	**180**	**180**
In cost of sales in the Group income statement	**(30)**	**(30)**
In other comprehensive income	**(19)**	**(19)**
At 4 March 2023	**131**	**131**

	Financial instruments at FVTOCI £m	Commodity derivatives £m	Total £m
At 7 March 2021	291	6	297
In cost of sales in the Group income statement	–	76	76
In other comprehensive income	76	98	174
At 5 March 2022	367	180	547

29 Financial instruments continued

Level 3 other financial assets

Other financial assets categorised as Level 3 in the prior year of £367 million relate to the Group's beneficial interest in a property investment pool. Given the Group has reached an agreement on an acquisition price for the properties within this investment pool during the period (see note 15 for further details), these financial assets have been reclassified to Level 2.

Level 3 derivative financial assets – power purchase agreement

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial assets is £131 million (2022: £180 million) relating to these agreements. The Group has entered into a new Power Purchase Agreement during the year, and this has been designated as a cash flow hedge.

The Group values its Power Purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

Not in a hedge relationship

	2023 Change in volume +/-20.0% £m	2023 Change in electricity forward pricing +/-20.0% £m	2022 Change in volume +/-20.0% £m	2022 Change in electricity forward pricing +/-20.0% £m
Derivative financial instruments	**20/(20)**	**11/(11)**	23/(23)	16/(16)

Designated in a cash flow hedge relationship

	2023 Change in volume +/-20.0% £m	2023 Change in electricity forward pricing +/-20.0% £m	2022 Change in volume +/-20.0% £m	2022 Change in electricity forward pricing +/-20.0% £m
Derivative financial instruments	**43/(44)**	**15/(16)**	32/(32)	20/(20)

29 Financial instruments continued

d) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

The following table sets out the Group's financial assets and financial liabilities that are subject to counterparty offsetting or a master netting agreement. The master netting agreements regulate settlement amounts in the event a party defaults on their obligations.

	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	Net amounts recognised in the balance sheet £m	Amounts not offset in balance sheet: Cash collateral pledged £m	Net amounts £m
Assets					
Derivative financial assets	**287**	**–**	**287**	**(49)**	**238**
Trade and other receivables	**624**	**(147)**	**477**	**–**	**477**
Cash and cash equivalents	**1,319**	**–**	**1,319**	**–**	**1,319**
Total assets at 4 March 2023	**2,230**	**(147)**	**2,083**	**(49)**	**2,034**
Liabilities					
Derivative financial liabilities	**(74)**	**–**	**(74)**	**52**	**(22)**
Trade and other payables	**(4,642)**	**147**	**(4,495)**	**–**	**(4,495)**
Total liabilities at 4 March 2023	**(4,716)**	**147**	**(4,569)**	**52**	**(4,517)**
Assets					
Derivative financial assets	291	–	291	(20)	271
Trade and other receivables	643	(91)	552	–	552
Cash and cash equivalents	825	–	825	–	825
Total assets at 5 March 2022	1,759	(91)	1,668	(20)	1,648
Liabilities					
Derivative financial liabilities	(32)	–	(32)	20	(12)
Trade and other payables	(4,309)	91	(4,218)	–	(4,218)
Total liabilities at 5 March 2022	(4,341)	91	(4,250)	20	(4,230)

The Group holds certain financial derivatives which are subject to credit support agreements. Under these agreements cash collateral is posted by one party to the other party should the fair value of the financial derivative exceed a pre-agreed level. As at 4 March 2023, the Group held no collateral against these financial derivative assets (2022: £nil).

Financial Services has derivatives that are governed by the International Swaps and Derivatives Association and their associated credit support annex bilateral agreements where if the fair value exceeds a pre-agreed level, cash collateral is posted. As at 4 March 2023, Financial Services and its subsidiary had pledged / posted collateral of £49 million (2022: provided collateral of £20 million) against the derivatives and received collateral of £52 million (2022: £20 million).

The Group also operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. As at 4 March 2023 the Group had a net overdraft of £nil (2022: £7 million) under this facility.

30 Derivative financial instruments and hedge accounting

Accounting policies

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates. Where derivatives do not qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised in the income statement as they arise.

To qualify for hedge accounting, the Group documents, at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction, the nature of the risks being hedged and an assessment of the effectiveness of the hedging relationship to ensure it is highly effective on an ongoing basis.

Where a derivative does qualify for hedge accounting, any changes in fair value are recognised depending on the nature of the hedge relationship and the item being hedged as follows:

i) Cash flow hedges

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the Group's exposure to variability in cash flows resulting from a highly probable forecasted transaction. These include the exchange rate risk of inventory purchases denominated in foreign currency, interest rate risk and commodity risk on purchases of power and fuel. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

30 Derivative financial instruments and hedge accounting continued

If a cash flow hedge is hedging a firm commitment or forecast transaction that results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability. This applies to the Group's foreign currency hedges in relation to inventory purchases.

ii) Fair value hedges

The Group designates certain derivatives as fair value hedges where the derivative financial instrument hedges the change in fair value of the particular risks inherent in recognised assets or liabilities (fair value hedges).

The Group has adopted IFRS 9 hedge accounting requirements for its fair value hedges of investment securities and its one-for-one hedge on Tier 2 Debt issuance within Sainsbury's Bank. The Group continues to adopt IAS 39 for its macro portfolio fair value hedges of fixed rate personal loans and residential mortgages, as it is permitted to do so under IFRS 9 and until the point that the new macro hedge accounting standard is finalised and adopted.

Fair value hedging matches the change in fair value of designated hedged items against the corresponding change in value of the hedging derivative. The designated hedged item can be a recognised asset or liability, a firm commitment, or an identified portion of an asset.

The effective part of any gain or loss on the hedged item adjusts the balance of the hedged item and is recognised in the income statement, offsetting the gain or loss on the hedging derivative. Should circumstances arise where the hedge relationship subsequently proves ineffective, is early settled, or is terminated the adjustment to the balance of the hedged item is amortised over the remaining life of the hedged item and to the income statement.

Micro fair value hedging – IFRS 9

The Group has purchased a number of fixed rate debt investment securities and has issued fixed rate subordinated debt within Sainsbury's Bank. These instruments are hedged via plain vanilla interest rate swaps, with the critical economic terms of both the hedging instrument and hedged item matching. The notional amount, fixed interest legs and maturity dates are economically matched.

Portfolio fair value hedging – IAS 39

The Group uses portfolio fair value hedging as a risk management tool for hedging interest rate risk on the Personal Loans and Mortgage portfolios. Portfolio fair value hedging allows the designation of the whole or part of a portfolio of assets or liabilities with similar risk exposures. The hedged item can be designated based on expected maturities to match the hedging derivative maturity. Hedge effectiveness is considered to have been met where the change in fair value of the hedged item offsets the change in fair value of hedging instruments, within the 80 to 125 per cent ratio corridor.

The effects of hedge accounting on the Group's financial position and performance

The fair value of derivative financial instruments has been disclosed in the balance sheet as follows:

	2023 Asset £m	2023 Liability £m	2022 Asset £m	2022 Liability £m
Non-current	**217**	**(58)**	213	(3)
Current	**70**	**(16)**	78	(29)
Total	**287**	**(74)**	291	(32)

The table below provides a breakdown of the type of derivatives in fair value and cash flow hedges as well as derivatives not in a formal hedge accounting relationship.

	2023				2022			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	**99**	**2,149**	**(52)**	**675**	35	2,249	(19)	986
Cash flow hedges								
Inflation rate swaps	**–**	**490**	**–**	**–**	5	490	–	–
Foreign exchange forward contracts	**49**	**1,049**	**(17)**	**482**	46	1,153	(13)	323
Commodity contracts	**7**	**21**	**(5)**	**45**	25	33	–	–
Power Purchase contracts	**79**	**15**	**–**	**–**	98	6	–	–
Derivatives not in a formal hedging relationship								
Interest rate swaps	**1**	**209**	**–**	**–**	–	9	–	–
Cross currency swaps	**–**	**–**	**–**	**–**	–	44	–	69
Foreign exchange forward contracts	**–**	**14**	**–**	**–**	–	–	–	–
Power Purchase contracts	**52**	**11**	**–**	**–**	82	11	–	–
Total	**287**	**3,958**	**(74)**	**1,202**	291	3,995	(32)	1,378

30 Derivative financial instruments and hedge accounting continued

Cash flow hedges

There is an economic relationship between the hedged items and the hedging instruments as the terms of the interest rate swaps, foreign exchange and commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument compared to the hedged items
- Changes to the forecasted cash flows of hedged items

At 4 March 2023 the maturity profile and average price/rate of the hedging instruments used in the Group's non-dynamic hedging strategies were as follows:

	Maturity				
At 4 March 2023	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**One to five years**	**More than five years**
Cash flow hedges					
Interest rate risk					
Notional amount	–	**490**	–	–	–
Average interest receive	–	**5.00%**	–	–	–

	Maturity				
At 5 March 2022	Less than 1 month	1 to 3 months	3 months to 1 year	One to five years	More than five years
Cash flow hedges					
Interest rate risk					
Notional amount	–	–	–	490	–
Average interest receive	–	–	–	1.37%	–

The impact of the hedged items on the Group's financial statements is as follows:

At 4 March 2023	**Change in value of hedged item for calculating hedge ineffectiveness £m**	**Change in value of hedging instrument for calculating hedge ineffectiveness £m**	**Cumulative impact on cash flow hedge reserve £m**
Cash flow hedges			
Foreign exchange forward contracts	**(123)**	**123**	**9**
Commodity contracts	**11**	**(11)**	**2**
Power Purchase Agreements	**19**	**(19)**	**79**

At 5 March 2022	Change in value of hedged item for calculating hedge ineffectiveness £m	Change in value of hedging instrument for calculating hedge ineffectiveness £m	Cumulative impact on cash flow hedge reserve £m
Cash flow hedges			
Inflation rate swaps	(8)	8	5
Foreign exchange forward contracts[1]	(73)	73	25
Commodity contracts	(25)	25	25
Power Purchase Agreements	(98)	98	98

1. Includes £16 million reclassified to retained earnings during the year.

There are no amounts remaining in the hedging reserves for which hedge accounting is no longer applied.

30 Derivative financial instruments and hedge accounting continued

The following table presents a reconciliation by risk category of the cash flow hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

At 4 March 2023	Opening £m	Fair value movements recognised in other comprehensive income £m	Amounts reclassified £m	Closing £m	Reclassification recognised in
Inflation rate swaps	**5**	**–**	**(5)**	**–**	**Finance costs**
Foreign exchange forward contracts	**25**	**123**	**(139)**	**9**	**Inventory**
Commodity contracts	**25**	**(11)**	**(12)**	**2**	**Cost of sales**
Power purchase agreements	**98**	**(19)**	**–**	**79**	**Cost of sales**
Tax	**(36)**	**14**	**–**	**(22)**	
	117	**107**	**(156)**	**68**	

At 5 March 2022	Opening £m	Fair value movements recognised in other comprehensive income £m	Amounts reclassified £m	Closing £m	Reclassification recognised in
Interest rate swaps	(1)	–	1	–	Finance costs
Inflation rate swaps	(13)	8	10	5	Finance costs
Foreign exchange forward contracts[1]	(92)	73	44	25	Inventory/retained earnings
Commodity contracts	4	25	(4)	25	Cost of sales
Power purchase agreements	–	98	–	98	Cost of sales
Tax	18	(54)	–	(36)	
	(84)	150	51	117	

1. Includes £16 million reclassified to retained earnings during the year.

Fair value hedges

Within the Financial Services business, interest rate swaps are executed to hedge interest rate risk arising from fixed rate exposures in its retail personal loan and retail mortgage books, and certain fixed rate treasury investment securities, which are predominantly funded by variable rate linked liabilities.

The cash flows under the hedging instruments (interest rate swap derivatives) substantially match the cash flow profile of the hedged items (personal loans, mortgages, treasury investment securities and borrowings). The changes in fair value of the derivatives offset changes in the fair value of the hedged items through the income statement, with any ineffective portion also being recognised in the income statement.

The main source of ineffectiveness within the micro hedge relationships relates to the floating leg valuation changes inherent within the hedging instrument that do not exist within the hedged item. Ineffectiveness on portfolio hedges can also arise as a result of mismatch in cash flow maturities between the hedged item and hedging instrument and basis risk between cash flows discounted using different benchmark rates.

30 Derivative financial instruments and hedge accounting continued

At 4 March 2023 the maturity profile and average price/rate of the hedging instruments used in the Group's non-dynamic hedging strategies were as follows:

	Maturity				
	Less than 1 month	1 to 3 months	3 months to 1 year	One to five years	More than five years
At 4 March 2023					
Fair value hedges					
Interest rate risk					
Interest rate swaps					
Notional amount	–	**125**	**589**	**748**	**1,362**
Average net interest receive	–	**0.73%**	**0.71%**	**1.17%**	**3.50%**
At 5 March 2022					
Fair value hedges					
Interest rate risk					
Interest rate swaps					
Notional amount	–	138	584	1,246	1,267
Average net interest receive	–	(0.08)%	(0.20)%	(0.28)%	0.06%

The impact of the hedged items on Group's financial statements is as follows:

	Carrying amount of the hedged item		Change in fair value used for measuring ineffectiveness for the period	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		
At 4 March 2023	**Assets £m**	**Liabilities £m**	**£m**	**Assets £m**	**Liabilities £m**	**Line item in financial statements**
Fair value hedges						
Interest rate swaps	**2,615**	–	**(27)**	**(43)**	–	Amounts due from Financial Services customers
Interest rate swaps	–	–	**3**	–	–	Financial assets at FVOCI
Interest rate swaps	–	**(122)**	**5**	–	**3**	Borrowings
	2,615	**(122)**	**(19)**	**(43)**	**3**	

	Carrying amount of the hedged item		Change in fair value used for measuring ineffectiveness for the period	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		
At 5 March 2022	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m	Line item in financial statements
Fair value hedges						
Interest rate swaps	2,725	–	(38)	(16)	–	Amounts due from Financial Services customers
Interest rate swaps	197	–	(4)	(3)	–	Financial assets at FVOCI
Interest rate swaps	–	(179)	1	–	(2)	Borrowings
	2,922	(179)	(41)	(19)	(2)	

30 Derivative financial instruments and hedge accounting continued

The impact of the hedging instruments on the financial statements is as follows:

At 4 March 2023	Notional amount £m	Carrying amount Asset £m	Carrying amount Liability £m	Change in fair value for measuring ineffectiveness for the period £m	Line item in financial statements
Fair value hedges					
Interest rate swaps (loans and mortgages)	**2,704**	**99**	**(52)**	**35**	Derivative financial assets/ liabilities
Interest rate swaps (Tier 2 capital)	**120**	**–**	**–**	**1**	Derivative financial liabilities
Interest rate swaps (investment securities)	**–**	**–**	**–**	**(5)**	Derivative financial assets
	2,824	**99**	**(52)**	**31**	

At 5 March 2022	Notional amount £m	Carrying amount Asset £m	Carrying amount Liability £m	Change in fair value for measuring ineffectiveness for the period £m	Line item in financial statements
Fair value hedges					
Interest rate swaps (loans and mortgages)	3,164	30	(18)	40	Derivative financial liabilities
Interest rate swaps (Tier 2 capital)	–	–	(1)	(1)	Derivative financial assets
Interest rate swaps (investment securities)	71	5	–	5	Derivative financial liabilities
	3,235	35	(19)	44	

Fair value hedge relationships impacted profit or loss as follows:

Hedge ineffectiveness recognised in cost of sales	2023 £m	2022 £m
Change in value of hedged items for calculating hedge ineffectiveness	**(19)**	(41)
Change in value of hedging instruments for calculating hedge ineffectiveness	**31**	44
Hedge ineffectiveness recognised in cost of sales	**12**	3

Derivatives not in a hedge relationship

Some of the Group's derivative contracts do not qualify for hedge accounting and are therefore not designated in a hedging relationship. In addition, where gains or losses on a derivative contract economically offset the losses or gains on an underlying transaction, the derivative is not designated as being in a hedging relationship.

The Group has several long-term fixed price Power Purchase agreements with independent producers as detailed in note 29. Included within derivative financial assets is £131 million (2022: £180 million) relating to these agreements, of which £53 million (2022: £82 million) is not within a hedging relationship. Fair value losses of £29 million (2022: gain of £76 million) have been recognised in the income statement during the year for these arrangements.

Sainsbury's Bank and its subsidiaries has a £9 million portfolio of interest rate swaps hedging mortgage pipeline offers that cannot be entered into a hedge accounting relationship (2022: £9 million) with fair value fluctuations fully accounted for in the P&L, with no effective offset. Additionally, Sainsbury's Bank had a £200 million interest rate swap (2022: £nil) intended to economically hedge certain Treasury positions.

The fair value fluctuations crediting the income statement for interest rate derivatives not in a hedge accounting relationship was £1 million (2022: £nil).

31 Cash and cash equivalents

Accounting policies

Cash and cash equivalents

Cash and bank balances comprise cash in hand and at bank, deposits at central banks, investments in money market funds and deposits and other short-term highly liquid investments.

To be classified as cash and cash equivalents, an asset must:

— Be readily convertible into cash;

— Have an insignificant risk of changes in value; and

— Have a maturity period of typically three months or less at acquisition.

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

Cash flow statement

The Group presents its cash flow statement using the indirect method, whereby profit is reconciled to net cash from operating activities by adjusting profit and loss for non-cash items.

Interest, dividends and taxes

The Group has chosen to present interest received on bank deposits and other financial assets as well as dividends received as cash flows from investing activities because they are returns on the Group's investments.

Dividends paid are presented as financing cash flows as they are considered a cost of obtaining financial resources.

Interest paid on borrowings is presented within cash flows from operating activities as they are held for cash management purposes.

Lease payments and receipts

Lease payments are presented as follows in the Group cash flow statement:

— Cash payments for the principal element of the lease liabilities are presented as cash flows from financing activities

— Cash payments for the interest element of lease liabilities are presented as interest paid within cash flows from operating activities consistent with presentation of interest payments

— Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities as cash flows from operating activities

— Cash receipts in relation to sub-leases (both operating and finance leases) are included within operating cash flows

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

	2023 £m	2022 £m
Cash in hand and bank balances	**569**	566
Money market funds	**255**	25
Money market deposits	**150**	–
Deposits at central banks	**345**	234
Cash and bank balances as reported in the Group balance sheet	**1,319**	825
Bank overdrafts	–	(7)
Net cash and cash equivalents as reported in the Group cash flow statement	**1,319**	818

Of the above balance, £28 million was restricted at the balance sheet date (2022: £18 million). The balance includes £15 million (2022: £15 million) held as a reserve deposit with the Bank of England in accordance with statutory requirements is not available for use in day-to-day operations, £10 million (2022: £nil) held within the ESOT, and £3 million (2022: £3 million) is restricted for insurance purposes.

31 Cash and cash equivalents continued

Reconciliation of cash flow items

Working capital

	Inventories £m	Financial assets at fair value through OCI £m	Trade and other receivables £m	Amounts due from Financial Services customers £m	Trade and other payables £m	Amounts due to Financial Services customers and other deposits £m	Provisions £m
At 4 March 2023	**1,899**	**1,009**	**683**	**5,392**	**(4,837)**	**(5,946)**	**(272)**
At 5 March 2022	1,797	800	748	5,189	(4,570)	(5,259)	(271)
Balance sheet movement	**(102)**	**(209)**	**65**	**(203)**	**267**	**687**	**1**
Fair value movements	–	2	–	(27)	–	–	–
Hedge adjustments	(3)	–	–	–	(2)	–	–
Interest in working capital	–	–	–	–	9	–	–
Reclassification to other lines in the cash flow statement	–	–	3	–	11	–	–
Financial Services ECL impairments	–	–	–	(76)	–	–	–
Movement in capital accruals	–	–	–	–	(8)	–	–
Other	–	–	–	(1)	3	–	(1)
Movement shown in cash flow statement	**(105)**	**(207)**	**68**	**(307)**	**280**	**687**	**–**

	Inventories £m	Financial assets at fair value through OCI £m	Trade and other receivables £m	Amounts due from Financial Services customers £m	Trade and other payables £m	Amounts due to Financial Services customers and other deposits £m	Provisions £m
At 5 March 2022	1,797	800	748	5,189	(4,570)	(5,259)	(271)
At 6 March 2021	1,625	844	775	5,407	(4,508)	(6,289)	(349)
Balance sheet movement	(172)	44	27	218	62	(1,030)	(78)
Fair value movements	–	71	–	(38)	–	–	–
Hedge adjustments	(7)	–	–	–	–	–	–
Interest in working capital	–	–	–	–	(6)	–	–
Transfer of SaaS spend to prepayments	–	–	9	–	–	–	–
Reclassification to other lines in the cash flow statement	–	–	–	–	(28)	–	–
Financial Services ECL impairments	–	–	–	(19)	–	–	–
Movement in capital accruals	–	–	–	–	1	–	–
Amortisation of discount	–	–	–	–	–	–	(1)
Other	–	–	(3)	–	(1)	–	(1)
Movement shown in cash flow statement	(179)	115	33	161	28	(1,030)	(80)

31 Cash and cash equivalents continued

Other

2023	Note	Gross additions £m	Capitalised interest £m	Movement in capital accruals £m	Movement shown in cash flow statement £m
Purchase of property, plant and equipment	**14**	**(534)**	**1**	**8**	**(525)**
Purchase of intangible assets	**16**	**(213)**	**–**	**–**	**(213)**

2022	Note	Gross additions £m	Capitalised interest £m	Movement in capital accruals £m	Movement shown in cash flow statement £m
Purchase of property, plant and equipment	14	(417)	2	(1)	(416)
Purchase of intangible assets	16	(278)	–	–	(278)

Profit on the sale of properties and early termination of leases in the cash flow statement is reconciled as follows.

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Loss/(Profit) on disposal of properties (note 5)	**3**	(7)
Non-underlying gain on early termination of leases (note 5)	**(2)**	(9)
Profit on disposal of properties within restructuring programmes (note 5)	**(11)**	(12)
Non-underlying SaaS adjustment (note 5)	**–**	21
Underlying gain on early termination of leases	**(4)**	(3)
(Profit)/loss on disposal of intangible assets	**(1)**	4
Profit on sale of non-current assets and early termination of leases	**(15)**	(6)

32 Analysis of net debt

The Group's definition of net debt includes the following:

- Cash
- Borrowings and overdrafts
- Lease liabilities
- Perpetual securities
- Debt related financial assets at fair value through other comprehensive income
- Derivatives used in hedging borrowings

Net debt includes the capital injections to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries (Financial Services). Financial Services' net debt balances are excluded because they are required as part of the business as usual operations of a bank, as opposed to specific forms of financing for the Group.

Derivatives exclude those not used to hedge borrowings, and borrowings exclude bank overdrafts as they are disclosed separately.

32 Analysis of net debt continued

A reconciliation of opening to closing net debt is included below. Balances and movements for the total Group and Financial Services are shown in addition to Retail to enable reconciliation between the Group balance sheet and Group cash flow statement.

		Cash movements		Non-cash movements			
	6 March 2022 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Accrued interest £m	Other non-cash movements £m	Changes in fair value £m	4 March 2023 £m
Retail							
Net derivative financial instruments	5	–	(5)	5	(5)	–	–
Borrowings (excluding overdrafts)	(575)	40	45	(40)	(9)	–	(539)
Lease liabilities	(6,618)	512	267	(267)	(382)	–	(6,488)
Arising from financing activities	(7,188)	552	307	(302)	(396)	–	(7,027)
Financial assets at fair value through other comprehensive income	–	–	–	–	–	–	–
Cash and cash equivalents	436	247	–	–	–	–	683
Bank overdrafts	(7)	7	–	–	–	–	–
Retail net debt	(6,759)	806	307	(302)	(396)	–	(6,344)
Financial Services							
Net derivative financial instruments	4	–	–	–	–	(4)	–
Borrowings (excluding overdrafts)	(179)	55	9	(12)	–	5	(122)
Lease liabilities	(3)	2	–	–	–	–	(1)
Arising from financing activities	(178)	57	9	(12)	–	1	(123)
Financial assets at fair value through other comprehensive income	418	207	–	–	–	1	626
Cash and cash equivalents	389	247	–	–	–	–	636
Financial Services net debt	629	511	9	(12)	–	2	1,139
Group							
Net derivative financial instruments	9	–	(5)	5	(5)	(4)	–
Borrowings (excluding overdrafts)	(754)	95	54	(52)	(9)	5	(661)
Lease liabilities	(6,621)	514	267	(267)	(382)	–	(6,489)
Arising from financing activities	(7,366)	609	316	(314)	(396)	1	(7,150)
Financial assets at fair value through other comprehensive income	418	207	–	–	–	1	626
Cash and cash equivalents	825	494	–	–	–	–	1,319
Bank overdrafts	(7)	7	–	–	–	–	–
Group net debt	(6,130)	1,317	316	(314)	(396)	2	(5,205)
Retail net debt	(6,759)	806	307	(302)	(396)	–	(6,344)
Of which:							
Leases	(6,618)						(6,488)
Net debt excluding lease liabilities	(141)						144

Other non-cash movements relate to interest accruals, new leases and foreign exchange.

32 Analysis of net debt continued

		Cash movements		Non-cash movements			
	7 March 2021 £m	Cash flows excluding interest £m	Net interest (received)/paid £m	Accrued interest £m	Other non-cash movements £m	Changes in fair value £m	5 March 2022 £m
Retail							
Net derivative financial instruments	(14)	–	10	(10)	11	8	5
Borrowings (excluding overdrafts)	(826)	248	28	(25)	–	–	(575)
Lease liabilities	(5,829)	491	281	(281)	(1,280)	–	(6,618)
Arising from financing activities	(6,669)	739	319	(316)	(1,269)	8	(7,188)
Financial assets at fair value through other comprehensive income	1	–	–	–	–	(1)	–
Cash and cash equivalents	546	(110)	–	–	–	–	436
Bank overdrafts	(99)	92	–	–	–	–	(7)
Retail net debt (excluding perpetual securities)	(6,221)	721	319	(316)	(1,269)	7	(6,759)
Financial Services							
Net derivative financial instruments	–	–	–	–	–	4	4
Borrowings (excluding overdrafts)	(179)	–	10	(11)	–	1	(179)
Lease liabilities	(5)	2	–	–	–	–	(3)
Arising from financing activities	(184)	2	10	(11)	–	5	(178)
Financial assets at fair value through other comprehensive income	537	(115)	–	–	–	(4)	418
Cash and cash equivalents	1,029	(640)	–	–	–	–	389
Financial Services net debt	1,382	(753)	10	(11)	–	1	629
Group							
Net derivative financial instruments	(14)	–	10	(10)	11	12	9
Borrowings (excluding overdrafts)	(1,005)	248	38	(36)	–	1	(754)
Lease liabilities	(5,834)	493	281	(281)	(1,280)	–	(6,621)
Arising from financing activities	(6,853)	741	329	(327)	(1,269)	13	(7,366)
Financial assets at fair value through other comprehensive income	538	(115)	–	–	–	(5)	418
Cash and cash equivalents	1,575	(750)	–	–	–	–	825
Bank overdrafts	(99)	92	–	–	–	–	(7)
Group net debt (excluding perpetual securities)	(4,839)	(32)	329	(327)	(1,269)	8	(6,130)
Retail net debt (excluding perpetual securities)	(6,221)	721	319	(316)	(1,269)	7	(6,759)
Perpetual convertible bonds	(248)	8	–	–	240	–	–
Retail net debt (including perpetual securities)	(6,469)	729	319	(316)	(1,029)	7	(6,759)
Of which:							
Leases	(5,829)						(6,618)
Net debt excluding lease liabilities	(640)						(141)

32 Analysis of net debt continued

Reconciliation of net cash flow to movement in net debt

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Opening net debt	**(6,759)**	(6,469)
Cash flow movements		
Net increase/(decrease) in cash and cash equivalents (including overdrafts)	**501**	(658)
Elimination of Financial Services movement in cash and cash equivalents	**(247)**	640
Repayment of perpetual capital securities	**–**	8
Decrease in Retail borrowings	**40**	248
Decrease in Retail lease obligations	**512**	491
Net interest paid on components of Retail net debt	**307**	319
Changes in net debt resulting from cash flow	**1,113**	1,048
Non-cash movements		
Accrued interest	**(302)**	(316)
Retail fair value and other non-cash movements	**(396)**	(1,022)
Changes in net debt resulting from non-cash movements	**(698)**	(1,338)
Movement in net debt	**415**	(290)
Closing net debt	**(6,344)**	(6,759)

33 Borrowings

	2023			2022		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Loan due 2031	**48**	**491**	**539**	44	531	575
Bank overdrafts	**–**	**–**	**–**	7	–	7
Transaction costs	**(1)**	**(4)**	**(5)**	–	–	–
Sainsbury's Bank Tier 2 Capital	**6**	**116**	**122**	3	176	179
	53	**603**	**656**	54	707	761

a) Loan due 2031
The loan is secured against 48 (2022: 48) supermarket properties (note 14). This is an inflation linked amortising loan from the finance company Longstone Finance plc with an outstanding principal value of £527 million (2022: £566 million) fixed at a real rate of 2.36 per cent where principal and interest rate are uplifted annually by RPI subject to a cap at five per cent and a floor at nil per cent. The carrying value of the loan is £539 million (2022: £575 million) with a final repayment date of April 2031.

The Group has entered into inflation swaps to convert £490 million (2022: £490 million) of the £527 million (2022: £566 million) loan from RPI linked interest to fixed rate interest until April 2023. These transactions have been designated as cash flow hedges (note 30).

The principal activity of Longstone Finance plc is the issuance of commercial mortgage-backed securities and applying the proceeds towards the secured loans due 2031 with the Group as summarised above.

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

b) Bank overdrafts
Bank overdrafts are repayable on demand and bear interest at a spread above Bank of England base rate.

c) Sainsbury's Bank Tier 2 Capital due 2033
The Bank issued £120 million of fixed rate reset callable subordinated Tier 2 notes in September 2022. These notes pay interest on the principal amount at a rate of 10.5 per cent per annum, payable in equal instalments semi-annually in arrears, until March 2028 at which time the interest rate will reset. This was issued in conjunction with a tender to repurchase and extinguish £120 million of the existing £175 million subordinated Tier 2 notes that were issued in November 2017. The Bank subsequently redeemed the remaining £55 million of the existing £175 million issued in November 2022.

d) Short term borrowings
The Group refinanced its Revolving Credit Facility in December 2022. The new Revolving Credit Facility is unsecured and is split into two Facilities, a £500 million Facility (A) and a £500 million Facility (B). Facility A has a maturity of December 2026 and Facility B has a maturity of December 2027. At 4 March 2023, the Revolving Credit Facility was undrawn (2022: undrawn).

The Revolving Credit Facility incurs commitment fees at market rates and drawdowns bear interest at a margin above SONIA.

The Group maintains uncommitted facilities to provide additional capacity to fund short-term working capital requirements. Drawdowns on these uncommitted facilities bear interest at a margin. The uncommitted facilities were undrawn at 4 March 2023 (2022: undrawn).

33 Borrowings continued

e) Term loan

The Group issued a £575 million unsecured term loan in December 2022, with maturity of March 2026. This new term loan refinanced the £575 million Bridge Loan Facility arranged in October 2022 with maturity of November 2024.

At 4 March 2023, the term loan was undrawn.

f) Transaction costs

Transaction costs are amortised on a straight-line basis over the life of the facility they relate to.

34 Employee costs

	2023 £m	2022 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**3,088**	3,119
Social security costs	**240**	240
Pension costs – defined contribution schemes	**191**	183
Share-based payments expense	**59**	58
	3,578	3,600

	2023 '000	2022 '000
The average number of employees, including directors, during the year was:		
Full-time	**63**	65
Part-time	**99**	116
	162	181
Full-time equivalent	**107**	117

Details of key management compensation can be found in note 39 and within the Directors' Remuneration Report on pages 96 to 113.

35 Retirement benefit obligations

Accounting policies – defined contribution pension schemes

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

Accounting policies – defined benefit pension scheme (Sainsbury's Pension Scheme)

The surplus or deficit recognised in the balance sheet for defined benefit schemes represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method.

Actuarial gains and losses are reported in the statement of other comprehensive income as incurred, and comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses.

The financing charge is determined by applying the discount rate used to measure the defined benefit obligation to the pension scheme liabilities and plan assets at the beginning of the financial year.

Background

The retirement benefit obligations relate to the Sainsbury's Pension Scheme plus three unfunded pension liabilities for former senior employees of Sainsbury's and Home Retail Group.

The Sainsbury's Pension Scheme has two sections, the Sainsbury's Section which holds the assets and liabilities of the original Sainsbury's Pension Scheme, and the Argos Section which holds the assets and liabilities of the Home Retail Group Pension Scheme. Each section's assets are segregated by deed and ring fenced for the benefit of the members of that section. The Scheme is run by a corporate trustee with nine directors.

The Scheme is also used to pay life assurance benefits to current (including new) colleagues.

The retirement benefit obligations at the year-end have been calculated by Isio, the actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at the date of the previous triennial valuation for known events and changes in market conditions as allowed under IAS 19 'Employee Benefits'.

35 Retirement benefit obligations continued

Sainsbury's section

The section was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. There are three benefit categories: final salary, career average and cash balance. Final salary and career average benefits are determined by service and salary. Cash balance benefits are determined by the accrued retirement account credits.

Argos section

The section was closed to new employees in 2009 and to future accrual in January 2013. Pension benefits are based on service and final salary when leaving the Scheme.

Triennial valuation

The Trustee's triennial valuation is used to determine the contributions required for the Scheme to pay all the benefits due, now and in the future. The Trustee must allow for a level of prudence and so these assumptions therefore place a relatively high value on the Scheme's liabilities. By contrast, IAS 19 'Employee Benefits' requires all companies to value the liabilities on a 'best estimate' basis which places a lower value on the liabilities and therefore a more favourable financial position. As such, the accounting value is different to the result obtained using the Trustee's triennial valuation basis.

The Trustee completed a triennial valuation as at 30 September 2021, resulting in an actuarial surplus of £130 million (comprising a surplus of £231 million in the Sainsbury's section and a £101 million deficit in the Argos section) on a technical provisions basis, from a deficit of £538 million in 2018. The asset backed contributions structure (ABC) established by Sainsbury's in July 2019 continues to deliver as planned.

Under the ABC, properties with a valuation of £1,350 million were transferred into a newly formed property holding company Sainsbury's Property Holdings Limited (Propco) from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. The Propco is a wholly owned subsidiary of the Group and leases the transferred properties to other Group companies. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership, in which the Scheme holds an interest.

The Partnership is controlled by Sainsbury's and its results are consolidated by the Group. The Scheme's investment in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets.

The value of the properties transferred to the Propco remains in the Group's property, plant and equipment on the balance sheet, and the Group retains full operational flexibility to extend, develop and substitute them.

The Scheme's interest in the Partnership entitled it to annual distributions over up to 20 years initially through three payment streams.

1) Payments to the Sainsbury's section (£15 million per year) which stopped from December 2021
2) Payments to the Argos section (£20 million per year)
3) Switching payment stream, paid to either the Sainsbury's section or Argos section (initially £23 million per year, increasing to £33 million by 2038)

No other cash contributions were paid during the year (2022: cash contributions of £10 million).

The payments to the Sainsbury's and Argos sections (streams 1 and 2) would stop in 2030, or when the relevant section reached its funding target, if earlier. The Sainsbury's section reached its funding target on 31 December 2021 and so the first payment stream was permanently switched off, even though the subsequent updating of assumptions under the 2021 triennial valuation resulted in a small deficit on this funding basis.

The switching stream (stream 3) was initially paid to the Sainsbury's section until it reached the funding target, when it switched to the Argos section. Payments continue until 2038 or until both sections have reached their funding targets, if earlier.

The level of property in the Propco reduces as the Scheme reaches the funding targets. The level of security was designed to reduce as the Scheme's funding level improves, as the risk of a Group insolvency to the Scheme reduces. Once a section reaches a specific funding target for three consecutive quarters, the level of security that the Scheme can access reduces at the following 31 March in line with the Residual Security Amount (RSA) caps set out in the ABC framework. The security is currently provided by properties in the ABC which are valued annually. If the value of the security is outside a corridor either side of the RSA, the Company must top up if the value is less, or can chose to remove property from the Propco if the value is higher; however if a default event were to occur, the Scheme would only have rights over the security to the value of the RSA – any excess value would remain in the Propco and revert to the Company.

IFRIC 14

Under IFRIC 14, a company is required to measure any economic benefits available to it in the form of refunds or reductions to future contributions at the maximum amount that is consistent with the terms and conditions of the pension scheme. These are regarded as available to a company if it has an unconditional right to realise them at some point during the life of the pension scheme or when all benefits are finally settled. Such an unconditional right would not exist when the availability of the refund or the reduction in future contribution would be contingent upon factors beyond the company's control.

Management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such no adjustment has been made for potential additional liabilities.

In forming this conclusion management has considered whether the Group can control the run-off of the Scheme until there are no liabilities left, consistent with IFRIC 14. For example, if the Trustee has a unilateral power to wind up the Scheme while there are liabilities remaining, then it is viewed that the Group cannot access surplus through this route. For both sections, management have assessed that the Group can control run-off until no liabilities remain by complying with its obligations under the Scheme rules and pensions legislation, and there will therefore be a gradual settlement of the planned liabilities over the life of each section.

The Scheme rules list certain situations under which the Trustee can wind up the Scheme; however, whilst there is gradual settlement of the Scheme's liabilities, these are concluded to be within the control of the Group. As a result, it is concluded that the Trustee does not have a unilateral power to wind up the Scheme nor augment benefits while the Scheme is ongoing.

35 Retirement benefit obligations continued

Unfunded pension liabilities

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

a) Income statement

The amounts recognised in the income statement are as follows:

	2023 £m	2022 £m
Excluded from underlying profit before tax:		
Interest cost on pension liabilities[1]	**(221)**	(197)
Interest income on plan assets	**277**	212
Total included in finance income	**56**	15
Defined benefit pension scheme expenses	**(6)**	(7)
Past service credit/(cost)	**–**	3
Settlement gains[2]	**8**	–
Total excluded from underlying profit before tax	**58**	11
Total income statement income	**58**	11

1. Includes interest of £1 million for the unfunded pension scheme (2022: £1 million).
2. A settlement credit of £8 million has been recognised relating to a gain on payments made to members exiting the scheme relative to the liabilities.

b) Other comprehensive income

Remeasurements of the retirement benefit obligations have been recognised as follows:

	2023 £m	2022 £m
Return on plan assets, excluding amounts included in interest	**(4,739)**	739
Actuarial gains/(losses) arising from changes in:		
Finance assumptions[1]	**3,518**	334
Demographic assumptions[2]	**38**	133
Experience[3]	**(215)**	251
Total actuarial gains	**3,341**	718
Total remeasurements	**(1,398)**	1,457

1. Includes £13 million for the unfunded pension scheme (2022: £1 million).
2. Includes £1 million for the unfunded pension scheme (2022: £1 million).
3. Includes a charge of £(1) million for the unfunded pension scheme (2022: £nil).

c) Balance sheet

The amounts recognised in the balance sheet are as follows:

	2023			2022		
	Sainsbury's £m	Argos £m	Group £m	Sainsbury's £m	Argos £m	Group £m
Present value of funded obligations	**(5,128)**	**(793)**	**(5,921)**	(8,060)	(1,313)	(9,373)
Fair value of plan assets	**6,007**	**927**	**6,934**	10,158	1,535	11,693
Retirement benefit surplus	**879**	**134**	**1,013**	2,098	222	2,320
Present value of unfunded obligations	**(12)**	**(12)**	**(24)**	(20)	(17)	(37)
Retirement benefit surplus	**867**	**122**	**989**	2,078	205	2,283

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

35 Retirement benefit obligations continued

The movements in the Group's net defined benefit obligations are as follows:

	2023 £m	2022 £m
As at the beginning of the year	**2,283**	744
Net interest income	**56**	15
Remeasurement (losses)/gains	**(1,398)**	1,457
Pension scheme expenses	**(6)**	(7)
Contributions by employer	**44**	71
Benefits paid	**2**	–
Past service credit	**–**	3
Settlement gains	**8**	–
As at the end of the year	**989**	2,283

The movements in the retirement benefit obligations (including unfunded obligations) are as follows:

	2023 £m	2022 £m
As at the beginning of the year	**(9,410)**	(10,256)
Interest cost	**(221)**	(197)
Remeasurement gains	**3,341**	718
Benefits paid	**308**	322
Past service credit	**–**	3
Settlement gains	**37**	–
As at the end of the year	**(5,945)**	(9,410)
Analysed as:		
Retirement benefit obligations	**(5,921)**	(9,373)
Unfunded obligations	**(24)**	(37)

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

	2023 £m	2022 £m
As at the beginning of the year	**11,693**	11,000
Interest income on plan assets	**277**	212
Pension scheme expenses	**(6)**	(7)
Remeasurement (losses)/gains	**(4,739)**	739
Contributions by employer	**44**	71
Benefits paid	**(306)**	(322)
Settlement gains	**(29)**	–
As at the end of the year	**6,934**	11,693

Significant estimate – pension scheme assets

The Scheme holds some private market assets as they are expected to deliver a more favourable risk/return profile than public market equivalents. These assets are relatively illiquid (likely to be realised over c.5 years) but the Scheme holds sufficient liquid assets (cash, gilts and other liquid securities) to be confident that it can meet its pension and collateral obligations over time.

The valuation of these assets is based on the audited accounts of the funds, where available, and net asset value statements from the investment managers where recent accounts are not available. For many of these investments, the valuations provided are at 30 September. The Group therefore performs a roll-forward for these valuations, adjusting for cash received or paid and applying the changes seen in relevant liquid indices as follows:

Asset Class	Returns from 30-Sep-22 to 4-Mar-23
Global equity USD return	16.58%
Global High Yield Debt USD return	6.73%
US loans USD return	6.07%
UK REITS GBP return	9.96%

The roll-forward has increased the valuation of illiquid assets by £95 million. A 1 per cent increase/decrease in the indices used would have caused a £16 million increase/decrease in the adjustment.

Investment strategy and risks associated with the Group's defined benefit pension scheme

The investment strategy of the Scheme is determined by the Trustee. The Trustee considers that its primary responsibility in respect of investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due. Following the completion of the 2021 triennial valuation and updated actuarial assumptions which resulted in a surplus on the statutory basis and the volatility following the mini budget in September 2022 which also had an impact on the Scheme's funding, the Trustee continues to target being funded on a gilts +0.5% p.a. basis, while limiting the downside risk associated with investment policy wherever possible. The investment objectives target a 50% or better chance of fully funded on this basis by the end of 2024 for the Argos section and the end of 2028 for the Sainsbury's section.

35 Retirement benefit obligations continued

Before the political events in late 2022 and associated significant and rapid market movements, both sections of the Scheme were almost fully hedged against interest rate and inflation changes. However, to best manage the ongoing situation and protect the Scheme by maintaining liquidity levels to settle collateral calls in the event of further significant interest rate volatility, the Trustee decided to reduce the interest rate hedging and the Company also made a short-term loan facility of £500 million available. The timing of the changes that were implemented for the Sainsbury's section coincided with in a fall in gilt yields which reduced the ongoing funding level. There was only a slight impact on the Argos section as the reduction in hedging was implemented later. The Trustee did not draw on the short-term loan facility, which was withdrawn, as agreed, in January 2023. As the 2021 triennial valuation was already signed, there was no change to the contributions to the Scheme, and the Company does not currently anticipate any impact on the 2024 triennial valuation contribution requirements.

The Trustee has since taken action to partially reinstate the interest rate hedging ratios. The Trustee has also reviewed the collateral sufficiency framework which ensures sufficient high quality liquid assets are maintained to meet liquidity requirements, even in times of market stress and volatility. The level of collateral that the Scheme can call on at any time is well above the limits suggested recently by the Pensions Regulator.

The risks associated with achieving the above strategy are as follows:

Risk	Description	Mitigation
Investment Strategy Risk	Underperformance of the investment strategy relative to the changes in the Scheme's liabilities reduces the future resources available to meet pension obligations.	The Scheme adopts a liability driven investment framework to generate excess asset returns with reference to its liabilities by largely removing its interest and inflation uncertainties.
Investment Implementation Risks	Poor execution including investment managers' underperformance relative to their targets leads to lower funding levels.	Investment mandates are closely monitored against their portfolio benchmarks and risk allowances set out in investment guidelines. The Investment Committee can terminate consistently underperforming mandates.
Custody Risks	Inadequate controls lead to inaccurate record keeping and loss of assets through investment fraud.	The top tier global custodian Northern Trust oversees the Scheme's assets. The Trustee also uses an independent third party consultant to periodically review Northern Trust's performance and compare it to its peers.
Sustainability, including ESG and climate risks	Investment managers do not have appropriate policies and procedures in place to identify and assess ESG risks and opportunities.	The Scheme incorporates ESG, stewardship and other related risks into its Statement of Investment Principles (SIP) and publishes an annual Implementation Statement and a TCFD report. Investment managers are requested to confirm whether they operate in line with the Trustee's policies. The approach that the Trustee has adopted as part of its ongoing process to deliver a Net Zero goal by 2050 includes investment decisions based on new climate governance and reporting standards, engagement with corporates and government, maintaining outcomes focused on climate objectives in investments, and the role of the Scheme's investment managers in signing up to the UN Principles of Responsible Investment and having Net Zero targets. ESG risks encompass a broad range of risks across the Environmental, Social and Governance activities of the entities in which the Scheme ultimately invests. Examples of ESG risks could include risks associated with exposure to climate transition (e.g. exposure to fossil fuels), risks associated with a lack of diversity, equity and inclusion, or risks associated with poor corporate governance.
Investment Regulatory Risk	Insufficient training and awareness of regulatory requirements results in non-compliance with regulations.	The Trustee has top tier advisers and is advised by Eversheds Sutherland and CMS Cameron McKenna on legal and regulatory matters, and closely follows changes in regulatory requirements and developments for pensions and investments. Periodic training is provided to the Investment Committee, advisers, and if necessary, the full Board by relevant experts.
Investment Liquidity Risks	Insufficient liquidity to meet ongoing or unexpected cash flow requirements in respect of member benefit payments, as well as collateral top up requests to manage the Scheme's derivative positions.	The Scheme adopts a collateral sufficiency framework which ensures sufficient high quality liquid assets are maintained in order to meet liquidity requirements, even in times of market stress. The Investment Adviser liaises with the Scheme Actuary and the Pensions Department to understand current and future cash flow requirements.
Investment Counterparty Risks	Financial losses may be incurred due to failure of counterparties or inability to roll-over derivative positions.	Asset Managers manage credit limits for all their derivative counterparty exposures and monitor positions over derivative roll dates.
Longevity Risks	The Scheme pays benefits longer than expected due to members' increasing life expectancy.	Longevity risk is managed as part of the Scheme's integrated risk management framework. The Trustee monitors longevity risk and aims to achieve sufficient funding levels by meeting prudent milestone targets which take account of the potential for increased life expectancy.
Currency Risks	The Scheme's unhedged foreign currency exposure leads to additional volatility for non-sterling denominated assets' returns as all benefits are denominated in pound sterling.	The Trustee monitors foreign currency exposure and uses hedging programmes to efficiently control foreign currency risk at reasonable cost.
Geopolitical Risk	The Scheme's asset returns are negatively impacted by unpredictable geopolitical events.	The Trustee adopts a top-down risk management framework and their advisors and asset managers closely monitor all positions impacted by geopolitical events.

35 Retirement benefit obligations continued

The major categories of plan assets are as follows:

	Quoted 2023 £m	Unquoted[1] 2023 £m	Quoted 2022 £m	Unquoted[1] 2022 £m
Liability matching assets	**3,092**	**1,629**	7,096	2,167
Growth assets				
Equity				
Private	–	**429**	–	393
Derivatives[2]	–	**4**	–	7
Fixed Income Securities				
Emerging Market Bonds	–	–	139	4
Alternatives				
Real Estate	–	**397**	–	593
Private Debt	–	**726**	–	733
Diversified Growth	–	**303**	–	301
Cash and Cash equivalents	**354**	–	260	–
	3,446	**3,488**	7,495	4,198

1. Certain unquoted fixed interest securities, private equity and debt investments and property investments are stated at fair value. These fair values may differ from their realisable values due to the absence of liquid markets in these investments.
2. Swap contract derivatives outstanding at the year-end are stated at the net present value of future discounted cash flows of each leg of the swap.

For the comparative period, quoted and unquoted asset balances have been reclassified from £7,793 million and £3,900 million to £7,495 million and £4,198 million to reflect an asset manager's categorisation of some investments held.

Included within liability matching assets are Government Bonds totalling £4,083m (2022: £10,938m), Corporate Bonds totalling £1,988m (2022: £5,549m), and Fixed income derivatives totalling £356m (2022: £487m), offset by repurchase agreements totalling £(1,706)m (2022: £(7,711)m). Circa 94% of the Scheme's corporate bonds are invested in investment grade credit. The remainder are either unrated or below investment grade.

The Sainsbury's Pension Scheme adopts a liability driven investment (LDI) framework to manage its funding risk and reduce volatility by largely removing the interest rate and inflation rate impacts of its liabilities. As a result, the value of the Scheme's assets changes in the similar way to its liabilities, which helps maintain its ability to pay benefits and therefore member security over the long term.

Of the above assets, £3,506 million are denominated in pound sterling and £3,427 million are denominated in overseas currencies.

d) Assumptions

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

	2023 %	2022 %
Discount rate	**5.00**	2.40
Inflation rate – RPI	**3.25**	3.60
Inflation rate – CPI	**2.55**	2.90
Future pension increases	**1.90 – 2.95**	2.30 – 3.45

Discount rate

The discount rate for the Scheme is derived from the expected yields on high quality corporate bonds over the duration of the Group's pension scheme and extrapolated in line with gilts with no theoretical growth assumptions. High quality corporate bonds are those for which at least one of the main ratings agencies considers to be at least AA (or equivalent).

Inflation

On 25 November 2022, the Government and UK Statistics Authority's joint consultation response on RPI reform was published. This confirmed their intention to amend the RPI calculation methodology to be aligned to that already in use for the calculation of the CPI (including housing) with effect from 2030. As a result, the Group reduced the post 2030 gap between RPI and CPI to nil in the prior year, effectively assuming RPI will be aligned with CPI post 2030, resulting in a single weighted average RPI CPI gap of 0.70% p.a. for the 1 March 2023 year end. This approach has been applied consistently in the current year.

35 Retirement benefit obligations continued

Mortality

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Following the completion of the 2021 triennial valuation and consideration of the previous three years of mortality experience both in the Scheme and the UK as a whole, the Company has decided to update the actuarial mortality base tables that determine the life expectancy assumptions to reflect a best-estimate adjustment derived from analysis carried out for the valuation. Future mortality improvements for the 2023 year-end are CMI 2021 projections with a long term rate of improvement of 1.25 per cent p.a. Future mortality improvements for the 2023 year-end are CMI 2021 projections with a long term rate of improvement of 1.25 per cent p.a. Future mortality improvements for the 2022 year-end were CMI 2021 projections with a long term rate of improvement of 1.25 per cent p.a.

While COVID-19 had an impact on mortality in 2020, the impact on future mortality trends is currently unknown. All IAS 19 calculations use the CMI model, which measures potential changes to future mortality trends. The Group's policy is to use the available version as at the year-end which is still CMI 2021 which was released on 9 March 2022.

As a result of the significant change to mortality in the CMI 2020 model, the CMI modified the calibration process for CMI 2020 to allow choice on the weighting placed on an individual year's data. For the Core version of CMI 2020, a weight of zero per cent was applied to 2020 data and weightings of 100 per cent for other years, so the potentially exceptional 2020 experience was ignored when modelling future improvements. This approach was maintained for CMI 2021, with zero per cent weighting applied to 2020 and 2021 data.

A 10 per cent weighting has therefore been applied again to the 2020 and 2021 mortality data, broadly reflecting that the effects of the pandemic were significantly reduced going forwards with mortality rates for 2022 immediately returning to those in 2019. Thereafter, mortality improvements are in line with the CMI 2021 Core model. The impact of different weightings on the Scheme liabilities is included in the sensitivities section within this note.

The life expectancy for members aged 65 years at the balance sheet date is as follows:

	Sainsbury's section Main Scheme 2023 Years	Sainsbury's section Executive Scheme 2023 Years	Argos section 2023 Years	Sainsbury's section Main Scheme 2022 Years	Sainsbury's section Executive Scheme 2022 Years	Argos section 2022 Years
Male pensioner	**19.5**	**22.7**	**20.3**	19.6	23.8	21.3
Female pensioner	**23.3**	**24.0**	**23.4**	23.5	25.0	23.9

The life expectancy at age 65 for members aged 45 years at the balance sheet date is as follows:

	Sainsbury's section Main Scheme 2023 Years	Sainsbury's section Executive Scheme 2023 Years	Argos section 2023 Years	Sainsbury's section Main Scheme 2022 Years	Sainsbury's section Executive Scheme 2022 Years	Argos section 2022 Years
Male pensioner	**20.7**	**24.0**	**21.6**	20.8	25.0	22.5
Female pensioner	**24.9**	**25.5**	**24.8**	25.0	26.5	25.4

e) Sensitivities

The present value of the Scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on the discount rate. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates. The carrying value of the retirement benefit obligations is impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate.

The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the impact for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

	Sainsbury's £m	Argos £m	Total £m
Financial sensitivities			
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	**346**	**61**	**407**
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	**389**	**68**	**457**
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	**180**	**44**	**224**
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	**175**	**42**	**217**
An increase of 0.5% in the inflation rate for future pension increases would increase the present value of funded obligations by	**87**	**23**	**111**
A decrease of 0.5% in the inflation rate for future pension increases would reduce the present value of funded obligations by	**87**	**22**	**108**
Demographic sensitivities			
An increase of one year to the life expectancy would increase the present value of funded obligations by	**160**	**24**	**183**
Changing the 2020 and 2021 weighting parameters in CMI 2021 to 0% would increase the present value of funded obligations by	**99**	**8**	**107**
Changing the 2020 and 2021 weighting parameters in CMI 2021 to 25% would decrease the present value of funded obligations by	**54**	**8**	**62**

35 Retirement benefit obligations continued

f) Future benefit payments

Details of future committed payments are included in the Background section at the beginning of this note. Expected cash contributions in FY23/24 are approximately £45 million.

The duration of the plan liabilities is around 15 years for the Sainsbury's section and 17 years for the Argos section. The following table provides information on the timing of benefit payments (amounts undiscounted):

	2023 £m	2022 £m
Within the next 12 months (next annual reporting period)	**237**	240
Between 2 and 5 years	**1,104**	1,003
Between 6 and 15 years	**3,779**	3,644
Between 16 and 25 years	**3,974**	4,176
Beyond 25 years	**5,345**	6,362
Total expected payments	**14,439**	15,425

36 Share-based payments

Accounting policies

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

For equity-settled share-based payments, the fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions. All share options are valued using an option-pricing model (Black-Scholes). This fair value is charged to the income statement over the vesting period of the share-based payment scheme with a corresponding increase in equity.

For cash-settled share-based payments, the fair value of the employee services rendered is determined at each balance sheet date and the charge recognised through the income statement over the vesting period of the share-based payment scheme, with a corresponding increase in accruals.

The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustments made in equity and accruals.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The Group recognised £59 million (2022: £58 million) of employee costs (note 34) related to share-based payment transactions made during the financial year.

The Group operates several share-based payment schemes as set out below:

a) Savings-Related Share Option Scheme (Sharesave)

The Group operates a Savings-Related Share Option Scheme, which is open to all UK employees with more than three months' continuous service. This is an approved HMRC scheme and was established in 1980. Under Sharesave, participants remaining in the Group's employment at the end of the three-year (and historically also five-year) savings period are entitled to use their savings to purchase shares in the Company at a pre-stated exercise price.

Employees leaving for certain reasons can use their savings to purchase shares within six months of their leaving.

A reconciliation of Sharesave option movements is shown below:

	2023 Number of options million	2023 Weighted average exercise price pence	2022 Number of options million	2022 Weighted average exercise price pence
Outstanding at beginning of year	**58.3**	**186**	64.1	179
Granted	**23.7**	**167**	13.8	228
Lapsed / forfeited	**(14.0)**	**206**	(10.0)	179
Exercised	**(8.6)**	**167**	(9.6)	204
Outstanding at end of year	**59.4**	**177**	58.3	186
Exercisable at end of year	**7.1**	**166**	4.7	238
Exercisable Range		**161 to 260**		161 to 260

The weighted average share price for options exercised over the year was 258 pence (2022: 259 pence). The weighted average remaining contractual life of options outstanding at 4 March 2023 was 1.9 years (2022: 1.8 years).

36 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:

		2023	2022
Share price at grant date (pence)		**226**	277
Exercise price (pence)		**167**	228
Expected volatility	– 3 Year Period (%)	**28.9**	30.8
Option life	– 3 Year Period (years)	**3.2**	3.2
Expected dividends (expressed as dividend yield %)		**5.6**	4.0
Risk-free interest rate	– 3 Year Period (%)	**3.0**	0.1
Fair value per option	– 3 Year Period (pence)	**57**	59

The expected volatility is based on the standard deviation of the Group's share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

b) Long-Term Incentive Plan

Under the Long-Term Incentive Plan, shares are conditionally awarded to Senior Managers of the Company. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

Performance is measured at the end of the three-year performance period. If the required performance conditions, which are financial and non-financial non-market conditions, have been met, the awards vest and the participants are able to exercise 100% of the awards received. For 2020 awards and prior, recipients were only able to receive 50% of their awards after 3 years and 50% of their awards after 4 years. Options granted will expire five years from the grant date.

For Executive Directors, awards will normally be subject to a two-year holding period following the end of the three-year performance period. Options granted to acquire the award of shares will expire six years from the date of grant.

Dividends will accrue on the shares that vest in the form of additional shares.

The core award can grow by up to four times, dependent on the level of performance. Straight-line vesting will apply if performance falls between two points. Awards are structured as nil cost options.

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

	2023 Million	2022 Million
Outstanding at beginning of year	**18.5**	12.2
Conditionally allocated	**9.7**	12.9
Released to participants	**(7.4)**	(5.0)
Lapsed	**(1.8)**	(1.6)
Outstanding at end of year	**19.0**	18.5

The weighted average remaining contractual life of share options outstanding at 4 March 2023 was 0.9 years (2022: 1.5 years).

Details of shares conditionally allocated at 4 March 2023 are set out below:

Date of conditional award	2023 Million	2022 Million
11 May 2017 (2017 Future Builder)	**–**	1.1
11 May 2018 (2018 Future Builder)	**0.7**	2.8
09 May 2019 (2019 Future Builder)	**4.4**	2.9
07 May 2020 (2020 Future Builder)	**3.0**	3.3
06 Jun 2021 (2021 Win in Food Plan)	**7.6**	8.4
01 Jun 2022 (2022 Leaders' Share Award)	**3.3**	–
	19.0	18.5

The 2021 Win in Food Plan was opened up to a larger population of managers, which was a one-off increase specifically for this plan.

36 Share-based payments continued

No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

	2023	2022
Share price at grant date (pence)	**230**	267
Option life (years)	**3**	3
Fair value per option (pence)	**230**	267

During the year, a total number of 7.4 million shares were exercised (2022: 5.0 million shares). The weighted average share price during the year for options exercised was 232 pence (2022: 248 pence).

c) Deferred Share Award

This plan is closed to new participants, the last awards made under this plan were in 2020/21. The Deferred Share Award targets a diverse range of financial and strategic scorecard measures. These are intended to reward the Directors in the Company, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. Awards are structured as nil cost options.

Share-based awards are made to participants subject to performance against a basket of measures. At least 50 per cent of the awards are based on the delivery of financial performance and returns to shareholders. The balance is based on measures which will assess the Company's performance relative to its competitors as well as key strategic goals.

Performance against the target is measured over one financial year. Any shares awarded are deferred for a further two years to ensure that management's interests continue to be aligned with those of shareholders. The shares are subject to forfeiture if the participant resigns or is dismissed. Dividends accrue on the shares that vest in the form of additional shares.

A reconciliation of the number of shares granted over the year is shown below:

	2023 Million	2022 Million
Outstanding at beginning of year	**1.7**	3.6
Granted[1]	**0.1**	0.2
Lapsed	**–**	(0.1)
Exercised	**(1.7)**	(2.0)
Outstanding at end of year	**0.1**	1.7

1. The awards granted in the current and comparative period relate to dividend shares awarded.

The number of shares allocated at the end of the year is set out below:

	2023 Million	2022 Million
09 May 2019	**–**	0.1
07 May 2020	**0.1**	1.6
	0.1	1.7

The weighted average remaining contractual life of share options outstanding at 4 March 2023 was nil years (2022: nil years). The weighted average share price during the year for options exercised was 236 pence (2022: 241 pence).

d) Bonus Share Award

Senior Managers and supermarket managers receive 60 per cent of their bonus in cash and 40 per cent of the award in shares. Director level managers receive 50 per cent of their bonus in cash and 50 per cent of the award in shares. Before 2021 awards had a three-year deferral period, however awards granted from 2021 now have a deferral period of two years (except for certain colleagues who are subject to a deferral period due to financial services regulations).

Dividends accrue on these shares and are released at the end of the deferral period.

A reconciliation of the number of shares granted over the year is shown below:

	2023 Million	2022 Million
Outstanding at beginning of year	**17.2**	10.6
Granted	**14.4**	12.6
Exercised in the period	**(5.9)**	(4.3)
Lapsed	**(1.3)**	(1.7)
Outstanding at end of year	**24.4**	17.2

36 Share-based payments continued

The number of shares allocated at the end of the year is set out below:

	2023 Million	2022 Million
09 May 2019	–	5.1
07 May 2020	**1.0**	1.1
07 May 2021	**10.3**	11.0
01 June 2022	**13.1**	–
	24.4	17.2

The weighted average remaining contractual life of share options outstanding at 4 March 2023 was 0.6 years (2022: 0.7 years). The weighted average share price during the year for options exercised was 251 pence (2022: 242 pence).

37 Capital commitments

At 4 March 2023, capital commitments contracted, but not provided for by the Group, amounted to £159 million (5 March 2022: £108 million).

In addition, the Group is committed to payments totalling £101 million (2022: £nil) in relation to leases that have been signed but not yet commenced.

38 Contingent liabilities

The Group has a number of contingent liabilities in respect of historic lease guarantees, particularly in relation to the disposal of assets, which if the current tenant and their ultimate parents become insolvent, may expose the Group to a material liability. This liability decreases over time as the leases expire. The Group has considered a number of factors, including past history of default as well as the profitability and cash generation of the current leaseholders, and has concluded that the likelihood of pay out is remote.

Along with other retailers, the Group is currently subject to claims from current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. There are currently circa 13,000 equal pay claims from circa 8,100 claimants and the Group believes that further claims may be served. The claimants are alleging that their work within Sainsbury's stores is or was of equal value to that of colleagues working in Sainsbury's distribution centres, and that differences in terms and conditions relating to pay are not objectively justifiable. The claimants are seeking the differential back pay based on the higher wages in distribution depots, and the equalisation of wages and terms and conditions on an ongoing basis.

There are three stages in the tribunal procedure for equal value claims of this nature and the claimants will need to succeed in all three. The first stage is whether store claimants have the legal right to make the comparison with depot workers. Following European and Supreme Court decisions in other litigation, Sainsbury's has conceded this point. The second stage is the lengthy process to determine whether any of the claimants' roles are of equal value to their chosen comparators. In the event that any of the claimants succeed at the second stage, there will be a third stage comprising further hearings, in the following years, to consider Sainsbury's material factor defences, relating to non-discriminatory reasons for any pay differential. Completion of these two stages is likely to take many years which may involve hearings and appeals. It is not possible to predict a final date with any certainty.

If the Group is unsuccessful at the end of the litigation the liability could be material but due to the complexity and multitudinous factual and legal uncertainties we are not in a position to predict an outcome, quantum or impact at this stage.

There are substantial factual and legal defences to these claims and the Group intends to defend them vigorously.

39 Related party transactions

a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc Board of Directors and the Operating Board. The key management personnel compensation is as follows:

	2023 £m	2022 £m
Short-term employee benefits	**15**	12
Post-employment employee benefits	**1**	1
Share-based payments	**6**	6
	22	19

Five key management personnel had credit card balances with Financial Services (2022: three). These arose in the normal course of business and were immaterial to the Group and the individuals. Two key management personnel held saving deposit accounts with Financial Services (2022: one). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 4 March 2023, the Group entered into various transactions with joint ventures and associates as set out below. All transactions with joint ventures and associates are at arms-length.

	2023 £m	2022 £m
Dividends and distributions received	**1**	2
Rental expenses paid	**(6)**	(8)

Year-end balances arising from transactions with joint ventures and associates

	2023 £m	2022 £m
Other payables	**(2)**	(1)

c) Retirement benefit obligations

As discussed in note 35, the Group has entered into an arrangement with the Pension Scheme Trustee as part of the funding plan for the actuarial deficit in the Scheme. Full details of this arrangement are set out in note 35 to these financial statements.

40 Post balance sheet events

Subsequent to the Group's balance sheet date, on 14 March 2023 the Group exchanged contracts for the purchase of Supermarket Income REIT's beneficial interest in a commercial property investment pool, in which the Group already held a beneficial interest, refer to note 29. The purchase has been implemented through the acquisition of Cornerford Limited, Horndrift Limited, Avenell Property PLC and Hobart Property PLC.

The transaction completed on 17 March 2023 for a total consideration of £431 million (excluding costs), which is being paid in three tranches. £279 million was paid on 17 March 2023 and £117 million will be paid on 10 July 2023, whilst the third tranche of £35 million is conditional on the sale of five stores from the property pool by the Group. Additionally, the Group will fully fund the bond redemptions attached to the property pool, of which £170.5 million was paid on 20 March 2023 and £130.4 million will be paid on 13 July 2023.

The total consideration and bond redemptions are to be funded by utilising the Group's cash resources and also by drawing under the committed unsecured term facility, from which the Group drew £200 million on 14 March 2023.

As this transaction took place subsequent to the Group's balance sheet date, no adjustments are required to be made to the Group's financial statements. As the transaction exchanged and completed after the balance sheet date, control of the entities acquired only passed to the Group after the balance sheet date and therefore the initial accounting for this transaction has not yet been completed.

41 Details of related undertakings

All companies listed below are owned by the Group and all interests are in ordinary share capital, except where otherwise indicated. All subsidiaries have been consolidated.

a) Subsidiary undertakings

The Group holds a majority of the voting rights of the following undertakings:

Entity	Country of incorporation	Interest	Holding	Registered office address*
ARG Personal Loans Limited	UK	100%	Indirect	Avebury
Argos Business Solutions Limited	UK	100%	Indirect	Avebury
Argos Card Transactions Limited	UK	100%	Indirect	33 Holborn
Argos Direct Limited	UK	100%	Indirect	33 Holborn
Argos Distributors (Ireland) Limited	Ireland	100%	Indirect	Unit 7, Ashbourne Retail Park
Argos Holdings Limited	UK	100%	Indirect	Avebury
Argos Limited	UK	100%	Indirect	Avebury
Argos (N.I.) Ltd	UK	100%	Indirect	Forestside Shopping Centre
Argos Surbs Investments Limited	UK	100%	Indirect	Avebury
Avenell Property plc	UK	100%	Indirect	33 Holborn
Barleygold Limited	UK	100%	Indirect	50 Bedford Street
Bells Stores Limited	UK	100%	Direct	33 Holborn
BLSSP (PHC 7) Limited	UK	100%	Indirect	33 Holborn
Braemar Castle Limited**	UK	100%	Direct	33 Holborn
Brand-Leader's Limited	UK	100%	Indirect	33 Holborn
Chad Valley Limited	UK	100%	Indirect	33 Holborn
Clearance Bargains Limited	UK	100%	Indirect	33 Holborn
Cliffrange Limited	UK	100%	Indirect	33 Holborn
Coolidge Investments Limited	UK	100%	Indirect	33 Holborn
Cornerford Limited****	UK	100%	Indirect	33 Holborn
Financial Recovery Services Limited	UK	100%	Indirect	Avebury
First Stop Stores Limited	UK	100%	Indirect	33 Holborn
Flint Castle Limited**	UK	100%	Direct	33 Holborn
Global (Guernsey) Limited	Guernsey	100%	Indirect	PO Box 33, Dorey Court
Habitat Retail Limited	UK	100%	Indirect	Avebury
Holborn UK Investments Limited	UK	100%	Direct	33 Holborn
Home Retail Group Limited	UK	100%	Indirect	Avebury
Home Retail Group (Cyprus) Limited	Cyprus	100%	Indirect	5 Anastasios Leventis Street
Home Retail Group (Finance) LLP	UK	100%	Indirect	Avebury
Home Retail Group (Guernsey) LP	Guernsey	100%	Indirect	PO Box 33, Dorey Court
Home Retail Group (Jersey) Limited	Jersey	100%	Indirect	44 Esplanade
Home Retail Group (UK) Limited	UK	100%	Indirect	Avebury
Home Retail Group Card Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Holdings (Overseas) Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Insurance Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Nominees Limited	UK	100%	Indirect	33 Holborn
Home Retail Group UK Service Company Limited	UK	100%	Indirect	33 Holborn
Horndrift Limited****	UK	100%	Indirect	33 Holborn
J Sainsbury Common Investment Fund Limited	UK	100%	Indirect	33 Holborn
J Sainsbury Distribution Limited	UK	100%	Direct	33 Holborn
J Sainsbury Pension Scheme Trustees Limited	UK	100%	Direct	33 Holborn
J Sainsbury Trustees Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores Limited	UK	100%	Direct	33 Holborn
Jacksons Stores 2002 Limited	UK	100%	Indirect	33 Holborn
JS Information Systems Limited	UK	100%	Direct	33 Holborn
JS Insurance Limited	Isle of Man	100%	Direct	Third Floor, St George's Court
JSD (London) Limited	UK	100%	Indirect	33 Holborn
Jungle Online	UK	100%	Indirect	33 Holborn
Jungle.com Limited	UK	100%	Indirect	33 Holborn
Jungle.com Holdings Limited	UK	100%	Indirect	33 Holborn

* See full addresses on page 209.

** Dissolved on 28 March 2023.

*** An application has been made to strike off this company from the Companies Register.

**** Acquired subsequent to year-end.

41 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Registered office address*
Nash Court (Kenton) Limited	UK	100%	Indirect	33 Holborn
Nectar 360 Limited	UK	100%	Indirect	33 Holborn
Nectar 360 Services LLP	UK	100%	Indirect	33 Holborn
Nectar EMEA Limited	UK	100%	Indirect	33 Holborn
Nectar Loyalty Holding Limited	UK	100%	Direct	33 Holborn
Ramheath Properties Limited	UK	100%	Direct	33 Holborn
Sainsbury Bridgeco Holdco Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco A Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco B Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco A Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco B Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco C Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco D Limited	UK	100%	Direct	33 Holborn
Sainsbury Property Investments Limited	UK	100%	Direct	33 Holborn
Sainsbury's Argos Asia Limited	Hong Kong	100%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Commercial Limited	Hong Kong	100%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Sourcing Limited	Hong Kong	100%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Technical Limited	Hong Kong	100%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Commercial Consulting (Shanghai) Limited	China	100%	Indirect	26/F, Tower 1
Sainsbury's Bank plc	UK	100%	Direct	33 Holborn
Sainsburys Corporate Director Limited	UK	100%	Direct	33 Holborn
Sainsbury's Corporate Healthcare Trustee Limited	UK	100%	Indirect	33 Holborn
Sainsbury's Corporate Secretary Limited	UK	100%	Direct	33 Holborn
Sainsbury's Group Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Heather GP Limited	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Intermediate Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Manor GP Limited	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Manor II Property Limited	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Manor Property Limited	UK	100%	Direct	3 Lochside Avenue
Sainsburys (NI) Ltd	UK	100%	Indirect	Forestside Shopping Centre
Sainsbury's Rose LP Limited	UK	100%	Indirect	33 Holborn
Sainsbury's SL Limited	UK	100%	Indirect	33 Holborn
Sainsbury's Supermarkets Ltd	UK	100%	Direct	33 Holborn
Sainsbury's Thistle Scottish Limited Partnership	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Tyne Property Holdings Limited	UK	100%	Indirect	33 Holborn
Software Warehouse Holdings Limited	UK	100%	Indirect	33 Holborn
Stamford House Investments Limited	UK	100%	Direct	33 Holborn
Stamford Properties One Limited	UK	100%	Direct	33 Holborn
Stamford Properties Three Limited	UK	100%	Direct	33 Holborn
Stamford Properties Two Limited	UK	100%	Direct	33 Holborn
Stanhope Finance Limited	UK	100%	Indirect	33 Holborn
Tintagel Castle Limited***	UK	100%	Direct	33 Holborn
Town Centre Retail (Bicester) Limited	UK	100%	Indirect	33 Holborn

* See full addresses on page 209.
** Dissolved on 28 March 2023.
*** An application has been made to strike off this company from the Companies Register.
**** Acquired subsequent to year-end.

41 Details of related undertakings continued

b) Associated undertakings

The Group has a participating interest in the following undertakings:

Entity	Country of incorporation	Interest	Holding	Registered office address*
3BW Limited	UK	50%	Indirect	5 St John's Lane
Harvest 2 GP Limited	UK	50%	Indirect	100 Victoria Street
Harvest 2 Limited Partnership	UK	50%	Indirect	100 Victoria Street
Harvest Development Management Limited	UK	50%	Indirect	100 Victoria Street
Harvest GP Limited	UK	50%	Indirect	100 Victoria Street
Hedge End Park Limited	UK	50%	Direct	33 Holborn

c) Undertakings other than subsidiaries and associated undertakings

The direct or indirect holder of 100 per cent of the voting interests in the following undertakings is an associate of the Group:

Entity	Country of incorporation	Interest	Holding	Registered office address*
Harvest 2 Selly Oak Limited	UK	50%	Indirect	100 Victoria Street
BL Sainsbury Superstores Limited**	UK	50%	Indirect	York House
British Land Superstores (Non-Securitised)**	UK	50%	Indirect	York House
Pencilscreen Limited**	UK	50%	Indirect	York House

d) Overseas branches

The Group has the following branches overseas:

Entity	Country of incorporation	Holding	Registered office address*
Sainsbury's Argos Asia Limited – Bangladesh Liaison Office	Bangladesh	Indirect	Level 10, Simpletree Anarkali
Sainsbury's Argos Asia Limited – India Branch Office	India	Indirect	Unit No. 1, 1st Floor, Ambience Corporate Tower II

* See full addresses on page 209.
** Currently in liquidation.

e) Subsidiary undertakings exempt from audit

The following subsidiaries are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of the Act:

Entity	Company registered number
Argos Holdings Limited	5860214
Argos Surbs Investments Limited	5716474
BLSSP (PCH 7) Limited	04104076
Cliffrange Limited	1967242
Coolidge Investments Limited	07697101
Habitat Retail Limited	7445750
Home Retail Group (Jersey) Limited	106184
Home Retail Group Limited	5863533
Home Retail Group Holdings (Overseas) Limited	0872776
Home Retail Group (UK) Limited	5844516
Manor Property Scottish Partnership	N/A
Manor Scottish Limited Partnership	SL013661
Nash Court (Kenton) Limited	3447714
Nectar EMEA Limited	05821446
Nectar Loyalty Holding Limited	06436907
Ramheath Properties Limited	01762921
Sainsbury's Bridgeco HoldCo Limited	5644629
Sainsbury's Group Holdings Limited	11833110
Sainsbury's Intermediate Holdings Limited	10125892
Sainsbury's Rose LP Limited	11837174
Sainsbury's Manor GP Limited	SC453278
Sainsbury's Manor Property Limited	SC453263
Sainsbury Property Investments Limited	02184043
Stanhope Finance Limited	4288193
Town Centre Retail (Bicester) Limited	5564905

41 Details of related undertakings continued

f) Full registered office addresses

Address	Full address
3 Lochside Avenue	3 Lochside Avenue, Edinburgh, EH12 9DJ, United Kingdom
5 Anastasios Leventis Street	5 Anastasios Leventis Street, Leventis Gallery Tower, 8th Floor, 1097 Nicosia, Cyprus
5 St John's Lane	5 St John's Lane, London, EC1M 4BH, United Kingdom
Unit 904, 9/F, Tower 2	Unit 904, 9/F, Tower 2, The Quayside, 77 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong
26/F, Tower 1	26/F, Tower 1, Kerry Everbright City Phase III-Enterprise Centre, No.128, West Tian Mu Road, Shanghai 200070, People's Republic of China
33 Holborn	33 Holborn, London, EC1N 2HT, United Kingdom
44 Esplanade	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands
50 Bedford Street	50 Bedford Street, Belfast, BT2 7FN, United Kingdom
100 Victoria Street	100 Victoria Street, London, SW1E 5JL, United Kingdom
Avebury	Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW, United Kingdom
Forestside Shopping Centre	Forestside Shopping Centre, Upper Galwally, Belfast, BT8 6FX, United Kingdom
Level 10, Simpletree Anarkali	Level 10, Simpletree Anarkali, 89 Gulshan Avenue Plot 03, Block – CWS(A), Dhaka – 1212 Bangladesh
PO Box 33, Dorey Court	PO Box 33, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 4AT
Third Floor, St George's Court	Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Unit 7, Ashbourne Retail Park	Unit 7, Ashbourne Retail Park, Ballybin Road, Ashbourne, Co. Meath, Ireland
Unit No. 1, 1st Floor, Ambience Corporate Tower II	Unit No. 1, 1st Floor, Ambience Corporate Tower II, Ambience Island, NH-8, Gurgaon – 122011, Haryana, India
York House	York House, 45 Seymour Street, London, W1H 7LX, United Kingdom

Company balance sheet

At 4 March 2023 and 5 March 2022

	Note	2023 £m	2022 £m
Non-current assets			
Investments in subsidiaries, joint ventures and associates	2	**7,678**	7,668
Trade and other receivables	3	**72**	149
		7,750	7,817
Current assets			
Trade and other receivables	3	**1,192**	2,080
Derivative financial assets		**2**	7
Cash and cash equivalents		**299**	14
		1,493	2,101
Total assets		**9,243**	9,918
Current liabilities			
Trade and other payables	4	**(2,919)**	(3,499)
Derivative financial liabilities		**(2)**	(7)
Taxes payable		**(3)**	–
		(2,924)	(3,506)
Net Current liabilities		**(1,431)**	(1,405)
Non-current liabilities			
Deferred income tax liability	5	**(16)**	(16)
Provisions		**(1)**	(1)
		(17)	(17)
Total liabilities		**(2,941)**	(3,523)
Net assets		**6,302**	6,395
Equity			
Called up share capital	6	**672**	668
Share premium	6	**1,418**	1,406
Merger reserve	6	**568**	568
Capital redemption reserve	6	**680**	680
Other reserves	6	**2**	2
Retained earnings	7	**2,962**	3,071
Total equity		**6,302**	6,395

The profit after tax for the Company for the year was £152 million (2022: loss of £(68) million). The notes on pages 212 to 215 form an integral part of these financial statements.

The financial statements on pages 210 to 215 were approved by the Board of Directors on 26 April 2023, and are signed on its behalf by:

Simon Roberts
Chief Executive

Bláthnaid Bergin
Chief Financial Officer

The Company's registered number is 00185647.

Company statement of changes in equity

for the 52 weeks to 4 March 2023

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual convertible bonds £m	Total equity £m
At 6 March 2022		**668**	**1,406**	**568**	**682**	**3,071**	**6,395**	**–**	**6,395**
Profit for the year	7	–	–	–	–	**152**	**152**	–	**152**
Total comprehensive income for the year ended 4 March 2023		–	–	–	–	**152**	**152**	–	**152**
Transactions with owners:									
Dividends	7	–	–	–	–	**(319)**	**(319)**	–	**(319)**
Allotted in respect of share option schemes	6, 7	**4**	**12**	–	–	**58**	**74**	–	**74**
At 4 March 2023		**672**	**1,418**	**568**	**682**	**2,962**	**6,302**	**–**	**6,302**
At 7 March 2021		637	1,173	568	683	3,320	6,381	248	6,629
Loss for the year	7	–	–	–	–	(68)	(68)	–	(68)
Other comprehensive loss		–	–	–	(1)	–	(1)	–	(1)
Total comprehensive expense for the year ended 5 March 2022		–	–	–	(1)	(68)	(69)	–	(69)
Transactions with owners:									
Dividends	7	–	–	–	–	(238)	(238)	–	(238)
Allotted in respect of share option schemes	6, 7	5	17	–	–	59	81	–	81
Conversion of perpetual convertible bonds		26	216	–	–	(2)	240	(240)	–
Repayment of perpetual convertible bonds		–	–	–	–	–	–	(8)	(8)
At 5 March 2022		668	1,406	568	682	3,071	6,395	–	6,395

The notes on pages 212 to 215 form an integral part of these financial statements.

Notes to the Company financial statements

1 Basis of preparation

The parent company's financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the Standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition measurement and disclosure requirements of UK-adopted international accounting standards.

The financial year represents the 52 weeks to 4 March 2023 (prior financial year 52 weeks to 5 March 2022).

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 to present a cash flow statement
- The requirements of paragraph 17 of IAS 24 'Related Party Transactions', to disclose information related to key management personnel, and the requirements of IAS 24 to disclose related party transactions between two or more members of a group for wholly owned subsidiaries
- The requirements of paragraphs 30 and 31 of IAS 8 to disclose information assessing the possible impact of new standards issued but which are not yet effective
- The requirements of IFRS 7 and IFRS 13 for disclosure of financial instruments and fair values
- The requirements of IFRS 2, to disclose information related to share-based payment arrangements
- The requirements of IAS 1 to present comparative information in respect of certain assets and the disclosure information related to capital management

The financial statements are presented in pound sterling, rounded to the nearest £million unless otherwise stated. They have been prepared on the going concern basis under the historical cost convention, except for derivative financial instruments and financial assets at fair value through other comprehensive income that have been measured at fair value.

Amendments to published standards

The Company has considered the following amendments to published standards that are effective for the Company for the financial year beginning 6 March 2022 and concluded that they are either not relevant to the Company or that they do not have a significant impact on the Company's financial statements other than disclosures.

- Amendments to IFRS 3 'Business Combinations' – Reference to the Conceptual Framework
- Amendments to IAS 16 'Property, Plant and Equipment' – Proceeds before Intended Use
- Amendments to IAS 37 'Provisions, Contingent Assets and Contingent Liabilities' – Onerous Contracts – Costs of Fulfilling a Contract
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' – Subsidiary as a first-time adopter
- Amendments to IFRS 9 'Financial Instruments' – Fees in the '10 per cent' test for derecognition of financial liabilities
- Amendments to IAS 41 'Agriculture' – Taxation in fair value measurements

The accounting policies have remained unchanged from those disclosed in the Annual Report for the year ended 5 March 2022.

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

- Amendments to IAS 1 'Presentation of Financial Statements' on the classification of liabilities as current or non-current
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements' on the disclosure of accounting policies
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of accounting estimates
- Amendments to IAS 12 'Income Taxes' on Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 16 'Leases' on Lease Liability in a Sale and Leaseback
- Amendments to IAS 1 'Presentation of Financial Statements' on Non-current Liabilities with Covenants

The Company has considered the impact of the remaining above standards and revisions and have concluded that they will not have a significant impact on the Company's financial statements.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement nor a statement of comprehensive income for the Company alone.

2 Investments in subsidiaries, joint ventures and associates

Accounting policies

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

At each reporting period, the Company assesses the carrying amounts of its investments to determine whether there is any indication of impairment. Where such an indication exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the investment is less than its carrying amount, the investment is written down to its recoverable amount. Any impairment loss is immediately recognised in the income statement.

Significant estimate – impairment of investments in subsidiaries

The Company considers impairment of its investment in subsidiaries by estimating the recoverable amounts of the investments, which are based on either the net assets of the subsidiary, or value-in-use calculations. Where a value-in-use calculation is used, discounted cash flows have been derived from Board approved cash flow projections for four years and then extrapolated into perpetuity with an assumed growth rate of 2.0%, discounted at a pre-tax rate of 9% to 15%.

	2023 £m	2022 £m
Subsidiaries		
At the beginning of the year	**7,667**	7,609
Additions	**60**	58
Other	**(50)**	–
At the end of the year	**7,677**	7,667
Joint ventures and associates	**1**	1
Subsidiaries, joint ventures and associates	**7,678**	7,668

Other movements relates to a dividend of £50 million paid by Sainsbury's Bank plc to J Sainsbury plc.

The Directors acknowledged that as at 4 March 2023 the market capitalisation of J Sainsbury plc was less than the net assets of the Company, which primarily consists of investments in subsidiaries. This was considered an indicator of impairment and an impairment test over the investment in subsidiaries was performed. No impairments were identified. Where value-in-use calculations have been used to estimate the recoverable amounts of the investments, sensitivity analysis has been performed. The analysis indicates that there is sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment in any of the Company's investments in subsidiaries.

3 Trade and other receivables

Accounting policies

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

	2023 £m	2022 £m
Non-current		
Amounts owed by Group companies	**68**	149
Prepayments and accrued income	**4**	–
	72	149
Current		
Amounts owed by Group companies	**1,191**	2,080
Prepayments and accrued income	**1**	–
	1,192	2,080

Receivable balances with other Group entities are reviewed for potential impairment based on the ability of the counterparty to meet its obligations. This is assessed by considering the net asset position of the entity and whether the amounts owed to the Company are covered. Where this is not the case, the estimated future cash flows of the counterparty are considered in line with the methodology detailed in note 2. No impairment losses were recognised in the year.

4 Trade and other payables

Accounting policies

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

	2023 £m	2022 £m
Current		
Amounts owed to Group entities	**2,916**	3,496
Other payables	**3**	3
	2,919	3,499

5 Taxation

Accounting policies

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

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

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

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

	Capital losses £m	Rolled over capital gains £m	Total £m
At 4 March 2023 and 5 March 2022	**16**	**(32)**	**(16)**

6 Share capital and reserves

Accounting policies

Ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share capital, share premium and merger reserve

	2023 million	2022 million	2023 £m	2022 £m
Called up share capital				
Allotted and fully paid ordinary shares 28 4/7p	**2,352**	2,336	**672**	668
Share premium account				
Share premium			**1,418**	1,406

The movements in the called up share capital, share premium and merger reserve accounts are set out below:

	Number of ordinary shares million	Ordinary shares £m	Share premium account £m	Merger reserve £m
At 5 March 2022	**2,336**	**668**	**1,406**	**568**
Allotted in respect of share option schemes	**16**	**4**	**12**	**–**
At 4 March 2023	**2,352**	**672**	**1,418**	**568**
At 6 March 2021	2,231	637	1,173	568
Allotted in respect of share option schemes	14	5	17	–
Allotted in respect of Hybrid Convertible bond payment	91	26	216	–
At 5 March 2022	2,336	668	1,406	568

6 Share capital and reserves continued

Capital redemption and other reserves

	Financial assets at fair value through other comprehensive income £m	Total other reserves £m	Capital redemption reserve £m
At 4 March 2023 and 5 March 2022	**2**	**2**	**680**

The financial assets at fair value through other comprehensive income reserve represents the fair value gains and losses on the financial assets at fair value through other comprehensive income held by the Company.

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

7 Retained earnings

	2023 £m	2022 £m
Beginning of the year	**3,071**	3,320
Profit/(loss) for the year	**152**	(68)
Dividends paid	**(319)**	(238)
Allotted in respect of share option schemes	**58**	59
Conversion of perpetual convertible bonds	**–**	(2)
End of the year	**2,962**	3,071

8 Contingent liabilities

Through the normal course of business, the Company has issued guarantees covering various commitments of its subsidiaries. The Company has also provided a guarantee to the Bank of England (BoE) in respect of any borrowings by Sainsbury's Bank plc under the terms of the Sterling Monetary Framework. No liability has been recognised in the Company's accounts for this guarantee as it is considered remote that the guarantee will be called on. Please refer to note 41 of the Group financial statements for details on subsidiary undertakings exempt from audit.

Additional shareholder information

Financial calendar

Ex-dividend date of final dividend	8 June 2023
Record date of final dividend	9 June 2023
Q1 trading statement	4 July 2023
Annual General Meeting	6 July 2023
Payment date of final dividend	14 July 2023
Interim (half-year) results announcement	2 November 2023
Q3 trading statement	January 2024*
Preliminary (full-year) results announcement	April 2024*

* provisional dates

Shareholders

Shareholder information as at 4 March 2023.

	2023	2022
Number of shareholders	**100,490**	103,337
Number of shares in issue	**2,352,338,052**	2,336,350,627

Annual General Meeting (AGM)

The AGM will be held at 33 Holborn, London, EC1N 2HT at 10.00am on Thursday, 6 July 2023 with facilities to attend virtually. The Notice of Meeting and proxy card for the meeting are enclosed with this report and further details will be available at **www.about.sainsburys.co.uk.**

Registrars

For information about the AGM, shareholdings and dividends, or to report changes to personal details, shareholders should contact:

Equiniti
Aspect House
Spencer Road
Lancing
BN99 6DA
Telephone: 0333 207 6557* (from UK) or +44 (0) 333 207 6557* (outside UK)
*Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

Shareholders with speech or hearing difficulties can also contact Equiniti using Relay UK. More information can be found by visiting **www.relayuk.bt.com**.

Please remember to tell Equiniti if you change your residential address or bank details, or if there is any other change to your account information.

You can view and manage your shareholding online at **www.shareview.co.uk**. You will require your 11-digit Shareholder Reference Number to log in; this can be found on your share certificate and dividend confirmation.

Dividends

To receive dividends and any other money payable to you in connection with your J Sainsbury plc ordinary shares, you will need to provide your bank or building society account details. Payments will be made directly to your nominated account by direct credit. Please visit **www.shareview.co.uk** for further details.

Dividend Reinvestment Plan (DRIP)

Sainsbury's offers a DRIP, which is a simple way to buy additional Sainsbury's shares. Shareholders can reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. No new shares are allotted under this DRIP and approximately 23,000 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from Equiniti. Alternatively, you can elect to join the DRIP by registering at **www.shareview.co.uk**.

Shareholder communications website

More information about J Sainsbury plc, including the latest results and reports, can be found on our website at **www.about.sainsburys.co.uk**. As well as providing share price data and financial history, the site also provides information on management, our business strategy and corporate governance. It also contains information for investors, our sustainability report, regulatory and news releases, and current issues.

Electronic shareholder communications

The Company encourages all shareholders to receive their shareholder communications electronically to reduce our impact on the environment and has set up a facility for shareholders to do so. The service allows you to:

- View the Annual Report and Financial Statements on the day it is published
- Receive electronic notification of the availability of future shareholder information (you must register your email address for this service)
- Check the balance and current value of your shareholding and view your dividend history
- Submit your vote online prior to a general meeting

To register, visit **www.shareview.co.uk**. You will need your 11-digit Shareholder Reference Number, which can be found on your share certificate and dividend confirmation. For each shareholder registration, a donation will be made to the Woodland Trust, the UK's leading woodland conservation charity.

Share dealing services

To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or your bank who will usually be able to assist you. Alternatively, you may consider using Equiniti. Equiniti offers a telephone and online facility, which gives shareholders the opportunity to trade at a known price. The telephone service is available from 8.00am to 4.30pm, Monday to Friday, excluding bank holidays, on 03456 037 037. The online share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting **www.shareview.co.uk**.

ShareGift

If you have a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form may be obtained from Equiniti. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity. If you are a UK taxpayer, it is also possible to obtain income tax relief. Further information about ShareGift may be obtained by calling 020 7930 3737, emailing **help@sharegift.org** or by visiting **www.sharegift.org.**

Shareholder security

Investment scams are designed to look like genuine investments and fraudsters use persuasive, high pressure tactics to scam investors.

Spot the warning signs

Have you been:

— Contacted out of the blue and told the investment is safe;

— Called repeatedly; or

— Told the offer is only available for a limited time?

Report a Scam

Report any suspected investment scams to the FCA at **www.fca.org.uk/consumers/report-scam-us** or call the FCA Consumer Helpline on 0800 111 6768.

Avoid investment fraud

— Reject cold calls

— Check the FCA Warning List of firms and individuals who the FCA know are operating without their authorisation

— Get impartial advice

If you have lost any money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or at **www.actionfraud.police.uk**.

Find out more at **www.fca.org.uk/scamsmart**.

To understand how Sainsbury's processes shareholder data, please visit **www.about.sainsburys.co.uk/site-services/privacy-policy**.

ProSearch

Sainsbury's has instructed ProSearch, a specialist tracing company, to identify and communicate with shareholders who may be owed dividends or shares in Sainsbury's. If you have received a communication from ProSearch and think you may be due dividends or shares in Sainsbury's, please contact ProSearch directly for more information. You can call them on 0371 384 2735* or visit **www.prosearchassets.com**.

* Lines are open 9.00am to 5.00pm Monday to Friday (excluding UK public holidays).

American Depository Receipts (ADRs)

The Company has a sponsored Level 1 ADR programme for which the Bank of New York Mellon acts as depository. The ADRs are traded on the over-the-counter (OTC) market in the US under the symbol JSAIY, where one ADR is equal to four ordinary shares. All enquiries relating to ADRs should be addressed to:

Bank of New York Mellon
Shareholder Correspondence
PO Box 505000
Louisville
KY 40233-5000

Toll Free Telephone number for US domestic callers: 1-888-269-2377

International callers can call: +1-201-680-6825

Website: **www.mybnymdr.com**

Email: **shrrelations@bnymellon.com**

Key contacts and advisers

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J Sainsbury plc
33 Holborn
London EC1N 2HT
Registered number 185647

Investor Relations
James Collins
Director of Investor Relations and Financial Planning
J Sainsbury plc
33 Holborn
London EC1N 2HT
InvestorRelations2@sainsburys.co.uk

Registrars
Equiniti
Aspect House
Spencer Road
Lancing BN99 6DA
www.shareview.co.uk

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitors
Linklaters LLP
One Silk Street
London EC2Y 8HQ

Stockbrokers
UBS
5 Broadgate
London EC2M 2QS

Stockbrokers
Shore Capital
Cassini House
57 St James's Street
London SW1A 1LD

General contact details
For any customer enquiries, please visit our websites:

- Sainsbury's **https://help.sainsburys.co.uk/help**
- Argos **www.argos.co.uk/help/contact-us**
- Habitat **www.habitat.co.uk/help/contact-us**
- Nectar **www.nectar.com/help**
- Sainsbury's Bank **www.sainsburysbank.co.uk/insuring/support/customer_support_zone**

Cautionary statement
Certain statements included in this Annual Report are forward-looking. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Alternative performance measures (APMs)

In the reporting of financial information, the Directors use various APMs which they believe provide additional useful information for understanding the financial performance and financial health of the Group. These APMs should be considered in addition to, and are not intended to be a substitute for IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures.

All of the following APMs relate to the current period's results and comparative periods where provided.

APM	Closest equivalent IFRS measure	Definition	Purpose	Reconciliation
Income statement – Revenue				
Retail sales	**Revenue**	Group sales less Financial Services revenue.	Shows the annual rate of growth in the Group's Retail business sales.	A reconciliation of the measure is provided in note 6 of the financial statements.
Like-for-like sales	**No direct equivalent**	Year-on-year growth in sales including VAT, excluding fuel and Financial Services, for stores that have been open for more than one year. The relocation of Argos stores into Sainsbury's supermarkets are classified as new space, while the host supermarket is classified like-for-like. Within the comparative period, the impact on sales of stores which were temporarily closed due to COVID-19 have been included within LFL sales. Only permanently closed sites and those temporarily closed for non COVID-19 related reasons are treated as non-LFL.	The measure is used widely in the retail industry as an indicator of current trading performance and is useful when comparing growth between retailers that have different profiles of expansion, disposals and closures.	The reported retail like-for-like sales increase of 2.6 per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for 2023. See movements below: **2023** / 2022 **Retail like-for-like (exc. Fuel, inc. VAT)** **2.6%** / (2.3)% Underlying net new space impact **(0.6)%** / (0.3)% **Retail sales growth (exc. Fuel, inc. VAT)** **2.0%** / (2.6)% Fuel impact **3.2%** / 6.0% **Total retail sales growth (inc. Fuel, inc. VAT)** **5.2%** / 3.4% VAT impact **(0.1)%** / (0.4)% **Total retail sales growth per note 6** **5.1%** / 3.0%
Income statement – Profit				
Retail underlying operating profit	**Profit before tax**	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	This is the lowest level at which the retail segment can be viewed from a management perspective, with finance costs managed for the Group as a whole.	**2023 £m** / 2022 £m Group PBT (note 7) **327** / 854 Add back/(less) Group non-underlying items (note 5) **363** / (124) **Group UPBT** **690** / 730 Financial Services underlying operating profit **(46)** / (38) **Retail underlying profit before tax** **644** / 692 Net underlying finance costs **282** / 309 **Retail underlying operating profit** **926** / 1,001 Retail sales (note 6) **30,960** / 29,463 **Retail underlying operating margin** **2.99%** / 3.40%
Underlying profit before tax	**Profit before tax**	Underlying results exclude items recognised in reported profit or loss before tax which, if included, could distort comparability between periods. In determining which items to exclude from underlying profit, the Group considers items which are significant either by virtue of their size and/or nature, or that are non-recurring.	In order to provide shareholders with additional insight into the year-on-year performance of the business, this adjusted measure of profit is provided to supplement the reported IFRS numbers and reflects how the business measures performance internally.	Underlying profit before tax is bridged to statutory profit before tax in the income statement and note 5 of the financial statements. The adjusted items are as described in note 5 of the financial statements.

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition	Purpose	Reconciliation
Income statement – Profit				
Underlying basic earnings per share	**Basic earnings per share**	Earnings per share using underlying profit as described above.	This is a key measure to evaluate the performance of the business and returns generated for investors.	A reconciliation of the measure is provided in note 12 of the financial statements.
Retail underlying EBITDA	**No direct equivalent**	Retail underlying operating profit as above, before underlying depreciation, and amortisation.	EBITDA is used to review the retail segment's profit generation and the sustainability of ongoing capital reinvestment and finance costs.	

	2023 £m	2022 £m
Retail underlying operating profit	**926**	1,001
Add: Retail depreciation and amortisation expense	**1,175**	1,197
Less: Non-underlying depreciation and amortisation	**(41)**	(53)
Retail underlying EBITDA	**2,060**	2,145
Retail sales (note 6)	**30,960**	29,463
Retail underlying EBITDA margin	**6.65%**	7.28%

Underlying net finance costs	**Finance income less finance costs**	Net finance costs before any non-underlying items as defined above that are recognised within finance income/expenses.	This provides shareholders with additional insight into the underlying net finance costs of the Group by excluding non-recurring one-off items.	A reconciliation of this measure is included in note 10 of the financial statements. The adjusted items are as follows: — Non-underlying finance movements – these include fair value remeasurements on derivatives not in a hedging relationship and lease interest on impaired non-trading sites, including site closures. The fair value movements are driven by external market factors and can significantly fluctuate year-on-year. They are therefore excluded to ensure consistency between periods. Lease interest on impaired, non-trading sites is excluded as they do not contribute to the operating activities of the Group. — IAS 19 pension interest – Although a recurring item, the Group has chosen to exclude net retirement benefit income and costs from underlying profit as, following closure of the defined benefit scheme to future accrual, it is not part of the ongoing operating activities of the Group and its exclusion is consistent with how the Directors assess the performance of the business.
Underlying tax rate	**Effective tax rate**	Tax on underlying items, divided by underlying profit before tax.	Provides an indication of the tax rate across the Group before the impact of non-underlying items.	The tax on non-underlying items is included in note 5 of the financial statements.

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition	Purpose	Reconciliation			
Cash flows and net debt							
Retail cash flow items in Financial Review	**No direct equivalent**	n/a	To help the reader understand cash flows of the business a summarised cash flow statement is included within the Financial Review. As part of this a number of line items have been combined. The cash flow in note 7 of the financial statements includes a reference to show what has been combined in these line items.		Ref	4 March 2023 £m	5 March 2022 £m
				Net interest paid	a	**(307)**	(323)
				Capital repayment of lease liabilities	b	**(512)**	(491)
				Repayment of borrowings	c	**(40)**	(256)
				Other	d	**(32)**	(27)
				Dividends and distributions received	e	**51**	2
Retail free cash flow	**Net cash generated from operating activities**	Net cash generated from retail operations, after cash capital expenditure and including payments of lease obligations, cash flows from joint ventures and associates and Sainsbury's Bank capital injections.	This measures cash generation, working capital efficiency and capital expenditure of the retail business.			4 March 2023 £m	5 March 2022 £m
				Cash generated from retail operations		**2,216**	1,940
				Net interest paid (ref (a) above)		**(307)**	(323)
				Corporation tax		**(99)**	(23)
				Retail purchase of property, plant and equipment		**(523)**	(416)
				Retail purchase of intangible assets		**(194)**	(229)
				Retail proceeds from disposal of property, plant and equipment		**29**	46
				Initial direct costs on right-of-use assets		**(16)**	(3)
				Capital repayment of lease liabilities		**(512)**	(491)
				Dividends and distributions received		**51**	2
				Retail free cash flow		**645**	503
Adjusted net cash generated from retail operations (per Financial Review)	**Cash generated from operations**	This presents retail operating cash flows adjusted for movements in working capital, less net interest paid (including distributions on perpetual securities) and pension cash contributions.	This enables management to assess the cash generated from its core retail operations.			4 March 2023 £m	5 March 2022 £m
				Retail cash generated from operating activities (note 7)		**1,810**	1,598
				Perpetual security coupons		**–**	(4)
				Adjusted net cash generated from operating activities		**1,810**	1,594
Core retail capital expenditure	**No direct equivalent**	Capital expenditure excluding Sainsbury's Bank.	This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance.			2023 £m	2022 £m
				Purchase of property, plant and equipment		**(523)**	(416)
				Purchase of intangibles		**(194)**	(229)
				Cash capital expenditure		**(717)**	(645)

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition	Purpose	Reconciliation	4 March 2023 £m	5 March 2022 £m
Underlying working capital movements	No direct equivalent	Removes working capital and cash movements relating to non-underlying items.	To provide a reconciliation of the working capital movement in the Financial statements to the underlying working capital movement in the Financial review.	**Retail working capital movements per cash flow (note 7)**	**185**	(306)
				Adjustments for:		
				Retail non-underlying impairment charges (note 7)	**315**	8
				Non-underlying restructuring and impairment charges (note 5)	**(387)**	(92)
				Bank non-underlying restructuring and impairment charges	**–**	7
				Accelerated depreciation (note 5)	**20**	33
				Gains on early termination of leases (note 5)	**(2)**	(9)
				Profit on disposal of properties within restructuring programme (note 5)	**(11)**	(12)
				ATM income (note 5)	**3**	2
				Income recognised in relation to legal disputes (note 5)	**30**	180
				Property related transactions (note 5)	**(9)**	–
				Other	**7**	1
				Non-underlying working capital movements before cash movements	**(34)**	118
				Non-underlying cash movements:		
				Restructuring (note 5)	**50**	114
				Bank restructuring	**–**	(4)
				ATM income (note 5)	**(3)**	(14)
				Income recognised in relation to legal disputes (note 5)	**(30)**	(93)
				Property related transactions (note 5)	**6**	–
				Retail non-underlying operating cash flows (excluding pensions)	**23**	3
				Total adjustments for non-underlying working capital	**(11)**	121
				Underlying working capital movements	**174**	(185)

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition	Purpose	Reconciliation
Net debt	**Borrowings, cash, derivatives, financial assets at FVTOCI, lease liabilities**	Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. It is calculated as: financial assets at fair value through other comprehensive income (excluding equity investments) + net derivatives to hedge borrowings + net cash and cash equivalents + loans + lease obligations.	This shows the overall strength of the balance sheet alongside the liquidity and its indebtedness and whether the Group can cover its debt commitments.	A reconciliation of the measure is provided in note 32 of the financial statements. In addition, to aid comparison to the balance sheet, reconciliations between financial assets at FVTOCI and derivatives per the balance sheet and Group net debt (i.e. including Financial Services) is included below:

	4 March 2023 £m	5 March 2022 £m
Financial instruments at FVTOCI per balance sheet	**1,009**	800
Less: equity-related securities	**(383)**	(382)
Financial instruments at FVTOCI included in net debt	**626**	418
Net derivatives per balance sheet	**213**	259
Less: derivatives not used to hedge borrowings	**(213)**	(250)
Derivatives included in net debt	**–**	9

Other

Net debt/ underlying EBITDA	**No direct equivalent**	Net debt divided by Group underlying EBITDA.	This helps management measure the ratio of the business's debt to operational cash flow.	Net debt as provided in note 32. Group underlying EBITDA is reconciled within the fixed charge cover analysis below.
Return on capital employed	**No direct equivalent**	Return on capital employed is calculated as return divided by average capital employed. Return is defined as 52 week rolling underlying profit before interest and tax. Capital employed is defined as Group net assets excluding pension deficit/surplus, less net debt (excluding perpetual securities). The average is calculated on a 14-point basis. The 14-point basis uses the average of 14 datapoints – the prior year closing capital employed, the current year closing capital employed and 12 intra-year periods as this more closely aligns to the recognition of amounts in the income statement.	This represents the total capital that the Group has utilised in order to generate profits. Management use this to assess the performance of the business.	

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Underlying profit before tax	**690**	730
Add: Underlying net interest	**282**	309
Return	**972**	1,039

Capital employed is reconciled as follows:

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Group net assets	**7,253**	8,423
Less: Pension surplus (note 35)	**(989)**	(2,283)
Deferred tax on pension surplus (note 11)	**330**	640
Less: net debt (ex-perpetual securities) (note 32)	**6,344**	6,759
Effect of in-year averaging	**(101)**	(1,127)
Capital employed	**12,837**	12,412
Return on capital employed	**7.6%**	8.4%

Fixed charge cover	**No direct equivalent**	Group underlying EBITDA divided by rent (representing capital and interest repayments on leases) and underlying net finance costs, where interest on perpetual securities is treated as an underlying finance cost. All items are calculated on a 52 week rolling basis.	This helps assess the Group's ability to satisfy fixed financing expenses from performance of the business.	

	52 weeks to 4 March 2023 £m	52 weeks to 5 March 2022 £m
Group underlying operating profit	**972**	1,039
Add: Group depreciation and amortisation expense	**1,208**	1,220
Less: Non-underlying depreciation and amortisation expense	**(41)**	(53)
Group underlying EBITDA	**2,139**	2,206
Repayment of capital element of lease obligations	**(514)**	(493)
Underlying finance income	**18**	3
Underlying finance costs	**(300)**	(312)
Fixed charges	**(796)**	(802)
Fixed charge cover	**2.7**	2.8

Glossary

Annual General Meeting (AGM) – This year the AGM will be held on 6 July 2023 at our registered office 33 Holborn, London EC1N 2HT at 10.00am.

Argos Financial Services (AFS) – ARG Personal Loans Limited; Home Retail Group Card Services Limited; and Home Retail Group Insurance Services Limited.

bps – Basis points.

***by* Sainsbury's** – Core own-label brand.

CDP – Carbon Disclosure Project.

Click & Collect – Service which allows customers to place general merchandise and grocery orders online for collection in-store.

Corporate Responsibility and Sustainability (CR&S) – The need to act responsibly in managing our impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment.

CPI – Consumer Price Index.

Earnings Per Share (EPS) – Earnings attributable to ordinary shareholders of the parent divided by the weighted average number of ordinary shares in issue during the year, excluding those held by ESOP Trusts, which are treated as cancelled.

Fair value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FVTPL – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

FVTOCI – Fair value through other comprehensive income. Method of valuing financial instruments where changes in fair value are recognised through other comprehensive income.

GDPR – General Data Protection Regulations.

Greenhouse Gas (GHG) – Gases in the atmosphere which absorbs infrared radiation emitted from Earth's surface creating a 'greenhouse effect'.

Group – The Company and its subsidiaries.

GSCOP – Grocery Supply Code of Practice.

HFSS – High fat sugar and salt.

IFRIC – International Financial Reporting Interpretations Committee.

IFRSs – International Financial Reporting Standard(s).

Joint venture (JV) – A business jointly owned by two or more parties.

Kantar Worldpanel (Kantar)/Nielsen Global Solutions (Nielsen) – Independent third parties providing data on the UK Grocery Market.

Live Well for Less – Sainsbury's customer commitment to continue to help people live the life they want to live, with quality products at fair prices.

LTIP – Long-Term Incentive Plan.

Nectar – One of the most popular loyalty schemes in the UK.

Net Zero – our commitment to becoming Net Zero in our own operations by 2035 through reducing our GHG emissions as much as possible and not adding to the amount of GHG in the atmosphere.

Paris Agreement – an agreement within the United Nations Framework Convention on Climate Change. The Agreement sets a goal for companies to limit global warming to 1.5°C above pre-industrial levels.

PCI – Payment card industry.

PRA – Prudential Regulation Authority.

RPI – Retail Price Index.

Taste the Difference – Sainsbury's premium own-brand range of products.

Total Shareholder Return (TSR) – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

Tu – Sainsbury's own-label clothing range.

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