Live Well For Less

J Sainsbury plc

Annual Report and
Financial Statements 2018

Sainsbury's Group

Helping customers live well for less has been at the heart of what we do since 1869.

We employ over 185,000 colleagues who work hard every day to make our customers' lives easier and to provide them with great products, quality and service whenever and wherever it is convenient to access them.

Food

Our strategic focus is to help our customers live well for less. We offer customers quality and convenience as well as great value. Our distinctive ranges and innovative partnerships differentiate our offer. More customers are shopping with us than ever before and our share of customer transactions has increased.

See more on page 12

608
Sainsbury's supermarkets

102
stores offering Same Day delivery to 40 per cent of the UK population

191
Argos stores in Sainsbury's supermarkets

16
Habitat stores and **Click & Collect** available in over 2,300 locations

General Merchandise and Clothing

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

See more on page 14

Financial Services

Financial Services are an integral part of our business. Sainsbury's Bank offers accessible products such as credit cards, insurance, travel money and personal loans that reward loyalty. Our new mortgage offer has performed well and together, Sainsbury's Bank and Argos Financial Services have 3.9 million active customers.

See more on page 16

3.9m
Active customers at Sainsbury's Bank and Argos Financial Services

£69m
Sainsbury's Bank profits delivered

Performance highlights

£31,735m
Group sales (inc VAT) up nine per cent

£589m
Underlying profit before tax

1.3%
Group like-for-like sales

10.2p
Proposed full-year dividend

20.4p
Underlying basic earnings per share

13.3p
Basic earnings per share

£409m
Statutory profit before tax

8.4%
Return on capital employed

£35m
generated for charities, communi ties and good causes

83%
of the packaging on our own-brand products is classed as 'widely recycled'

Read more about our financial KPIs on page 28

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Find out more at
www.j-sainsbury.co.uk/ar18

Chairman's letter

The combination with Asda offers a significant opportunity for customers, suppliers, colleagues and shareholders to benefit from a structurally stronger business.

"In a competitive market, underlying profits before tax have returned to growth, increasing to £589 million. Encouragingly, although underlying basic earnings per share were down for the year as a whole, we achieved a rise of eight per cent in the second half."

David Tyler
Chairman

2017/18 highlights

10.2p
Proposed full-year dividend

8.4%
Return on capital employed

20.4p
Underlying basic earnings per share

£432m
Free cash flow

In a retail marketplace that remains as competitive as ever, we believe we have the right strategy in place, driven by a skilled and experienced leadership team and supported by highly engaged and committed colleagues.

Strategy

The Board's focus this year has been on driving shareholder value in a retail sector which continues to undergo significant change.

At our results presentation on 30 April we announced that we have agreed with Walmart Inc. to combine J Sainsbury plc and Asda Group Limited to create a dynamic new UK retail business. Asda is valued at approximately £7.3 billion[1] on a cash-free, debt-free and pension-free basis. J Sainsbury plc would acquire the business by a cash payment of £2.975 billion and by issuing new shares to Walmart which would represent a 42 per cent share of the enlarged business. The Combined Business would be chaired by Sainsbury's Chairman and led by Sainsbury's CEO and CFO. The Asda CEO would join the Group Operating Board of the Combined Business and two Walmart representatives would join the J Sainsbury plc Board.

We believe that the combination of these two strong businesses, with enhanced scale and a strengthened balance sheet, would bring great benefits for our customers, our colleagues and our suppliers, while creating value for shareholders. It will lead to significant synergies, enabling Sainsbury's, Asda and Argos to invest in the areas that matter most to customers – price, quality and developing more flexible ways to shop. The Combined Business would unite two of the most talented teams in retail and benefit from the support of Walmart as a major shareholder and strategic partner.

Our acquisition in 2016 of Argos has enabled us to offer more choice and convenience to customers in a changing industry landscape; the combination with Asda would create a more resilient Group providing an even more compelling offer in the face of this rapid change. Through our acquisition of Argos we have a strong track record of delivering synergy benefits and we are confident that the combination of Sainsbury's and Asda will create a further £500 million of net synergies, post reinvestment in our customer offer. The Board believes the combination would create long-term value for shareholders and the opportunity for double digit earnings per share accretion by the second full-year post completion.

Results

In a competitive market, underlying profit before tax has returned to growth, increasing to £589 million. Underlying basic earnings per share were down 6.4 per cent to 20.4 pence per share.

Dividend

We are committed to paying an affordable dividend to our shareholders, fixing dividend cover at two times earnings. We are therefore recommending a final dividend of 7.1 pence per share, bringing the proposed full-year dividend to 10.2 pence per share which is the same as last year.

Business in the year

The business made encouraging progress in the last year. Food transactions are growing ahead of the market, with a differentiated, quality offer and competitive pricing on everyday essential items. We have exceeded our three-year cost savings target over the period 2015 to 2018 by £40 million, bringing the total of savings to £540 million. General Merchandise and Clothing continue to outperform in a challenging market and we are ahead of our schedule to open Argos stores in Sainsbury's supermarkets, achieving synergies sooner than we expected.

As a business, we are focused on the increasingly important role that technology and the responsible use of data play in supporting great customer service. We have invested in developing our technology and digital capabilities and the earnings accretive acquisition of the Nectar loyalty card scheme in February supports our strategy of knowing our customers better than anyone else.

This has been a year of innovation across the Group. We have proposed changes to retail management structures and colleague roles in our stores that will make us more efficient and improve our customer service. We have also proposed a market-leading pay award for Sainsbury's colleagues, along with revised terms and conditions. Our colleagues provide outstanding service to our customers every day and I would like to thank them for their hard work and commitment. As a result of their excellent work, we have been awarded The Grocer Gold Awards for both Service and Availability for the past five years.

Sainsbury's Bank showed profit growth, primarily reflecting the full consolidation of Argos Financial Services. We will take a cautious approach to unsecured lending going forward which, together with the impact of new accounting standards and the cost of the external capital we raised in November 2017, will impact Sainsbury's Bank profits in the short term. The Board remains confident in the Bank's potential to generate growth and healthy returns in the medium term.

Board changes

Mike Coupe leads a senior management team with deep experience and talent. In January, Phil Jordan took on the new role of Group Chief Information Officer and joined the Operating Board. Phil brings great knowledge to Sainsbury's from previous senior roles at Telefonica and Vodafone UK and Ireland.

Following Mary Harris's departure from the Board at the 2017 AGM, we were pleased to announce the appointment of Jo Harlow to the Board as a Non-Executive Director. Jo brings to the Board a wealth of experience in consumer-facing businesses and in the telecoms and technology industry, both in the UK and internationally, having held senior sales and marketing positions at P&G and Reebok. She has already made a strong contribution to the Board since she joined us in September 2017.

Now that I have been Chairman for more than eight years, a search process has begun, led by Dame Susan Rice and the Nomination Committee, to find my successor as Non-Executive Chairman.

Outlook

In a retail marketplace that remains as competitive as ever, we believe we have the right strategy in place, driven by a skilled and experienced leadership team and supported by highly engaged and committed colleagues. The combination with Asda offers a significant opportunity for customers, suppliers, colleagues and shareholders to benefit from a structurally stronger business with the ability to adapt and grow.

David Tyler

David Tyler
Chairman

1 Based on the closing price of Sainsbury's shares of 269.8 pence on 27 April 2018.

Market context

The market

Economic conditions became more challenging for UK consumers during the last year. The devaluation of Sterling and higher commodity prices fed through to food and non-food prices from the start of our financial year, with the consequence that wage growth fell behind inflation for the first time in over three years.

Higher inflation benefited food retail market growth, but the impact on disposable income of higher inflation saw non-food retail sales growth weaken over the course of the year. Combined with the impacts of wage inflation, online channel shift and other structural pressures on traditional non-food retailers, this is accelerating the process of consolidation in the non-food market.

Shopping habits and retail trends

Shopping habits continue to evolve as the UK consumer expects far greater choice and flexibility in how, when and where they shop for food, general merchandise and clothing, accessing a variety of channels.

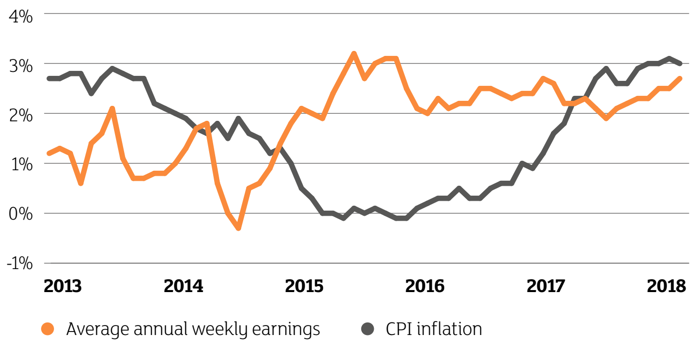
In line with our expectations, consumers continue to shop more frequently across different channels and store formats, with convenience stores and online both showing strong growth. Discount and bargain retailers continue to open significant numbers of new stores and gain market share. These trends continue to place pressure on volumes through the core supermarket format. However, we anticipate that supermarkets will remain an important channel for groceries.

Consumers continue to move their general merchandise and clothing purchases online, accessing a wide choice of delivery and pick-up options. Click & Collect accounts for a significant proportion of UK online general merchandise and clothing sales, as the speed and ease of options continue to expand. Traditional store formats, particularly on the high street, are seeing footfall and sales decline as online participation grows.

In the future, retailers will need to offer a consistent and seamless experience to consumers and be able to rapidly fulfil their orders in a location and at a time that is most convenient to them.

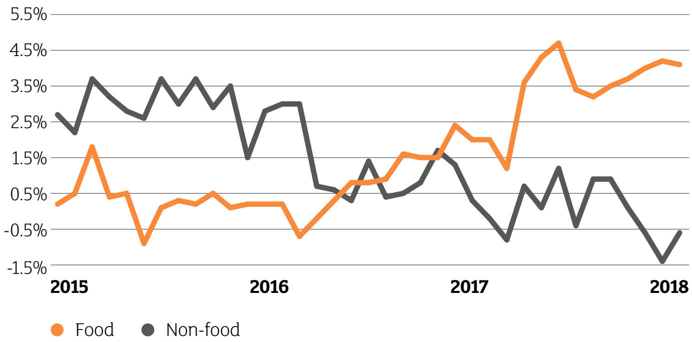
UK average weekly earnings growth vs inflation

Average weekly earnings (%) growth



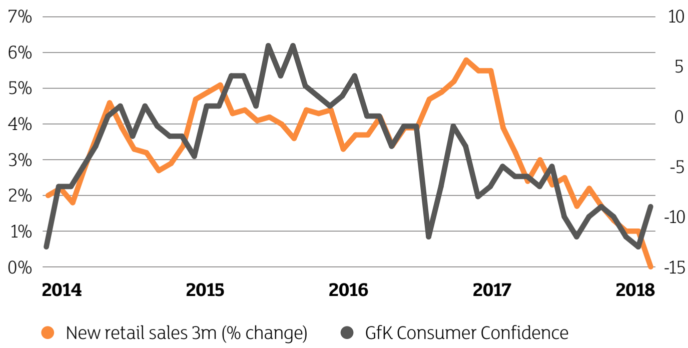
Source: ONS

BRC total retail market year-on-year growth, 3 month rolling



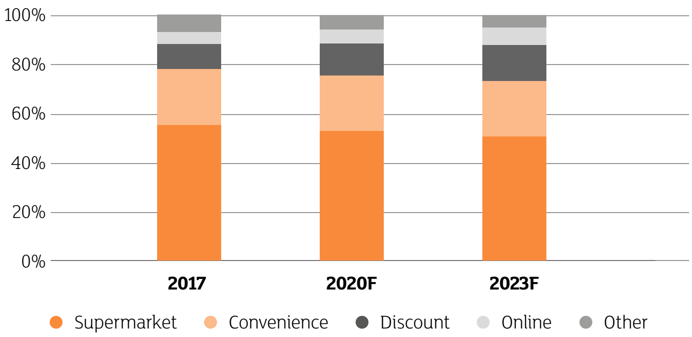
Source: BRC

Consumer confidence



Source: BRC & GfK

Grocery market channel share



Source: Company estimates

Sainsbury's response to a changing marketplace

Our strategy reflects the changing marketplace and our business is well set to continue adapting to these changes. A strategy of being there for our customers whenever and wherever they choose to shop with us allows us to be flexible in adapting to these changing customer needs. We have accelerated the rate of change and innovation across the Group and we are focused on satisfying more customer missions. We remain competitive on price across food, clothing and general merchandise and are focused on providing great value across a wide range of products, making targeted investments to lower prices so that consumers can make choices to suit their budgets.

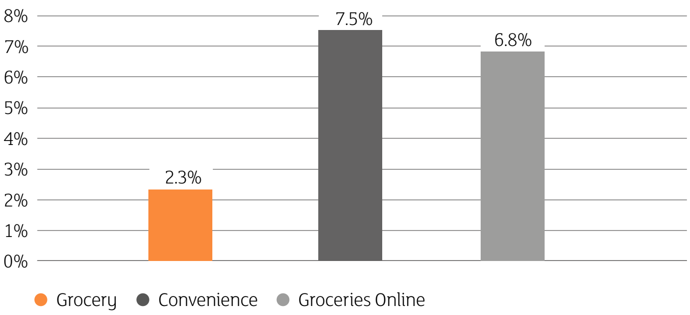
We are clearly differentiated by the quality of our food and we are adapting our supermarkets to serve a wider variety of shopping missions. This includes the opening of Argos stores within Sainsbury's supermarkets, along with other quality third party offers such as Sushi Gourmet, Sushi Daily and Explore Learning.

Our General Merchandise and Clothing business is performing ahead of the market and we are opening Argos stores in our supermarkets faster than we originally anticipated. Argos has a unique Hub and Spoke distribution model that enables fulfilment of customer orders for collection or home delivery quickly, conveniently and efficiently.

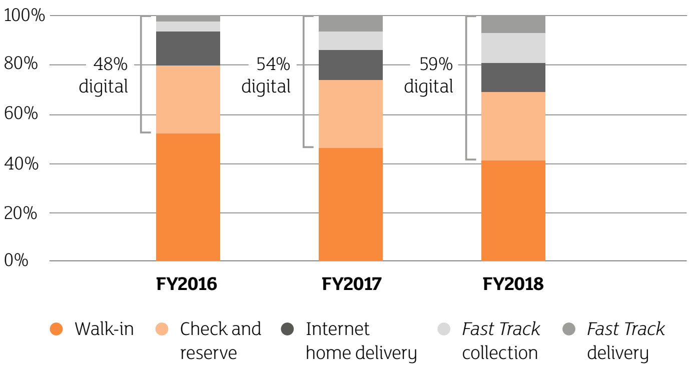
Our combination of a strong online proposition with a wide availability of delivery and pick-up options continues to be popular with consumers. Our convenience store estate is made up of over 800 stores and is outperforming the market as we continue to review the range we offer our customers to ensure it is reflective of their changing needs and shopping missions.

We have delivered £540 million of cost savings over the last three years and we have targeted at least another £500 million of cost savings for the business for the next three years. Together with a targeted £160 million EBITDA (£142 million EBIT) of synergies from the acquisition of Argos and a focus on maintaining balance sheet strength, we are confident that we have the resources to remain highly competitive and to trade well through tougher market conditions.

Sainsbury's Grocery, Convenience and Groceries Online YOY sales growth
FY2017/18



Argos channel shift to online
% of sales



Our business model

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

Supply chain

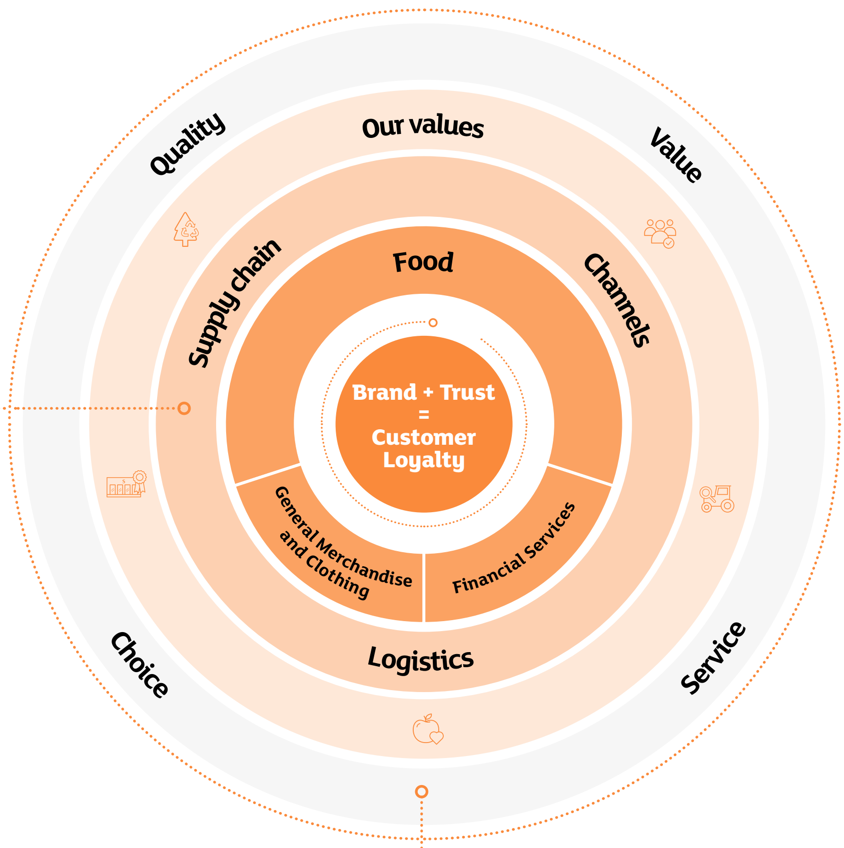
We source products from over 70 countries, according to the ability of suppliers to meet our quality, safety and ethical standards. We invest in British farming through 2,200 members of our farmer and grower Development Groups and we are involved in 11 research projects to improve agricultural productivity and reduce the environmental impact of British farming.

Logistics

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

Channels

We have over 2,200 Sainsbury's supermarkets, convenience stores and Argos stores across the UK and Ireland and an established online capability. Our popular Groceries Online app now accounts for around 20 per cent of food orders. With this strong multi-channel, multi-product proposition, customers can shop with us whenever and wherever they want.



Our values key

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

Quality

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

Value

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

Service

We employ over 185,000 colleagues who are the foundation of our business. They make a real difference in the communities they serve, offering customers great service day in, day out, in our stores, online and over the phone. Our committed, well-trained colleagues have helped us win The Grocer Gold Awards for both Customer Service and Availability for the past five years.

Choice

Through our Sainsbury's, Argos and Habitat brands, we are one of the UK's largest retailers, offering over 90,000 branded and own-brand products across food, general merchandise and clothing and financial services.

Our business strategy

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

Our strategy

Our strategy is designed to address a changing marketplace and to make it easy for our customers to shop with us whenever and wherever they choose.

Our priorities

To deliver our strategy, we have prioritised four key areas of our business. This will help to differentiate and develop our customer offer and to grow and create value for our shareholders. Our four key priorities are:

Priority 1
Further enhance our differentiated food proposition
See more on page 12

Priority 2
Grow General Merchandise and Clothing and deliver synergies
See more on page 14

Priority 3
Diversify and grow Sainsbury's Bank
See more on page 16

Priority 4
Continue cost savings and maintain balance sheet strength
See more on page 17

What makes us different

We are a multi-product, multi-channel business with a strong, differentiated food proposition and respected brands in Sainsbury's, Sainsbury's Bank, Argos and Habitat.

We benefit from a structurally advantaged store estate, world-class property assets, an efficient supply chain and a market-leading digital presence with fast delivery networks.

All this is underpinned by customer insights that enable us to adapt our business to customers' changing lives.

Our values

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

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

See more on page 18

Q&A

Group Chief Executive Officer, Mike Coupe, sums up a year of change and strategic progress at Sainsbury's.

"

Our colleagues deliver outstanding service to our customers every day and through their hard work and commitment we were awarded The Grocer Gold Awards for Service and Availability for the fifth consecutive year."

Mike Coupe
Group Chief Executive Officer

2017/18 highlights

£589m
Underlying profit before tax

£31,735m
Group sales (inc VAT)

£540m
Cost savings over three years to 2017/18

£113m
Reduction in net debt

Combining with Asda would bring together the three successful and trusted retail brands of Sainsbury's, Argos and Asda. Together, we would create a retail business with over 2,800 stores, 330,000 colleagues and more than 47 million transactions each week.

How would you sum up the past year?

It has been a year of positive change and innovation in our business. We have consolidated our position of being an attractive retail destination, offering customers a wide variety of products and services whenever and wherever they want.

Food remains at the heart of our business and our focus is on giving customers a clearly differentiated offer, wide choice, improved quality and great value. In addition, we are working on the biggest retail change programme we have ever undertaken, transforming the way we work in our stores. We propose to meet the challenges of a constantly changing, competitive retail environment by simplifying our structures and operations and investing more in technology to make us more efficient and to improve service to our customers.

We have continued to integrate Argos in to our business and have accelerated our programme to open Argos stores in Sainsbury's supermarkets. They are popular with our customers, perform well and we expect to open around 90 more in 2018/19 bringing the total to around 280 by end 2018/19, ahead of our plan.

Our colleagues deliver outstanding service to our customers every day and through their hard work and commitment we were awarded The Grocer Gold Awards for Service and Availability for the fifth consecutive year. We are proposing to invest £100 million to award store colleagues a market-leading rate of pay from September, along with revised terms and conditions which will ensure consistency and fairness in contracts. We recognise that a small minority of colleagues will be adversely impacted by these proposals and have committed to additional payments for a period of 18 months for all those affected. Our industry-leading pay award follows three consecutive years of giving eligible store colleagues a four per cent pay increase in recognition of their hard work and dedication. This brings the total increase in the base rate to 30 per cent over the past four years.

Why does it make sense to combine Sainsbury's with Asda?

I have been working in the retail industry for over 30 years and the industry is changing faster than ever – customers have more choice and are shopping around more than ever before. I believe this is a transformational opportunity to create a dynamic new UK retail player, designed to be more competitive and to give customers more of what they want now and in the future. It will give us the scale to invest more in price, quality and the technology to create more flexible ways to shop. The combined business would be more dynamic, more adaptable, more resilient and an even greater contributor to the UK economy.

Creating a structurally stronger business would be good news for shareholders too. We expect to generate net synergies of at least £500 million, post reinvestment in our customer offer, with double digit earnings per share accretion and low double digit return on invested capital, by the second full-year post completion.

Combining with Asda would bring together the three successful and trusted retail brands of Sainsbury's, Argos and Asda. Together we would create a retail business with over 2,800 stores, 330,000 colleagues and more than 47 million transactions each week. Having worked at Asda for eight years and at Sainsbury's for over 13 years I understand the culture and the businesses well and believe they are the best possible fit. Combining the two will create real value for shareholders, is a great deal for customers and suppliers and will create more opportunities for colleagues.

Are you pleased with the performance of the Group?

In a challenging retail market, Group sales were £31,735 million, up nine per cent on last year. Group like-for-like sales were up 1.3 per cent. We saw a strong performance from our Food business, with transactions growing ahead of the market and increased margins, driven by improved quality and innovative ranges. Our Convenience and Groceries Online channels were also strong drivers of growth, with sales increases of nearly eight per cent and nearly seven per cent respectively.

Our General Merchandise and Clothing business, now combined with Argos, is performing ahead of the market. *Tu* clothing is nearly a £1 billion revenue business and can now be ordered from the Argos website for home delivery or to collect from over 1,000 Argos stores and collection points across the UK.

I am pleased that underlying profit before tax has grown to £589 million, driven by our focus on simplifying our business, driving efficiencies and reducing costs. We have exceeded our £500 million, three-year cost saving target by £40 million and we will deliver at least £500 million of cost savings over the next three years to 2020/21. We have also reduced net debt by £113 million to £1.4 billion and we are targeting a further £100 million reduction in net debt in the coming year. We have strong cash generation with free cash flow of £432 million. In line with our affordable dividend policy, this year's final dividend is 7.1 pence per share, bringing the full-year dividend to 10.2 pence per share.

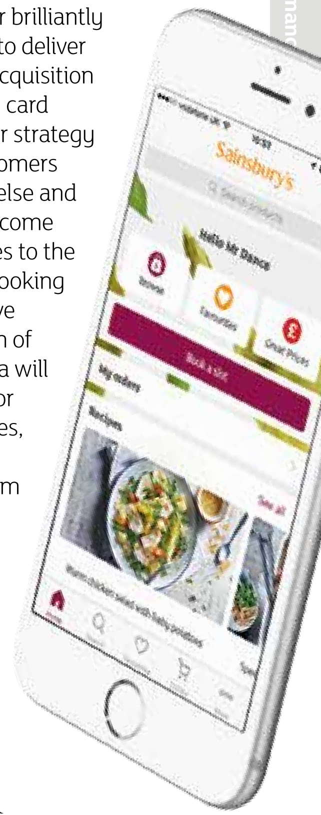
What is happening with Sainsbury's Bank?

Sainsbury's Bank grew profits, primarily reflecting the full consolidation of Argos Financial Services during the year. While we anticipate further trading growth in the year ahead, we expect unsecured lending margins to reduce further in a competitive market and have decided to take a cautious approach to unsecured lending. Combined with new accounting standards and interest payments on the external capital we raised in November, we expect bank profits to reduce significantly next year.

Why are you optimistic?

Our values underpin everything we do, differentiate us from our competitors and make strong commercial sense. I'm proud that 78 per cent of colleagues believe that the decisions we make are in line with Sainsbury's values.

We have the right strategy in place, an experienced leadership team and talented, dedicated colleagues who are focused on delivering it. Argos is a key part of the Group and the rapid, successful roll-out of Argos stores in Sainsbury's supermarkets is a great example of how teams are working together brilliantly across the business to deliver for customers. Our acquisition of the Nectar loyalty card scheme supports our strategy of knowing our customers better than anyone else and I was pleased to welcome our Nectar colleagues to the Group in February. Looking to the future, I believe that the combination of Sainsbury's and Asda will create a great deal for customers, colleagues, suppliers and shareholders and I am truly excited about the opportunities ahead and what we can achieve together.



Mike Coupe
Group Chief Executive Officer

Proposed combination of J Sainsbury plc and Asda Group Limited

The Combined Business will create a dynamic new player in UK retail with an outstanding breadth of products, delivered through multiple channels. Enhanced scale and a strengthened balance sheet will deliver a great deal for customers, colleagues, suppliers and shareholders of both businesses.

The retail sector is going through significant and rapid change, as customer shopping habits continue to evolve. This has led to increased competition across grocery, general merchandise and clothing, as customers seek ever greater value, choice and convenience.

Key facts

£51bn
Revenues

2,800
Stores

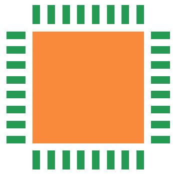
47m
Weekly transactions

330,000
Colleagues

Best possible fit

Shared colleague culture and values

Highly complementary store locations and sizes



Sharing technology and developments

A great deal for everyone

For the UK economy
— One of the largest employers and taxpayers

For suppliers
— Opportunities for growth and streamlined supply chains

For shareholders
— £500m net synergies[1]
— Double digit earnings per share growth[2]
— Stronger balance sheet

For customers
— Aim to reduce the price of everyday items by around ten per cent
— Develop differentiated product ranges

For colleagues
— Opportunities in larger, more resilient Group
— Security for pension holders

1 Post price reinvestment.
2 By second full year post completion.

Combining Sainsbury's and Asda will enable both businesses to sharpen and strengthen their existing customer propositions. Walmart will be a long-term shareholder and partner and will leverage its global scale and investment to support the Combined Business. Upon completion, two Walmart representatives will join the Board of the Combined Business as Non-Executive Directors.

The Combined Business will be chaired by the Sainsbury's Chairman and led by the Sainsbury's CEO and CFO. Asda will continue to be run from Leeds with its own CEO, who will join the Group Operating Board of the Combined Business.

The Combined Business would be run by the best leaders from both businesses, supported by highly capable Sainsbury's and Asda colleagues.

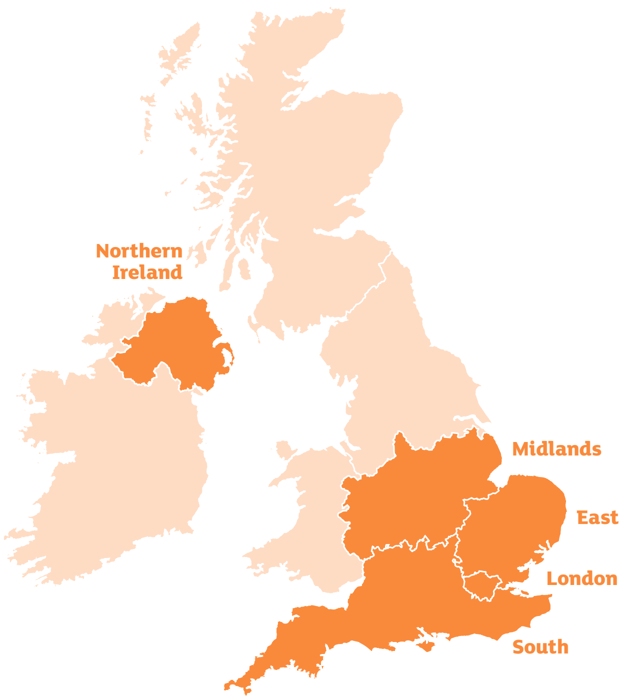
"This is a transformational opportunity to create a new player in UK retail, which will be more competitive and give customers more of what they want now and in the future. It will create a business that is more dynamic, more adaptable, more resilient and an even bigger contributor to the UK economy. Having worked at Asda before Sainsbury's, I understand the culture and the businesses well and believe they are the best possible fit. This will create a great deal for customers, colleagues, suppliers and shareholders and I am excited about the opportunities ahead and what we can achieve together."

Mike Coupe
Group Chief Executive Officer

Highly complementary geographic coverage

Combining Sainsbury's strength in London, the Midlands, the South of England and Northern Ireland with Asda's strength in the North of England, Scotland and Wales.

Sainsbury's[1]



Areas of strong Sainsbury's coverage

Asda[1]

Areas of strong Asda coverage

1 Strong coverage analysis based on Kantar data.

Priority 1

Further enhance our differentiated food offer

“

Our strategic focus is to help our customers to live well for less, putting quality first and investing in our ranges.”

Food has been the core of our business since 1869 and our customers trust in the quality and value of our offer. More people are shopping with us than ever before and our share of customer transactions has increased.

Our strategic focus is to help our customers to live well for less, putting quality first and investing in our ranges. This year we improved 128 food ranges, covering 60 per cent of our food sales.

We are particularly strong in ranges where we offer customers quality and convenience as well as great value, such as *Taste the Difference, Deliciously FreeFrom* and *On the Go*. The strong trend towards gourmet quality ready meals led us to launch our *Supper Club* range in February and our restaurant quality *Slow Cook* range has become the market leader since its launch two years ago. The growth of these new food innovations shows customers trust both our high quality standards and our commitment to using the best ingredients while offering low prices.

We are using space innovatively in our larger supermarkets by partnering, often exclusively, with premium brands such as Godiva Belgian chocolates, available in 500 stores, and Patisserie Valerie, whose gateaux and pastries are popular with customers. Customers can buy the cakes over the counter in 31 stores, or order ahead for collection in an additional 13 stores. We work with selected concession partners to maximise our use of space and help make Sainsbury’s an attractive retail destination. We have 59 Sushi Gourmet and Sushi Daily counters, as well as two Crussh fresh food and juice bars. Across our supermarket estate we are improving the layouts of our stores so that customers can shop quickly and conveniently. We are taking a disciplined approach to investing in stores, focusing on areas which matter most to customers.

We have been reducing cost from our end-to-end supply chain, working collaboratively with our suppliers to buy better for less. This has enabled us to invest a further £150 million in the price of 930 essential items so customers can be confident that they are getting great prices as well as great quality.

We are proposing to change the way we operate in stores and online. Improved systems are making us faster and more efficient with a simpler store management structure that will empower colleagues and improve service.

Convenience and Groceries Online continue to be strong drivers of growth, with sales up nearly eight per cent and nearly seven per cent respectively. Around 70 per cent of sales through our convenience channel have been improved by ranging and merchandising activity. Sales through Convenience stores stand at around £2.7 billion. Groceries Online now offers Same Day delivery to 40 per cent of the UK population out of 102 stores and

Our strategy in action

Improving the way we work

We are proposing to change the way we operate in stores and online. Improved systems make us faster and more efficient and a simpler store management structure will empower colleagues and improve service.

£9.20

Proposed market-leading rate of pay

Innovative partnerships

Our great quality own-brand food ranges, combined with carefully selected food brands, gives customers more choice. We sell Godiva Belgian chocolates in 500 stores and online.

44

stores sell Patisserie Valerie cakes, including Click & Collect

Product quality

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

Definition: Our rank is based on a sample of approximately 1,000 consumers who rated the product quality of Sainsbury's, Tesco, Morrisons and Asda.

2015/16	2016/17	2017/18
1st	1st	1st

Price perception

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

Definition: See above

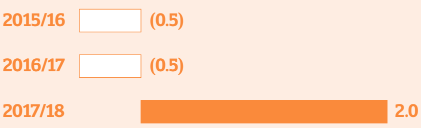
2015/16	2016/17	2017/18
4th	4th	4th

Sales growth – Food

Food is our core business and growing our General Merchandising and Clothing and Financial Services businesses is an important part of our strategy. We know that our customers value greater choice and that there is a firm correlation between increased loyalty and spend across our whole offer when customers buy into these categories.

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

Food (%)



Availability

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

Definition: Minimum standards have been exceeded.

	2016/17	2017/18
Supermarkets	✔	✔
Convenience	✔	✔
Online	✔	✔

Customer service

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

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

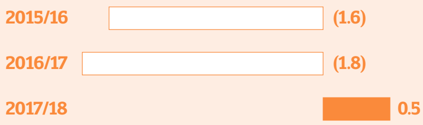
	2016/17	2017/18
Supermarkets	Gold	Gold
Convenience	Gold	Gold

Sales growth

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

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

Supermarkets (%)



Convenience (%)

Online (%)

our Chop Chop one hour delivery service operates from seven stores in central London. Online grocery orders can also be collected from over 100 stores. A new picking system, handsets and software have driven a 15 per cent improvement in pick-rate and we are achieving delivery punctuality of 97 per cent. Our popular Groceries Online app now accounts for around 20 per cent of food orders.

Our acquisition of Nectar allows us to explore innovative new ways to reward customer loyalty and supports our strategy of knowing our customers better than anyone else. We were pleased to welcome our Nectar colleagues to the Group in February.

Our colleagues continue to deliver excellent customer service and we have won The Grocer Gold Awards for Service and Availability for the past five years. We are proposing to invest £100 million to award store colleagues a market-leading rate of pay of £9.20 from September 2018, along with revised terms and conditions which will ensure consistency and fairness in contracts. We recognise that a small minority of colleagues will be adversely impacted by these proposals and have committed to additional payments for a period of 18 months for all those affected.

Priority 2

Grow General Merchandise and Clothing and deliver synergies

"A key part of our strategy is to make it quick and convenient for customers to shop with us whenever and wherever they want to."

General Merchandise sales, including Argos, declined by 0.8 per cent and outperformed a challenging market.[1]

General Merchandise performed strongly in key areas such as Audio, Mobiles and Video Games.

Offering high street style at supermarket prices has made *Tu* clothing very popular with our customers. Sales grew nearly four per cent, outperforming the market, and Clothing now contributes close to £1 billion of annual sales to the Group. Over eight million customers regularly buy the range, making us the sixth largest clothing retailer in the UK by volume. We are strongly positioned in womenswear and childrenswear, with opportunities for growth in menswear, which now accounts for 15 per cent of clothing sales and is our fastest growing clothing category. Sales of clothing online have increased by 45 per cent. We are now making the *Tu* ranges easily accessible to Argos customers through the Argos website, available for home delivery or collection from over 1,000 Argos and Sainsbury's stores across the UK.

In the 18 months since we acquired Argos we have been rapidly integrating our two businesses. Joint range planning has enabled us to rationalise our product offer and give customers better overall choice and value. We have opened 191 Argos stores in Sainsbury's supermarkets and we expect to open around 90 more in the next financial year, bringing the total to around 280, ahead of our original schedule. We are seeing strong like-for-like sales, with an uplift in grocery sales in supermarkets that have an Argos store.

Customers can pick up their Argos and *Tu* clothing orders from 192 collection points in our supermarkets. 155 of these are in supermarkets where customers can also collect eBay and DPD parcels. We also have 37 collection points in Sainsbury's Local stores.

We will deliver £160 million EBITDA synergies by March 2019, six months ahead of plan. A key part of our strategy is to make it quick and convenient for customers to shop with us whenever and wherever they want. The Argos website is the third most visited retail website in the UK and online sales continue

Our strategy in action

Argos stores in Sainsbury's supermarkets

In response to financial returns and great customer feedback, we are opening Argos stores in our supermarkets faster than we originally anticipated. We plan to open 90 this financial year, bringing the total to around 280.

£160m

On track to deliver £160 million EBITDA synergies by March 2019, six months ahead of schedule

Menswear

Menswear is the fastest-growing clothing category by volume and accounts for 15 per cent of our clothing sales. We launched *Tu Premium* and *Tu Formal* for men in October – the first supermarket to offer premium ranges for men – thus consolidating our position as a destination shop for great value, stylish clothing.

No. 6

Clothing retailer by volume according to Kantar Worldpanel to grow, with 60 per cent of Argos sales originating online, over 70 per cent of which are generated through mobile devices.

Fast Track is a key point of difference for us, enabling us to leverage our unique Hub and Spoke model to deliver Argos orders quickly and conveniently.

Customers have the choice of same day or next day *Fast Track* delivery or collection and this year, *Fast Track* delivery increased by 28 per cent and *Fast Track* collection by 45 per cent. In November we opened regional fulfilment centres in Reading and Birmingham.

1 General Merchandise grew ahead of the market (BRC non-food non-clothing market), consistently gaining share. Clothing beat the market (Kantar Worldpanel, 52 weeks ending 18 March 2018).
2 2016/17 excludes Argos.
3 2017/18 calculated including Argos in the base. Excluding Argos from the base, General Merchandise sales grew 55.3 per cent.
4 2017/18 calculated including Argos in the base. Excluding Argos from the base, clothing sales grew 4.5 per cent.

Sales growth

Food is our core business and growing our General Merchandising and Clothing and Financial Services businesses is an important part of our strategy. We know that our customers value greater choice and that there is a firm correlation between increased loyalty and spend across our whole offer when customers buy into these categories.

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

General merchandise (%)

2015/16	3.5
2016/17	2.4[2]
2017/18	(0.8)[3]

Clothing (%)

2015/16	8.5
2016/17	4.3[2]
2017/18	3.8[4]

Cumulative EBITDA synergies (£m)

2015/16	N/A
2016/17	7
2017/18	87

Priority 3

Diversify and grow Sainsbury's Bank

"We have over 1.9 million active customers. Over 81 per cent of insurance customers and 75 per cent of banking customers have, or are linked to, a Nectar card."

Sainsbury's Bank profits increased by 11 per cent to £69 million, primarily due to the full-year consolidation impact of Argos Financial Services.

Good sales growth across the product range was offset by a reduction in margins in a competitive, unsecured lending market and a modest increase in bad debt charges, as expected.

We have over 1.9 million active customers, an increase of eight per cent year-on-year. Over 81 per cent of insurance customers and 75 per cent of banking customers have, or are linked to, a Nectar card.

Credit Cards performed strongly, with 40 per cent growth in new Sainsbury's Bank card sales. The Argos Card saw a 12 per cent increase in sales and can now be used in both Sainsbury's and Argos, providing greater choice and convenience for customers. We launched our new, enhanced personal loan platform and around 70 per cent of all new personal lending goes to active Nectar card holders. New Savings account growth is up 41 per cent this year with growth in deposits up 21 per cent, which includes 32 per cent growth in ISA and Fixed Term deposits.

Since introducing our insurance broker panel model in February 2017, new policy sales in Car Insurance increased by 42 per cent and Home Insurance grew by 39 per cent. By working with a broader base of underwriting partners and looking at our data we have been able to offer more quotes to more Sainsbury's customers and give better discounts.

Our ATM estate grew by over five per cent to over 1,820 and we introduced 36 ATMs in high footfall Argos stores. £1 of every £11 dispensed from a LINK ATM transaction is from Sainsbury's Bank.

Travel Money grew 26 per cent in a competitive market. This year we opened a further nine Travel Money bureaux, taking the total to 241 across the estate. As well as an in-store service in convenient locations across the UK, we also offer an online, home delivery service.

We expect the banking market to remain competitive and we will take a cautious approach to unsecured lending in favour of a greater focus on growing our commission products and mortgage book. Together with the impact of new accounting standards and the interest related to the external capital we raised in November 2017, this will impact Sainsbury's Bank profits in the short term, but we are confident that this is the right decision for the business and remain confident in the potential of the Bank to generate growth and healthy returns in the medium term.

Our strategy in action

Mortgages

Sainsbury's Bank offers a range of competitively priced mortgages for homeowners across the UK with flexible features that allow overpayments, underpayments and payment holidays. We also offer Sainsbury's shoppers a unique loyalty reward. We have received over 3,000 mortgage applications and lending is in excess of £275 million. In March 2018, we launched 95 per cent mortgages, helping first time buyers.

£275m+
Mortgage lending

1 2016/17 excludes Argos Financial Services.
2 2017/18 calculated including Argos Financial Services in the base. Excluding Argos Financial Services from the base, Bank sales grew by 26.2 per cent.

Sales growth

Food is our core business and growing our General Merchandise and Clothing and Financial Services businesses is an important part of our strategy. We know that our customers value greater choice and that there is a firm correlation between increased loyalty and spend across our whole offer when customers buy into these categories.

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

Bank (%)

2015/16	5.4
2016/17	4.4[1]
2017/18	7.3[2]

Priority 4

Continue cost savings and maintain balance sheet strength

“Technology and digital innovations are helping us to improve systems across our business, increasing efficiency and improving productivity.”

We have made fundamental changes to our operations to be more efficient and customer-focused.

Technology and digital innovations are also helping us to improve systems across our business, increasing efficiency and improving productivity. Through these operational efficiencies, we have exceeded our three-year cost saving target and saved £540 million. We delivered cost savings of £185 million in 2017/18, £40 million above our target. Over the next three years to 2020/21 we will deliver a minimum of £500 million of cost savings. We plan to deliver £200 million of these savings in 2018/19 by simplifying our store management structures and operations and creating efficiencies to improve service for our customers.

We continue to maintain a strong balance sheet. We have reduced net debt[1] by £113 million to £1,364 million and we are targeting to reduce net debt by a further £100 million in 2018/19. The reduction is a result of continued strong cash generation from retail operations, further working capital improvements and the acquisition of Nectar. This was partly offset by capital expenditure, capital injections into Sainsbury's Bank, adverse movements on US dollar derivatives and continued dividend payments. Group core retail capital expenditure at £495 million was lower than last year even with the addition of a full year of Argos core retail capital expenditure. It remains significantly lower than the average capital expenditure in the previous five years of £793 million. Our pension deficit has reduced by £589 million from £850 million last year to £261 million at the year end.

In the medium term our increased focus on cash will deliver adjusted net debt to adjusted EBITDAR (treating perpetual securities as debt) of less than three times and fixed charge above three times.

The Group has financing facilities of £4.1 billion, of which only £2.5 billion was drawn down at year end. The Group refinanced its syndicated committed revolving credit facility. The revised facility of £1.45 billion has three, four and five-year tranches, with an initial final maturity for the longer dated tranche of April 2023. The refinancing is expected to drive annual interest savings of approximately £20 million.

We expect net finance costs of around £100 million in 2018/19 following final repayment of the secured loan due in 2018.

1 As defined in the APMs.

Our strategy in action

Cost savings

We have exceeded our original three-year £500 million cost saving target by £40 million. We will deliver further savings of a minimum of £500 million over the next three years to 2020/21. We have reduced our net debt by over £113 million to £1,364 million and we are targeting to reduce net debt by a further £100 million in 2018/19.

£500m

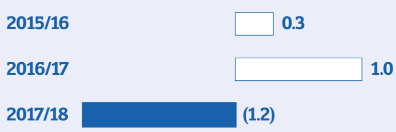
Target to deliver savings by 2020/21

Like-for-like transactions

Due to structural changes in the market, customers have more choice than ever when shopping for groceries. We will continue to deliver our strategy of offering customers innovative, differentiated product ranges, great quality and fair prices. We will also continue to make it easy for customers to shop with us whenever and wherever they choose.

Definition: Year-on-year growth in transactions from stores that have been open for at least a year.

Like-for-like transactions (%)



Our values make us different

Our core values are integral to how we do business and they enable us to drive lasting, positive change in communities across the UK and overseas. They help us to build trust with our stakeholders, reduce operating costs, mitigate risks and attract and retain talent.

With a growing population and our planet's resources being pushed to their limits, we are focusing our efforts where we can make the greatest difference. We believe that industry collaboration is the only way to address domestic and global issues at the speed and scale required.

2017/18 value highlights

Living healthier lives

Offering customers nutritious and healthy food and encouraging active lifestyles

Page 20

18%
increase in our *FreeFrom* range of products

33,350
schools and clubs taking part in our Active Kids scheme in 2017/18

Making a positive difference to our community

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

Page 21

£35m
generated for good causes

91%
store participation in our Local Charity of the Year programme

Sourcing with integrity

Building resilient supply chains by sourcing products ethically and sustainably

Page 22

Best
Sustainable Seafood Supermarket in the world in 2017, as recognised by MSC

95%
timber from certified sources

Respect for our environment

Reducing emissions, water use and waste across our value chain

Page 24

73%
of our stores donating unsold food to charity

14%
emissions reduction

A great place to work

Being an inclusive employer where colleagues love to work

Page 26

713
colleagues enrolled or completed apprenticeships

55%
women in workforce

10 years of the Fair Development Fund

For the last 10 years we have partnered with Comic Relief through the Fair Development Fund. We have co-funded projects aimed at helping growers, farmers and workers in developing countries to build a sustainable income and a brighter future for themselves, their families and their communities.

One of the UK's Best Employers for Race

Business in the Community has named Sainsbury's one of the UK's Best Employers for Race, for our comprehensive and strategic approach to tackling racial inequalities.

CDP A list

We are the first UK Food Retailer to achieve CDP's 'A list' for more than two consecutive years and this year's result puts us in the top five per cent of companies tackling climate change in 2017.

CDP
DRIVING SUSTAINABLE ECONOMIES

3 millionth tree planted

We have planted over three million trees since we joined forces with the Woodland Trust in 2004 – mitigating 750,000 tonnes of CO_2.

Launching The Sainsbury's Foundation Advisory Board

We have an independently chaired Advisory Board to drive forward our work to improve the resilience of the farmers and producers within our value chains.

10 years of Dairy Development Group

Our partnership with over 260 dairy farmers in the Group has achieved great success including higher milk yields, improved animal welfare, and a price guarantee.

Making the difference

Our Sustainability Plan is structured around our values and is our guide for building a more sustainable future. A lot has changed since we launched the plan in 2011. Our robust sustainability governance framework allows us to adapt to the changing needs of our business and the world around us, so that our Sustainability Plan continues to generate positive impact where it is needed the most and at the speed and scale required.

Following the acquisition of Home Retail Group in 2016, we have focused on integrating Argos into our Sustainability Plan and will be looking at Habitat next. For transparent reporting against the Plan, we report the performance of Sainsbury's and Argos separately.

For more detailed performance, see our Sustainability Update online.

Being part of something bigger

We have mapped our sustainability activities against the UN's Sustainable Development Goals (SDGs). Not only will they help us collectively deliver change, they also offer great economic opportunity and, in a highly competitive industry like ours, make strong commercial sense.

United Nations Sustainable Development Goals

“

We fully support the UN Sustainable Development Goals to end poverty, fight inequality and stop climate change.”

Mike Coupe
Group Chief Executive Officer

Living healthier lives

Related UN Sustainable Development Goals

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

With 28 million customer transactions every week, we have a responsibility to help our customers eat healthily and improve the quality of the food in their baskets.

Healthy choices

We are making it easier for our customers to make healthy choices. That means increasing our range of healthier foods, cutting the amount of salt, sugar, fat and saturated fat in our own-brand products and inspiring kids to live healthy, balanced lifestyles.

Soft drinks are a key contributor to the UK's sugar intake and we have been on a journey to remove sugar from our range for a number of years. We have reduced sugar by 39 per cent[1] across those soft drinks impacted by the Sugar Levy and we have revisited 69 per cent of our 'no added sugar' drinks, testing them through independent customer panelling. We have also looked at salt and calorie intake – currently over 97 per cent of our own-brand products meet the Government's 2017 maximum targets for salt reduction. This year alone, we removed 77 tonnes of fat, 37 tonnes of saturated fat, 24 tonnes of sugar and 8 tonnes of salt from our Classic Ready Meal range – equivalent to over 1.1 billion calories.

Industry collaboration

We are members of the Consumer Goods Forum Health and Wellness pillar and the Industry Grocery Distribution (IGD), working on initiatives to improve diet and nutrition worldwide. This year, we have worked with the IGD on reformulation, communicating nutrition information on pack and healthy eating in the workplace.

In 2017, we signed up to The Food Foundation's initiative encouraging people to eat more vegetables. Our seven pledges centre on promoting the benefits of vegetables to our customers and increasing the number of products that contain the 'one of your five-a-day' message. We will also ensure all our online main meal recipes include two portions of vegetables – eating an extra portion of vegetables and a little less meat would reduce the UK's diet related greenhouse gas emissions by 17 per cent.

Reformulation

77%

of the multiple traffic lights on our own-brand products are green and amber

(2016/17: 75 per cent)

Healthy baskets sales[2]

39%

healthy products (as a proportion of total sales volume[3])

(2016/17: 42 per cent)

Our *Deliciously FreeFrom* range offers even more choice for customers with allergies and intolerances. Our new wheat, gluten and milk-free hot cross buns have been very popular.

Feeding our growing population, sustainably

Billions of people are poorly nourished, millions of farmers live at subsistence level, enormous amounts of food go to waste and poor farming practices are taking a toll on the environment[4]. For example, to produce 60 per cent more food by 2050, we will need to meet the objectives of SDG 2.4 and use land, water and energy much more sustainably. We are partnering with Oxford University and The Wellcome Trust on a world leading four-year research project looking at all aspects of diet, health and the environment. We will support research on practical interventions and positive ways to help people who want to make healthier and more sustainable choices to do so. See more on the sustainability of food production in our supply chains on page 22.

Did you know?

It is estimated that one in four people in the UK will be over the age of 65 by 2040. We are taking part in a research project 'Protein for Life', working with academics and industry partners to develop guidelines for higher-protein snack foods specifically for older people.

Getting edgy with vegetables

91 per cent of the nation is adopting a flexitarian approach to eating[5] – reducing the amount of meat and fish they consume, opting for a more plant-based diet. More than a third of evening meals now contain no meat at all[6]. To meet this demand, we launched a range of plant-based products such as 'shroomdogs' and 'pulled jackfruit', which also help customers to achieve their '5 A Day'.

Active Kids

By the time children leave primary school, one in three is overweight and one in five is obese. Since 2005, as part of our Active Kids scheme, we have invested in over £185 million of sports and cookery equipment and experiences to help children understand the importance of diet and exercise. Looking ahead, we will focus on driving healthy behaviour all year round by helping kids stay active over the summer holidays. We are trialling Active Kids summer camps which will take place in schools and offer children of all ages affordable and diverse activities in safe surroundings.

Argos

As a leading retailer of treadmills, wearable technology and kids' bicycles, we want to help Britain achieve its fitness goals. In the coming year, we will educate our colleagues as well as our customers about products from across our Group that can contribute to us leading healthier lives.

1 Based on sales-weighted average.
2 The proportion of products in our customers' baskets that are defined as healthier based on category specific criteria.
3 Total sales volume of Sainsbury's branded and own-brand products that contribute significantly to dietary intake.
4 World Economic Forum, Innovation with a Purpose Report 2018.
5 Mintel Meat-Free Foods Report.
6 Kantar Worldpanel.

Making a positive difference to our community

Related UN Sustainable Development Goals

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

In the context of rising inequality, an ageing population and deteriorating public health, we are committed to tackling the challenges our neighbours face and supporting social cohesion, economic prosperity and inclusive growth. We make a positive economic contribution to the UK through the tax we pay as well as how much we pay our colleagues. In 2017/18, we paid £2.1 billion in tax.

In 2017/18, our colleagues and customers have helped to generate over £35 million for charities, communities and good causes (2016/17: £53 million). Against our 2020 target of £400 million, we have raised £300 million. This includes all our corporate donations, volunteering, fundraising, awareness-raising and investment in community programmes such as Active Kids.

Collaborating for greater impact

Our longstanding national partnerships with The Royal British Legion and Comic Relief (in addition to our Fair Development Fund partnership) have helped us engage our colleagues and customers in supporting good causes in the UK and overseas.

Our colleagues have been raising money for Comic Relief since 1999 and have donated over £115 million to support projects internationally as well as in the UK. In 2017, we donated £11.6 million and one of the projects supported was Change Please, a social enterprise which has trained hundreds of people who have experienced homelessness to become baristas as well as providing them with housing and a bank account. We also stock Change Please's award-winning coffee in 375 supermarkets nationwide with 100 per cent of the profits going towards reducing homelessness.

Community investment

£35m

generated for charities, communities and good causes

Payroll giving

Named Best Promotional Partnership at the Payroll Giving Awards for the second year in a row, recognising that more than 11,500 of our colleagues passionately donate to causes close to their hearts throughout the year.

Building on our 24-year partnership with The Royal British Legion, and with the help of our customers and colleagues, we raised over £3 million last year to support the Armed Forces community – serving men and women, veterans, and their families.

"Sainsbury's is a hugely important partner for us and extended its support this year by partnering with Procter and Gamble which donated 10 pence per pack on selected products and led a high-profile media campaign raising awareness of our work. We are looking forward to working even more closely with Sainsbury's in 2018 to celebrate the centenary of the end of the First World War."

Charles Byrne
Director General of The Royal British Legion

Did you know?

We are the lead partner with the Woodland Trust on the First World War Centenary Woods project, commemorating the heroes of World War One. We have created four flagship woods across the UK. Find out more about our partnership on page 22.

Local, human connections

The results of our Living Well Index highlighted how important community and human connection is to the UK population. With over 1,400 stores across the UK, we have a long history of building strong partnerships and making a big impact in our local communities. In 2017/18 our colleagues and customers donated £2.8 million to local charities. We had 91 per cent store participation in our programme, with a record 1.95 million votes received from colleagues, customers and communities (2016/17: 1.9 million) choosing the charities they wanted to support.

Argos

2017/18 was the third year of our partnership with Macmillan Cancer Support and the Irish Cancer Society. We pledged to raise £3 million over three years to help fund vital nursing hours. Argos colleagues have entered into fundraising activities with great enthusiasm and we are delighted to have exceeded that target and raised £3.23 million in total.

"The entire Argos team are committed, passionate and an inspiration. Their efforts will fund 115,575 Macmillan nursing hours and make a genuine difference to the lives of people living with cancer."

Natasha Parker
Head of Corporate Partnerships, Macmillan

Sourcing with integrity

Related UN Sustainable Development Goals

With over 12,000 Sainsbury's branded products sourced from over 70 countries, we have a vital role to play in supporting our farmers, growers and suppliers across the world.

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

Sourcing for the future

Under the umbrella of The Sainsbury's Foundation programme, we will strengthen our supply chains through investments designed to improve the sustainability, resilience, efficiency and competitiveness of suppliers and producers by addressing their social, economic and environmental development.

We have committed to source all of our key raw materials sustainably to an independent sustainability standard by 2020. To help build stronger and more resilient supply chains, we have worked with independent experts to develop a world-leading approach to Sustainability Standards. This builds on our own experience of directly supporting farmers and growers both in the UK and internationally. In addition, we have benchmarked our Standards against over 100 existing assurance and certification standards such as those of the Rainforest Alliance and UTZ, ensuring they cover the full breadth of environmental, economic and social challenges that impact our farmers and growers.

We are currently piloting the prawn, tea, sugar cane and floral Standards with our farmers all over the world from Thailand to Kenya, and Belize to South Africa. This year alone we have worked with 100 suppliers, farmers, growers and co-operative representatives, providing on-the-ground training.

“

We are empowering our farmers to build a better quality of life for themselves and their communities by providing them with bespoke advice, skills, resources and funding.”

Judith Batchelar
Director of Sainsbury's Brand

Sourcing sustainably

95%

timber[1] and 98 per cent palm oil[2] used in our products is sourced sustainably to an independent standard

(2016/17: 93 per cent and 98 per cent respectively)

Sustainable fish

86%

wild caught seafood and 100 per cent farmed seafood sourced sustainably to an independent standard

(2016/17: 79 per cent, 100 per cent respectively)

Animal health and welfare

No.1

UK retailer for RSPCA assured products

Scaling up impact

We joined the Consumer Goods Forum Sustainable Supply Chain Initiative (SSCI) to improve transparency, comparability and harmonisation of third party audit schemes across the industry. We are sharing our work and experience with the SSCI to ensure confidence in sourcing, reduce audit duplication, complexity and cost for all stakeholders and ultimately drive positive social and environmental impact on the ground.

Industry collaboration

Deforestation is a complex, global challenge and we believe collective industry action is the only way to tackle the root causes and drive change at the speed and scale required. In addition to our 2020 target that our own-brand products will not contribute to deforestation, we are working with the Consumer Goods Forum on its zero net deforestation commitment.

With soy production being a major driver in deforestation, we pledged our support for the Cerrado Manifesto in 2017 – a multi-stakeholder call to action to halt deforestation and native vegetation loss in Brazil's Cerrado. We are also members of the UK Roundtable for Sustainable Soya and are currently working with our suppliers and external partners to measure and map our soy usage.

Working with the Woodland Trust

Not only are we focused on reducing deforestation, we are also a big advocate of planting trees. We have been working with the Woodland Trust since 2004 and have raised over £7 million from the sale of eggs, chicken and turkey among other products. The money has funded the planting of three million trees as well as educating children and advising our farmers on the benefits of planting trees. This also contributes to the Government's Clean Growth Strategy and its commitment to planting 11 million trees.

Did you know?

A major component of the biofuel in the diesel we sell is used cooking oil which has been recovered and processed from what would otherwise be waste. Biofuels help us to reduce customer emissions by replacing fossil fuels with sustainably sourced feedstocks. Our supplier, Greenergy, ensures traceable, deforestation-free supply chains.

Timber, cotton and leather

95 per cent of our timber and 61 per cent of our cotton[3] comes from sustainable sources and we are on track to reach 100 per cent by 2020. We are working with the Sustainable Clothing Action Plan (SCAP) and the Better Cotton Initiative (BCI) to improve sustainability in our cotton supply chain. So far we have been able to reduce our clothing carbon footprint by over 8,600 tCO_2e and save over 11 million m^3 of water since 2012. By 2020 we will ensure that all leather used in our own-brand products is certified to a recognised environmental standard. We promote the industry-leading Leather Working Group standard throughout our leather supply chains and work with our suppliers to improve performance through enhanced monitoring, traceability and certification.

Sustainable fish

With the world's oceans facing ongoing threats from overfishing and pollution, we are leading the way in sourcing fish responsibly and supporting SDG 14, Life Below Water. In 2017, the Marine Stewardship Council named us the best supermarket in the world for sustainable fish. No matter how our fish is sourced, either caught wild or farmed, we want to make sure it comes from the most sustainable and well-managed fisheries and farms.

Did you know?

We are working with OceanMind, the not-for-profit division of the Satellite Applications Catapult, to monitor vessels through satellite technology. This can give assurance of responsible and legal fishing practice at the point of capture.

The power of partnerships

We are committed to trading partnerships based on open dialogue, transparency and respect. Since 1994 we have supported farmers and workers in some of the most challenged value chains by paying a fair price for their crop and a premium on top of this through the Fairtrade programme. The premium is used to invest in social, environmental and economic development projects that improve the businesses supplying us as well as the wider farming communities. In 2017/18, we generated a £4.3 million premium through the sale of our 100 per cent Fairtrade bananas alone, directly supporting our banana farmers.

1 Timber data is provided a year in arrears. 95 per cent in 2016/17 and 93 per cent in 2015/16.
2 98 per cent palm oil during the 2017 calendar year.
3 Cotton data is provided a year in arrears. 61 per cent in 2016/17.

Fairtrade

£300m+

worth of Fairtrade products sold in 2017/18, making us the world's largest retailer of Fairtrade products

British

100%

of our fresh chicken, eggs and milk is British

Empowering women in India

Through the Fair Development Fund, in partnership with Comic Relief, we have been breaking down barriers for women working in our grape supply chain in India. Read more in our Sustainability Update.

Backing British

In 2017 we celebrated ten years of our Sainsbury's Dairy Development Group (SDDG), which includes over 260 British farmers and provides at least 97 per cent of our fresh milk. Together we have been able to improve herd health and efficiency, ensure a fair price for milk for dairy farmers and reduce costs in our milk supply chain. On average, our farmers' cows each produce an extra 1,000 litres of milk each year, compared to when the farms joined the SDDG.

We are proud of our long-term, open relationships with our British partners. This year over 500 farmers, growers, suppliers and stakeholders attended our eighth annual farming conference. We are also involved in 11 research projects, with a value of over £3 million, to improve agricultural productivity and reduce the environmental impacts of British farming.

Treating animals well and keeping them healthy

Healthy, well-managed animals are more likely to deliver better-tasting, higher-quality products for our customers. We sell more RSPCA Assured labelled products than any other supermarket and we sell more than 50 per cent of all RSPCA Assured products sold in the UK. Read more about our practices in our annual animal health and welfare report on our corporate website.

Water stewardship

We are proud to support Courtauld 2025's new Water Ambition – a collective action approach which aims to improve the quality and availability of water in key sourcing areas in the UK. We have already started to assess water risk with our produce growers, and in the UK have identified top catchment areas to focus on in partnership with WWF and The Rivers Trust. On a global scale, we are also using our Sustainability Standards to collect data on water issues and identify hotspots, which will support the SDGs which tackle water-related issues.

Cutting edge technologies for supply chain transparency and assurance

We are part of the Fintech Taskforce alongside five international companies and banks and four Fintech startups assessing how technology-driven innovation in finance can support sustainable development. The first project is testing a blockchain system (virtual ledger) which aims to reward Malawian tea farmers for using sustainable methods by offering them easier access to finance.

Argos

We have prioritised aligning ethical sourcing practices with Sainsbury's, training over 150 colleagues and briefing over 1,000 of our own-brand suppliers in the UK and Asia on our approach to ethical sourcing. Raw materials have also been a focus; we now source all of our feather and down from certified sources and are working on our approach to cotton and timber. As we progress with integration, we will review sustainability and ethical sourcing practices in our jewellery and packaging supply chains.

Respect for our environment

Related UN Sustainable Development Goals

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

To grow our business sustainably, we are cutting carbon, maximising energy and water efficiency and keeping food waste at a minimum right across our value chain.

Cutting carbon, maximising efficiency

We are committed to reducing our carbon emissions and investing in low carbon technologies and achieved a 14 per cent reduction this year. Since 2005, we have cut absolute carbon emissions by 24 per cent, working towards 30 per cent by 2020. We have achieved a 50 per cent intensity reduction in carbon emissions since 2005, aiming for 65 per cent by 2020.

We recognise the risk that climate change poses to our business and manage this by reducing carbon emissions throughout our operations and supply chain. To support the transition towards a low carbon future we are developing a science-based target in collaboration with The Carbon Trust and Imperial College London.

We have been investing our £200 million corporate 'green' loan in ongoing energy security and carbon reduction initiatives such as installing solar panels on our roofs, switching to natural refrigerants and generating green gas using combined heat and power (CHP) plants. We have also partnered with General Electric to install LED lighting in our stores, reducing our lighting energy consumption by around 58 per cent for the stores included in the rollout – a three per cent annual reduction in carbon emissions once the programme is completed. Currently, 17 per cent of our electricity comes from on-site renewables generation and renewable power purchase agreements.

Did you know?

We use cutting edge technology to minimise emissions from our logistics. Working with partners, we were the first company in the world to trial refrigerated vehicles powered by liquefied natural gas rather than diesel. We are also testing KERS (kinetic energy recovery system) technology, pioneered in the Formula 1 industry, on ten vehicles to understand if it can help us further reduce vehicle emissions, especially in urban areas.

Cutting carbon emissions

14%

reduction in carbon emissions in 2017/18

(2016/17: 8 per cent)

Reducing food waste and fighting food poverty

73%

stores have a food donation partner for unsold food, aiming for 100 per cent by 2020. In 2017/18 we donated 1,866 tonnes of food from our stores to charity[1], equivalent to over 4.1 million meals. We also donated 197[2] tonnes from our primary logistics network to charity.

(2016/17: 1,657 tonnes)

We are using aerofoil technology in our stores which, inspired by Formula 1, prevents cold air from fridges spilling out into aisles. We will save 15 per cent on our energy and customers will enjoy warmer aisles.

Cutting food waste

Transitioning to a circular economy and using materials more effectively means we can reduce waste and costs. We are focused on keeping food waste at a minimum across our value chain. We are increasing supply chain efficiency, growing our network of charity food donation partners and helping our customers reduce food waste in their own homes – UK households throw away 7.3 million tonnes of food each year, accounting for 70 per cent of the UK's post-farm-gate total food waste.

We have invested £1 million in 30 communities across the UK to help our customers reduce food waste and save money. In Norfolk, our grant has supported the roll-out of seven new community fridges and helped get our pioneering educational school programme 'Fab Foods' into eight new schools – helping over 50,000 households tackle food waste. With one in five of people[3] thinking that food past its best before date is not good to eat, we launched a campaign with Mumsnet to help householders distinguish between 'Use by' and 'Best before'.

Improving our food waste reporting

We have been refining our measurement process to further improve the accuracy of our reporting. We are part of industry food waste groups and actively support the Consumer Goods Forum in this area. We are taking a farm-to-fork approach to help achieve SDG target 12.3.

We have achieved significant progress this year and are now able to review data for unsold food in real time. We have aligned our terminology to the Food Loss and Waste Accounting and Reporting Standard to promote consistency across the industry. In 2017/18, our food not consumed[4] was 38,304 tonnes, a reduction of eight per cent year-on-year.

The destinations of our food not consumed were 10,419 tonnes redirected into animal feed and 27,884 to energy (anaerobic digestion). We also donated 1,866 tonnes to charity[5] from our stores and 197 tonnes from our primary logistics network. The amount sent to anaerobic digestion has declined nine per cent year-on-year, driven by continued operational efficiencies.

Industry collaboration on packaging

We have been committed to reducing our packaging for many years – back in 2007 we launched a bag designed by Anya Hindmarsh that said 'I am not a plastic bag'. This quickly became a hot fashion accessory with a strong environmental message. Our approach is to reduce the amount of packaging used, ensure it is recyclable and increase the amount of recycled material in it. Our 2020 target is to reduce our packaging by 50 per cent compared to 2005 and we have achieved 35 per cent so far. This includes an eight per cent reduction over the last five years.

To scale up our impact and meet the UN SDG target 12.3, we are collaborating with the industry. As a signatory to the Courtauld 2025 commitment to cut food waste by 20 per cent by 2025, we work with the charity WRAP and the industry to reduce packaging and tackle food waste both around our products and in the supply chain. For example, we are part of a project aiming to create a packaging pigment, allowing black plastics to be more easily detected and recycled. We are also signing up to WRAP's UK Plastics Pact, an ambitious industry-wide framework to improve the consistency of recycling infrastructure, simplify plastic packaging and incentivise the use of recycled material.

"Overall, 83 per cent of the packaging on our own-brand products is classed as widely recycled and 38 per cent is made of recycled content. This is a fantastic achievement but we know there is still more we can do. We will continue to work with our peers, Government and customers to help increase the sustainability of packaging in the UK."

Jane Skelton
Head of Packaging

Sustainable packaging

35%

reduction in packaging since 2005, aiming for 50 per cent by 2020[6]

(2016/17: 33 per cent)

Water use

30%

absolute reduction in water use in our operations, achieving our target of 30 per cent reduction by 2020

(2016/17: 31 per cent)

Water

Having achieved our 2020 target to reduce absolute water consumption by 30 per cent compared to 2005/6 – one billion litres – we are now focused on maintaining this, while continuing to grow our business. In 2017/18, our water use was 2.3 billion litres.

Increasing global water scarcity is a risk for our business. We are proactively mapping and managing this risk in our supply chain (see page 23).

Did you know?

To tackle the uncertainty that growers face in knowing how much water a crop needs, our 'More Crop Per Drop' research project is trialling growing herbs with water deficient irrigation, where the water supply is slightly below that considered optimal.

Colleague engagement

We continue our work to be the Greenest Grocer by educating colleagues on how to grow our business while reducing our operational carbon emissions. This year we have been engaging colleagues on our processes to minimise waste, encouraging stores to develop food donation partnerships and supporting them on what food they can donate.

Argos

We have integrated Argos into our Respect for Our Environment value and we are extremely pleased that Argos has achieved zero waste to landfill this year. Carbon emissions have reduced by 15 per cent, a reduction of 27 per cent since 2005. Looking forward, we will roll out an LED lighting programme across Argos stores and implement a new colleague energy engagement programme, based on Sainsbury's successful Greenest Grocer initiative.

1 A new methodology has been put in place to improve the accuracy of charity donations data. This is effective from 2016/17 so numbers in this report are comparable.
2 Not included in our food not consumed total.
3 Food Standards Agency.
4 Including store and depot food not consumed.
5 A new methodology has been put in place during 2017/18 to improve the accuracy of charity donations data. This is effective from 2016/17 so numbers in this report are comparable. The charity donations are not included in our food not consumed.
6 This is 2016/17 data. 2017/18 figures will be available in Q2 in line with subsequent external reporting commitments. The 33 per cent included as the previous year's data is for 2015/16.

Great place to work

Related UN Sustainable Development Goals

Our colleagues are the foundation of our business, providing award-winning customer service and connecting us to our communities.

Creating an inclusive environment where over 185,000 colleagues can be the best they can be helps us to attract and retain the best talent and increase productivity.

A place where colleagues love to work

Nearly 96,000 colleagues took part in our 'We're Listening' survey and 72 per cent of our colleagues feel that Sainsbury's is a great place to work. This year we also introduced a new 'sustainable engagement' measure to assess the strength of colleagues' connection to Sainsbury's over the long term. We were pleased to see positive colleague engagement scores of 80 per cent, against a backdrop of major change within our business and the sector in general. 'We're Listening' equips our leadership teams with the tools and insights to build robust action plans which will support us in being a great place to work.

We want to reward our colleagues for doing a great job for our customers every day. We have proposed a market leading rate of pay for Sainsbury's colleagues of £9.20 from September, along with revised terms and conditions which will ensure contractual consistency and fairness.

Investing in the training and development of our colleagues

Apprenticeships give colleagues on-the-job skills and training and help us to secure a talent pipeline. We have offered apprenticeships since 1974 and currently have 713 colleagues enrolled on a range of programmes. Since the Apprenticeship Levy in May 2017, we have grown our offer from five retail programmes to seven and introduced six programmes for store support centre colleagues. In the coming year we plan to introduce a new Bakery and Fish programme, along with programmes to support our colleagues in HR and Argos Retail.

A great place to work

Gold accreditation
from Investors in People maintained for the third consecutive time

INVESTORS IN PEOPLE

Investing in training and development

713
colleagues enrolled or completed apprenticeships in 2017

A diverse and inclusive retailer

We want to be the most inclusive retailer where every single one of our colleagues can fulfil their potential and where all our customers feel welcome when they shop with us. We believe diverse teams that reflect the communities we serve perform better. Our Inclusion Steering Group, which consists of four Operating Board Sponsors, meets regularly to influence our strategy and govern progress. Our 160 Inclusion Champions across the Group help to drive inclusion at a local level. This year, in recognition of the important role they play, we brought these colleagues together to inspire, engage and up skill them to deliver activity in their part of our business.

We continue to hold a range of inclusion events across the year and supported 29 Pride events in partnership with our LGBTA (Lesbian, Gay, Bisexual, Trans and Allies) networks. Our Inclusion Week in 2017 covered the challenging topic of banter through our 'Beyond a Joke' campaign, something that has been highlighted as a societal issue through the BITC Race at Work survey. We continue to provide great mentoring opportunities to diverse colleagues through our Women's Mentoring Programme 'Mentoring Matters' and through Empower's Black, Asian and Minority Ethnic (BAME) mentoring programme.

Through our involvement in the Disability Confident Business Leaders Group and scheme, we hope to encourage as many other employers as possible to feel confident in employing people with a disability. We have worked hard to provide line managers with support materials and guidance that equips them to have effective workplace adjustment conversations with colleagues who have a disability or long-term health condition.

This year, women made up 55 per cent of our workforce. You can read more about our Board diversity on page 55. This year we reported our gender pay gap, in line with the Government guidelines. To find out more and to understand what we are doing to support gender equality, please read our report on our corporate website.

Caring for our carers

As one of the first FTSE 100 companies with a Carers' policy, we are committed to helping our colleagues balance their responsibilities at home and at work.

Lorna has a 21 year old son James who has cerebral palsy, and has worked at Sainsbury's for the past five years.

"I joined Sainsbury's when James was 16, knowing the hours would fit in with my responsibilities to James. When James was very poorly in Great Ormond Street Hospital, it was reassuring to know that the team supported me; swapping shifts, making it possible for me to spend as much time as needed with him. I continue to feel I work in a place where I can be both a carer and a colleague, and feel genuinely supported in both roles."

Lorna Newbury
Brighton New England store

Human rights and modern slavery

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

This year we released our first Group Policy on Human Rights, which outlines our commitment to respect human rights and specifies how we do this in relation to our colleagues, our customers and our suppliers. Although this is our first specific human rights policy, our commitment is reflected in other longstanding policies, processes and partnerships on ethical trade and human resources.

We have identified slavery and human trafficking as a salient human rights issue for our business and supply chains. We have developed a new Modern Slavery Risk Assessment Tool to identify risks in our value chains across the Group. This, together with the support of Verité and other stakeholders, will enable us to set a strategy with tailored prevention and remediation activities.

This year we increased our capacity building portfolio by developing a specific e-learning module which includes practical guidance on identifying the signs of modern slavery and human trafficking. We also contributed to industry guidance to address substandard living and working conditions sometimes experienced by seasonal workers and have participated in a working group to advance this issue.

Industry collaboration

Stakeholder collaboration is key to ensuring that the people who make, grow or sell our products are not being exploited or exposed to infringements of their human rights. We are founding members of the Ethical Trading Initiative and work closely with suppliers, government agencies, non-profit organisations, unions and others to maintain our high standards.

We have also committed to the Consumer Goods Forum's *Forced Labour Priority Industry Principles*. We recognise that forced labour, caused by excessive levels of worker indebtedness from high recruitment fees, is one of the most common forms of modern slavery within our sphere of influence. We are actively working with our partners to implement our policy commitment. Read our policy and second Modern Slavery Statement on our corporate website.

Being an inclusive retailer

26,000

colleagues employed through YouCan since 2008 – our scheme that provides jobs for people who might otherwise struggle to find employment.

Disability Confident Leader status

awarded by Department for Work and Pensions for our work on disability and inclusivity. We are the largest retailer in the UK to achieve this status.

disability confident LEADER

Named as one of the UK's

Best Employers for Race

by Business in the Community

Ethical policies

The Company takes bribery extremely seriously and is committed to ensuring compliance with laws and regulations. Colleagues are expected to abide by a set of clearly communicated formal policies, such as the Ethical Supplier Policy and the Conflicts of Interest/Relationships at Work Policy.

Training in support of these policies is provided to colleagues especially in the commercial divisions, firstly during their induction into the Company and thereafter through annual refreshers.

Argos

This year we have continued to review our ways of working across Sainsbury's Argos to deliver a great customer experience and realise financial synergies as part of integration. We engaged all 28,000 colleagues on the Group strategy and values and have launched LOVE – a Group-wide colleague recognition scheme, which is aligned to our shared values. Our Retail Academy programmes have been a huge success, providing structured learning and development to our talented store colleagues. 452 colleagues have participated in these programmes this year, with 38 per cent of them achieving promotion.

Our KPIs

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

Group measures

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

2013/14	798
2014/15	681
2015/16	587
2016/17	581
2017/18	589

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

2013/14	32.8
2014/15	26.4
2015/16	24.2
2016/17	21.8
2017/18	20.4

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

2013/14	1,256
2014/15	1,398
2015/16	1,149
2016/17	1,128
2017/18	1,259

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

2013/14	8.05
2014/15	7.76
2015/16	7.58
2016/17	7.40[2]
2017/18	7.44

Retail underlying operating margin (%)
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 Sainsbury's Bank

2013/14	3.65
2014/15	3.07
2015/16	2.74
2016/17	2.42
2017/18	2.24

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

2013/14	17.3
2014/15	13.2
2015/16	12.1
2016/17	10.2
2017/18	10.2

Core retail capital expenditure (£m)[1]
Definition: Capital expenditure excluding Sainsbury's Bank, after proceeds from disposals and before strategic capital expenditure

2013/14	888
2014/15	947
2015/16	542
2016/17	547
2017/18	495

1. Refer to APMs on page 181.
2 2016/17 restated to include Argos on a post acquisition consolidation basis.

Maintaining balance sheet strength

Pre-tax return on capital employed (%)[1]

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

2013/14	11.3
2014/15	9.7
2015/16	8.8
2016/17	8.8
2017/18	8.4

Gearing (%)[1]

Definition: Net debt divided by Group net assets

2013/14	39.7
2014/15	42.3
2015/16	28.7
2016/17	21.5
2017/18	18.4

Lease adjusted net debt/ underlying EBITDAR (%)[1]

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

2013/14	3.9
2014/15	4.1
2015/16	4.0
2016/17	3.7
2017/18	3.2

Retail

Like-for-like sales 2017/18 (%)[1]

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

1-year LFL	1.3
2-year LFL	0.7
3-year LFL	(0.2)
4-year LFL	(2.1)
5-year LFL	(1.9)

Retail sales growth 2017/18 (%)

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

1-year	9.8
2-year	25.3
3-year	25.8
4-year	25.5
5-year	28.9

Like-for-like transactions growth 2017/18 (%)

Definition: Year-on-year growth in transactions, excluding fuel, excluding Sainsbury's Bank, for stores that have been open for more than one year

2013/14	(0.1)
2014/15	0.0
2015/16	0.3
2016/17	1.0
2017/18	(1.2)

Cost savings (%)

Definition: Excludes Sainsbury's Bank and Argos and represents cost reductions as a result of identified initiatives

2013/14	120
2014/15	140
2015/16	225
2016/17	130
2017/18	185

Non-financial KPIs

Colleague engagement (%)

Definition: Percentage of our colleagues who feel that Sainsbury's is a great place to work

2013/14	79
2014/15	75
2015/16	78
2016/17	77
2017/18	72

Community investment (£m)

Definition: Total investment generated for good causes since 2011[2], excluding Argos

2013/14	115
2014/15	167
2015/16	212
2016/17	265
2017/18	300

Greenhouse gas emissions reduction (%)

Definition: Percentage reduction in absolute greenhouse gas emissions since 2005/06, excluding Argos

2013/14	0
2014/15	2
2015/16	3
2016/17	11
2017/18	24

1. Refer to APMs on page 181.
2. Including all corporate donations, volunteering, fundraising, awareness-raising and investment in community programmes.

Our principal risks and uncertainties

Risk is an inherent part of doing business. The management of risk is based on the balance between risk and reward, determined through careful assessment of both the potential outcomes and impact as well as risk appetite. Consideration is given to both reputational as well as financial impact, recognising the significant commercial value of the Sainsbury's brand. The risk management process is aligned to our strategy and each principal risk and uncertainty is considered in the context of how it relates to the achievement of the Group's strategic objectives. As outlined in Our business strategy on page 7, the current business strategy and objectives are categorised into the following areas (see diagram below).

Our corporate risk map captures the principal risks to achieving Sainsbury's business objectives and this is formally reviewed by the Sainsbury's Operating Board twice a year.

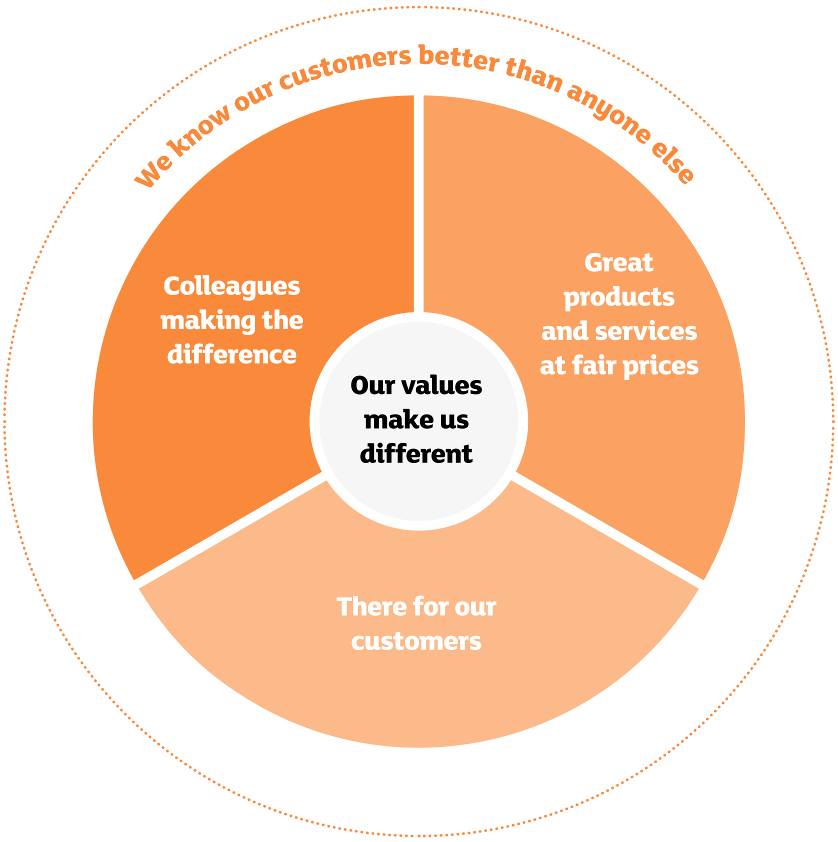
The appetite for each key risk is also discussed and assessed with a target risk position agreed to reflect the level of risk that the business is willing to accept. Risk dashboards are reviewed during the year, which comprised of key risk indicators, to ensure any potential risk movement towards or away from their risk appetite is identified. This enables the Board to agree and monitor appropriate actions as required. Please see the risk framework on page 63 for further detail.

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

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

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

Where principal risks have been included in the risk modelling undertaken as part of the preparation of the viability statement (see page 35), this has been indicated with the following symbol: V



Key risk movements

The principal and emerging risks are discussed and monitored throughout the year to identify changes to the risk landscape. Risks are reviewed in line with the Company's strategic objectives. A new principal risk was disclosed in 2017/18 regarding brand perception, including the need to protect it.

All principal risks reflect the risk across the Sainsbury's Group, including the acquired Nectar business. It is considered that all of the risks are incorporated within the principal risks and uncertainties disclosed below.

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

NEW Brand perception

Risk

Our brand must continue to evolve to meet customer needs and maintain customer loyalty. Customer lifestyles, behaviours and expectations are changing and we need to continue to differentiate our offer to retain and attract customers. We also need to protect our brand so that customers, suppliers and stakeholders continue to trust us.

Mitigation

We have a broad, differentiated product offer, which gives our customers more reasons to shop with us. We will change and evolve to meet the needs of our customers, so that we are there for them whenever and wherever they want us, with great products and services at fair prices. To deliver this, we need to continue to listen to and understand our customers.

To achieve this, in June 2017 we asked over 8,000 people, who are representative of the UK population, together with 1,500 of our colleagues to complete our survey which was designed to find out how they behave, feel and live every day. This resulted in the Sainsbury's Living Well Index launched in September, which helps us to understand what 'living well' means to people across the UK. The Index helps us to understand and engage with the issues that concern our colleagues and customers most in their everyday lives. Our acquisition of Nectar will also play a key part in this strategy. Making Nectar part of the Sainsbury's Group allows us to continue to get to know our customers even better so we can reward and recognise them with offers and deals they love, making sure they keep coming back to shop with us again and again.

In terms of brand protection, many of the mitigation activities set out against the risks below also help prevent or reduce the risk of losing the trust and loyalty of customers, suppliers and broader stakeholders.

Business continuity and major incidents response

Risk

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

Mitigation

The Group has detailed plans in place, supported by senior representatives who have the experience and the authority levels to make decisions in the event of a potentially disruptive incident.

The business continuity strategy, including incident management, resilience exercises and testing, has been aligned across the Group. The Business Continuity Steering Group, which includes representatives from the Bank, Argos and Habitat, meets regularly to ensure that the business continuity (BC) policy and strategy is implemented. In addition, they oversee the mitigation of all risks associated with BC and IT disaster recovery. In the event of any unplanned or unforeseen events, the Business Continuity Management Team is convened at short notice to manage the response and any associated risk to the business.

Group-wide resilience exercises are undertaken to imitate real life business continuity scenarios and test the Group's ability to respond effectively.

Key strategic locations have secondary backup sites which would be made available within pre-defined timescales and are regularly tested.

Business strategy and change

Risk

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

Mitigation

The business strategy is focused on the following:

- We know our customers better than anyone else
- We will be there wherever and whenever they need us
- We will offer great products and services at fair prices
- Our colleagues make the difference
- Our values make us different

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

Colleague engagement, retention and capability

Risk

The Group employs over 185,000 colleagues who are critical to the success of our business. Attracting talented colleagues, investing in training and development, maintaining good relations and rewarding colleagues fairly are essential to the efficiency and sustainability of the Group's operations. Delivery of the strategic objectives, including integration with Argos, increases the impact of an inability to attract, motivate and retain talent, specific skill sets and capability. In addition, the challenging trading environment requires a focus on efficient operations which may include change initiatives impacting colleagues, therefore presenting a risk of loss of colleague trust or engagement.

Mitigation

The Group's employment policies and remuneration and benefits packages are regularly reviewed and are designed to be competitive, fair and consistent, as well as providing colleagues with fulfilling career opportunities. In addition to strong leadership and nurturing of talent by line managers, processes are also in place to identify talent and actively manage succession planning throughout the business. Reviews are performed to help develop the skills colleagues need to deliver objectives and this is supported by embracing new ways of attracting talent. Our corporate value 'Great Place to Work' reinforces our commitment to giving people the opportunity to be the best they can be.

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

Data security

Risk

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

Mitigation

A Group Data Governance Committee is established and is supported by focused working groups looking at the management of colleague data, customer data, information security, commercial data and awareness and training. Senior appointments have been made into roles specifically focused on data governance and information security. The Chief Information Security Officer continues to develop information security strategies and to build the necessary capability to deliver against those strategies. The Head of Data Governance focuses on improving how we handle data across the organisation. Various information security policies and standards are in place which focus on encryption, network security, access controls, system security, data protection and information handling. A review of key third parties who hold sensitive customer or colleague data continues to take place, and progress is monitored by the Data Governance Committee. A risk based security testing approach across Group IT infrastructure and applications is in place to identify ongoing vulnerabilities.

Reflecting the importance of data security, the Chief Information Security Officer and the Head of Data Governance provide regular updates to the Audit Committee on mitigating controls and activities to manage this risk. These discussions are conveyed to the Board as part of our normal governance processes.

Environment and sustainability

Risk

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

Mitigation

A number of initiatives are in place, which are being led by the Environmental Action Team and the Corporate Responsibility Steering Group, to reduce our environmental impact and to meet our customers' expectations in this area. The main focus is on reducing packaging and identifying new ways of reducing waste and energy usage across stores, depots and offices.

Further details are included in the Our values make us different section on pages 18 to 27.

Financial and treasury risk

Risk

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

Mitigation

The Group Treasury function is responsible for managing the Group's liquid resources, funding requirements, interest rate and currency exposures. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.

Sainsbury's Bank operates an enterprise wide risk management framework. The principal financial risks relating to the Bank and associated mitigations are set out in note 27 to the financial statements on page 148.

With regard to pensions, investment strategies are in place which have been developed by the pension trustees, in consultation with the Company, to manage the volatility risk of liabilities, to diversify investment risk and to manage cash. Both Group defined benefit schemes are closed to future accrual. On 20 March, following the end of the financial year, the two pension schemes have merged.

Health and safety – people and product

Risk

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

Mitigation

Clear policies and procedures are in place detailing the controls required to manage health and safety and product safety risks across the business and comply with all applicable regulations. These cover the end-to-end operation, from the auditing and vetting of construction contractors, to the health and safety processes in place in our depots, stores and offices to the controls in place to ensure people and product safety and integrity.

In addition, established product testing programmes are also in place to support rigorous monitoring of product traceability and provide assurance over product safety and integrity. Supplier terms and conditions and product specifications set clear standards for product/raw material safety and quality which suppliers are expected to comply with.

Process compliance is supported by external accreditation and internal training programmes, which are aligned to both health and safety laws and Sainsbury's internal policies. In addition, resource is dedicated to manage the risk effectively, in the form of the Group Safety Committee and specialist safety teams.

Political and regulatory environment

Risk

There remain heightened levels of political and regulatory uncertainty in the UK following the referendum vote to leave the EU in June 2016, the triggering of Article 50 in March 2017 and the general election in June 2017. This uncertainty is expected to continue for the foreseeable future until EU exit negotiations have been completed and alternative trade deals have been put in place. This situation may adversely impact trading performance across the sector. An increasing focus on localism to drive and deliver policy and current legislative requirements including Business Rates, Workplace Pensions, the National Living Wage and Apprenticeship Levy places a cumulative burden on Sainsbury's.

Mitigation

We continue to engage actively with governments, administrations and regulatory bodies. We publicly communicate matters where we believe industry change is required with a view to enabling fair competition that is beneficial to our customers. We communicate our views, and those of our customers and colleagues, regarding geopolitical issues with the aims of informing the debate and ensuring our opinions are represented in the policy and decision making processes.

Trading environment and competitive landscape

Risk

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

Mitigation

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

Statement of viability

1 How Sainsbury's assesses its prospects

The Group's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 41. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 36 to 41. The Group manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of standby liquidity.

The Group's prospects are assessed primarily through its corporate planning process. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecast future funding requirements over three years, with a further two years of indicative movements. The most recent was signed off in November 2017, and refreshed in March 2018 as part of the normal budgeting process. This is reviewed by the Operating Board and ultimately by the PLC Board with involvement throughout from both the CFO and CEO. Part of the Board's role is to consider the appropriateness of any key assumptions, taking into account the external environment and business strategy.

2 The assessment period

The Directors have determined that the three years to March 2021 is an appropriate period over which to provide its viability statement. This period is consistent with that used for the Group's corporate planning process as detailed above, and reflects the Directors' best estimate of the future prospects of the business.

3 Assessment of viability

To make the assessment of viability, additional scenarios have been tested over and above those in the corporate plan, based upon a number of the Group's principal risks and uncertainties (as documented on pages 30 to 34). The scenarios were overlaid into the corporate plan to quantify the potential impact of one or more of these crystallising over the assessment period.

Whilst each of the risks on pages 30 to 34 has a potential impact and has been considered as part of the assessment, only those that represent severe but plausible scenarios were selected for modelling through the corporate plan. These were:

Scenario modelled	Link to Principal Risks and Uncertainties
Scenario 1 **Forecast savings targets are not achieved** The Group corporate plan currently assumes £160 million of synergies as a result of the HRG acquisition in the third full-year post acquisition, along with £500 million of cost savings to offset inflationary pressures by the end of 2020/21. A scenario has therefore been modelled in which all planned savings/synergies are not fully realised, and reduced by one half.	— Business strategy and change
Scenario 2 **Competitive price cutting / price matching** Given the challenging trading environment, driven by ongoing competitive retail pricing combined with growing inflationary cost pressures, additional price investment of £150 million per year has been modelled in each of the three assessment years.	— Trading environment and competitive landscape
Scenario 3 **Data breaches** The impact of any regulatory fines has been considered. The biggest of these is the General Data Protection Regulation ('GDPR') fine for data breaches, which was enacted in May 2018. Fines were considered both in isolation and in conjunction with a fall in sales volumes as a result of any reputational brand damage in each of the assessment years.	— Data security
Scenario 4 **Legal breaches** Similar to the above, we considered the reputational impact of any legal or health and safety incidents, modelling a two per cent fall in budgeted sales volumes in each year of the assessment period. Falls in sales volumes were modelled in each year in isolation, as well as a sustained year-on-year two per cent reduction. We also considered regulatory fines such as those levied by the Groceries Supply Code of Practice ('GSCOP').	— Health and safety, people and product — Political and regulatory environment
Scenario 5 It was considered what level of sustained loss would be required in Sainsbury's Bank before its capital ratios were breached, leading to additional material funding requirements from the Group.	— Financial and treasury risk

In performing the above analysis, the Directors have made certain assumptions around the availability of future funding options, including the ability to raise future finance.

In assessing viability, consideration has been given to the proposed combination with Asda, as detailed on pages 10 to 11. Whilst completion of the combination is expected in the second half of calendar year 2019 and therefore within the assessment period, the combination is conditional upon, amongst other things, Sainsbury's shareholder approval, Competition and Markets Authority approval, approvals in connection with the Asda defined benefit pension scheme and other regulatory approvals. As part of the Sainsbury's shareholder approval process, the Directors will perform an assessment of the working capital of the combined Group. As a result the Directors concluded that for the current year-end, the proposed combination did not require separate modelling for viability purposes.

The scenarios above are hypothetical and severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group; however, multiple control measures are in place to prevent and mitigate any such occurrences from taking place. In the case of these scenarios arising, various options are available to the Group in order to maintain liquidity so as to continue in operation. These include reducing any non-essential capital expenditure and operating expenditure on projects, as well as not paying dividends.

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

4 Viability statement

Taking into account the Group's current position and principal risks and uncertainties, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three years to March 2021.

5 Going concern

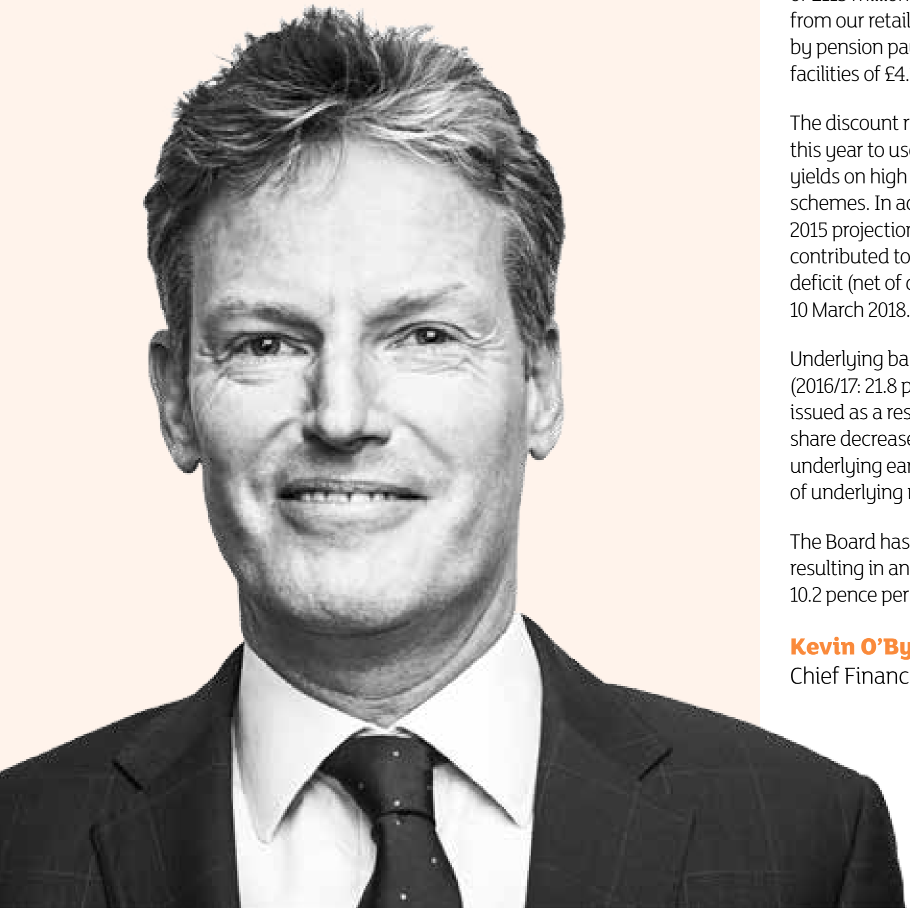
The Directors also considered it appropriate to adopt the going concern basis in preparing the financial statements which are shown on pages 87 to 176.

Strategic Report
Governance Report
Financial Statements

Financial Review

Dear Shareholder

2017/18 has been another year of significant change, with continued progress in delivering our strategic priorities, strong cash generation, cost saving and synergy outperformance, the consolidation of a full year of Argos, the acquisition of Nectar, and the return to like-for-like sales growth, all delivered in the context of a rapidly changing and competitive retail environment.



Sainsbury's underlying Group sales (including VAT) were up 9.0 per cent to £31,735 million mainly as a result of the impact of consolidating a full year of Argos. On a 52-week rolling basis Sainsbury's market share (as measured by Kantar) declined 27 basis points, due to further price investment and the continuing new store expansion from discounters, whose combined market share increased by 132 basis points. By contrast the 'big four' declined by 96 basis points. Our General Merchandise sales continued to outperform the market with strong growth in many of our key categories, as we maintained market share (as measured by the British Retail Consortium, 'BRC') despite challenging market conditions.

During the year, we worked hard to protect our customers from the impact of cost price inflation and rising commodity prices by continuing to partner with our suppliers in looking at ways to reduce our sourcing and end-to-end supply chain costs. Against this backdrop we were pleased to record an improving food margin trend whilst General Merchandise margin remains under pressure in challenging market conditions. In 2017/18, retail underlying EBITDAR margin increased 4 basis points to 7.44 per cent and retail underlying operating margin declined 18 basis points to 2.24 per cent primarily as a result of the consolidation of a full year of Argos' results. Underlying profit before tax ('UPBT') increased by 1.4 per cent to £589 million (2016/17: £581 million). Profit before tax of £409 million (2016/17: £503 million) was down 18.7 per cent as a result of a £180 million charge recognised outside underlying results. This charge includes the proposed changes to our store operations that we have announced this year, Argos integration costs and Sainsbury's Bank transition costs. Cost savings of £185 million were delivered during the year resulting in a cumulative three-year total of £540 million, £40 million ahead of the target we set in 2014/15. We have well developed plans to deliver a further three-year cost saving target of £500 million by 2020/21 as we continue to simplify the business and we expect to achieve savings of around £200 million in 2018/19.

Sainsbury's Bank profits increased by 11 per cent to £69 million, primarily due to a full-year consolidation of Argos Financial Services results. Good sales growth across the product range was offset by a reduction in margins in the competitive unsecured lending market and an increase in bad debt charges, as expected. Next year, we expect lending margins to remain under pressure. Accordingly, we have decided to take a more cautious approach to unsecured lending and will focus on growing our mortgage book and our commission products. Together with the impacts of new accounting standards and the cost of the external capital we raised in November 2017, we expect Bank profits to reduce to around £30 million in 2018/19.

The balance sheet remains strong with a further reduction in net debt. Net debt was £1,364 million as at 10 March 2018 (11 March 2017: £1,477 million), a decrease of £113 million in the year, mainly as a result of continuing strong cash generation from our retail operations and further working capital improvements, offset by pension payments, capital expenditure and dividends paid. The Group has facilities of £4.1 billion with only £2.5 billion drawn at the end of the year.

The discount rate applied to the Group's pension schemes has been increased this year to use a revised approach that we believe better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes. In addition, future mortality assumptions have been updated from CMI 2015 projections at 2017 year end to CMI 2017 projections. These changes have contributed to the reduction in our Group pension scheme IAS 19 accounting deficit (net of deferred tax) to £261 million (2016/17: £850 million deficit) as at 10 March 2018.

Underlying basic earnings per share decreased 6.4 per cent to 20.4 pence (2016/17: 21.8 pence), reflecting the full-year impact of the additional shares issued as a result of the Home Retail Group ('HRG') acquisition. Basic earnings per share decreased 24.0 per cent to 13.3 pence (2016/17: 17.5 pence), lower than the underlying earnings per share due to the £180 million charge recognised outside of underlying results.

The Board has recommended a final dividend of 7.1 pence (2016/17: 6.6 pence), resulting in an unchanged full-year dividend of 10.2 pence per share (2016/17: 10.2 pence per share).

Kevin O'Byrne
Chief Financial Officer

Summary income statement	52 weeks to 10 March 2018 £m	52 weeks to 11 March 2017 £m	Change %
Underlying Group sales (including VAT)	**31,735**	29,112	9.0
Underlying retail sales (including VAT)	**31,220**	28,705	8.8
Underlying Group sales (excluding VAT)[1]	**28,453**	26,231	8.5
Underlying retail sales (excluding VAT)[2]	**27,938**	25,824	8.2
Underlying operating profit			
Retail	**625**	626	(0.2)
Financial services	**69**	62	11.3
Total underlying operating profit	**694**	688	0.9
Underlying net finance costs[3]	**(119)**	(119)	–
Underlying share of post-tax profit from JVs[4]	**14**	12	16.7
Underlying profit before tax	**589**	581	1.4
Items excluded from underlying results	**(180)**	(78)	130.8
Profit before tax	**409**	503	(18.7)
Income tax expense	**(100)**	(126)	20.6
Profit for the financial period	**309**	377	(18.0)
Underlying basic earnings per share	**20.4p**	21.8p	(6.4)
Basic earnings per share	**13.3p**	17.5p	(24.0)
Dividend per share	**10.2p**	10.2p	–

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

Group sales

Underlying Group sales (including VAT, including fuel) increased by 9.0 per cent year-on-year, mainly as a result of the impact of consolidating a full year of Argos (2016/17: 27 weeks). Underlying retail sales (including VAT, including fuel) increased by 8.8 per cent. Including Argos in the base, retail sales (including VAT, excluding fuel) increased by 1.6 per cent due to an improved like-for-like performance. Fuel sales grew 2.6 per cent, largely driven by retail price inflation.

Total sales performance by category inc. Argos in base	52 weeks to 10 March 2018
Grocery (exc. Pharmacy)	**2.3%**
General Merchandise	**(0.8)%**
Clothing	**3.8%**
Retail (exc. fuel and impact of sale of Pharmacy business)	**1.6%**
Fuel sales	**2.6%**
Retail (inc. fuel, exc. impact of sale of Pharmacy business)	**1.7%**

Grocery sales grew by 2.3 per cent driven by inflationary pressure across all food categories. A challenging General Merchandise market resulted in a sales decline of 0.8 per cent year-on-year. However, Clothing continued to perform well with sales growth of nearly four per cent year-on-year. We are the sixth biggest clothing retailer by volume.

Convenience growth was nearly eight per cent and Groceries Online sales growth was nearly seven per cent driven by order and basket size growth, supporting our ambition of becoming a multi-product, multi-channel retailer. There was sales growth across all Sainsbury's channels – Supermarkets, Convenience and Groceries Online.

Total sales performance by channel	52 weeks to 10 March 2018	52 weeks to 11 March 2017
Supermarkets	**0.5%**	(1.8)%
Convenience	**7.5%**	6.5%
Groceries Online	**6.8%**	8.2%

Retail like-for-like sales, excluding fuel, increased by 1.3 per cent in the year (2016/17: flat) mainly as a result of continued inflation.

Retail like-for-like sales performance inc. Argos in base	52 weeks to 10 March 2018	52 weeks to 11 March 2017
Like-for-like sales (exc. fuel)	**1.3%**	0.0%
Like-for-like sales (inc. fuel)	**1.4%**	0.5%

On a 52-week rolling basis, Sainsbury's market share (as measured by Kantar for the 52 weeks to 25 February 2018) declined 27 basis points due to continued price investment and the continuing store expansion from the discounters, whose combined market share increased by 132 basis points. By contrast the 'big four' combined market share declined by 96 basis points.

Space

In 2017/18, Sainsbury's opened three new supermarkets (2016/17: six new supermarkets). Convenience continued to grow, with 24 new stores opened in 2017/18, including two Euro Garages stores, and 15 stores closed (2016/17: 41 stores opened and eight stores closed). Net of replacements, closures and disposals, closing Sainsbury's space was 23,209,000 sq. ft. (11 March 2017: 23,397,000 sq. ft.).

As at 10 March 2018, Argos had 844 stores and 192 collection points. Habitat had 16 stores.

Store numbers and retailing space	As at 11 March 2017	New stores	Disposals/ closures	Extensions/ refurbishments/ downsizes	As at 10 March 2018
Supermarkets	605	3	–	–	**608**
Supermarkets area '000 sq ft[1]	21,512	80	–	(296)	**21,296**
Convenience[2]	806	24	(15)	–	**815**
Convenience area '000 sq ft	1,885	59	(32)	1	**1,913**
JS total store numbers	1,411	27	(15)	–	**1,423**
Argos stores[3]	715	1	(77)	–	**639**
Argos stores in Sainsbury's[3]	39	152	–	–	**191**
Argos in Homebase	57	–	(43)	–	**14**
Temporary stores	2	–	(2)	–	**–**
Argos total store numbers	813	153	(122)	–	**844**
Argos collection points[4]	37	194	(39)	–	**192**
Habitat	8	8	–	–	**16**

1 The net 296,000 sq. ft. reduction in Sainsbury's supermarket space is driven by 336,000 sq. ft. now belonging to Argos stores in Sainsbury's offset by 40,000 sq. ft. of other space initiatives.
2 Includes Euro Garages stores.
3 Two Argos store openings have been reclassified as Argos stores in Sainsbury's to reflect their utilisation of the Sainsbury's store portfolio.
4 2016/17 included one Habitat collection point.

In 2018/19, Sainsbury's expects to open two new supermarkets and around 15 new convenience stores.

In 2018/19, Sainsbury's expects to open around 90 Argos stores in supermarkets (of which around 50 are relocations) resulting in around 280 Argos stores in supermarkets.

In 2018/19, Sainsbury's expects to close the remaining Argos stores within Homebase.

Retail underlying operating profit

Retail underlying operating profit decreased by 0.2 per cent to £625 million (2016/17: £626 million), reflecting continued investment in the customer offer, cost inflation and the consolidation of the Argos first half operating loss, partly offset by cost savings of £185 million and cumulative EBITDA synergies of £87 million (EBIT of £82 million).

Retail underlying operating margin declined by 18 basis points year-on-year to 2.24 per cent (2016/17: 2.42 per cent), equivalent to a 17 basis point decline at constant fuel prices, as a result of the consolidation of Argos sales.

Retail underlying operating profit	52 weeks to 10 March 2018	52 weeks to 11 March 2017	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**625**	626	(0.2)%	
Retail underlying operating margin (%)[2]	**2.24**	2.42	(18)bps	(17)bps
Retail underlying EBITDAR (£m)[3]	**2,078**	1,912	8.7%	
Retail underlying EBITDAR margin (%)[4]	**7.44**	7.40	4bps	8bps

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

In 2018/19, Sainsbury's expects cost inflation of around three per cent. We have well-developed plans to deliver at least £500 million of cost savings over the next three years with £200 million of these savings to be achieved in 2018/19 as we continue to drive efficiencies and simplify the business.

In 2018/19, Sainsbury's expects a depreciation and amortisation cost of around £700 million.

Our 2018/19 full-year underlying profit expectation for the combined Group remains in line with current market consensus (2018/19 UPBT consensus estimate of £629 million, as published on 5 March 2018 on www.j-sainsbury.co.uk/investors/analyst-consensus).

Acquisition of Nectar

On 31 January 2018, Sainsbury's acquired all Nectar businesses and related assets required for the full and independent operation of the Nectar Loyalty programme, including the remaining 50 per cent share of its joint venture with Aimia Inc., Insight 2 Communication LLP. The consideration of £39 million generated goodwill of £147 million. The transaction supports Sainsbury's strategy of knowing its customers better than anyone else.

Synergies arising from the acquisition of Argos

In 2017/18, Sainsbury's achieved £87 million of cumulative EBITDA synergies (£82 million EBIT), of which £80 million were incremental to the 2016/17 full year. As part of the transaction to acquire Home Retail Group ('HRG'), Sainsbury's initially announced that the Group expected to achieve a cumulative £160 million of EBITDA synergies (£142 million EBIT) by the end of the first half of 2019/20. Due to the acceleration of some of this activity, we later announced that we expect to deliver these in 2018/19 (six months early).

In order to achieve these synergies, a total of £130 million of exceptional integration costs and £140 million of exceptional integration capital expenditure will be required. Exceptional costs will include the relocation of property, dilapidations, lease break costs and redundancy costs. Exceptional capital expenditure is required to reformat supermarket space and for fitting out the new Argos stores. The updated expected phasing of the synergies, exceptional costs and exceptional capital expenditure is shown overleaf:

£m	FY 2016/17	FY 2017/18	FY 2018/19e	Total
EBITDA synergies (incremental year-on-year)	**7**	80	73	160
EBIT synergies (incremental year-on-year)	**6**	76	60	142
Exceptional costs	**(27)**	(75)	(28)	(130)
Exceptional capital expenditure	**(18)**	(80)	(42)	(140)

In 2018/19, we expect incremental EBITDA synergies of £73 million (£60 million EBIT), resulting in total EBITDA synergies of £160 million (£142 million EBIT) since acquisition (six months early). Argos integration costs are expected to be around £30 million; integration capital expenditure is expected to be around £40 million in 2018/19.

Homebase separation
HRG announced on 18 January 2016 that the sale of Homebase would give rise to £75 million of additional exceptional costs in relation to the transaction, separation and restructuring. Up to the date of the acquisition, HRG had incurred £30 million of these costs; a further £4 million was incurred to 11 March 2017 and £10 million in 2017/18.

It is currently anticipated that the total exceptional costs will now only be £45 million, a reduction of £30 million from the original estimate.

Sainsbury's Bank

Sainsbury's Bank results 12 months to 28 February	2018	2017	Change
Underlying revenue (£m)	**515**	407	27%
Interest payable (£m)	**(64)**	(60)	7%
Total income (£m)	**451**	347	30%
Underlying operating profit (£m)	**69**	62	11%
Cost:income ratio (%)	**70**	72	200bps
Active customers (m) – Bank	**1.92**	1.77	8%
Active customers (m) – AFS	**1.95**	1.84	6%
Net interest margin (%)[1]	**4.9**	4.4	50bps
Bad debt as a percentage of lending (%)[2]	**1.3**	0.8	(50)bps
CET 1 capital ratio (%)[3]	**14.1**	13.3	80bps
Customer lending (£m)[4]	**5,691**	4,599	24%

1 Net interest receivable divided by average interest-bearing assets. Excluding AFS, net interest margin was 3.6 per cent (2016/17: 3.9 per cent).
2 Bad debt expense divided by gross lending. Excluding AFS, bad debt as a percentage of lending was 0.9 per cent (2016/17: 0.6 per cent).
3 Common equity tier 1 capital divided by risk-weighted assets.
4 Amounts due from customers at the balance sheet date in respect of loans, mortgages, credit cards and store cards net of provisions.

Sainsbury's Bank total income increased by 30 per cent year-on-year to £451 million mainly as a result of the full-year consolidation impact of Argos Financial Services ('AFS'). The consolidation also contributed to the 11 per cent increase year-on-year in Sainsbury's Bank underlying operating profit to £69 million.

Sainsbury's Bank cost:income ratio has improved by 200 basis points driven by sales growth across all products partially offset by an increase in administrative expenses. The number of Sainsbury's Bank active customers increased by eight per cent year-on-year to 1.92 million (2016/17: 1.77 million).

Net interest margin increased by 50 basis points year-on-year to 4.9 per cent (2016/17: 4.4 per cent) reflecting the acquisition of AFS that operates a higher risk and return operating model. Excluding AFS, net interest margin was 3.6 per cent, a decrease of 30 basis points year-on-year reflecting the increasingly competitive unsecured lending market. The acquisition also contributed towards the adverse movement in bad debt levels as a percentage of lending to 1.3 per cent (2016/17: 0.8 per cent). Excluding AFS, bad debt as a percentage of lending was in line with expectations at 0.9 per cent.

The CET 1 capital ratio increased by 80 basis points year-on-year to 14.1 per cent (2016/17: 13.3 per cent), reflecting the additional funds contributed during the year from the parent. Loan balances increased by 24 per cent to £5,691 million, mainly due to growth across personal loans, credit cards and mortgages.

In November 2017, Sainsbury's Bank further diversified its funding through the issue of £175 million of fixed rate reset callable subordinated Tier 2 notes.

We have decided to take a more cautious approach to unsecured lending next year and margins will reduce in a competitive market. Combined with new accounting standards and interest payments on the external capital we raised in November, we expect Sainsbury's Bank profits to reduce to around £30 million in 2018/19.

Capital injections into the Bank are expected to be £110 million in 2018/19 and are expected to average £100 million per year from 2019/20 onwards. This is to cover card and loan platforms, regulatory capital and growth in loan, card and mortgage balances.

Sainsbury's Bank transition costs are expected to be around £55 million and transition capital costs are expected to be around £5 million.

Underlying net finance costs
Underlying net finance costs remained flat year-on-year at £119 million (2016/17: £119 million), as the impact of loan refinancing costs was offset by lower average net debt.

Sainsbury's expects net finance costs of around £100 million in 2018/19 following final repayment of the secured loan in 2018.

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

Items excluded from underlying results	52 weeks to 10 March 2018 £m	52 weeks to 11 March 2017 £m
Property related	**12**	36
Argos integration and Homebase separation	**(85)**	(53)
Sainsbury's Bank transition	**(38)**	(60)
Impact of the acquisition of Nectar UK	**2**	–
Divestments	**–**	15
Restructuring costs	**(85)**	(33)
Other	**14**	17
Items excluded from underlying results	**(180)**	(78)

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- Property-related items for the year comprise profit on disposal of properties and investment property fair value movements.
- Argos integration costs for the year of £75 million were part of the previously announced £130 million required over three years in order to achieve the EBITDA synergies of £160 million. Homebase separation and restructuring costs were £10 million.
- Sainsbury's Bank transition costs of £38 million (2016/17: £60 million) were part of the previously announced costs incurred in transitioning to a new, more flexible banking platform.
- Restructuring costs in the year of £85 million relate to changes to our store colleague structures and working practices.

Taxation

The income tax charge was £100 million (2016/17: £126 million), with an underlying tax rate of 24.1 per cent (2016/17: 23.2 per cent) and an effective tax rate of 24.4 per cent (2016/17: 25.0 per cent).

The underlying tax rate was higher year-on-year, despite the statutory corporation tax rate being lower than the prior year. However, in the prior year there was the benefit of a one per cent revaluation of underlying deferred tax balances, whereas there was no such revaluation in 2017/18. The effective tax rate in 2017/18 was increased by the tax impact of property disposals and some non-tax deductible exceptional costs. In 2017/18 there was no benefit of a revaluation of non-underlying deferred tax balances.

In 2018/19, Sainsbury's expects the full-year underlying tax rate to be between 23 and 24 per cent.

Earnings per share

Underlying basic earnings per share decreased to 20.4 pence (2016/17: 21.8 pence) reflecting the full-year impact of the additional shares issued as a result of the HRG acquisition and a slightly higher underlying tax rate. Basic earnings per share decreased to 13.3 pence (2016/17: 17.5 pence), more than the fall in underlying basic earnings per share, mainly as a result of the £180 million charge for items excluded from underlying results (2016/17: £78 million charge).

Dividends

The Board has recommended a final dividend of 7.1 pence per share (2016/17: 6.6 pence). This will be paid on 13 July 2018 to shareholders on the Register of Members at the close of business on 8 June 2018, subject to approval by shareholders at the AGM. In line with the Group's policy to keep the dividend covered two times by underlying earnings, this will result in an unchanged full-year dividend of 10.2 pence (2016/17: 10.2 pence).

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

Net debt and retail cash flows

Group net debt includes the capital injections into Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances. Sainsbury's Bank balances are excluded because they are required for business as usual activities. As at 10 March 2018, net debt was £1,364 million (11 March 2017: £1,477 million), a decrease of £113 million.

Summary cash flow statement[1]	Retail 52 weeks to 10 March 2018 £m	Retail 52 weeks to 11 March 2017 £m
Adjusted retail operating cash flow before changes in working capital[2,3]	**1,214**	1,179
Decrease in working capital[3]	**196**	61
Cash generated from retail operations[4]	**1,410**	1,240
Retirement benefit obligations	**(151)**	(112)
Net interest paid[5]	**(105)**	(108)
Corporation tax paid	**(72)**	(87)
Net cash generated from retail operating activities[6]	**1,082**	933
Cash capital expenditure before strategic capital expenditure[7]	**(542)**	(588)
Proceeds from disposal of property, plant and equipment	**54**	55
Bank capital injections	**(190)**	(130)
Dividends and distributions received from JVs net of capital injections	**28**	49
Retail free cash flow[8]	**432**	319
Dividends paid on ordinary shares	**(212)**	(230)
Exceptional pension contributions	**–**	(199)
Strategic capital expenditure[5]	**(80)**	(92)
Acquisition of subsidiaries[5]	**135**	457
Repayment of borrowings including finance leases[5]	**(174)**	(211)
Other[5]	**(2)**	6
Net increase in cash and cash equivalents	**99**	50
Decrease in borrowings including finance leases	**174**	211
Acquisition movements	**(15)**	39
Fair value, other non-cash and net interest movements[9]	**(145)**	49
Movement in net debt	**113**	349
Opening net debt	**(1,477)**	(1,826)
Closing net debt	**(1,364)**	(1,477)
Closing net debt (inc. perpetual securities as debt)	**(1,858)**	(1,971)

1 See note 4 for a reconciliation between the Retail and Group cash flows.
2 Excludes working capital, pension contributions and exceptional pension contributions.
3 The Group cash flow statement comparatives have been reclassified, refer to note 4 for further details.
4 Excludes pension contributions and exceptional pension contributions.
5 Refer to the Alternative Performance Measures on page 181 for reconciliation.
6 Excludes exceptional pension contributions.
7 Excludes Argos integration capital expenditure.
8 Retail free cash flow restated to reflect capital injections made to Sainsbury's Bank and dividends and distributions received from joint ventures net of capital injections.
9 Net interest excluding dividends paid on perpetual securities as disclosed in note 26.

Adjusted operating cash flow before changes in working capital increased by £35 million year-on-year to £1,214 million (2016/17: £1,179 million) and working capital improved by £196 million. Capital expenditure before strategic capital expenditure was £542 million (2016/17: £588 million) driven by a reduction in Sainsbury's core retail capital expenditure partially offset by a full year's Argos core retail capital expenditure. Bank capital injections of £190 million were made in the year (2016/17: £130 million).

Free cash flow increased by £113 million in the year to £432 million (2016/17: £319 million). Free cash flow was used to fund dividends and repay debt. Dividends of £212 million were paid in the year, which are covered 2.0 times by free cash flow (2016/17: 1.4 times). Strategic capital expenditure was £12 million favourable year-on-year as no freehold purchases were made in the current year (2016/17: £74 million purchase of Chiswick), partly offset by Argos integration capital expenditure.

Fair value, other non-cash and interest movements of £145 million were primarily driven by a reduction in the value of US Dollar foreign exchange derivatives held to mitigate the Group's exposure to fluctuations in US Dollar denominated purchases. The weighted average hedge rate ('WAHR') at 10 March 2018 was below the spot rate, generating an unrealised fair value loss (2016/17: unrealised profit as the WAHR at 11 March 2017 was above the spot rate).

As at 10 March 2018, Sainsbury's had drawn debt facilities of £2.5 billion (including the perpetual securities) and undrawn committed credit facilities of £1.45 billion. The Group also held £85 million of uncommitted facilities, which was undrawn as at 10 March 2018.

On 17 October 2017 the Group refinanced its syndicated committed revolving credit facility. The revised facility of £1.45 billion has three, four and five-year tranches with an initial final maturity for the longer dated tranche of April 2023.

Sainsbury's expects 2018/19 year-end net debt to reduce by around £100 million. We expect net debt to reduce over the medium term.

Sainsbury's expects adjusted net debt to EBITDAR (treating the perpetual securities as debt) to reduce below three times in the medium term.

Sainsbury's expects fixed charge cover of over three times in the medium term.

Capital expenditure

Core retail capital expenditure was £495 million (2016/17: £547 million). Retail capital expenditure (including Argos integration capital expenditure) was £575 million (2016/17: £639 million).

In 2018/19, Sainsbury's expects core retail capital expenditure including business as usual Argos capital expenditure (excluding Sainsbury's Bank and Argos integration capital expenditure) to be around £550 million. Core retail capital expenditure is expected to be around £550 million per annum over the medium term.

We expect Argos integration capital expenditure to be around £40 million.

Financial ratios

Key financial ratios	As at 10 March 2018	As at 11 March 2017
Return on capital employed (%)[1]	**8.4**	8.8
Return on capital employed (exc. pension deficit) (%)[1]	**7.7**	8.0
Adjusted net debt to EBITDAR[2]	**3.2 times**	3.7 times
Interest cover[3]	**5.9 times**	5.9 times
Fixed charge cover[4]	**2.5 times**	2.6 times
Gearing[5]	**18.4%**	21.5%
Gearing (exc. pension deficit)[6]	**17.8%**	19.1%

Key financial ratios (with perpetual securities treated as debt)[7]		
Adjusted net debt to EBITDAR	**3.5 times**	4.0 times
Gearing	**26.9%**	30.9%
Gearing (exc. pension deficit)	**25.9%**	27.3%

Key financial ratios (with perpetual securities coupons excluded from net underlying finance costs)		
Interest cover[8]	**7.4 times**	7.3 times
Fixed charge cover[9]	**2.6 times**	2.7 times

1 The 14 point period includes the opening capital employed as at 11 March 2017 and the closing capital employed for each of the 13 individual four-week periods to 10 March 2018.
2 Net debt of £1,364 million plus capitalised lease obligations of £5,683 million, divided by Group underlying EBITDAR of £2,181 million, calculated for a 52-week period to 10 March 2018. Perpetual securities treated as equity.
3 Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
4 Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
5 Net debt divided by net assets. Perpetual securities treated as equity.
6 Net debt divided by net assets, excluding pension deficit. Perpetual securities treated as equity.
7 On a statutory basis, the perpetual securities are accounted for as equity on the balance sheet. Treating the perpetual securities, net of transaction fees, as debt increases net debt to £1,858 million, and reduces net assets to £6,917 million.
8 Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.
9 Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.

Property value

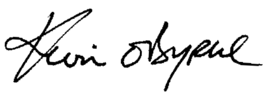
As at 10 March 2018, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, was £10.5 billion (11 March 2017: £10.3 billion). The £0.2 billion increase was a result of a small yield movement.

Defined benefit pensions

At 10 March 2018, the retirement benefit obligation for the Group was £261 million (including Argos, the unfunded obligation and adjusting for associated deferred tax). The £589 million decrease in the deficit from 11 March 2017 was driven by a rise in the discount rate from 2.70 per cent to 2.80 per cent, and updates to future mortality assumptions. The discount rate has been increased this year to use a revised approach that the Group believes better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes. Mortality assumptions have been updated from CMI 2015 projections at the 2017 year end to CMI 2017 projections.

Following agreement of the valuation of both schemes, the Group is committed to make annual contributions of £124 million to the schemes (Sainsbury's scheme: £84 million; Argos scheme: £40 million). The next triennial valuations are for the March 2018 year-ends for both schemes and will need to be completed by June 2019.

Retirement benefit obligations	Sainsbury's As at 10 March 2018 £m	Argos As at 10 March 2018 £m	Group As at 10 March 2018 £m	Group As at 11 March 2017 £m
Present value of funded obligations	**(8,744)**	**(1,284)**	**(10,028)**	(10,854)
Fair value of plan assets	**8,669**	**1,215**	**9,884**	9,920
Additional liability due to minimum funding requirements (IFRIC 14)	**–**	**(78)**	**(78)**	–
Pension deficit	**(75)**	**(147)**	**(222)**	(934)
Present value of unfunded obligations	**(21)**	**(14)**	**(35)**	(40)
Retirement benefit obligations	**(96)**	**(161)**	**(257)**	(974)
Deferred income tax (liability)/asset	**(38)**	**34**	**(4)**	124
Net retirement benefit obligations	**(134)**	**(127)**	**(261)**	(850)



Kevin O'Byrne
Chief Financial Officer

J Sainsbury plc: Board of Directors

David Tyler (65) ∗

Chairman

Date of appointment: 1 October 2009.
David has served as a Non-Executive Director since 1 October 2009 and as Chairman since 1 November 2009.

Committee membership: Chair of the Nomination Committee.

Skills and experience: David has broad and extensive experience in both executive and non-executive roles across the consumer, retail, business services and financial services sectors. He is also an experienced chairman having served in that role previously at Logica plc and 3i Quoted Private Equity plc. His last executive position was as Finance Director of GUS plc, and previously he held senior financial and general management roles with Christie's International Plc, County NatWest Limited and Unilever PLC. He has also been a Non-Executive Director of Burberry Group Plc, Experian plc and Reckitt Benckiser Group plc.

Other current roles: Chairman of Hammerson plc and Chairman of Domestic and General Group Limited.

Mike Coupe (57) ♥

Group Chief Executive Officer

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

Committee membership: Corporate Responsibility and Sustainability Committee.

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

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

Kevin O'Byrne (53)

Chief Financial Officer

Date of appointment: 9 January 2017.

Skills and experience: Kevin brings to the Board a wealth of retail and finance experience. Kevin was previously Chief Executive Officer of Poundland Group until December 2016 and held executive roles at Kingfisher plc from 2008 to 2015, including Chief Executive Officer of B&Q UK & Ireland and Group Finance Director. He was previously Group Finance Director of Dixons Retail plc and European Finance Director of Quaker Oats. He was a Non-Executive Director and Chairman of the Audit Committee of Land Securities Group PLC from 2008 to September 2017.

John Rogers (49)

Chief Executive Officer of Sainsbury's Argos

Date of appointment: 19 July 2010.

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

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

Other current roles: Non-Executive Director of Travis Perkins plc.

Key to Committee members

- ◆ Remuneration Committee
- ● Audit Committee
- ∗ Nomination Committee
- ♥ Corporate Responsibility and Sustainability Committee

◆●∗♥ Denotes Chairman of Committee

Retirements in 2017/18

Mary Harris retired from the Board on 5 July 2017

Life President

Lord Sainsbury of Preston Candover KG

Matt Brittin (49) ◆ ✱

Non-Executive Director

Date of appointment: 27 January 2011.

Committee Membership: Remuneration Committee and Nomination Committee.

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

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

Brian Cassin (50) ● ✱

Non-Executive Director

Date of appointment: 1 April 2016.

Committee Membership: Audit Committee and Nomination Committee.

Skills and experience: Brian brings present day experience of running a FTSE40 group and of big data and analytics – topics of key importance to Sainsbury's. Brian joined Experian 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 and at Baring Brothers International and the London Stock Exchange where he held senior roles.

Other current roles: Chief Executive Officer of Experian plc.

Jo Harlow (55) ◆ ✱ ♥

Non-Executive Director

Date of appointment: 11 September 2017.

Committee Membership: Corporate Responsibility and Sustainability Committee and Chair of the Committee from May 2018, Remuneration Committee and Nomination Committee.

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

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

David Keens (64) ● ✱

Non-Executive Director

Date of appointment: 29 April 2015.

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

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

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

Dame Susan Rice (72) ◆ ✱

Senior Independent Director

Date of appointment: 1 June 2013.

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

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

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

Jean Tomlin (63) ♥ ● ✱

Non-Executive Director

Date of appointment: 1 January 2013.

Committee Membership: Chair of the Corporate Responsibility and Sustainability Committee (Chair until May 2018) and a member of the Audit Committee and Nomination Committee.

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

Other current roles: Independent Board member of Michael Kors Holdings Limited; a Trustee of Step Up To Serve; and Lay Council Member at Loughborough University.

J Sainsbury plc: Operating Board

Mike Coupe (57) ♥
Group Chief Executive Officer

See page 42.

Kevin O'Byrne (53)
Chief Financial Officer

See page 42.

John Rogers (49)
Chief Executive Officer of Sainsbury's Argos

See page 42.

Tim Fallowfield
Company Secretary & Corporate Services Director

Date of appointment: September 2004.

Skills and experience: Tim joined Sainsbury's in 2001 as Company Secretary and joined the Operating Board in September 2004. In addition to his role as Company Secretary, Tim is responsible for the Corporate Services Division comprising Legal Services, Data Governance, Safety, Shareholder Services, Insurance and Central Security. He chairs the Group Safety Committee and the Data Governance Committee. Tim joined Sainsbury's from Exel plc, the global logistics company, where he was Company Secretary and Head of Legal Services. He began his career at the international law firm Clifford Chance and is a qualified solicitor. Tim is Chairman of the Disability Confident Business Leaders Group which works with Government in shaping the disability employment agenda and in raising awareness of the benefits of employing disabled people.

Peter Griffiths, OBE
CEO of Sainsbury's Bank

Date of appointment: May 2014.

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

Phil Jordan
Group Chief Information Officer

Date of appointment: January 2018.

Skills and experience: Phil joined the Board in January 2018 and brings a wealth of experience both in digital and legacy business & systems transformation. Most recently he was Global Chief Information Officer at Telefonica overseeing Digital Transformation and Information Technology and prior to that was Chief Information Officer for Vodafone UK/Ireland. Phil brings a fresh, global perspective on technology to the Operating Board with the movement from telecommunications to retail and into the Sainsbury's Group.

Phil has worked as a Non-Executive Advisor on Technology in the Investment & Retail Banking sector and is a member of many global IT industry advisory boards.

Paul Mills-Hicks

Food Commercial Director

Date of appointment: May 2014.

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

Angie Risley

Group HR Director

Date of appointment: January 2013.

Skills and experience: Angie was appointed Group HR Director and a member of the Operating Board in January 2013 with responsibility for human resources. In September 2017, she stepped down from her position as Non-Executive Director and Chairman of the Remuneration Committee of Serco plc. Angie is a Non-Executive Director and Chairman of the Remuneration Committee of Smith & Nephew plc. She is also a Director of Sainsbury's Bank plc. Angie was most recently Group HR Director at Lloyds Banking Group and prior to this an Executive Director of Whitbread plc with responsibility for HR and Corporate Social Responsibility. She was also a member of the Low Pay Commission for six years.

Simon Roberts

Retail & Operations Director

Date of appointment: July 2017.

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

Corporate Governance

Dear Shareholder

The Board's particular focus this year has been on driving maximum possible shareholder value while maintaining our commitment to strong governance. In particular, over an extended period, the Board has been considering the benefits for all our stakeholders of combining the Company and Asda Group Limited to create a dynamic new UK retail business. We have been completely engaged in all key aspects of the transaction agreed with Walmart Inc. which is fully described on pages 10 to 11. The following describes how we ensure that we focus on the key aspects of our strategy, financial management, risk management and succession planning at a time of significant change in the retail sector.

Strategic focus

We reviewed the strategies of each of our businesses on a regular basis throughout the year and have taken every opportunity to meet each of the management teams to discuss progress and agree the key priorities for the short and medium term. The Board is pleased with the progress we are making as a multi-channel, multi-product retailer with a market leading digital offer and nationwide *Fast Track* delivery capabilities, complemented by Sainsbury's Bank and Argos Financial Services.

We have also focused on the increasingly important role that digital technology now plays in our customers' lives and how we put the responsible use of data at the heart of delivering great customer service. The Board was very closely engaged in the acquisition of the Nectar business which supports our strategy of knowing our customers better than anyone else. We regularly monitor our progress in developing our technology and digital offers and during the year, we had an in-depth review of our current strategy and explored the potential offered to each part of our business from future technology developments.

This has been a year of significant change in Sainsbury's as we adapt and evolve to meet the changing needs of our customers, finding ways to simplify what we do and reducing cost within the business so that we can reinvest in the things that matter most to our customers and colleagues. The Board has been closely engaged in the planned changes to our retail management structures and colleague roles in our food business and the new pay deal with revised terms and conditions for all our store colleagues. We recognise the significant change these proposed arrangements entail for our colleagues and we thank them for their support and the outstanding service they provide to our customers regardless of the level of change.

Culture and stakeholder engagement

As a Board, we take governance very seriously and we regularly discuss our ways of working and our effectiveness. In this year's Board evaluation exercise, one of the points we particularly focused on was the oversight of Sainsbury's culture. We believe that Sainsbury's unique values play a key role in our success and it is important that the Board leads by example on the behaviours and culture which Sainsbury's aims to drive throughout the organisation. We have found it extremely valuable to discuss aspects of the culture and its impact on colleagues, customers, suppliers and shareholders at various Board and Committee meetings. In the future, we will also take the opportunity to pull each of these aspects together so that we receive one, comprehensive view of the culture throughout the organisation.

During the year, as part of the Board's engagement with a range of stakeholders, the first meeting was held between Non-Executive Directors and members of our Great Place to Work Council (which represents the views of colleagues across the business). The Board believes that it is very important to hear the views of colleagues, particularly in times of significant change for retail, and we will continue with these meetings in the new financial year, supplementing the regular updates that the Board and its Committees receive on broader colleague insights. Additional information on how we have engaged with our stakeholders can be found on page 53.

Board changes

Following Mary Harris' departure from the Board at the 2017 AGM, we were pleased to announce the appointment of Jo Harlow to the Board as a Non-Executive Director. Jo brings a range of experience in consumer-facing businesses and in the telecoms and technology industries, both in the UK and internationally, having held senior sales and marketing positions at P&G and Reebok and a variety of senior management roles with Nokia and Microsoft. She is an experienced Non-Executive Director and has already made a strong contribution to the Board since she joined us in September 2017.

The Board is also pleased to welcome the new Directors who have joined the Operating Board in the year, and believes that there is a wealth of experience and talent in our senior management to drive the Group forward. Simon Roberts joined the business last July as Sainsbury's Retail & Operations Director, having previously held senior positions at Boots and Marks & Spencer. More recently, Phil Jordan has taken the new role of Group Chief Information Officer. He has very deep and relevant experience from his previous senior roles at Telefonica and Vodafone UK and Ireland. The Board had regular opportunities to meet Operating Board Directors and the wider management teams of each of the businesses throughout the year.

The Board and Nomination Committee focus on succession planning as a key priority and are pleased that outstanding leaders such as Simon, Phil and Jo have joined the business. Now that I have been Chairman for more than eight years, as part of our succession planning, a search process to find my successor has begun, led by Dame Susan Rice.

Diversity

We continue to have a mix of men, women and ethnic backgrounds on our Board. This diversity is in line with good governance and appropriate for both the Group and our customer base. We continue to focus on increasing our diversity and inclusion at all levels of the business and I draw your attention to the review on pages 26 and 55.

David Tyler

David Tyler
Chairman

Statement of Compliance

The Board considers that the Company has complied in full with the provisions of the UK Corporate Governance Code (the 'Governance Code') for the financial year ended 10 March 2018. The Governance Code can be found at **www.frc.org.uk**. The way the Company has applied the principles of the Governance Code is set out in the following Governance Report.

Leadership and effectiveness

How we are governed

The Board is the principal decision making body in the Company. To assist with carrying out its responsibilities, the Board has formally delegated certain governance responsibilities to Board Committees. These Board Committees comprise independent Non-Executive Directors and, in the case of the Nomination Committee, the Chairman. Each Committee has agreed terms of reference approved by the Board, which are available on our website.

Role of the Board

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

The Matters Reserved for the Board can be found on our website at

www.j-sainsbury.co.uk

Operating Board

Matters not specifically reserved to the Board have been delegated to the Operating Board which is chaired by Mike Coupe. During the year, the Operating Board reviewed its structure and governance in light of the acquisition and integration of the Argos business. The Operating Board held nine scheduled meetings during the year and the responsibilities of each Director are set out on pages 44 to 45 .

To support its work, the Operating Board has delegated certain powers to the Operating Board Committees, each of which has approved terms of reference setting out its areas of responsibility.

Sainsbury's Bank Management Board

The Sainsbury's Bank Management Board is governed by the Sainsbury's Bank plc Board, membership of which includes an independent Chairman and Non-Executive Directors. Peter Griffiths, the Bank's Chief Executive, is a member of the Operating Board to bring the Bank's priorities and perspective into the Group's overview.

Committees

Audit Committee

The Audit Committee reviews the integrity of financial information prior to publication, oversees the systems of internal control and risk management and approves the internal and external audit process.

More details on page 56

Remuneration Committee

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

More details on page 66

Nomination Committee

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

More details on page 54

Corporate Responsibility and Sustainability Committee

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

More details on page 64

Operating Board Committees

Food Management Board

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

Sainsbury's Argos Management Board

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

Investment Board

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

Group Data Governance Committee

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

Group Safety Committee

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

Group Diversity and Inclusivity Steering Group

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

Division of responsibilities

Our Board currently comprises the Chairman, three Executive Directors and six independent Non-Executive Directors. The Board operates a clear division of responsibilities between the Chairman and the Chief Executive Officer.

Division of responsibilities

Chairman David Tyler	David is responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role and for setting the Board agenda. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates the contribution of the Non-Executive Directors through a culture of openness and debate, and ensures constructive relations between Executive and Non-Executive Directors.
Chief Executive Officer Mike Coupe	Mike is responsible for the day-to-day management of the Group and executing the strategy, once agreed by the Board. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. He is responsible for managing the risk profile in line with the risk appetite identified and accepted by the Board. He takes a leading role, with the Chairman, in promoting Sainsbury's and in the relationship with all external agencies.
Executive Directors Kevin O'Byrne and John Rogers	Kevin and John support Mike Coupe in implementing the Group's strategy and in the operational performance of the business.
Non-Executive Directors Matt Brittin Brian Cassin Jo Harlow David Keens Jean Tomlin	The Non-Executive Directors bring wide and varied commercial experience to the Board and its Committees. They are independent of management and are considered by the Board to be free from any business or other relationships that could compromise their independence. Their role is to effectively support and constructively challenge management, along with monitoring management's success in delivering the agreed strategy within the risk appetite and control framework agreed by the Board. They are also responsible for determining appropriate levels of remuneration for the Executive Directors.
Senior Independent Director Dame Susan Rice	Susan acts as a sounding board for the Chairman and as a trusted intermediary for the other Directors. She meets with the other Non-Executive Directors in the absence of the Chairman at least once a year in order to undertake a review of the Chairman's performance. As Senior Independent Director, she is available to discuss with shareholders their views and any concerns that cannot be resolved through the normal channels of communication with the Chairman or the Executive Directors.

How the Board operates

The Board and its Committees have a scheduled forward programme of meetings. This ensures that we allocate sufficient time to each key area and the Board's time together is used effectively. There is sufficient flexibility in the programme for specific items to be added to the agenda which enables us to focus on key matters relating to the business at the appropriate time.

During the year, we held eight scheduled meetings including a two-day Strategy Conference held in October. We also met to discuss important ad hoc emerging issues that require consideration between scheduled Board meetings.

In addition to the above, we held a number of informal meetings during the year. These included meetings of the Board the day before most Board meetings, and meetings with individual members of the Operating Board to receive updates on their specific areas of responsibility.

The Chairman and Non-Executive Directors meet from time to time without the Executive Directors being present. The Non-Executive Directors, led by the Senior Independent Director, also met without the Executive Directors or the Chairman being present including to evaluate the Chairman's performance.

All Directors were made aware of the key discussions and decisions of each of the four principal Committees by the chair of each Committee providing a detailed summary at the Board meeting following the relevant Committee meeting. Minutes of Board and Committee meetings were circulated to all Directors shortly after those meetings took place.

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

The following table shows the attendance of Directors at scheduled Board and Committee meetings.

	Board	Audit	Remuneration	Nomination	CR&S
Matt Brittin[1]	7 (8)	2 (2)	2(2)	3(3)	
Mike Coupe	8 (8)				2(2)
Brian Cassin	8 (8)	4(4)		3(3)	
Jo Harlow[2]	4 (4)		1(2)	2(2)	1(1)
Mary Harris[3]	3 (3)		1(1)		1(1)
David Keens	8 (8)	4(4)		3(3)	
Kevin O'Byrne	8 (8)				
Susan Rice	8 (8)		4(4)	3(3)	
John Rogers	8 (8)				
Jean Tomlin[4]	8 (8)	2(2)	2(2)	3(3)	2(2)
David Tyler	8 (8)			3(3)	

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

1 Matt Brittin was unable to attend a Board meeting due to a prior engagement. He stepped down from the Audit Committee and joined the Remuneration Committee on 11 September 2017.

2 Jo Harlow joined the Board on 11 September 2017. She also joined the Remuneration Committee, Nomination Committee and Corporate Responsibility and Sustainability Committee on 11 September 2017. Jo was unable to attend a Remuneration Committee meeting due to an engagement set before she was appointed.

3 Mary Harris stepped down from the Board, the Remuneration Committee, Nomination Committee and Corporate Responsibility and Sustainability Committee on 5 July 2017.

4 Jean Tomlin joined the Audit Committee and stepped down from the Remuneration Committee on 11 September 2017.

Key areas of focus for the Board

The principal activities of the Board during the financial year included the following items, some of which were considered at each meeting, and others were reviewed periodically throughout the year:

Area of focus	Activities
Strategy	— Reviewed the implementation of the agreed strategic plan, focusing particularly on the progress made with the Argos integration, the core supermarket strategy and Sainsbury's Bank. — Considered potential strategic initiatives, including mergers and acquisitions, especially the proposed combination of the Company and Asda Group Limited. — Reviewed and approved the corporate plan for FY18/19. — Reviewed strategy and material key developments in the customer offer. — Approved the acquisition of Nectar UK from Aimia Inc. — Reviewed the digital business and data analytics strategy.
Financial and Operational Performance	— Reviewed and approved the annual budget and five-year corporate plan. — Reviewed and discussed the business progress through the CEO's Reports including market and trading updates. — Reviewed and discussed reports on customer insights and service standards. — Reviewed the performance of Sainsbury's Food, Sainsbury's Argos and Sainsbury's Bank against key targets. — Reviewed and approved the Company's Preliminary and Interim results, Trading Statements and Annual Report. — Reviewed and implemented updated KPIs. — Reviewed and approved the Dividend policy and recommendations. — Reviewed and approved the Treasury and Tax policies. — Received an update on the strategic review of the Group's defined benefit pension schemes and related governance. — Approved the financing strategy and arrangements.
Risk and Governance	— Reviewed and discussed reports from the Board Committees – Audit, Remuneration, Nomination and CR&S. — Implemented actions agreed from the 2017 Board effectiveness review. Undertook an evaluation of its effectiveness and the effectiveness of each Board Committee and individual Directors for the 2018 financial year. — Received regular updates on corporate governance developments. — Reviewed the Group's risk framework and internal controls and approved the Group's principal risks and uncertainties. — Reviewed and considered reports on safety (Health & Safety and Food). — Received updates on current litigation matters.
Cyber Security and Data Governance	— Discussed the Company's approach to information security and data governance with detailed review of related Audit Committee updates. — Discussed plans applied to identify and consider the value and threats to the Company's key information assets.
Corporate Responsibility and Sustainability	— Discussed and approved the Group's sustainability standards and the approach adopted to enable long-term sustainable investment support within supply chains.
Investor Relations and other Stakeholder Engagement	— Received reports at each meeting on investor relations activities and discussed analyst consensus and feedback from major shareholders and investor roadshows.
Colleagues, Values and Culture	— Discussed the Board's oversight of the Company's culture. — Considered the Company's values. — Reviewed the significant change initiatives to pay, conditions and structures in Sainsbury's stores. — Received updates and reports on customer and colleague insights.

Board evaluation

We conduct a Board effectiveness review on an annual basis to evaluate our performance as a Board. The evaluation includes an assessment of the effectiveness of the Board, its Committees and an evaluation of the performance of individual Directors.

For the 2016/17 review, an external evaluation was carried out by Manchester Square Partners (MSP) and in response to the findings, the following actions have been taken:

Key areas identified in 2016/17	Action taken and progress made
Review the Board programme to continue to find sufficient time for strategy and deep dives on big topics, with integration of individual topics if possible.	In this year's review, the Board agreed that its focus on the strategic debate and engagement in the key issues affecting the sector and the business had been appropriate and that sufficient time had been spent at Board meetings to discuss the key issues. In addition to the Strategy Conference, the Board had deep dive meetings with Sainsbury's Bank and Sainsbury's Argos as well as the Digital/Data Day described below.
Develop more informative KPIs around digital activities and the competitive environment.	A new set of KPIs has been developed during the year which the Board agreed allowed more focused debate on the key performance issues.
Begin the succession process for an additional Non-Executive Director following the planned departure of Mary Harris.	Jo Harlow was appointed during the year and the Board agreed that the process leading to her appointment was highly effective.
Extend the timings of Board visits to the other business locations or suppliers in order to allow more time for interaction.	It was agreed that each of the external Board meetings and visits during the year was effective.
Find additional opportunities to meet the broader management teams.	The Board met Divisional Directors at each of the external meetings described above, and had other contact with other Operating Board Directors during the year.

The Board agreed that the 2017/18 review should be carried out by Tim Fallowfield, Company Secretary and Corporate Services Director.

It was agreed that this year's review would continue to explore the themes that were raised in the MSP review, covering strategy, operational priorities, the Board's role, its structure and balance, succession, risk management and governance. These themes had been developed into a full set of questions by MSP in 2017, and the same questionnaire was used this year in order to ensure continuity, with some revisions to reflect more recent developments.

The review was conducted from December 2017 to February 2018. Board members first completed the questionnaire and individual meetings were then held with all Directors and the Group HR Director, who was asked to provide a view from the executive management perspective as she has regular access to the Board and Remuneration Committee. Tim Fallowfield discussed the conclusions with the Chairman and then presented them to the Board at a meeting convened for that purpose. The Board discussed the key points and agreed certain actions.

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

Findings of the 2017/18 review

The Board concluded that it performs effectively and is well placed to lead the Company at a time of considerable change in the sector. The following were seen as particular strengths of the Board:

- Support and challenge
- Skills, knowledge and diversity
- Culture of openness and debate
- Chairman's leadership of the Board
- Key decision taking
- Pace and change
- CEO leadership
- Strategic discussions and engagement
- NED/Operating Board succession planning and appointments
- Executive response to questions/challenge

There was strong alignment amongst the Directors on the key strategic issues facing Sainsbury's over the next three to five years.

The Board identified the following actions:

Culture

As set out above, there are a number of ways in which the Board and Committees are made aware of aspects of the strong Sainsbury's culture. The Board felt that it would further benefit from an in-depth session at a Board meeting to pull all these aspects together in one presentation, with particular emphasis on colleague feedback and metrics.

Stakeholder engagement

Following on from the previous action, the Board decided that it would continue to strengthen its engagement with colleagues by meeting with the Great Place to Work Council twice a year in order to share some of the Board's priorities, and to hear the key points on colleagues' minds. Non-Executive Directors would also be invited to the Talking Shop sessions that Operating Board Directors hold on a periodic basis with colleague groups. Other stakeholder engagement would continue to be reported to the Board on a regular basis.

Business performance

In order to ensure the Board continues to provide appropriate oversight of the performance of each of the Group businesses, it would continue to focus on the KPIs, review a full range of relevant analyst reports and take a broad perspective on the future of the sector. This would enable the Board to ensure that the KPIs reflect the key drivers of business performance in the sector moving forward.

It is anticipated that the 2018/19 Board evaluation exercise will be carried out internally.

Induction

We have a comprehensive and tailored induction programme in place for Directors to gain an understanding of all aspects of the Group, including our strategy, culture and values, sustainability, governance and the opportunities and challenges facing the business. Where a Director is joining a Committee, the programme includes an induction to that Committee.

On joining the Board in September 2017, Jo Harlow had one to one meetings with members of the Board and the Operating Board and also with senior management from key areas of the business including the Director of Sainsbury's Brand and the Commercial Director for Sainsbury's Argos. This gave her insight into their areas of responsibility. The Company Secretary briefed Jo on core Group policies and on Board and Committee procedures. Jo visited two business locations, Sainsbury's Bank in Edinburgh and Sainsbury's Argos in Milton Keynes. She also visited the Group's Online Fulfilment Centre in Bromley-by-Bow as well as some stores and depots. She also attended the November Audit Committee meeting as an observer. To supplement her induction, Jo received induction materials including recent Board and Committee papers and minutes, strategy papers, investor presentations, matters reserved to the Board and Board Committee terms of reference. Jean Tomlin and Matt Brittin had tailored inductions on joining the Audit and Remuneration Committees respectively. In addition to a one to one meeting with the Chairman of the Audit Committee, Jean also met with the external and internal auditors and the Director of Group Finance. As part of his induction on joining the Remuneration Committee, Matt met with the Chairman of the Remuneration Committee and had briefing sessions with the Company's remuneration advisers and Angie Risley, Group HR Director.

Professional development and training

To ensure we continually update and refresh our skills and knowledge, we have a programme for supporting Directors' training and development requirements. The Board programme includes regular presentations from management and informal meetings to build our understanding of the business and sector.

In addition to the below, the Board was provided with updates on relevant governance matters. Both the Audit and Remuneration Committees received updates on relevant accounting and remuneration developments, trends and changing disclosure requirements from external advisers and management. The Directors also had access to the advice of the Company Secretary and independent professional advice at the Company's expense, as required, in fulfilling their duties and responsibilities.

Digital business and data analytics

A deep dive session on digital business and the developments in the wider e-commerce markets took place in June 2017. The session highlighted our digital strategy and opportunities and latest developments in online market trends and data analytics. A further detailed briefing and discussion on our digital and data strategy took place at a Board meeting in April 2018 which was welcomed by Board members.

We also build up our knowledge of the Company by visiting stores, depots and store support centres across the country on an individual basis. In addition, this year we held two Board meetings at the following locations:

Sainsbury's Bank

A scheduled Board meeting took place at Sainsbury's Bank in Edinburgh and this provided the Board with the opportunity to meet with the Bank's wider management team and discuss strategy in depth.

Sainsbury's Argos

The January Board meeting was held at the Milton Keynes offices of Sainsbury's Argos and this provided the Board with the opportunity to discuss the progress made on the integration and the implementation of the Sainsbury's Argos strategic plans with the Management Board and the senior management team.

Director independence

The Chairman satisfied the independence criteria of the Governance Code on his appointment to the Board and all the Non-Executive Directors are considered to be independent. The independence of the Non-Executive Directors was considered by the Board and reviewed as part of the Board effectiveness review.

Conflicts of interest

Each of the Directors has a duty to avoid a situation where he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. We have established procedures for the disclosure by Directors of any such conflicts, and also for the consideration and authorisation of these conflicts by the Board. All additional external responsibilities taken on by Directors of the Board during the year were considered by the Board for any potential conflicts that may arise. The Board has specifically considered the executive or non-executive roles that some of the Non-Executive Directors have with companies that may be suppliers to Sainsbury's. The Board is satisfied that the independence of the Directors who have executive or non-executive roles with other companies is not compromised.

Time commitment

Prior to appointment, each Non-Executive Director confirms that they will have sufficient time available to be able to discharge their responsibilities effectively. During the year, the Board reviewed, in advance, disclosures by Non-Executive Directors seeking to undertake additional commitments. The Board remains confident that individual members continue to devote sufficient time to undertake their responsibilities effectively.

Information provided to the Board

The Chairman, in collaboration with the Company Secretary and management, ensures that all Directors are properly briefed on issues arising at Board meetings and that they have sufficient, reliable and timely access to relevant information. The Company Secretary supports the Chairman in setting the Board agenda, and Board papers are distributed to all Directors in advance of Board meetings via a board portal. The Company Secretary ensures appropriate and timely information flows within and to the Board and its Committees, enabling the Board and its Committees to exercise their judgement and make fully informed decisions when discharging their duties.

Relations with stakeholders

We are committed to maintaining good communications with our stakeholders.

Institutional shareholders

The Company maintains regular dialogue with its investors.

- Normal shareholder contact is the responsibility of Mike Coupe, Kevin O'Byrne and James Collins, Head of Investor Relations.
- The Chairman met with institutional shareholders and other large investors; the Senior Independent Director is also available to attend meetings as required.
- The Company met regularly with its large investors and institutional shareholders who, along with sell-side research analysts, were invited to presentations by the Company immediately after the announcement of the Company's interim and full-year results.
- They are also invited to participate in conference calls following the announcement of the Company's trading statements. The content of these presentations and conference calls are webcast and are posted on the Company's website **www.j-sainsbury.co.uk/investor-centre** so as to be available to all investors.
- The Company met, through regular post-results roadshows, ad hoc meetings, conference attendances and site visits in the UK, US and Europe, a total of 261 shareholders and potential investors in 205 meetings over the course of the year.
- The management team hosted a visit for institutional investors and analysts at the recently opened store in Redhill, Surrey.

Feedback from institutional shareholders

- The Board received regular updates on the views of major investors and the Investor Relations programme at each Board meeting.
- Makinson Cowell provided investor relations consultancy services to the Company and external analysis to the Board on the views of institutional investors and sell-side analysts.
- Makinson Cowell additionally carried out an extensive Investor Study, covering share price performance, the share register, investor views and the Investor Relations programme. Key conclusions and recommendations arising from this survey were presented to the Board.
- Non-Executive Directors also received regular market reports and broker updates from the Company's IR department.

Private shareholders

We encourage our private shareholders to access the Company's Interim and Annual Reports and presentations on our website. Other useful information such as announcements, historic dividend records and shareholder communications is also available on the website **www.j-sainsbury.co.uk/investors.**

AGM

The AGM provides the Board with the opportunity to communicate with private and institutional investors and we encourage their participation at the meeting. The Chairman aims to ensure that all the Directors, including the Chairs of the Board Committees, are available at the AGM to answer questions. We send the Annual Report and the Notice of AGM to shareholders, or make them available on the Group's website, at least 20 working days before the date of the meeting. The Notice of AGM sets out a clear explanation of each resolution to be proposed at the meeting. Shareholders have the opportunity to ask questions and, if they are unable to attend, can submit written queries in advance of the meeting. At the meeting, we make available to shareholders full details of the proxy votes received on each resolution, and we publish these on the Company's website on the same day.

Our last AGM in 2017 was attended by all the Directors and a number of the senior management team. Shareholders had the opportunity to meet and question the Directors at the meeting. There was a display of various aspects of the Company's activities and there was a business presentation from Mike Coupe. All resolutions proposed at the meeting were taken on a poll vote and were passed.

This year, the AGM will be held on 11 July 2018 and the Notice of this meeting is available on our website.

Colleagues

During the year, Mary Harris met with colleagues from the National Great Place to Work Group for a listening session to hear colleagues' views on matters which are at the top of their agenda. Mary also shared some of the items on the Board's agenda. Views were shared on, amongst other things, the Group's strategic principles and values, remuneration at Board level and in the wider business. The feedback from this session was overwhelmingly positive from both Mary Harris and colleagues. To further promote the link and engagement between the Board and colleagues, and to discuss more broadly what is on colleagues' minds and get their views heard by the Board, a colleague engagement strategy has been approved by the Board.

As described above, the Board receives regular updates on matters affecting colleagues, including the major change programmes relating to pay, terms and conditions and structures in Sainsbury's. Colleague engagement is regularly discussed largely through presentations on colleagues' insight to the CR&S Committee and related Board updates. Other matters on colleagues' minds are referenced in the CEO Reports to all meetings. More information on this can be found on page 26.

Customers

Mike Coupe and John Rogers regularly update the Board on consumer trends and the Board also reviews customer insight analysis which particularly reflects views on the Sainsbury's brand, trust and the areas that customers focus on as regards sustainability. This is also considered in depth at the CR&S Committee.

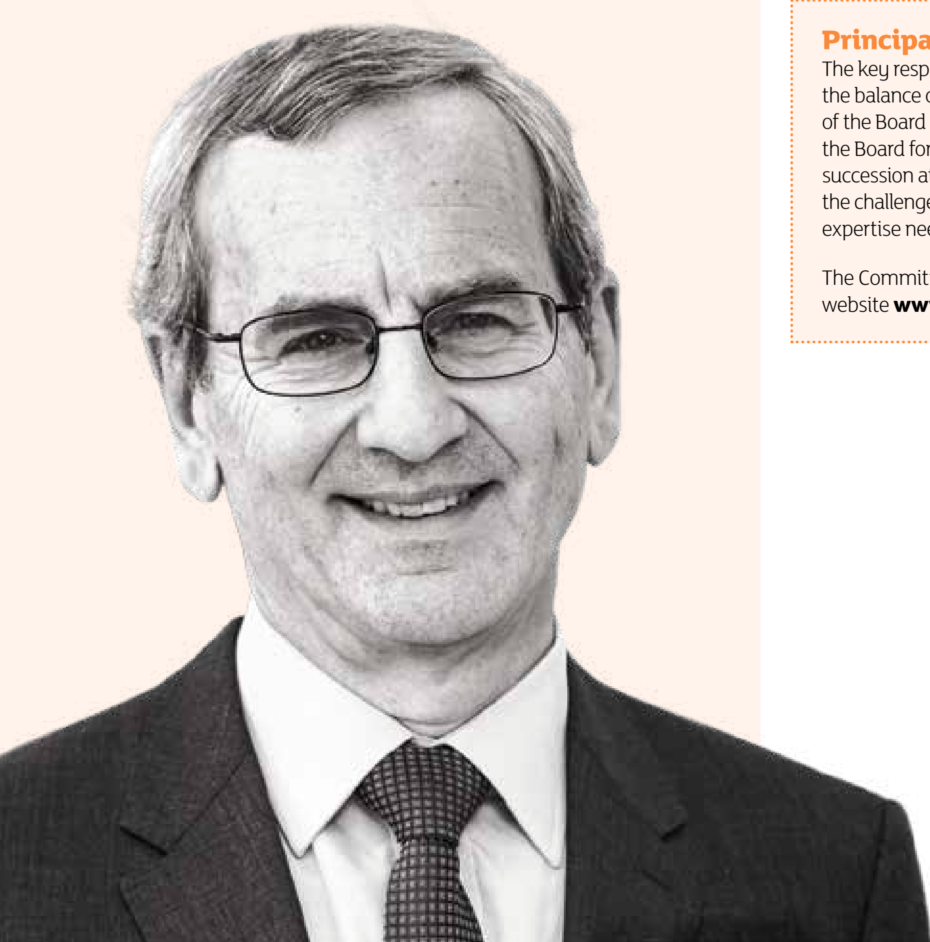
Suppliers

The Board receives regular updates on the trading strategy and supplier relationship management. The Company's compliance with the Groceries Supply Code of Practice is monitored by the Audit Committee (page 60) and David Keens met the Groceries Code Adjudicator in his role as Chairman of the Audit Committee. Supplier relationship management was also discussed by the CR&S Committee.

Nomination Committee Report

Dear Shareholder

The Nomination Committee continues to ensure that the composition of the Board and its Committees is regularly reviewed and remains well balanced in terms of structure, skill, experience, background and knowledge. Succession planning forms the key part of our agenda and we have focused increasingly on our progress in becoming more diverse and inclusive throughout all areas of our business.



The Committee is confident in the calibre of our Board and management team and is satisfied that the internal pipeline has further improved over the last year as a result of both external recruitment and internal promotions.

We take the opportunity when the Board reviews the Group strategy in October to have a comprehensive update, from Angie Risley, our Group HR Director, and Mike Coupe, on talent and succession planning. With the new structure of three Management Boards of Food, Sainsbury's Argos and Sainsbury's Bank, each reporting to the Operating Board, there are further clear opportunities for the senior executive team to develop.

The Committee recognises the benefits of diversity in its widest sense both on the Board and in the workplace as a whole and takes into account the report of the Hampton-Alexander Review on gender diversity. I co-chaired the Parker Review Committee which published a report in 2017 into the ethnic diversity of UK boards and the Board is committed to increasing ethnic diversity throughout our business.

We benefit from a broad range of views, backgrounds and experience on the Board but recognise that at the Operating Board level there is less diversity at present than we have had in recent years. In light of this, the Committee has discussed opportunities to address this in both the shorter and longer term. We were pleased to see progress on our broader talent and diversity strategy over the last 12 months.

In line with its terms of reference, the Committee's effectiveness was considered as part of the Board evaluation process, further detail of which can be found on page 51. I am pleased to report that the Board as a whole considers that the Committee continues to be effective in its role of supporting the Board.

In the coming year, we will continue to monitor our succession plans for the Board, including my own succession, and senior management, review our progress on becoming a more diverse and inclusive business, and we will oversee the Company's approach to resourcing the needs of the business, developing our colleagues and recruiting new talent.

David Tyler

David Tyler
Chair, Nomination Committee

Principal role and responsibilities

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

The Committee's terms of reference are available on the Company's website **www.j-sainsburys.co.uk**.

Committee membership and attendance

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

The Committee held three scheduled meetings in the year together with a number of ad hoc meetings. The attendance of members at the meetings is set out in the table on page 49.

Board composition and succession planning

Last year, as part of its succession planning, the Committee started a search process for a new Non-Executive Director appointment as Mary Harris would step down at the 2017 AGM when she reached her ninth anniversary on the Board. This process was concluded in the year with the appointment of Jo Harlow in September 2017. Jo was recruited following a robust selection process which was facilitated by Egon Zehnder, an independent executive search consultant which has no connection to the Company other than in assisting and facilitating in the search for senior management. A specification for the role was agreed by the Committee, setting out the skills, experience and attributes required. The appointment process is set out below:

Identify
Using the agreed brief, the Chairman appraised a diverse list of potential candidates which was prepared against the key competencies and experience required for the role, from which a shortlist was produced.

Interview
The shortlisted candidates were interviewed by the Chairman and Mike Coupe. The preferred candidate met with members of the Committee following which the Committee met to discuss feedback.

Select
The Committee recommended the appointment of Jo Harlow as a Non-Executive Director of the Company to the Board. It was also agreed that she be appointed to the Remuneration Committee.

Appoint
Jo Harlow's appointment took effect on 11 September 2017.

On Jo Harlow's appointment, Board Committee membership was reviewed in order to promote new opportunities and to refresh the Committees. Following the Committee's recommendation, and with the Board's approval, Jean Tomlin stepped down from the Remuneration Committee and joined the Audit Committee. Matt Brittin stepped down from the Audit Committee and joined the Remuneration Committee.

Diversity and inclusivity

Our aspiration is to be the most inclusive retailer and, as a Board, we are highly supportive of the initiatives we have in place to promote diversity and inclusivity beyond our board room and throughout our business. We will achieve this aspiration by recruiting, retaining and developing diverse and talented people and creating an inclusive environment where everyone can be the best they can be.

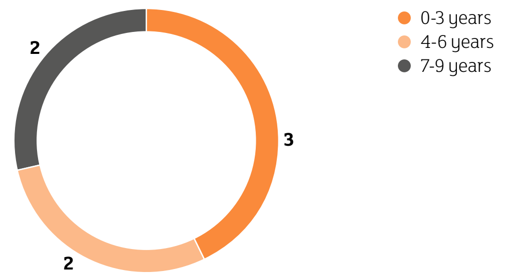
The Board receives regular inclusion updates and both the CR&S Committee and the Nomination Committee receive detailed presentations on our inclusion priorities and the progress we are making throughout the year. More about these initiatives and the progress being made can be found on page 26.

We recognise that diverse teams perform better and acknowledge that having a diverse Board is important. The Company is a member of the 30 per cent Club, a group which campaigns for greater representation of women on the boards of FTSE 100 companies with a target of a minimum of 30 per cent. We believe that diversity on the Board goes beyond gender and includes a variation in skills, experience and background. The Committee believes we have a good balance of diversity amongst our Non-Executive Directors, with several having extensive experience of retail and consumer-facing businesses and other highly relevant skills derived from serving in a range of major executive and non-executive positions throughout their careers. We will continue to appoint on merit whilst working hard to broaden the diversity of our talent pool, taking on board the recommendations of the Hampton-Alexander review and the Parker review to improve gender and ethnicity balance respectively in the leadership of FTSE companies. Where possible, we use search firms who have signed up to the Voluntary Code of Conduct for Executive Search Firms which includes recommendations on gender diversity on appointments to boards and best practice for search processes.

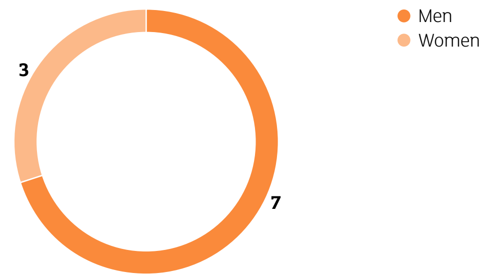
Currently, female representation on our Board equates to 30 per cent of the Board. While female representation on the Operating Board is currently 11 per cent, the percentage of women amongst our divisional directors and senior management is 29 per cent.

At the Operating Board level there was less diversity than our targeted level, both in terms of gender and ethnicity. In the light of this, the Committee discussed approaches to address this in both the shorter and longer term.

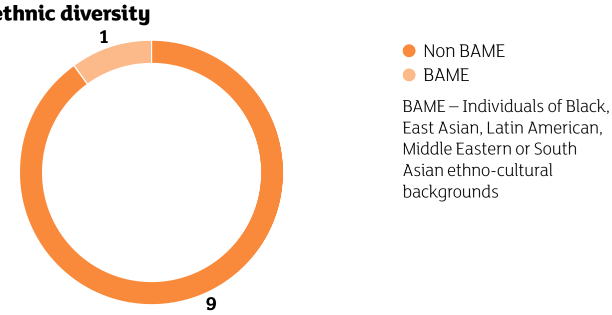
Board tenure (Non-Executive Directors and Chairman)



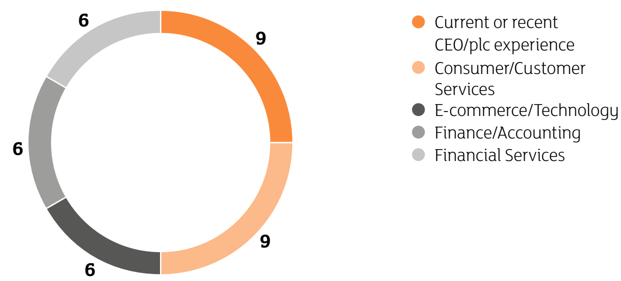
Board gender diversity



Board ethnic diversity



Skills matrix



Audit Committee Report

Dear Shareholder

This is my third year of presenting the Audit Committee (the 'Committee') report, which summarises the work we have undertaken during the year and how we have fulfilled our responsibilities.

As part of my role as Chair of the Committee I regularly visit Company operations around the Group, including stores, depots and store support centres. I also met with Directors of Sainsbury's Bank, including the Chairmen of their Audit and Risk Committees.

This year has been another active year for the Group and the Committee has focused on, amongst other matters, data governance and information security (including the introduction of the General Data Protection Regulation, GDPR), the integration of Argos within the wider Sainsbury's Group and Argos Financial Services within Sainsbury's Bank. The Committee has also given due time and attention to recognise the risks associated with the increased scale and complexity of the business.

The Committee's effectiveness was considered as part of the Board evaluation process, further detail of which can be found on page 51. I am pleased to report that the Board as a whole considers that the Committee continues to be effective in its role of supporting the Board.

During the year, Matt Brittin stepped down from the Committee and Jean Tomlin was appointed in his stead. I thank Matt for his valued contributions and insight during his time on the Committee and I welcome Jean, who I am sure will prove to be a worthy successor. I would also like to welcome Helen Charnley, who replaces Susannah Parden as our Director of Internal Audit. Susannah provided a strong Internal Audit presence and we look forward to Helen continuing that tradition.

In the year ahead, the Committee will continue to focus on key risks, operations and accounting matters. These will include data and information security, compliance with the General Data Protection Regulation, the further integration and development of Argos, Sainsbury's Bank and maintaining the Group's strong finance facilities.

I would like to thank all members of the Committee for their time and valuable contributions during this busy year.

David Keens
Chair, Audit Committee

Principal role and responsibilities

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

The Committee's terms of reference are available on the Company's website **www.j-sainsburys.co.uk.**

Accountability

Committee membership and attendance

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

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

The Committee held four meetings in the year. The attendance of members at the meetings is set out in the table on page 49.

Committee activities

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

Area of focus	Activity
Financial Reporting The integrity of the financial statements and any other formal announcement relating to financial performance.	The Committee reviewed the Annual Report and the Preliminary and Interim results and was provided with supporting information to assist it in this review.
Items excluded from underlying results.	See "Significant financial and reporting matters" on page 61.
Significant financial reporting issues and judgements contained in the financial statements.	
Review and implementation of new accounting standards.	
Revenue recognition.	
Acquisition of Home Retail Group plc.	
Acquisition of Nectar UK.	
Company's funding and liquidity position and its impact on the Company's financial and operational capabilities.	The Committee has assessed whether three years continues to be an appropriate timeframe over which to make the viability statement. It was concluded that the current three-year assessment period remains appropriate. This was reviewed and adopted by the Board. The processes underpinning the assessment of the Group's longer-term prospects were reviewed. The viability statement and the Committee's approach to assessing long-term viability can be found on page 35.
Assumptions and qualifications in support of the viability statement and going concern including stress testing against risk materialisation.	
Assessment of whether the Annual Report is fair, balanced and understandable.	The Board is required to confirm that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable (see page 88). To enable the Board to make this declaration, there is a year-end review process to ensure the Committee, and the Board as a whole, has access to all relevant information and, in particular, management's papers on significant issues faced by the business. The Committee received a summary of key factors considered in determining whether the Annual Report is fair, balanced and understandable. The Committee, and all other Board members, also received drafts of the Annual Report and Financial Statements in sufficient time to facilitate their review and enable them to challenge the disclosures if necessary. In addition, EY reviewed the consistency between the reporting narrative of the Annual Report and the Financial Statements.
Risk Management and Internal Controls Risk management updates including reviews of principal risks and uncertainties.	See pages 62 to 63.
Reports from the Audit and Risk Committees of Sainsbury's Bank.	Sainsbury's Bank is a subsidiary of the Company, which has an independent board responsible for setting the Bank's strategy, risk appetite and annual business plan as well as the day-to-day management of the business. The Chairs of the Bank's Audit Committee, Risk Committee and the Bank's Chief Financial Officer attend meetings of the Committee. The Board of the Bank has an independent Chairman and a majority of independent Non-Executive Directors. There is alignment between the Sainsbury's Internal Audit function and their colleagues within Sainsbury's Bank equivalent team. For further information see "Significant financial and reporting matters" on page 61.

Area of focus	Activity
External Audit Scope of the external audit plan and fee proposal.	The Committee reviewed EY's overall work plan, and approved their remuneration and terms of engagement.
Provision of non-audit fees.	The majority of the non-audit work undertaken by EY during 2017/18 was audit related assurance services. These totalled £0.2 million. The audit fees for the year in respect of the Group and subsidiaries were £2.2 million. For a breakdown of the fees please refer to note 5 of the notes to the financial statements.
Independence and objectivity of EY.	The independence and objectivity of the external audit function is a fundamental safeguard to the interests of the Company's shareholders. In order to ensure audit independence, the Committee has overseen the Company's policy which restricts the engagement of EY in relation to non-audit services. The policy is designed to ensure that the provision of such services does not have an impact on the external 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 also requires that individual engagements above a certain fee level may only be undertaken with pre-approval from the Committee or, if urgent, from the Committee Chair and ratified by the subsequent meeting of the Committee. The policy also recognises that there are some types of work where a detailed understanding of the Company's business is advantageous. The policy is designed to ensure that the auditor is only appointed to provide a non-audit service where it is considered to be the most suitable supplier of the service. The Committee received a report on the non-audit services being provided and the cumulative total of non-audit fees. The cumulative non-audit fees are capped at 70 per cent of the average of the audit fees for the Group for the preceding three-year period. Following an effectiveness review, the Committee concluded that EY remained objective and independent in their role as external auditor and that they continue to challenge management effectively. The Committee has confirmed compliance with the provisions of the Statutory Audit Services Order 2014.
Quality and effectiveness of EY.	The Committee reviewed EY's effectiveness during the year focusing on the audit partner and audit team, their approach to the audit, communications with the Committee, how EY supported the work of the Committee, and their independence and objectivity. The Committee review was supported by feedback from management which was compiled from questionnaires completed by Directors and managers in the business who were directly involved with the audit. The questionnaire covered the audit team, audit planning and audit communication and execution. The benefits of early engagement with Group Finance were noted. In addition, there were opportunities to further enhance processes which Group Finance and EY would take forward. The Committee concluded that EY provided audit services efficiently and effectively and to a high quality.
Recommendation of the reappointment of EY as auditor.	The Committee has made a recommendation to the Board to reappoint EY as the Company's auditor for the 2018/19 financial year. Accordingly, a resolution proposing their re-appointment will be tabled at the 2018 AGM.
Retender of external auditor.	EY were appointed in July 2015 as the Company's external auditor following a tender which completed in January 2015. We do not currently plan to undertake another formal tender process until we are required to for the year ending March 2025.

Area of focus	Activity
Internal Audit Director of Internal Audit.	The Director of Internal Audit reports to the Committee Chair and has direct access to all members of the Committee and the Chair. The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter, which the Committee reviews annually.
Internal controls framework.	See page 62.
Management's responsiveness to Internal Audit's findings and recommendations.	The Committee was provided with updates on Internal Audit's findings and agreed actions at each meeting.
Scope of the Internal Audit Plan.	The scope of the Internal Audit Plan and subsequent amendments to the plan were reviewed and approved by the Committee.
Effectiveness of the Internal Audit function.	In line with the requirements of the Institute of Internal Auditors, an independent review of the function was completed by the newly appointed Director of Internal Audit. External challenge and support was provided by a suitably qualified external party. The review found that function to be performing well, balancing independence and the delivery of assurance with strong stakeholder relationships. The recommendations focused on ensuring the function continues to have access to the right skills and technology to support the business as it continues to evolve. The Committee is monitoring progress in implementing key actions. The Committee reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of required actions and its recommendations. The Committee has set key performance indicators (KPIs), which are used to assist it in reviewing the effectiveness of Internal Audit. The Director of Internal Audit reported against these KPIs during the year, highlighting any failure to achieve target scores and explaining the reason thereof. The Committee concluded that Internal Audit continued to be effective.
Other Committee's effectiveness.	The review of the Committee's effectiveness formed part of the Board review. More details can be found on page 51.
Significant issues raised through the whistleblowing process.	The Committee received updates at each meeting on significant whistleblowing incidents. No issues arose that required the Committee to be updated ahead of a scheduled meeting. All issues were escalated to the relevant manager for investigation. The migration of Argos to the Group whistleblowing provider and the review of the Argos policy were completed during the year.
Updates on data governance and information security.	Updates on the Data Governance Programme were provided during the year covering the progress on process improvements and on the progress against the implementation of the GDPR plan. The Committee also received updates from the Chief Information Security Officers of Sainsbury's and Sainsbury's Argos on their respective programmes. These covered the third party assurance programmes, cyber security risks and mitigation initiatives.

Area of focus	Activity
Company's compliance with the Groceries Supply Code of Practice.	In February 2010, the Groceries Supply Code of Practice ('GSCOP') was implemented following the recommendation of the Competition Commission. Each grocery retailer to which it applies had to appoint a Code Compliance Officer whose duties include hearing disputes between suppliers and the relevant retailer. Sainsbury's has appointed the Director of Internal Audit as its Code Compliance Officer. GSCOP requires that each grocery retailer (to which it applies) delivers an annual compliance report to the Groceries Code Adjudicator (GCA), which has been approved by the Chairman of the Audit Committee. Furthermore, a summary of the compliance report must be included in the Annual Report and Financial Statements. This is set out below. **Summary Annual Compliance Report** Sainsbury's has invested significant time and resource in refreshing the comprehensive training for all relevant colleagues and some third parties as required under GSCOP. This is reinforced by online knowledge testing. Sainsbury's has dedicated internal resource to provide all relevant colleagues with day-to-day advice and guidance. The Trading Division, in consultation with the Legal Services Division and the Code Compliance Officer, continues to assess the adequacy of policies and procedures in place to support GSCOP awareness and compliance. Compliance results are reported to the Food Commercial Leadership Team quarterly. Additional assurance is provided, as required, by Internal Audit. A small number of alleged breaches of GSCOP have been received in the reporting period, which were resolved within the Trading Division using our standard internal escalation procedure. The Code Compliance Officer facilitated the resolution of four alleged breaches during the reporting period. The Code Compliance Officer and the GCA meet on a quarterly basis. Sainsbury's continues to work collaboratively with the GCA to proactively identify and address any areas for improvement in terms of GSCOP compliance. Areas of focus this year included forecasting, promotions and the continued roll-out of Good Faith Receiving in depots.
Ongoing material litigation.	The Committee was updated at each meeting on all material litigation.
Business continuity management.	A number of desk top exercises were run during the year and lessons learnt were used to enhance the process.

Significant financial and reporting matters

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

Impairment of financial and non-financial assets
The impairment of financial and non-financial assets is considered by the Audit Committee on a regular basis. A review for impairment triggers is performed at each reporting date by questioning if changes in circumstances suggest the recoverable value of certain assets may be less than their carrying value. (Reference note 2 of the financial statements.) The Committee reviewed management's assessment of recoverable value and relevant judgements made. No impairment triggers were identified in the year.

Pensions accounting
The Committee reviewed a summary of the key assumptions used in arriving at the valuation of the defined benefit pension scheme for both half-year and year-end reporting.

The Committee reviewed the key assumptions underlying the movement in the retirement benefit funded obligations including inflation, discount and mortality rates. Benchmarking is undertaken to verify that the assumptions are appropriate.

The year-end reported discount rate was 2.8 per cent, giving a consolidated IAS 19 pension deficit of £261 million. The Committee is satisfied that the Group has a sufficient level of distributable reserves.

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

The Group continues to disclose additional information on all Alternative Performance Measures (APMs) used by the Group. (Reference APM note of the financial statements.)

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

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

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

The Committee ensures that the Group provides income statement and balance sheet disclosures in its Financial Statements. (Reference note 2 of the financial statements.)

Acquisition of Home Retail Group
In September 2016, the Group acquired 100 per cent of the issued share capital of HRG, a listed company based in the United Kingdom. IFRS 3 'Business Combinations' permits a one-year measurement period to update the valuation of acquired assets and liabilities for new information obtained about facts and circumstances that were in existence at the acquisition date.

The acquisition balance sheet was finalised during the year, and the Committee reviewed the assumptions made in relation to valuing the acquired assets and liabilities. The Group has reported a material increase in goodwill to £119 million (11 March 2017: £58 million). (Reference note 31 of the financial statements.)

Acquisition of Nectar UK scheme
On 31 January 2018, Sainsbury's purchased the shares of Aimia Inc's UK business, acquiring all assets, colleagues, systems and licences required for the full and independent operation of the Nectar loyalty programme in the UK. Four entities were acquired, including the remaining 50 per cent share of our joint venture Insight 2 Communications (I2C), for a total consideration of £39 million. Significant work was undertaken to prepare for the integration of Nectar, with the following areas in particular being considered by the Committee:

— Alignment of accounting policies between the acquired entities and Sainsbury's.
— Accounting and financial reporting for the acquisition. This included reviewing the assumptions made in relation to valuing the assets and liabilities, which resulted in net liabilities acquired of £108 million and goodwill of £147 million. (Reference note 31 of the financial statements.)
— Management's estimates of redemption rates – with a deferred revenue balance of £265 million being recognised on acquisition in relation to Nectar points issued but not redeemed.

Updates to accounting standards
Management have been preparing for the implementation of three new accounting standards:

— IFRS 9 'Financial Instruments' effective for the year commencing 11 March 2018
— IFRS 15 'Revenue' effective for the year commencing 11 March 2018
— IFRS 16 'Leases' effective for the year commencing 10 March 2019

The Committee reviewed impact assessments prepared by management on the transition to each of these accounting standards and the assumptions made. Additional disclosures in relation to each of these are included in note 1 of the financial statements.

Revenue recognition
The majority of the Group's revenue transactions are non-complex, nonetheless, the Committee has performed a review of manual adjustments that are applied to revenue. This review has focused on papers prepared by management that detail the nature of the adjustments and the controls in place. The Committee is satisfied that adequate controls are in operation and that all manual adjustments are appropriately recognised.

Internal controls framework

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

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

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

Risk management and internal controls

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

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

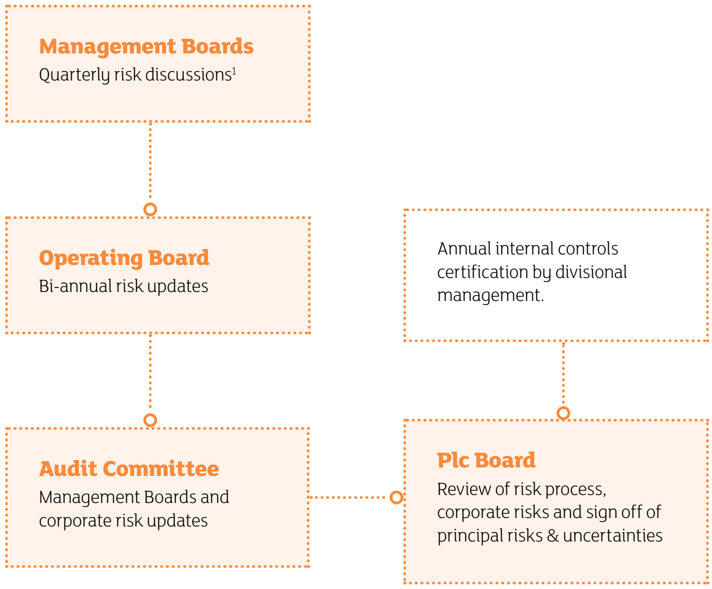
The Board received updates on risk management and internal controls from the Chair of the Audit Committee. All Committee papers and minutes were made available to the whole Board.

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

The Audit Committee has reviewed the effectiveness of the system of internal controls and has ensured that any required remedial action on any identified weaknesses has been or is being taken. Sainsbury's governance forums and organisational model changed this year to reflect the formation of two operating companies – Sainsbury's Food and Sainsbury's Argos. Group functions have been, and are continuing to be, formed where there is value in consolidating ways of working across the operating companies. Management Boards have been established in the two operating companies. These, together with the Group functions, report to the Operating Board.

In 2017 Internal Audit reviewed the risk management framework (excluding Sainsbury's Bank) to assess and recommend if and how it should flex to ensure it continues to support the Board in managing and monitoring risk to ensure compliance with the Governance Code and the Companies Act 2006. This review has been completed and the diagram on the right provides an overview of the key risk management activities undertaken by the Operating Board, Audit Committee and the Sainsbury's Management Boards that allow the Board to fulfil its obligations under the Governance Code.

The annual risk management process concludes with the Board's robust assessment of the Company's Principal Risks and Uncertainties Disclosure, including those that would threaten its business model, future performance, solvency or liquidity, and the completion of an annual internal controls certification.



1 2017/18 was a year of change as Group and Management Boards were formed. Quarterly discussions will be scheduled in 2018/19.

Corporate risk management process

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

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

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

Internal Audit provides the Audit Committee with a risk management update twice a year which provides detail of the key risk activities undertaken at Management Board, Group functions, governance forums and divisional and corporate levels.

The specific risk activities undertaken in the financial year to 10 March 2018 were as follows:

- Internal Audit facilitated risk workshops with the Management Boards, Group functions, governance forums and with each divisional leadership team to identify the key risks which may prevent the achievement of Board objectives. Each Management Board, Group function, governance forum and divisional management team has produced and maintained a divisional risk map and supporting risk register. The likelihood and impact of each key risk was evaluated at a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). Management's risk appetite was reviewed and further actions to mitigate the risk were identified as required.
- The implementation of divisional risk actions as tracked by Internal Audit and reported to divisional leadership teams periodically.
- Management Boards, Group functions, governance forums and divisional management teams regularly review key risks and the effectiveness and robustness of the mitigating controls as part of their normal business activities. Independent assurance over the controls is also provided through the delivery of the Internal Audit risk based plan.
- The Operating Board reviewed and challenged the output of the bottom-up risk processes including new risks, risk movements and key risk themes. The corporate risk map was updated as appropriate.
- Internal Audit provided independent assurance to management and the Committee as to the existence and effectiveness of the risk management process.
- The Board reviewed the risk management process and corporate risks at the year-end and approved the Company's Principal Risks and Uncertainties Disclosure (as set out on pages 30 to 34).

The risk management process is illustrated below:

	Management Boards	Group functions	Operating Board	Audit Committee	PLC Board	Internal Audit
September	**Divisional risk workshops** (bottom-up risk identification)	**Group functions risk workshops** assess key risks to their business objectives	**Quarterly risk review**			
November	**Management Board risk workshops** assess key risks to their business objectives					
January			**Operating Board risk workshops** assessment of key corporate risks & risk appetite discussion Update Principal Risks & Uncertainties			
February				**Audit Committee** review of risk process & sign off Principal Risks & Uncertainties		**Internal Audit** risk based half-year plan
April	**Management** annual certification that risks in their areas of responsibility are identified, evaluated & managed		**Quarterly risk review**		**PLC Board** review of risk process, corporate risks and sign off of Principal Risks & Uncertainties	
May						
July	**Horizon Scanning & Game-Changer Risk Workshops** focus on external & unknown risks		**Quarterly risk review**			
September				**Audit Committee** risk management update		**Internal Audit** risk based half-year plan

Corporate Responsibility and Sustainability Committee Report

Dear Shareholder

Our vision is to be the most trusted retailer, where people love to work and shop. Throughout our 149-year history, we have always taken our responsibilities to society seriously.

As a UK retailer, with a global supply chain, the need for our business to build trust is vital. As Chair of the Corporate Responsibility and Sustainability Committee (the 'Committee'), I oversee the governance of our Sustainability Plan. This spans our commitments to enable people to live healthier lives, protect the environment, and support our colleagues and people who work throughout our supply chains and champion issues that affect our local communities.

This year we reviewed and refreshed the governance of our Sustainability Plan, to join up our thinking across the entire business. These changes enable us to focus our efforts where we can have the greatest impact and to be more agile amid changing dynamics and emerging issues. I strongly believe that the new governance structure will support us in building trust and being a sustainable retailer, fit for the future.

I am proud of the progress we continue to make against our Sustainability Plan and as we near 2020 I feel that we are in a strong position to deliver against our commitments. Going forward, we will continue to collaborate with our stakeholders and ensure our strategy generates a positive impact, in a more complex, interconnected world.

Finally, this is my last report to you as I am stepping down as Chair, but remaining a member, of the Corporate Responsibility and Sustainability Committee. It has been a real pleasure to chair the Committee and I know that Jo Harlow will be an excellent Chair at this exciting time for the organisation.

Jean Tomlin
Chair, Corporate Responsibility and Sustainability Committee

Principal role and responsibilities

The Committee is supported by an internal governance structure whereby senior Directors in the business have responsibility for each of our five values. The Committee's principal role is to review our sustainability strategy for alignment with Sainsbury's brand and oversee the work of the Operating Board.

Principal activities in the year

The Committee met twice during the year and attendance of members at the meetings is set out in the table on page 49.

The Committee discussed strategy and progress across each of our five values as well as the overall Sustainability Plan. For example, it reviewed plans for the integration of Home Retail Group sustainability activities into the Sainsbury's Plan. In these meetings, the Committee also receives regular updates on colleague and customer insights as well as other stakeholder views on issues relating to our Sustainability Plan to ensure that we are responding appropriately.

For more on the progress we have made in responding to changes in the world around us and to what our customers want from us, see Our values make us different on page 18.

J Sainsbury plc Board

Ultimately responsible for sustainability

Chairman: David Tyler

Corporate Responsibility and Sustainability Committee

Reviews the sustainability strategy's impact against 'Live Well for Less' and building customer trust.

Chair: Jean Tomlin/Jo Harlow from May 2018

Operating Board

Define Group-wide strategy, adapting to new regulatory requirements and trends. Review cross-value progress and sign off major investments.

Chair: Mike Coupe, Group Chief Executive Officer

Value Management Groups

Lead operational execution of sustainability activities by value, ensuring delivery of performance in the lines.

Health management group

Chair: Judith Batchelar, Director of Sainsbury's Brand

Sourcing management group

Chair: Judith Batchelar, Director of Sainsbury's Brand

Environment management group

Chair: John Rogers, Chief Executive Officer Sainsbury's Argos

Community management group

Chair: Simon Roberts, Retail and Operations Director

Great place to work management group

Chair: Angie Risley, Group HR Director

Annual Statement from the Remuneration Committee Chair

Dear Shareholder

Having become Chair of the Remuneration Committee during 2017, I am pleased to present the Directors' Remuneration Report for the year ended 10 March 2018.

For a number of years, Sainsbury's has emphasised how our values make us different. As a retailer operating in a competitive environment, these values make strong commercial sense, as they help us strengthen relationships with all our stakeholders, earn trust, reduce operating costs, mitigate risks and attract and retain talent in a crowded marketplace.

As a Committee, we are mindful that executive pay continues to be a key topic of public debate. The principles of fairness and equality have been utmost in our minds this year, and have steered us as we've made our decisions. For us, this means ensuring that we take a responsible approach to pay both at the senior level and across the wider workforce. We are also committed to ensuring that our arrangements support Sainsbury's values and reflect the experience of shareholders.

As a business with over 185,000 colleagues, it is important to the Committee that we have sight of the Company's reward arrangements for the broader workforce when we are considering executive pay. In line with our principles of simplicity and fairness, we have aligned many of our 2017/18 remuneration decisions, as well as future arrangements for the coming year, with the approach taken for the wider management population.

Throughout the year, the Committee has also had oversight of key remuneration decisions impacting colleagues, in particular, the proposed £100 million investment in pay for our Sainsbury's store colleagues which will take effect from September 2018. In addition, during the year the Committee reviewed the Group's Gender Pay Report on behalf of the Board. We pay colleagues according to their role, not their gender, and the Board is committed to improving the representation of women at senior levels.

The Remuneration Committee has adopted an holistic approach to remuneration for a number of years, and we intend to maintain this in future years.

Key remuneration decisions for 2017/18

We remain committed to ensuring that rewards received by our executives reflect performance. Total remuneration for the Chief Executive and Executive Directors has increased as a result of our improved performance during the year.

- *Annual bonus* – Our Executive Directors were assessed against profit, sales, customer and individual measures. The profit target set at the start of the year was achieved in part although the sales target was not. Progress was made on key individual objectives relating to strategy, operations, leadership and our customers. In light of the overall results, the Committee determined an annual bonus of around 40 per cent of maximum should be paid to the Executive Directors in respect of the year.
- *Deferred Share Award* – The Committee determined that awards under the DSA should be granted at 73 per cent of the maximum. This recognises the performance of the business against market expectations and versus our competitors, as well as the significant achievements made on our strategic goals. This award is deferred into shares.
- *2015 Future Builder* – Based on performance against our four measures, a performance multiplier of 1.7x (out of a maximum of 4.0) was applied to the core award for all participants resulting in vesting of 42.5 per cent of the maximum.

Overall, the Committee is satisfied that the total remuneration received by Executive Directors in 2017/18 is a fair reflection of performance over the period.

Key changes in relation to 2018/19

Our Remuneration Policy was approved by shareholders at the 2017 AGM and can be found in full on pages 88 to 94 of the 2016/17 Annual Report and Accounts. A summary of the policy can be found on pages 81 to 83. This policy continues to work well and therefore no changes to the policy are proposed for the coming year. Key decisions in relation to remuneration in 2018/19 are set out below.

Salary

We have awarded Mike Coupe, Kevin O'Byrne and John Rogers a salary increase of two per cent effective March 2018, which aligns with that awarded to other management colleagues.

2018/19 annual bonus

In line with our commitment to aligning executive pay with the wider workforce, we have simplified the 2018/19 annual bonus for our Executive Directors, to reflect the approach we will be taking for our management colleagues. In particular, the element linked to Group profit has been increased. In future years, 70 per cent of the maximum bonus opportunity will be based on Group profit and 30 per cent on business specific annual operational objectives.

2018 Future Builder

Each year, we review the performance measures and targets for Future Builder awards, our share-based long-term incentive plan, to ensure they are aligned to our Group strategy and corporate plan.

The 2018 awards will be based on four equally weighted performance measures: return on capital employed, earnings per share, free cash flow and cost savings. For 2018 awards, the cash element has been refined to focus on free cash flow, as this metric better aligns with how performance is tracked both internally and externally. Free cash flow is also more relevant to our shareholders as it represents cash flow that can ultimately be returned via dividends or reinvested into the business. As Sainsbury's Argos moves to its next phase of development, synergy targets directly relating to the Home Retail Group plc (HRG) acquisition will become less relevant, and therefore will not be used for this award cycle. HRG synergy goals will continue to apply to Future Builder awards granted in 2016 and 2017.

The 2018 award will be based on performance through to March 2021. The Committee is satisfied that the target ranges provide realistic but stretching goals, reflecting the current and future prospects of the business as well as the retail sector as a whole over the next three years. Awards are subject to a two-year holding period following the end of the three-year performance period. Further detail of the awards are set out on pages 74 to 76.

Closing remarks

In line with the UK reporting regulations, the Annual Report on Remuneration will be put to an advisory vote at our AGM on 11 July 2018. As noted above, the Remuneration Policy was last approved by shareholders at the 2017 AGM, and will therefore not be re-submitted this year.

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 Mary Harris for her leadership of the Committee since 2012, as well as formally welcome Matt Brittin and Jo Harlow to the Committee. While the membership of the Committee has changed, we remain committed to rewarding our Executive Directors for acting in the interest of our shareholders and for delivering sustainable long-term performance in a way which is aligned with our Company values.

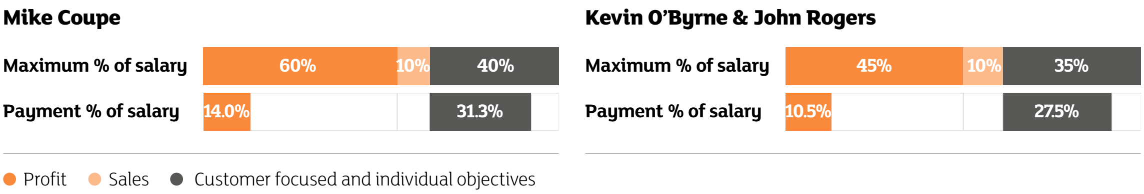
Susan Rice

Dame Susan Rice
Chair, Remuneration Committee

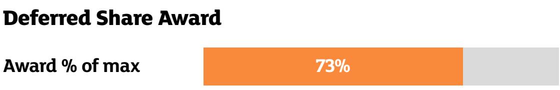
> **"We remain committed to rewarding our Executive Directors for acting in the interest of our shareholders and for delivering sustainable long-term performance in a way which is aligned with our Company values."**
>
> **Dame Susan Rice**

Summary of 2017/18 remuneration decisions

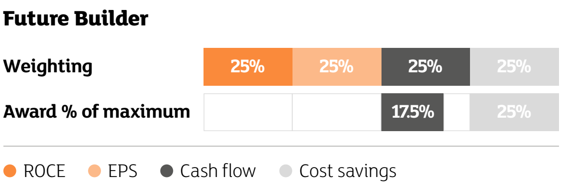
Pay element	2017/18 decisions
Salary	— Mike Coupe – £943,428, Kevin O'Byrne – £625,000 and John Rogers – £695,401. — Salary increase of 1.5 per cent for Mike Coupe and John Rogers in March 2017, in line with other management and central colleagues.
Annual bonus **Awards of around 40 per cent of maximum**	— The 2017/18 bonus outturn was 41.2 per cent of the maximum for Mike Coupe and 42.3 per cent of the maximum for Kevin O'Byrne and John Rogers. — Key performance highlights: – Profit threshold was achieved but payouts were towards the lower end of the performance range – Stretching sales target was not met, and therefore this element did not pay out – Strong performance against key individual and customer objectives — Full details of the bonus measures can be found on page 72.



Pay element	2017/18 decisions
Deferred Share Award **Award of 73 per cent of maximum**	— Performance assessed taking into account financial performance, returns to shareholders, relative performance against peers and strategic goals. — Financial targets partially met. — Good relative performance in terms of price, quality and service. — Medium-term dividend per share ahead of listed peers. — Significant progress against strategic goals; the acquisition of Nectar supports our strategy of knowing our customers better than anyone else.



Pay element	2017/18 decisions
LTIP/Future Builder **Vesting 42.5 per cent of maximum**	— The Future Builder, based on performance to March 2018, will vest at 42.5 per cent of the maximum. Full vesting was achieved under the cost savings elements and partial vesting was achieved under the cash flow element. — The Future Builder award with performance period ending March 2017 vested at 22.5 per cent of the maximum.



Total remuneration

		Mike Coupe £000		Kevin O'Byrne £000		John Rogers £000	
		2017/18	2016/17	**2017/18**	2016/17[1]	**2017/18**	2016/17
Fixed pay	Salary	**943**	929	**625**	108	**695**	685
	Benefits	**17**	17	**17**	3	**90**	66[2]
	Pension	**283**	279	**156**	27	**174**	171
Performance-related pay	Annual bonus	**427**	–	**238**	–	**264**	–
	Deferred Share Award	**758**	716	**411**	–	**457**	432
	LTIP/Future Builder	**1,001**	413	**–**	–	**534**	248
Total pay		**3,429**	2,354	**1,447**	138	**2,214**	1,602

1 Kevin O'Byrne was appointed on 9 January 2017.
2 John Rogers' benefits for 2016/17 and 2017/18 include costs for accommodation in and travel to Milton Keynes following his appointment as CEO, Sainsbury's Argos. John was appointed CEO, Sainsbury's Argos on 5 September 2016 and so the 2016/17 figures related to only part of the year.

Summary of remuneration for 2018/19

How are we implementing our Directors' Remuneration Policy in 2018/19?

Pay element	Summary of policy	Approach for 2018/19
Salary **Increase in line with colleagues**	Salaries are set taking into consideration a range of internal and external factors. Increases are normally in line with those for the wider workforce.	The Executive Directors received a salary increase of two per cent effective from March 2018 in line with other management and central colleagues. The 2018/19 annual salaries are: — Mike Coupe – £962,297 — Kevin O'Byrne – £637,500 — John Rogers – £709,309
Benefits	Range of benefits provided in line with market practice and reflecting individual circumstances.	No changes to current arrangements.
Retirement benefits	Participation in either the Company defined contribution plan and/or a cash salary supplement. The maximum value is 30 per cent of salary for existing Executive Directors. For new appointments the maximum value is 25 per cent.	No changes to salary supplement in lieu of pension for Mike Coupe (30 per cent of salary) and other Executive Directors (25 per cent of salary).
Annual bonus **No change to quantum. Performance measures simplified and aligned across wider management team**	Based on key financial, operational and individual objectives measured over one year, with bonus payable in cash after the year-end. Maximum opportunity of up to 125 per cent of salary per annum.	Performance is based on Group profit (70%) and annual operational objectives (30%). The maximum bonus for 2018/19 is: — Mike Coupe – 110 per cent of salary — Other Executive Directors – 90 per cent of salary
Deferred Share Award **No change to quantum and general structure**	Recognises and rewards for delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth. Performance measured over one year, after which award made as share awards deferred for two financial years. Maximum opportunity of up to 125 per cent of salary per annum.	Performance over the financial year is based on financial performance, returns to shareholders, relative performance against peers and strategic goals. Financial performance and returns to shareholders account for over half of the DSA. The maximum award for 2018/19 is: — Mike Coupe – 110 per cent of salary — Other Executive Directors – 90 per cent of salary
LTIP/Future Builder **No change to quantum. Synergies removed and cash flow definition changed**	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Awards dependent on performance measured over a period of at least three financial years. For awards granted from 2017 onwards, a two-year holding period applies following the end of the three-year performance period. Maximum award of up to 250 per cent of salary per annum.	Awards are structured as core awards, with a performance multiplier of up to four times. The 2018/19 awards are: — Mike Coupe – core award of 62.5 per cent of salary (max 250 per cent) — Other Executive Directors – core award of 50 per cent of salary (max 200 per cent) The targets for 2018 awards are below.

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
Return on capital employed (ROCE)	25%	8.0%	11.0%
Underlying basic earnings per share (EPS)	25%	23.0p	30.0p
Cumulative free cash flow (cash flow)	25%	£800m	£1,300m
Cumulative strategic cost savings (cost savings)	25%	£450m	£550m

Shareholding guidelines	The Executive Directors are required to build a significant shareholding in the Company. For the CEO this is 2.5 x salary, while for other Executive Directors this is 2.0 x salary. The shareholding guidelines are aligned with the maximum grant levels for Future Builder awards.
Recovery provisions	The Executive Directors' incentive arrangements are subject to malus and clawback.

Annual Report on Remuneration

Remuneration principles

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

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

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

The Committee takes a rounded approach to pay and considers a variety of factors when determining, and subsequently implementing, the policy for senior executives. The Committee believes it is important to exercise sound judgement at all stages during the process to ensure that executive pay levels appropriately reflect performance and are aligned with the interests of shareholders.

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

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

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 10 March 2018, together with comparative figures for the 52 weeks to 11 March 2017.

		Mike Coupe £000		Kevin O'Byrne[1] £000		John Rogers £000	
	Notes	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17
Base salary		**943**	929	**625**	108	**695**	685
Benefits	2	**17**	17	**17**	3	**90**	66
Pension		**283**	279	**156**	27	**174**	171
Total fixed pay		***1,243***	*1,225*	***798***	138	***959***	*922*
Annual bonus	3	**427**	–	**238**	–	**264**	–
Deferred Share Award	4	**758**	716	**411**	–	**457**	432
Long-Term Incentive Plan	5	**1,001**	413	**–**	–	**534**	248
Total		**3,429**	2,354	**1,447**	138	**2,214**	1,602

1 Kevin O'Byrne was appointed on 9 January 2017.
2 Benefits include a combination of cash and non-cash benefits, valued at the taxable value. For Mike Coupe, John Rogers and Kevin O'Byrne this includes a cash car allowance (£15,250) and private medical cover. For John Rogers this also includes an annual travel allowance of £6,500 per annum and accommodation costs of £66,821 per annum in relation to a change of location to Milton Keynes following his appointment as CEO of Sainsbury's Argos. Mike Coupe's and John Rogers' benefits figures for 2016/17 and Mike Coupe's figure for 2017/18 include a value for Sharesave options based on a 20 per cent discount on the savings in the year.
3 Annual bonus relates to performance during the financial year, paid in May following the relevant year-end.
4 The Deferred Share Award relates to performance during the financial year; shares are granted in May following the relevant year-end and vest after a two-year deferral period.
5 The Long-Term Incentive Plan value relates to the Future Builder award vesting in May following the end of the relevant financial year, which is the third year of the performance period. 50 per cent of the shares are released in May after the end of the relevant performance period and the balance one year later. The figures include accrued dividends over the performance period. The 2016/17 value is based on the actual share price on the first date of vesting, £2.6670. The 2017/18 value is based on the average share price over the fourth quarter for 2017/18 of £2.5157.
6 The Executive Directors are entitled to retain the fees earned from non-executive appointments outside the Company. Mike Coupe was appointed a Non-Executive Director of Greene King plc on 26 July 2011 and received £50,000 for his services during 2017/18 (2016/17: £50,000). John Rogers was appointed a Non-Executive Director of Travis Perkins plc on 1 November 2014 and received £57,650 for his services during 2017/18 (2016/17: £57,052). Kevin O'Byrne was appointed as a Non-Executive Director of Land Securities plc on 1 April 2008 and stepped down on 30 September 2017. He received £49,269 during 2017/18 (2016/17: £15,041 relating to the period of time he was Chief Financial Officer).

Base salary

	Salary as at 2017/18 year-end	Salary effective from 11 March 2018
Mike Coupe	£943,428	£962,297
Kevin O'Byrne	£625,000	£637,500
John Rogers	£695,401	£709,309

When considering salaries the Committee takes account of a number of factors, with particular focus on the general level of salary increases awarded throughout the Company. Where relevant, the Committee also considers external market data on salary and total remuneration but the Committee applies judgement when considering such data. The salary review for management and central colleagues in March 2018 was generally two per cent and for hourly paid retail colleagues in August 2017 was 4.4 per cent. For 2018/19, Mike Coupe, Kevin O'Byrne and John Rogers will receive a salary increase of two per cent effective March 2018, in line with other management colleagues.

Pension

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

As communicated in last year's Remuneration Report, under the forward looking policy, retirement benefits for any future appointments are capped at 25 per cent of salary, rather than the previous limit of 30 per cent.

Benefits

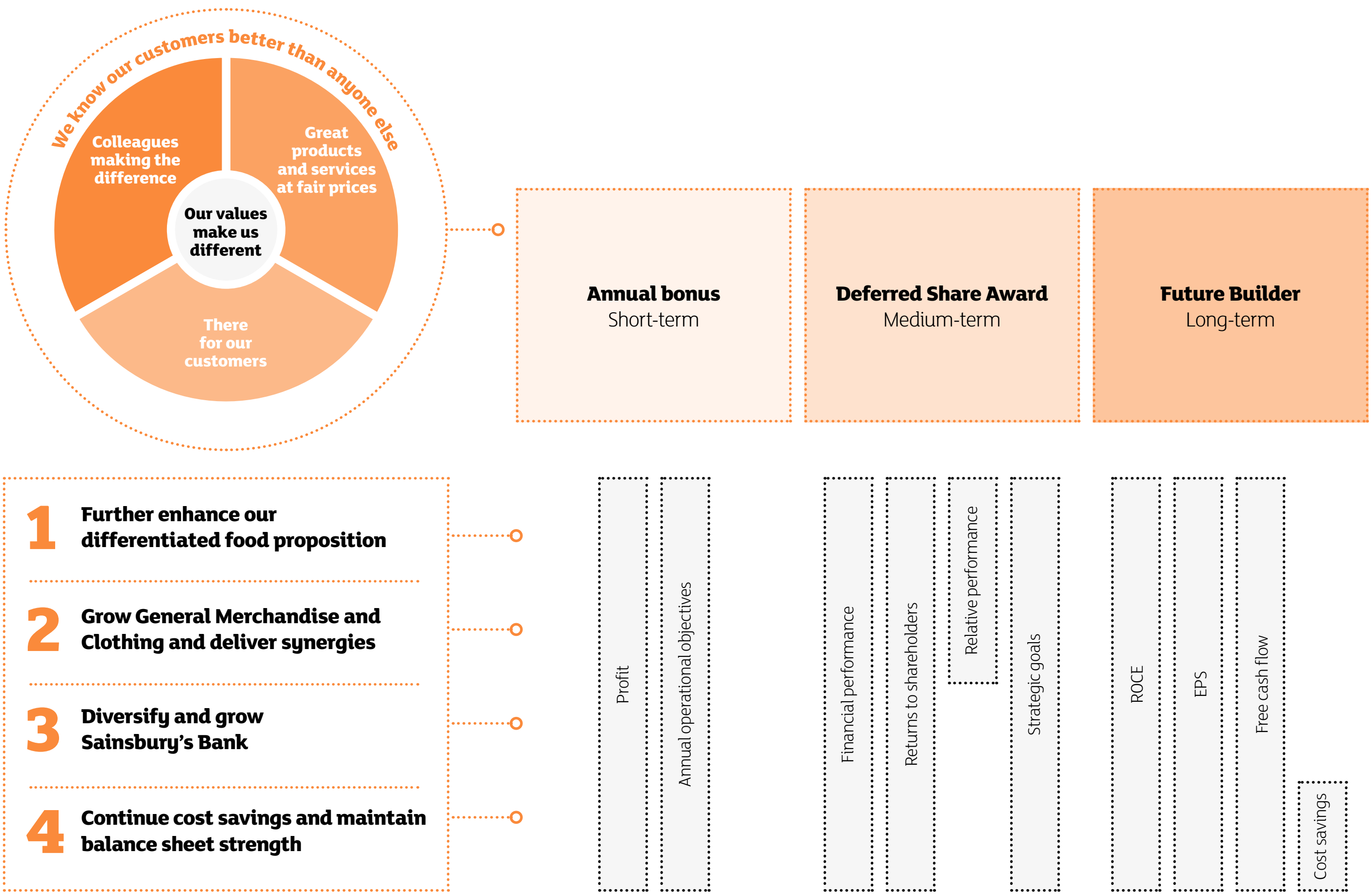
For 2017/18 and 2018/19, benefits for Executive Directors include the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount. Benefits for John Rogers also include an annual travel allowance and accommodation costs in relation to a change of location to Milton Keynes following appointment as CEO of Sainsbury's Argos.

Performance-related pay

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

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

The Board is of the opinion that the performance targets for the 2018/19 annual bonus and Deferred Share Award are commercially sensitive as the Company operates in a highly competitive, consumer-facing sector. The disclosure of targets would provide competitors with insights into the Company's strategic aims, budgeting and growth projections. However, in line with previous years, the Company is retrospectively disclosing the financial performance targets set for the 2017/18 annual bonus in order to provide greater transparency and detailed disclosure is also provided in relation to the Deferred Share Award so that shareholders can understand the basis for payments. Targets for Future Builder awards have been disclosed on a prospective basis.



Annual bonus

2018/19 policy

Following a review, we have simplified the bonus. The Board and senior management bonus for this year will be based 70 per cent on Group profit and 30 per cent on annual operational objectives. We believe that Group profit is the most salient measure for senior managers as it is the ultimate outcome of engaging our colleagues, providing great customer service, driving sales and managing costs.

The Group profit target is set against the Company's expected performance and is subject to a rigorous process of challenge before the proposals are considered by the Board. The targets are set such that considerably stretching performance in excess of internal and external forecasts is required for maximum payout.

Annual operational objectives for Executive Directors will be grouped around two equally weighted elements of individual strategic and customer and colleague. The individual strategic objectives will be based around our strategic priorities and will be specific to each Director (for example, John Rogers' objectives will include an element on Sainsbury's Argos profit). The customer and colleague element will include customer service, and colleague metrics based on engagement scores and inclusion.

The maximum annual bonus award opportunity for the Chief Executive is 110 per cent of base salary and for the other Executive Directors is 90 per cent of base salary. A performance gateway also has to be achieved in order to trigger a payment of any awards. The annual bonus is paid in cash after the year-end.

2017/18 annual bonus payment (audited information)

The performance measures for 2017/18 were Group profit, Group sales, customer and individual performance. Additionally, the award was subject to a performance gateway which was based on a minimum level of profit which must be met before any payment under the annual bonus is made to Executive Directors. This was met for 2017/18.

The table below sets out the threshold and stretch profit and sales targets and the actual outturn for 2017/18.

	Threshold	Stretch	Actual
Profit[1]	£550m	£650m	£589m
Sales[2]	£31,314m	£31,714m	£31,220m

1 Underlying profit before tax.
2 Total sales including VAT and duty, including petrol sales, excluding Sainsbury's Bank. Petrol volumes and prices held constant to remove the effect of fuel volatility on sales.

The profit and sales targets were robustly set at the start of the year, and reflected the continuing challenges in the UK retail market. The targets were set reflecting both our internal and external forecasts at that time.

Our senior team, managers and colleagues throughout our business all shared a consistent focus to drive sales, control costs and to deliver great products and services to our customers. This enabled us to end the year above the profit threshold, although the sales threshold was unfortunately not met. In the context of expectations at the start of the year, the profit result represents a strong outcome.

Overall, the Committee is comfortable with the bonus outcomes in respect of the profit and sales elements, particularly when the broader context of the retail market and performance against our main supermarket peers is considered.

The remainder of the bonus was focused on customer and key individual objectives. The Committee thoroughly reviewed the performance of the Executive Directors against their strategic, operational, leadership and customer priorities that were set at the start of the year, and was satisfied that they performed well against these. The Executive Directors' performance in relation to these objectives is shown to the right.

Mike Coupe	
Strategic	— HRG integration continued to progress, with 191 Argos stores and 192 collection points opened within Sainsbury's stores. — Completed strategic review of Sainsbury's Bank. — Continued to progress our strategy of knowing our customers better than anyone else, strengthened by the acquisition of Nectar.
Operational	— Increased number of customer transactions year-on-year and total sales growth of 1.6 per cent. — Continued to grow convenience business, with nearly eight per cent increase in sales and 24 new store openings. — Sales growth of almost seven per cent in Groceries Online. — Market outperformance in General Merchandise and Clothing. — Contributing to year-on-year profit growth with UPBT of £589 million.
Leadership	— Strong Operating Board in place, following the recruitment of three new Operating Board Directors over the last 18 months. — Successfully relaunched the Company values to colleagues across the Group. — Succession plans strengthened, with an increased focus on diversity and inclusion. — Developed and announced plans to simplify Sainsbury's retail structures.
Customer	— Achieved corporate targets relating to in-store customer service standards.

Kevin O'Byrne	
Strategic	— Completed strategic review of Sainsbury's Bank. — Continued to progress our strategy of knowing our customers better than anyone else, strengthened by the acquisition of Nectar.
Operational	— Strong cash generation with free cash flow of £432 million, up £113 million year-on-year. — Net debt reduced by over £100 million. — Achieved in-year cost savings of £185 million, exceeding the target set at the start of the year, and established new three-year £500 million savings plan. — Contributing to year-on-year profit growth with UPBT of £589 million.
Leadership	— Finance and Procurement senior management team strengthened through key external appointments and role changes.
Customer	— Achieved corporate targets relating to in-store customer service standards.

John Rogers	
Strategic	— Five-year strategy developed for Sainsbury's Argos and shared with the PLC Board, Operating Board and colleagues. — HRG integration continued to progress, with 191 Argos stores and 192 collection points now opened within Sainsbury's stores.
Operational	— *Tu* clothing sales increased by 3.8 per cent, significantly ahead of the market. — General Merchandise growth ahead of the market.
Leadership	— Strengthened Sainsbury's Argos management board and improved female representation. — Strong retention across top 80 leadership team. — Improvement in Sainsbury's Argos colleague engagement scores across retail and store support centres.
Customer	— Achieved Sainsbury's Argos customer satisfaction targets.

The table below shows the overall bonus payable, as set out in the annual bonus row of the single total figure table, as well as a breakdown by element.

	Maximum opportunity	Outcome	
	Per cent of salary	Per cent of salary	Value £000
Mike Coupe			
Profit	60%	14.0%	£132
Sales	10%	0%	£0
Customer-focused and individual objectives	40%	31.3%	£295
Total	**110%**	**45.3%**	**£427**
Kevin O'Byrne			
Profit	45%	10.5%	£66
Sales	10%	0%	£0
Customer-focused and individual objectives	35%	27.5%	£172
Total	**90%**	**38.0%**	**£238**
John Rogers			
Profit	45%	10.5%	£73
Sales	10%	0%	£0
Customer-focused and individual objectives	35%	27.5%	£191
Total	**90%**	**38.0%**	**£264**

Deferred Share Award

2018/19 policy

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

The DSA covers broadly the top 50 senior leaders in the Company, including Executive Directors. Performance is assessed in the round based on the Committee's judgement of performance achieved against a number of measures within four broad categories. The categories and examples of the measures that will be reviewed for 2017/18 are set out below.

Financial performance	Profit, earnings per share, sales
Returns to shareholders	Total shareholder return, dividend yield
Relative performance against peers	Market share, industry profit pool
Strategic goals	Proposition, channels, price, customers, colleagues, values

As outlined in our Remuneration Policy, at least 50 per cent of the award will be based on the delivery of financial performance and returns to shareholders. In addition, no shares will be awarded unless a performance gateway is achieved.

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

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

2017/18 Deferred Share Award (audited information)

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

The retail marketplace remained challenging in 2017/18 and the Company partially met its financial targets. The Company performed well against its listed peers and market expectations especially in terms of price, quality, service and dividends paid. The Company also made significant progress against its strategic goals, reflecting a year of positive change and innovation in the business. The Committee, therefore, agreed that for 2017/18 awards would be made at 73 per cent of the maximum level. It also determined that the performance gateway for the plan was achieved. Although some of the specific measures and targets are commercially sensitive, the table on the following page presents a selection of performance highlights which the Committee took into account within each of the four categories.

The table below sets out details of the awards and these are the figures set out in the DSA row of the single total figure table. The share award is made after the end of the 2017/18 financial year and the shares vest in March 2020 subject to continued employment.

	Maximum opportunity	Outcome	
	Per cent of salary	Per cent of salary	Value £000
Mike Coupe	110%	80.3%	£758
Kevin O'Byrne	90%	65.7%	£411
John Rogers	90%	65.7%	£457

2017/18 Deferred Share Award performance

Financial performance	Returns to shareholders	Relative performance against peers
— Underlying profit before tax of £589 million — Groceries Online sales growth of nearly seven per cent and order growth of 6.5 per cent — Clothing sales growth of 3.8 per cent — Convenience sales growth of nearly eight per cent	— Medium-term dividend per share ahead of listed peers — 2.0x cover maintained on underlying earnings — Earnings per share of 20.4p	— Outperformance of product quality perception relative to our peers — Grocer Gold Best for service and Best for availability for the fifth consecutive year with 13 Grocer 33 wins for service and availability

Strategic goals

1 Further enhance our differentiated food proposition
- Continued investment in own-brand products – 128 range reviews covering 60 per cent of food sales
- Own-label products growing share
- Introduction of exclusive and innovative brands such as Godiva
- Specialist food offers rolling out at pace; Sushi Gourmet now in 59 stores, 33 in-store Patisserie Valerie counters, two Crussh concessions and a Zizzi pizza counter
- £150 million invested to lower our prices on 930 products
- Net promoter score up year-on-year
- Nectar acquisition to support our strategy of knowing our customers better than anyone else

2 Grow General Merchandise and Clothing and deliver synergies
- Continued delivery of synergies with HRG
- 191 Argos stores in our supermarkets and 192 digital collection points
- Strong like-for-like sales growth in Argos stores open for more than a year
- General Merchandise growing share in a market that continues to be challenging
- Clothing growth of 3.8 per cent, with online growth of 45 per cent
- *Tu* clothing approaching a £1 billion revenue business
- *Fast Track* delivery sales up 28 per cent and *Fast Track* collection sales up 45 per cent
- Digital sales up nine per cent, mobile sales up 33 per cent

3 Diversify and grow Sainsbury's Bank
- Successful launch of mortgages with over 3,000 applications received since launch, enhancing the product portfolio for customers
- Savings performing well on new banking platform, with new accounts up 41 per cent
- ATMs estate grew by six per cent with 36 ATMs introduced in high footfall Argos stores
- 11 per cent growth in new unsecured accounts (AFS storecards, credit cards and loans)
- Good financial performance with an operating profit of £69 million, up 11 per cent year-on-year

4 Continue to deliver cost savings and maintain balance sheet strength
- £185 million of cost savings delivered in the last year and £540 million of cost savings delivered over the last three years
- Driven by simplifying in-store processes, transport network efficiencies and procurement savings
- Allowing reinvestment back into the business on quality, range and price
- Net debt reduction of over £100 million since March 2017

Long-term incentives

2018/19 policy

The long-term incentive plan operated at Sainsbury's is known as Future Builder. Around 240 senior managers across the business participate in this arrangement. Awards are granted under the Long-Term Incentive Plan approved by shareholders in 2016.

Future Builder awards have been granted under the same structure for a number of years. A core award of shares is granted, calculated as a percentage of salary and scaled according to level of seniority. Vesting of the core award is dependent on performance against specific targets tested at the end of a three-year performance period. The core awards can grow up to four times at stretch levels of performance.

Historically, awards have been structured so that half of any awards vest following the end of the performance period, with the remaining half vesting after a further year. For awards granted to Executive Directors from 2017 onwards, awards will normally be subject to a two-year holding period following the end of the three-year performance period. This will result in awards to Executive Directors being released after a five-year period.

The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting; vesting will be reduced if not. When making this judgement the Committee has scope to consider such factors as it deems relevant. The Committee believes that this discretion is an important feature of the plan and mitigates the risk of unwarranted vesting outcomes. This performance gateway assessment applies to all outstanding Future Builder awards.

2018 Future Builder awards (2021 vesting)

Award levels will remain unchanged for the coming year. In 2018 Mike Coupe will receive a core award of 62.5 per cent of salary (maximum 250 per cent of salary) and the other Executive Directors will receive core awards of 50 per cent of salary (maximum 200 per cent of salary).

The 2018 awards will be subject to four metrics: ROCE, EPS, free cash flow and cost savings.

The cash element for the 2018 award has been refined to focus on free cash flow, as this metric better aligns with how performance is tracked both internally and externally. Free cash flow is considered to be more relevant to our shareholders as it represents cash flow that can ultimately be returned to shareholders via dividends or reinvested into the business. Synergy targets relating to the HRG acquisition are expected to be broadly realised over the next two years, and have therefore been removed from the plan as they are less relevant for the 2018/19-2021/22 performance cycle. Participants will continue to be motivated towards achieving these synergies as HRG synergy targets will continue to apply to Future Builder awards granted in 2016 and 2017.

The ROCE, EPS and cost savings targets have been reviewed, and the Committee remains confident that the target ranges remain realistic but stretching and reflect the current and future prospects of the business as well as the retail sector as a whole over the next three years.

The agreed measures, targets and weightings for the 2018 awards are as follows:

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE	25%	8.0%	11.0%
Underlying basic EPS	25%	23.0p	30.0p
Cumulative free cash flow	25%	£800m	£1,300m
Cumulative strategic cost savings	25%	£450m	£550m

2018 Future Builder performance measures (definitions for other awards can be found in the relevant Annual Report)

ROCE

— ROCE reflects the returns generated for shareholders and measures the efficiency of capital use.

— It is based on the underlying profit before interest and tax for the whole business, with Sainsbury's Bank fully consolidated, including the underlying share of post-tax profit from joint ventures. The capital employed figure excludes the impact of movements in the IAS 19 pension deficit.

EPS

— EPS directly reflects returns generated for shareholders.

— Underlying basic EPS is based on underlying profit after tax divided by the weighted average number of ordinary shares in issue during the year.

Free cash flow

— Free cash flow measures the total flow of cash in and out of the business as well as providing an assessment of underlying profitability.

— Free cash flow for these purposes is retail operating cash flow after changes in working capital, normal pension contributions, interest and corporate tax paid, normal net capex (for example, this would exclude strategic purchases and sale and leaseback of assets) and capital injections into the Bank. It is cumulative over the performance period.

Cost savings

— Cost savings is one of our key strategic targets and the level of savings targeted will require structural changes. This is a key long-term measure which is fundamental to delivering returns to shareholders.

— Cumulative strategic cost savings represents cost reductions over the performance period as a result of identified initiatives. It excludes Sainsbury's Bank.

2015 Future Builder (2015/16 to 2017/18 performance period) (audited information)

The 2015 Future Builder award was subject to ROCE, EPS, cash flow and cost savings targets. In addition, a performance gateway had to be achieved before any element could vest. Following the acquisition of Home Retail Group plc in September 2016, the targets were reviewed taking into account the performance of the enlarged Group. As detailed in last year's report, following a detailed assessment, the Committee was satisfied that the targets originally set for this award remained appropriately stretching and that no adjustments were required.

The following table sets out the extent to which each performance measure was achieved. This resulted in a performance multiplier of 1.7x which is applied to the core award, i.e. 42.5 per cent of the maximum available award vested.

	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)	Achieved	Multiplier achieved (out of a maximum 4.0x)
ROCE	25%	9.0%	12.0%	7.7%[1]	0.0x
Underlying basic EPS	25%	23.0p	30.0p	20.4p	0.0x
Cumulative underlying cash flow from retail operations after capex[2]	25%	£3,500m	£5,150m	£4,428m	0.7x
Cumulative strategic cost savings	25%	£450m	£600m	£611m	1.0x
Performance gateway	The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting.			Achieved	
			Total	**1.7x out of a maximum of 4.0x**	

1 Figure relates to Group ROCE including Argos excluding pension fund deficit.
2 Cumulative underlying cash flow from retail operations based on the reported cash flow generated from core retail operations over the performance period after adding back net rent and cash pension costs and adjusted for the cash impact of non-underlying items. Only core retail operations are included in recognition of the differences in cash generation between the retail business and Sainsbury's Bank.

When assessing cost savings, the performance criteria agreed at the start of the performance period included savings relating to planned changes in marketing costs. These additional savings resulted in a total of £71 million over the period in addition to the £540 million reported on page 8.

Unvested Future Builder awards

The targets for Future Builder awards granted in 2016 and 2017 are set out in the table below:

2016 Future Builder (2016/17 to 2018/19 performance period)	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE	20%	9.0%	12.0%
Underlying basic EPS	20%	23.0p	30.0p
Cumulative underlying cash flow from retail operations after capex	20%	£3,500m	£5,150m
Cumulative strategic cost savings	20%	£350m	£450m
HRG acquisition synergies	20%	£100m	£150m

2017 Future Builder (2017/18 to 2019/20 performance period)	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE	20%	8.0%	11.0%
Underlying basic EPS	20%	23.0p	30.0p
Cumulative underlying cash flow from retail operations after capex	20%	£3,500m	£5,150m
Cumulative strategic cost savings	20%	£450m	£550m
HRG acquisition synergies	20%	£160m	£200m

Share awards made during the financial year (audited information)

The following share awards were made to Executive Directors during the year. The Future Builder award levels are determined by the normal grant policy for the role and, in the case of the DSA, performance over the previous year.

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Number of shares	Performance period end date
Mike Coupe	Future Builder[1]	250% of salary	£2,358,562	25% of each element	883,092	07/03/2020
	DSA[2]	77% of salary	£715,702	N/A	267,973	N/A
Kevin O'Byrne	Future Builder[1]	200% of salary	£1,249,998	25% of each element	468,024	07/03/2020
	DSA[2]	–	–	–	–	–
John Rogers	Future Builder[1]	200% of salary	£1,390,803	25% of each element	520,744	07/03/2020
	DSA[2]	63% of salary	£431,628	N/A	161,610	N/A

1 The performance conditions applying to 2017 Future Builder awards are set out in the previous section. The basis of award shows the maximum value, being four times the core award. The award was made on 11 May 2017 and the number of shares has been calculated using the five-day average share price prior to grant (4 to 10 May 2017) of £2.6708. Subject to performance, the award will vest in May 2020 and be subject to a two-year holding period, ending in May 2022. The award is structured as a nil-cost option with an exercise period of up to two years.
2 The DSA was made on 11 May 2017 based on performance over the 2016/17 financial year. The award was made at 70 per cent of the maximum level (maximum of 110 per cent of salary for Mike Coupe and 90 per cent of salary for the other Executive Directors). The number of shares has been calculated using the five-day average share price prior to grant (4 to 10 May 2017) of £2.6708. No further performance conditions apply. Awards become exercisable in March 2019. The award is structured as a nil-cost option with an eight-year exercise period.

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 2017/18 financial year. Further details of the movements of the Executive Directors' share awards during the year are set out on page 80.

	Ordinary shares[1]			Scheme interests[3]			
	11 March 2017	10 March 2018	1 May 2018[2]	Deferred Share Awards[4]	Future Builder awards with performance period completed[5]	Future Builder awards with performance period outstanding[6]	SAYE
Mike Coupe	1,143,027	1,280,690	1,280,690	572,094	67,471	2,588,908	4,518
Kevin O'Byrne	180,000	180,000	180,000	–	–	947,684	–
John Rogers	660,145	750,843	750,936	345,020	40,426	1,479,924	–

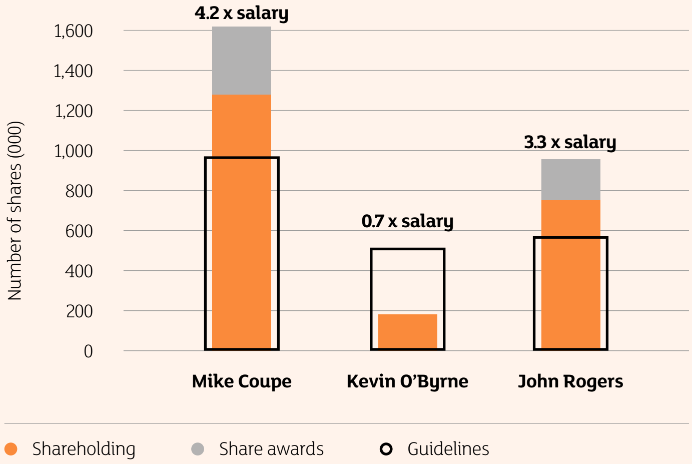
1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children. They also include the beneficial interests in shares which are held in trust under the Sainsbury's Share Purchase Plan.
2 John Rogers' total includes shares purchased under the Sainsbury's Share Purchase Plan between 10 March 2018 and 1 May 2018.
3 Deferred Share Awards and Future Builder awards are structured as nil-cost options.
4 Relates to 2015/16 and 2016/17 Deferred Share Awards.
5 Relates to 2014 award.
6 Relates to 2015, 2016 and 2017 Future Builder awards (maximum) where the performance period has not ended. As noted above, following the year-end, the 2015 award will vest at 42.5 per cent of maximum.
Note: The Executive Directors are potential beneficiaries of the Company's employee benefit trust, which is used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 0.35 million shares (2017: 1.0 million) held by the Trustees.

Shareholding guidelines (audited information)

The Executive Directors are required to build up a specified level of shareholding in the Company. This is to create greater alignment of the Directors' interests with those of shareholders, in line with the objectives of the Remuneration Policy. The guidelines were updated in the 2017 Directors' Remuneration Policy and require the Chief Executive to have a holding of 2.5 times salary and other Executive Directors to hold shares with a value of 2.0 times salary. Directors are required to build this shareholding within five years of appointment to the relevant role. In addition to shares held, share awards under the DSA and Future Builder awards where the performance period has ended count towards the guideline (on a net of tax basis).

Both Mike Coupe and John Rogers have shareholdings that meet and exceed the shareholding guideline. Kevin O'Byrne was appointed to the Board in January 2017 and will be expected to build his shareholding during the course of his tenure.

Shareholding guidelines

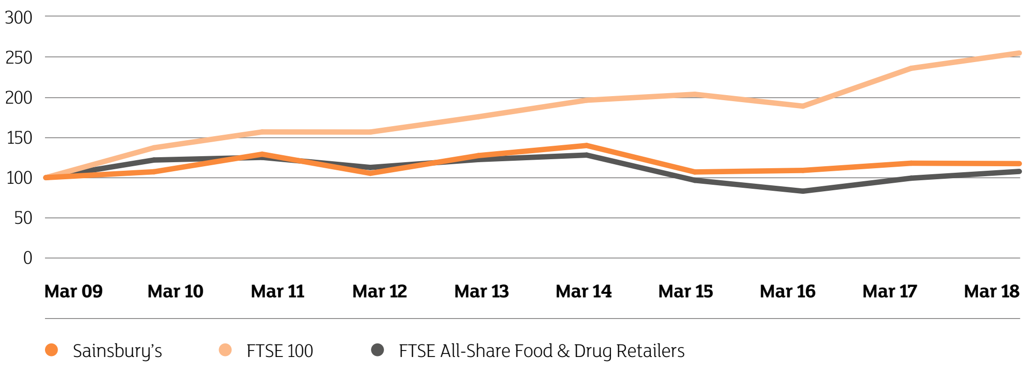


Shareholding calculated using (i) salaries as at 10 March 2018, (ii) share total based on total of shareholding plus net of tax value (tax assumed to be 47 per cent) of share awards not subject to performance as at 10 March 2018 and (iii) the closing mid-market share price on 9 March 2018 of £2.4300.

Performance and CEO remuneration

The graph shows the TSR performance of an investment of £100 in J Sainsbury plc shares over the last nine years compared with an equivalent investment in the FTSE 100 Index. The FTSE 100 Index has been selected to provide an established and broad-based index. The graph also includes data for the FTSE All-Share Food & Drug Retailers Index. The Company is a constituent of both indices. The table details the total remuneration for the Chief Executive over this period.

TSR performance since March 2009



	CEO	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15[1]	2015/16	2016/17	2017/18
Single figure remuneration £000	M Coupe:	–	–	–	–	–	1,507	2,802	2,354	3,429
	J King:	4,441	4,380	3,471	4,366	3,906	405	–	–	–
Bonus/DSA award as a percentage of maximum	M Coupe:	–	–	–	–	–	26%	78%	35%	57%
	J King:	92%	65%	61%	84%	73%	0%	–	–	–
LTIP vesting percentage of maximum	M Coupe:	–	–	–	–	–	0%	0%	22.5%	42.5%
	J King:	80%	48%	43%	44%	40%	0%	–	–	–

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

All-employee share plans

The Company encourages share ownership and operates two all-employee share plans for colleagues, namely the Savings-Related Share Option Plan (Sharesave) and the All-Employee Share Ownership Plan, of which the Sainsbury's Share Purchase Plan (SSPP) is a part. Participation in Sharesave is conditional on three months' service. Executive Directors may participate in these plans in the same way as all other colleagues. Mike Coupe participates in Sharesave and John Rogers currently participates in SSPP. As these are all-employee plans there are no performance conditions.

The 2012 Sharesave plan (five-year), with a £2.67 option price, and the 2014 Sharesave plan (three-year), with a £2.13 option price, matured on 1 March 2018 for over 11,000 colleagues. Colleagues could either take their savings or use the money to buy Sainsbury's shares at the option price. Using the market price on the date of the first exercise, the value of all the shares subject to the maturity was just over £27.2 million. The Company currently has over 30,000 colleagues participating in Sharesave with around 51,000 individual savings contracts.

Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remain within best practice guidelines so that dilution from employee share awards does not exceed ten per cent of the Company's issued share capital for all-employee share plans and five per cent in respect of executive share plans in any ten-year rolling period. The Company monitors dilution levels on a regular basis and the Committee reviews these at least once a year. Up to 10 March 2018, an estimated 6.7 per cent of the Company's issued share capital has been allocated for the purposes of its all-employee share plans over a ten-year period, including an estimated 2.1 per cent over ten years in respect of its executive share plans. This is on the basis that all outstanding awards vest in full.

Strategic Report Governance Report Financial Statements

Percentage change in Chief Executive's remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2016/17 and 2017/18 compares with the percentage change in the average of each of those components of pay for all our colleagues.

	Salary % change	Benefits % change	Bonus % change
Chief Executive[1]	1.5%	0%	n/a
All colleagues[2]	3.6%	0.8%	70.4%

1 The bonus per cent change relates to the cash annual bonus and there was no payment in 2016/17.
2 Figures relate to average based on number of full-time equivalent colleagues.

Relative importance of spend on pay

The table below illustrates the year-on-year change in total colleague pay (being the aggregate staff costs as set out in note 28 to the financial statements) and distributions to shareholders (being declared dividends).

Colleague pay			Distribution to shareholders		
2016/17 £m	2017/18 £m	% change	2016/17 £m	2017/18 £m	% change
2,878	3,134	9.0%	232	212	(8.6%)

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 10 March 2018 for each Non-Executive Director, together with comparative figures for the 52 weeks to 11 March 2017.

	2017/18			2016/17		
	Fees[1] £000	Benefits[2] £000	Total £000	Fees[1] £000	Benefits[2] £000	Total £000
David Tyler	505	1	506	500	1	501
Matt Brittin	66	–	66	65	–	65
Brian Cassin[3]	66	–	66	62	1	63
Mary Harris[4]	27	–	27	84	3	87
David Keens	85	–	85	84	–	84
Susan Rice	98	10	108	78	15	93
Jean Tomlin	79	–	79	78	–	78
Jo Harlow[5]	34	2	36	–	–	–

1 Paid in relation to the year.
2 David Tyler received a non-cash benefit of private medical cover. The benefits for the other Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office.
3 Brian Cassin was appointed to the Board on 1 April 2016.
4 Mary Harris stepped down from the Board on 5 July 2017.
5 Jo Harlow was appointed to the Board on 11 September 2017.

The Chairman receives an annual cash fee and benefits of private medical cover and a colleague discount card.

Non-Executive Directors receive a base annual cash fee; additional fees are paid to the Senior Independent Director and to the Chairmen of the Audit, Remuneration and Corporate Responsibility and Sustainability Committees. Non-Executive Directors receive no benefits other than a colleague discount card.

Details of the Board and Committee schedule of meetings and the number of meetings attended by the Directors are set out on page 49.

During the year, the Chairman and Non-Executive Directors' fees were reviewed. From 24 September 2017, the fees were amended (for the first time in two years) reflecting the responsibilities and time commitment of the roles, as set out in the table below.

	Fees effective from 24 September 2017	Fees effective from 27 September 2015
Chairman fee	£510,000	£500,000
Base fee	£67,500	£65,000
Senior Independent Director fee (additional)	£19,500	£18,500
Chairman of Remuneration Committee fee (additional)	£19,500	£18,500
Chairman of Audit Committee fee (additional)	£19,500	£18,500
Chairman of Corporate Responsibility and Sustainability Committee fee (additional)	£13,500	£13,000

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

	Ordinary shares[1]		
	11 March 2017	10 March 2018	1 May 2018
David Tyler	75,000	78,599	78,599
Matt Brittin	14,090	14,090	14,090
Brian Cassin	25,000	25,000	25,000
Mary Harris[2]	27,446	27,446	–
David Keens	100,000	100,000	100,000
Susan Rice	4,000	4,000	4,000
Jean Tomlin	1,315	4,415	4,415
Jo Harlow[3]	–	–	

1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.
2 Mary Harris stepped down from the Board on 5 July 2017. The number of shares shown as at 10 March 2018 relates to the shares held as at 5 July 2017.
3 Jo Harlow was appointed to the Board on 11 September 2017.

Directors' appointment dates

Mike Coupe	1 August 2007 (appointment as Chief Executive 9 July 2014)
Kevin O'Byrne	9 January 2017
John Rogers	19 July 2010
David Tyler	1 October 2009 (Chairman from 1 November 2009)
Matt Brittin	27 January 2011
Brian Cassin	1 April 2016
David Keens	29 April 2015
Susan Rice	1 June 2013
Jean Tomlin	1 January 2013
Jo Harlow	11 September 2017

Governance – Remuneration Committee

Committee membership

The Remuneration Committee during the year comprised Mary Harris (Chair until 5 July 2017), Susan Rice (Chair from 5 July 2017), Jean Tomlin (until September 2017), Matt Brittin (from September 2017) and Jo Harlow (from September 2017). All members of the Committee are independent Non-Executive Directors. Susan Rice took over as Chair at the AGM on 5 July 2017 having been a Committee member since September 2015.

Role and responsibilities of the Committee

The Committee complies with relevant regulations and considers the UK Corporate Governance Code and best practice when determining pay and policy. The specific responsibilities of the Committee include:

- Determining and agreeing with the Board the Remuneration Policy for the Chairman, Executive Directors and the Operating Board Directors;
- Setting individual remuneration arrangements for the Chairman, Executive Directors and Operating Board Directors;
- Reviewing and noting the remuneration trends across the Company;
- Approving the service agreements of each Executive Director, including termination arrangements; and
- Considering the achievement of the performance conditions under annual and long-term incentive/bonus arrangements.

The Committee's terms of reference are available on the Company's website **www.j-sainsbury.co.uk/investor-centre/corporate-governance**. Over the coming year, we will review the terms of reference in light of the new Corporate Governance Code. The Committee is well placed to comply with the new Code given our historic practice of considering remuneration across the wider Group, to ensure that pay and incentives across the Company support the long-term success of the business.

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. David Tyler, Mike Coupe, Angie Risley (Group HR Director), Sarah Desai (Group Head of Reward) and Duncan Cooper (Director of Group Finance) are invited to attend Committee meetings. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. Individuals who attend Remuneration Committee meetings are not present when their own remuneration is being determined.

The Committee typically meets four times each year, or more 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. The key issues the Committee discussed during the year were remuneration arrangements in relation to changes on the Operating Board, changes to the annual bonus and a review of the performance measures and targets for Future Builder 2018.

Advisers to the Remuneration Committee

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was supported by its appointed advisers, Deloitte LLP ('Deloitte'). Deloitte were reappointed by the Committee as advisers in 2013 following a competitive tender. During the year they provided advice to the Committee on a range of topics including remuneration trends, corporate governance, incentive plan design, incentive plan rules and the Remuneration Policy. Their consultants attended all of the Committee meetings. In relation to their advice, Deloitte received fees of circa £80,000 (fees are based on hours spent). During the year, Deloitte provided the Company with unrelated advice and consultancy on transaction support and due diligence, information technology, organisational structure, data analytics and taxation.

Deloitte are members of the Remuneration Consulting Group and, as such, operate under the Code of Conduct in relation to executive remuneration consulting in the UK. During the year, the Committee reviewed the advice provided by Deloitte and has confirmed that it has been objective and independent. The Committee has also determined that the Deloitte partner who provides remuneration advice to the Committee does not have any connections with the Company that may impact their independence. The Committee has reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Statement of voting at general meeting

The table below sets out the votes on the Directors' Remuneration Policy and Annual Report on Remuneration at the 2017 AGM. The Committee is keen to hear the views of all shareholders and continually reviews the Remuneration Policy and implementation.

	Votes for	Votes against	Votes abstained
Remuneration Policy (2017 vote)	95.60% 1,519 million	4.40% 69.9 million	56.7 million
Remuneration Report (2017 vote)	96.30% 1,528 million	3.70% 58.6 million	59.7 million

Details of the Executive Directors' share awards and movements during the year (audited information)

The table below shows the conditional awards granted and exercised under each of the Company's share plans.

Name	Award	Date of grant	Share price at date of award (pence)	Option price (pence)	Number of options held at 11 March 2017	Number of options granted/ dividend shares allocated during the year	Number of options released during the year	Number of options lapsed during the year	Date of exercise	Share price on exercise (pence)	Number of options exercised	Notional gain on exercise (£000)[4]	Number of options held at 10 March 2018
Mike Coupe	Long-Term Incentive Plan[1]	15/05/2014	333	Nil	599,740	9,922	–	464,799	16/05/2017	266	77,392	206	67,471
		14/05/2015	269	Nil	828,880	–	–	–		–	–	–	828,880
		12/05/2016	253	Nil	876,936	–	–	–		–	–	–	876,936
		11/05/2017	267	Nil	–	883,092	–	–		–	–	–	883,092
	Deferred Share Award[2]	14/05/2015	269	Nil	165,907	16,907	182,814	–	04/05/2017	259	182,814	473	–
		12/05/2016	253	Nil	304,121	–	–	–		–	–	–	304,121
		11/05/2017	267	Nil	–	267,973	–	–		–	–	–	267,973
	Sharesave[3]	11/12/2013	388	332	4,518	–	–	–		–	–	–	4,518
	Total				**2,780,102**	**1,177,894**	**182,814**	**464,799**			**260,206**	**679**	**3,232,991**
Kevin O'Byrne	Long-Term Incentive Plan[1]	26/01/2017	261	Nil	479,660	–	–	–		–	–	–	479,660
		11/05/2017	267	Nil	–	468,024	–	–		–	–	–	468,024
	Total				**479,660**	**468,024**	**–**	**–**	**–**	**–**	**–**	**–**	**947,684**
John Rogers	Long-Term Incentive Plan[1]	15/05/2014	333	Nil	359,344	5,945			16/05/2017	266	46,371	123	40,426
		14/05/2015	269	Nil	442,068	–	–	278,492		–	–	–	442,068
		12/05/2016	253	Nil	517,112	–	–	–		–	–	–	517,112
		11/05/2017	267	Nil	–	520,744	–	–		–	–	–	520,744
	Deferred Share Award[2]	14/05/2015	269	Nil	101,665	10,359	112,024	–	04/05/2017	259	112,024	290	–
		12/05/2016	253	Nil	183,410	–	–	–		–	–	–	183,410
		11/05/2017	267	Nil	–	161,610	–	–		–	–	–	161,610
	Sharesave[3]	09/12/2011	297	238	6,302	–	–	–	05/05/2017	259	6,302	1	–
	Total				**1,609,901**	**698,658**	**112,024**	**278,492**			**164,697**	**414**	**1,865,370**

1 Details of the performance conditions applying to Future Builder awards are set out on pages 74 to 76. The LTIP share figures relate to the maximum that could be achieved.
2 See page 73 for details of the Deferred Share Award, including performance conditions.
3 Sharesave is an all-employee share option plan and has no performance conditions as per HMRC Regulations.
4 This is the notional gain on the date of exercise had all shares been sold.

Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 5 July 2017. The full policy, including approach to recruitment, service contracts, termination arrangements etc, can be found in the 2017 Annual Report on our website.

The approved Remuneration Policy tables for Executive Directors and Non-Executive Directors, which were published in last year's Directors' Remuneration Policy, are set out below. For clarity, where the policy table included references to implementation of the policy in 2017/18, these references have been removed. Details of remuneration arrangements for 2017/18 are set out in the Annual Report on Remuneration.

Policy table for Executive Directors

Base salary	
Purpose and link to strategy	Core element of remuneration used to attract and retain executives who can deliver our strategic objectives.
Operation	Typically reviewed annually in March. Consideration is given to a number of internal and external factors including business and individual performance, role, responsibilities, scope, market positioning, inflation and colleague pay increases.
Opportunity	Salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for the wider workforce. There is no maximum salary opportunity. Where the Committee considers it necessary and appropriate, larger increases may be awarded in individual circumstances such as: — A change in scope or responsibility; — If a new Executive Director is appointed at a lower rate and the salary is realigned over time as the individual gains experience in the role; or — Alignment to market level.
Performance details	None.

Benefits	
Purpose and link to strategy	Competitive benefits to assist in attracting and retaining executives.
Operation	A range of benefits may be provided including, but not limited to, the provision of company car benefits (or cash equivalent), private medical cover, life assurance, long-term disability insurance, all-employee share plan participation and colleague discount. The Committee keeps the benefits offered, the policies and the levels provided under regular review.
Opportunity	The value of benefits provided will be reasonable in the context of relevant market practice for comparable roles and taking into account any individual circumstances (e.g. relocation). There is no maximum monetary value. Participation in any HMRC-approved all-employee share plan is limited to the maximum award levels permitted by the relevant legislation.
Performance details	None.

Retirement benefits	
Purpose and link to strategy	Provides an income following retirement and assists colleagues in building funds for their future.
Operation	JS Self Invested Pension Plan (SIPP, a defined contribution plan) and/or a cash salary supplement.
Opportunity	Maximum value of up to 30 per cent of salary per annum for existing Executive Directors, with a maximum value of up to 25 per cent of salary per annum for any new Executive Director appointments. For new hires, the nature and value of any pension provided will be, in the Committee's view, reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Company.
Performance details	None.

Annual bonus	
Purpose and link to strategy	Rewards performance on an annual basis against key financial and individual objectives.
Operation	Performance measured over one year, bonus payable in cash after the year-end. Bonus level determined by the Committee after the year-end based on performance against targets. Measures and targets are reviewed annually. Recovery provisions apply.
Opportunity	Maximum opportunity of up to 125 per cent of salary per annum. The level of threshold payment for performance varies depending on the performance measure, with payouts from zero per cent. Full payout requires outperformance of stretch objectives.
Performance details	Based on a combination of financial (e.g. profit) and individual metrics. A performance gateway must be achieved before any bonus payments can be made. The detail of the measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic goals. At least half of any award will be subject to financial measures.

Deferred Share Award (DSA)	
Purpose and link to strategy	Recognises and rewards for delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth. Balance with annual bonus to ensure management remain mindful of long-term consequences of short-term actions. Awards delivered in shares to provide further alignment with shareholders.
Operation	Performance measured over one year, after which award made as conditional shares (or equivalent) deferred for two financial years. After the year-end, performance is assessed in the round based on the Committee's judgement of performance achieved. Measures and targets are reviewed annually in light of the strategic plan. Dividends (or equivalents) may accrue on vested shares. Recovery provisions apply.
Opportunity	Maximum opportunity of up to 125 per cent of salary per annum. No DSA grants are made unless threshold performance levels are reached, with full vesting requiring outperformance of stretch objectives.
Performance details	Basket of metrics covering four categories: financial performance, returns to shareholders, relative performance against peers and strategic goals. A performance gateway must be achieved before any awards can be made. The detail of the measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic goals. At least half of any award will be based on the delivery of financial performance and returns to shareholders.

Long-Term Incentive Plan (LTIP) – Future Builder	
Purpose and link to strategy	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Share-based to provide greater alignment with shareholder interests.
Operation	Awards of conditional share awards (or equivalent) with vesting dependent on performance measured over a period of at least three financial years. Vested awards will normally be subject to a holding period following the end of the performance period which means future 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 apply. Dividends (or equivalents) may accrue on vested shares.
Opportunity	Maximum award of up to 250 per cent of salary per annum in respect of any financial year. Awards structured as core award (up to 62.5 per cent per annum) with a performance multiplier of up to four times. For achievements at threshold levels of performance, up to 25 per cent of maximum under each element may vest. Based on the current structure this is equivalent to a multiplier of one times the core award.
Performance details	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. A performance gateway must be achieved before any awards vest. Prior to granting awards, the Committee will review the performance conditions and may opt to vary the metrics and weightings to ensure measures and targets remain aligned with its objectives. The Committee would seek to consult as appropriate with its major shareholders regarding any material changes.

Shareholding guidelines	
Purpose and link to strategy	Alignment of Executive Directors with shareholders.
Operation	Guidelines are Chief Executive 2.5 times salary, other Executive Directors 2.0 times salary. Guideline expected to be met within five years of appointment.

Remuneration Policy for the Non-Executive Chairman and Non-Executive Directors

The remuneration of the Non-Executive Chairman is determined by the Remuneration Committee and the remuneration of the Non-Executive Directors by the Non-Executive Chairman and Executive Directors. The Non-Executive Chairman and Non-Executive Directors receive fees and are eligible for certain benefits. Non-Executive roles are not entitled to any performance-related pay or pension.

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

Consideration of shareholder views

The Annual Report on Remuneration will be put to an advisory vote at the AGM on 11 July 2018. The Directors confirm that this report has been prepared in accordance with the Companies Act 2006 and reflects the provisions of the Large and Medium-sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013.

Approved by the Board on 1 May 2018.

Dame Susan Rice
Chair, Remuneration Committee

Additional statutory information

Dividends
Details on the payment of the final dividend can be found on page 40.

Share capital and control
Except as described below in relation to the Company's employee share schemes, there are no restrictions on the voting rights attaching to the Company's ordinary shares or the transfer of securities in the Company; no person holds securities in the Company carrying special rights with regard to control of the Company; and the Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights. Further details of the rights, restrictions and obligations attaching to the share capital of the Company, including voting rights, are contained in the Company's Articles of Association. The Articles of Association may only be changed with the agreement of shareholders.

Shares acquired through the Company's employee share plans rank pari passu with shares in issue and have no special rights. Where, under the Company's All-Employee Share Ownership Plan, participants are beneficial owners of the shares but the Trustee is the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participants. The J Sainsbury Employee Benefit Trusts waive their right to vote and to dividends on the shares they hold which are unallocated. Total dividends waived by the Trustee during the financial year amounted to £459,945. Some of the Company's employee share plans include restrictions on transfer of shares while the shares are held within the plan.

At the AGM held in July 2017, the Company was authorised by shareholders to purchase its own shares, within certain limits and as permitted by the Articles of Association. The Company made no purchases of its own shares during the year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge.

All of the Company's employee share plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Company's share plans may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time.

A number of the Company's credit facilities and banking arrangements contain change of control clauses under which lenders may cancel their commitments and declare all outstanding amounts immediately due and payable. There are no other significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

Ordinary shares
Details of the changes to the ordinary issued share capital during the year are shown in note 19 of the financial statements. At the date of this report, 2,196,753,083 ordinary shares of $28\frac{4}{7}$ pence have been issued, are fully paid up and are listed on the London Stock Exchange.

Major interests in shares
As at 10 March 2018, the Company had been notified by the following investors of their interests in three per cent or more of the Company's shares. These interests were notified to the Company pursuant to DTR5 of the Disclosure Guidance and Transparency Rules:

	Number of ordinary shares	% of voting rights
Qatar Holdings LLC	481,746,132	21.99
Black Rock Inc	109,699,242	5.01

No other changes to the above have been disclosed to the Company between 10 March 2018 and 1 May 2018.

Directors' interests
The beneficial interests of the Directors and their connected persons in the shares of the Company are shown in the Annual Report on Remuneration on pages 76 and 78.

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

Directors' indemnities
The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company has executed deeds of indemnity for the benefit of each Director in respect of liabilities which may attach to them in their capacity as Directors of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2017/18, which has been renewed for 2018/19. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

Research and development
In the ordinary course of business, the Company regularly develops new products and services.

Employment
Employment policies
The Company values the different perspectives and experiences of all our colleagues. We are proud of our diverse workforce because every colleague's unique viewpoint helps us to innovate and to understand and embrace different customers' needs. We are committed to providing equal opportunities for all colleagues and applicants, including during recruitment and selection, training and development and promotion.

A Great Place to Work strategy is in place, underpinned by well-developed policies for the fair and equal treatment of all colleagues. Training is provided which ensures that policies are understood throughout the organisation. We have a workplace adjustments process in place for our colleagues who are living with a disability or long-term health condition which operates through the Government's Access to Work scheme. Workplace adjustments can be made at any point during a colleague's employment with us. See page 26 for further information on our diversity strategy.

Colleague engagement
We deliver regular colleague communications which build trust in our corporate strategy, vision and values, enable our colleagues to do a good job, and provide information which matters to colleagues about their pay, benefits and career opportunities. We are committed to delivering news and information to our colleagues in a clear and timely way, and communicating change sensitively.

Colleagues receive information from their managers, as well as a range of internal communications including films and magazines and have access to a colleague intranet, and Yammer, our social platform. In addition, there are a number of ways for colleagues to have their say, from our colleague suggestion scheme, My Bright Idea, to Talking Shop when colleagues have an opportunity to meet members of our Operating Board to ask questions and share what's on their mind.

All colleagues receive a letter from our Chief Executive Officer every time we announce our results detailing our Company performance, and how our colleagues have played their part. Through our communication channels and messages from the Chief Executive Officer we've also set out Company milestones, explaining how every colleague can help to achieve them, and we celebrate our successes when we reach them by rewarding colleagues with an increase in colleague discount.

Greenhouse gas emissions

In line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), we will be reflecting the performance of Sainsbury's and Argos and Habitat emissions separately and as combined J Sainsbury plc Group performance.

Sainsbury's has measured our greenhouse gas (GHG) footprint since 2005 and set ourselves a challenging target to reduce our absolute emissions by 30 per cent by 2020, compared to our baseline (and 65 per cent relative to sales floor area).

Argos and Habitat also set themselves a target to reduce their emissions by 40 per cent relative to sales floor area by 2020.

Location-based emissions

Versus 2005/06, in 2017/18 our:

- Group emissions reduced by 24 per cent absolute and 49 per cent relative
- Sainsbury's emissions reduced by 24 per cent absolute and 50 per cent relative
- Argos and Habitat emissions reduced by 27 per cent absolute and 31 per cent relative

Sainsbury's Group

	GHG emissions (tCO_2e)		
Emission source	2005/06	2016/17	2017/18
Total (tCO_2e)	**1,554,492**	**1,372,294**	**1,176,481**
Intensity measurement (tCO_2e/'000 sq ft)	89.77	53.10	46.16

Sainsbury's

	GHG emissions (tCO_2e)		
Emission source	2005/06	2016/17	2017/18
Combustion of fuel & operation of facilities ('Scope 1')	536,694	580,537	515,642
Electricity, heat, steam and cooling purchased for own use ('Scope 2')	833,787	634,960	529,897
Total	**1,370,481**	**1,215,497**	**1,042,540**
Intensity measurement (tCO_2e/'000 sq ft)	90.37	51.98	44.91

Argos and Habitat

	GHG emissions (tCO_2e)		
Emission source	2005/06	2016/17	2017/18
Combustion of fuel & operation of facilities ('Scope 1')	101,563	86,411	78,732
Electricity, heat, steam and cooling purchased for own use ('Scope 2')	82,448	70,386	55,210
Total	**184,011**	**156,797**	**133,942**
Intensity measurement (tCO_2e/'000 sq ft)	85.55	63.75	59.04

Market-based emissions

The market-based emissions method reflects the emissions from the electricity that a company is using, which may be different from emissions for the electricity that is generated as a UK average. For example, different electricity suppliers emit more or less greenhouse gases depending on the energy source or technology, and companies which have invested in their own renewable or low carbon energy generation by this method can show the actual emissions level for the energy used.

Versus 2005/06, in 2017/18 our market-based:

- Group emissions reduced by 32 per cent absolute and 54 per cent relative
- Sainsbury's emissions reduced by 33 per cent absolute and 56 per cent relative
- Argos and Habitat emissions decreased by 28 per cent absolute and 32 per cent relative

Group (J Sainsbury plc)

	GHG emissions (tCO_2e)		
Emission source	2005/06	2016/17	2017/18
Total (tCO_2e)	**1,554,492**	**1,255,224**	**1,053,680**
Intensity measurement (tCO_2e/'000 sq ft)	89.77	48.57	41.35

Sainsbury's

	GHG emissions (tCO_2e)		
Emission source	2005/06	2016/17	2017/18
Combustion of fuel & operation of facilities ('Scope 1')	536,694	564,193	503,828
Electricity, heat, steam and cooling purchased for own use ('Scope 2')	833,787	534,898	418,084
Total	**1,370,481**	**1,099,091**	**921,912**
Intensity measurement (tCO_2e/'000 sq ft)	90.37	47.01	39.71

Argos and Habitat

	GHG emissions (tCO_2e)		
Emission source	2005/06	2016/17	2017/18
Combustion of fuel & operation of facilities ('Scope 1')	101,563	86,411	78,732
Electricity, heat, steam and cooling purchased for own use ('Scope 2')	82,448	69,722	53,036
Total	**184,011**	**156,134**	**131,768**
Intensity measurement (tCO2e/'000 sq ft)	85.55	63.48	58.08

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: ten per cent of total natural gas usage is covered by Green Gas Certification (100 per cent Renewable Gas Guarantee of Origin Contract); therefore ten per cent of natural gas emissions have been reported at zero emissions. All other Scope 1 market-based emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2017 for all sources.

Scope 2: 16 per cent of UK electricity is covered by a PPA, which meets all of the required quality criteria; therefore 16 per cent of UK electricity emissions have been reported at zero emissions. The remaining UK electricity has been reported at supplier-specific emissions rate and non-UK electricity has been reported at local grid average.

Electricity use

As a result of our ongoing investment in energy reduction initiatives:

- Group absolute UK electricity consumption has decreased year-on-year by three per cent and 14 per cent versus 2005/06 whilst adding 47 per cent more sales area, and
- Sainsbury's absolute UK electricity consumption has decreased year-on-year by three per cent and 14 per cent versus 2005/06 whilst adding 53 per cent more sales area
- Argos and Habitat absolute UK electricity consumption has decreased year-on-year by nine per cent and 13 per cent versus 2005/06 whilst adding five per cent more space.

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2017, and IEA 2015 for those overseas. The reporting period is the financial year 2017/18, the same as that covered by the Annual Report and Financial Statements. The boundaries of the GHG inventory are defined using the operational control approach. In general, the emissions reported are the same as those which would be reported based on a financial control boundary. Emissions for previous years are retrospectively adjusted as and when more accurate data is provided.

Political donations

The Company made no political donations in 2017/18 (2016/17: £nil).

Essential contracts

Sainsbury's has contractual and other arrangements with numerous third parties in support of its business activities. None of the arrangements is individually considered to be essential to the business of Sainsbury's.

Post balance sheet events

Events after the balance sheet are disclosed in note 37 of the financial statements.

Financial risk management

The financial risk management and policies of the Group are disclosed in note 23 of the financial statements.

Financial instruments

The Group's financial instruments are disclosed in note 24 of the financial statements.

Disclosure of information to the auditor

Each of the Directors has confirmed that, so far as he/she is aware, there is no relevant audit information of which the auditor is unaware. Each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' Report

The Directors' Report comprises pages 1 to 63, 84 to 86 and 88 of this Annual Report and Financial Statements. The following information required by Rule 9.8.4R of the UK Listing Rules is also incorporated into the Directors' Report:

Information requirement	Location within Annual Report
Interest capitalised	See note 10
Publication of unaudited financial information	Leverage ratio, see note 23
Details of any long-term incentive schemes	See Remuneration Report and note 30
Shareholder waiver of dividends	See note 22
Shareholder waiver of future dividends	See note 22

Other information requirements set out in LR 9.8.4R are not applicable to the Company.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
1 May 2018

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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 International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable.

The Board believes that the disclosures set out in this Annual Report provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

Each of the Directors, whose names and functions are listed on pages 42 to 43, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and Directors' Report contained in the Annual Report and Financial Statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
1 May 2018

Independent auditor's report to the members of J Sainsbury plc

In our opinion:

- J Sainsbury plc's consolidated financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 10 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited J Sainsbury plc's financial statements for the 52 weeks ended 10 March 2018 which comprise:

Group	Parent company
Consolidated income statement	Balance sheet
Consolidated statement of comprehensive income	Statement of changes in equity
Consolidated balance sheet	Related notes 1 to 11 to the financial statements
Consolidated cash flow statement	
Consolidated statement of changes in equity	
Related notes 1 to 38 to the financial statements including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework"(United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 62 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 35 in the Annual Report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 35 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters

- Supplier arrangements
- Aspects of revenue recognition
- Financial Services customer receivables impairment
- Nectar acquisition
- IT environment

Audit scope

- We performed a full scope audit of the complete financial information of the following components: J Sainsbury plc, Sainsbury's Supermarkets, Argos and Sainsbury's Bank. We performed audit procedures on specific balances including for Argos Financial Services, Nectar, the property companies, material joint ventures and the insurance company due to the size and risk of certain individual balances within these components.
- The components where we performed full or specific audit procedures accounted for 92 per cent of Profit before tax before one off items, 99 per cent of Revenue and 96 per cent of Total assets.

Materiality

- Overall Group materiality is £30.8 million which represents five per cent of profit before tax and before non-recurring Argos integration costs, Sainsbury's Bank transition costs and restructuring costs. A reconciliation is provided below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Changes from the prior year

The Group acquired three UK entities and the remaining share of the Insight 2 Communication LLP joint venture from Aimia Inc. (referred to as the "Nectar acquisition"). We have reflected this in our risk assessment, the results of which are below. We have designated the significant Nectar balances as specific scope. We have included the Nectar acquisition as a key audit matter.

In the prior year because of the acquisition of HRG in that year we included "HRG acquisition purchase price allocation" as a key audit matter. We have removed this risk for this year.

Risk

Supplier arrangements

Refer to Accounting policies (page 103); and note 2 of the Consolidated Financial Statements (page 103)

The Group receives material discounts from suppliers, referred to as supplier arrangements. The accounting for some of these supplier arrangements is complex since management applies judgement, processing is either manual or more complex and the quantum of agreements is high. We focused our audit procedures on these complex supplier arrangements.

Complex supplier arrangements recognised in the income statement for the financial year are £450 million (2016/17: £343 million).

Our response to the risk

- We walked through the controls in place within the supplier arrangements process. We were able to take a controls-reliance approach over certain aspects of the process, testing the key controls, although there are areas where we cannot as the process for recording deals is manual.
- We selected a sample of suppliers to whom we sent confirmations across all "deal" types to confirm key deal input terms. Where we did not receive a response from the supplier, we performed alternative procedures, including obtaining evidence of initiation and where possible settlement of the arrangement.
- We tested the existence and valuation of balance sheet amounts recognised in accounts receivable and as a contra-asset in accounts payable by reviewing post-period end settlement. We also performed a 'look-back' analysis of prior period balance sheet amounts to check that these amounts were appropriately recovered.
- We tested the settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by off-set to accounts payable.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier arrangements to corroborating evidence.
- We tested deals recorded post period end and obtained the supplier agreement to validate that the deal was correctly recorded post period end.
- We read management's disclosure in respect of supplier arrangements amounts recorded in the income statement and balance sheet to confirm completeness and accuracy of amounts disclosed.

Key observations communicated to the Audit Committee

Supplier arrangement amounts are appropriately recognised in the income statement and balance sheet and the disclosure in the financial statements is appropriate.

Risk

Aspects of revenue recognition

Refer to the Audit Committee Report (page 61); Accounting policies (page 109); and note 4 of the Consolidated Financial Statements (page 106)

Our assessment is that the vast majority of the Group's revenue transactions are non-complex, with no judgement applied over the amount recorded. We focused our work on the manual adjustments that are made to revenue.

Our procedures were designed to address the risk of manipulation of accounting records and the ability to override controls.

Our response to the risk

- We obtained a detailed understanding of these manual adjustments. Due to the manual nature of these adjustments, we performed substantive audit procedures.
- We used our computer-aided analytics tools to identify those revenue journals for which the corresponding entry was not cash. These entries include Nectar points, coupons, vouchers and commission arrangements.
- We obtained corroborating evidence for such corresponding entries. For the Nectar points adjustment we obtained evidence from the administrator of the scheme. For third party coupons and vouchers we obtained evidence of collection and settlement.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries impacting revenue, as well as other adjustments made in the preparation of the financial statements. We considered unusual journals such as those posted outside of expected hours, or by unexpected individuals and, for large or unusual amounts.

Key observations communicated to the Audit Committee

Adjustments to revenue have been appropriately recognised.

Risk

Financial Services customer receivables impairment

Refer to the Audit Committee Report (page 61); Accounting policies note 15b; and note 15c of the Consolidated Financial Statements (page 122)

Financial Services customer receivables relate to Sainsbury's Bank credit cards, loans and mortgages; and Argos store cards. Total amounts recognised at year end are £5,692 million (2016/17: £4,602 million). The provision for impairment is £132 million (2016/17: £89 million).

The risk of collectability of Financial Services customer receivables, through either credit cards, loans, mortgages or Argos store cards is significant. There is judgement in the assumptions applied to calculate the loan provisions against outstanding balances.

Our response to the risk

- The loan impairment methodology was reviewed, to confirm it was consistent with both the IFRS requirements and that previously applied.
- The completeness and accuracy of the data from underlying systems that were used in the impairment models were tested.
- Key assumptions including the probability of default and the size of the loss if default occurred were assessed against internal and external evidence. The key assumptions within the models were compared to knowledge of assumptions used and also with internal historical trends, concluding that, based on the evidence obtained, management's conclusions were supportable.
- Changes to the modelling assumptions were assessed to confirm these were appropriate and in line with accounting standards.
- The accuracy of prior year impairment reserves was considered to assess the quality of management's estimation process.

Key observations communicated to the Audit Committee

The provision for impairment of Financial Services receivables due from customers is appropriately recognised.

Risk

Nectar acquisition

Refer to the Audit Committee Report (page 61); Accounting policies (page 109); and note 2e of the Consolidated Financial Statements (page 103)

The Group acquired Nectar during the year. The provisional business combination fair values are outlined in note 31 to the financial statements.

We focused our audit effort on the IFRIC 13 accounting treatment for the loyalty points and the acquisition accounting of the acquired companies, with a particular focus on the valuation of the Nectar points liability, including the breakage assumption.

Our response to the risk

- We walked through the controls in place within the purchase price accounting process including specifically around the fair value of acquired assets and liabilities and the estimates applied in the recognised intangibles.
- We understood management's processes and controls surrounding the Nectar points liability and verified the inputs to the calculation.
- We corroborated management's estimate on the breakage assumption and understood how management arrived at a reasonable range.
- We understood the underlying accounting model IFRIC 13, and verified its application to the Nectar points accounting.

Key observations communicated to the Audit Committee

The Nectar acquisition has been appropriately recognised.

Risk

The IT environment

The IT systems across the Group are complex and there are varying levels of integration between them. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process.

For Sainsbury's Bank the key system relating to the customer loan receivable impairment as described above, is provided by an external party.

Our response to the risk

- We held discussions with management to understand the IT environment and walked through the key financial processes to understand where IT systems were integral to the Group's controls over financial reporting. From this we identified which IT systems to include in the scope for our detailed IT testing.
- We assessed the IT general controls environment for the key systems impacting the accurate recording of transactions and the presentation of the financial statements.
- We designed our IT audit procedures to assess the IT environment, including an assessment of controls over changes made to the system and controls over appropriate access to the systems.
- Where we found that adequate IT general controls were not in place, we performed additional substantive testing to mitigate the risk of material misstatement.
- For Sainsbury's Bank we received a report from the auditors on the general control environment of the outsourced systems and followed up on matters arising, performing further procedures as necessary.

Key observations communicated to the Audit Committee

We have not identified any misstatements in the financial statements due to the limitations of the IT environment.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts of the components of the Group in the Group financial statements, we selected the head office company J Sainsbury plc, Sainsbury's Supermarkets, Argos and Sainsbury's Bank components to perform full scope procedures. These represent the principal business units within the Group based on their size and risk characteristics.

For other entities including Argos Financial Services, Nectar, the property companies, material joint ventures and insurance components we performed audit procedures on specific accounts which 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 audit scope of these 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 balances, none are individually greater than five per cent of the Group's profit before tax excluding one off items. For these accounts, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations, to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY network firms operating under our instruction. Of the full scope components, audit procedures were performed on the head office company, J Sainsbury plc, Sainsbury's and Argos trading entities and consolidation of the Group by the primary team. The work at the specific scope locations was performed by EY components in Edinburgh, the Isle of Man and the primary team.

For the Sainsbury's Bank full scope component this was our first year as auditor. During the current period's audit cycle, the Senior Statutory Auditor visited Sainsbury's Bank and held discussions with management. The team discussed the audit approach with the component team and significant issues arising from their work, reviewing key audit working papers on risk areas. The closing discussion was attended by the primary team. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £30.8 million, which is five per cent of profit before tax excluding the items described below. We believe that this materiality basis provides us with the best assessment of the requirements of the users of the financial statements. This is consistent with the approach taken in the prior period.

Starting basis	Profit before tax	£409m
Adjustments	Argos related non-underlying costs	£85m
	Sainsbury's Bank transition costs	£38m
	Restructuring costs	£85m
	Total	£208m
	Profit before tax and adjustments	**£617m**
Materiality	Materiality of £30.8 million (five per cent of profit before tax and after making the adjustments noted above).	

We determined materiality for the Parent Company to be £155 million (2016/17: £145 million), which is two per cent (2016/17: two per cent) of net assets. The materiality of the parent company is greater than the Group because the Parent Company is a holding Company with significant net assets.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was approximately 75 per cent (2016/17: 75 per cent) of our planning materiality, namely £23 million (2016/17: £25 million). We have set performance materiality at this percentage due to our assessment that the risk of material misstatement is not high.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £4 million to £17 million (2016/17: £5 million to £19 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.5 million (2016/17: £1.7 million), which is set at five per cent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report as set out on pages 1 to 86 other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 88 – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on page 56 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 47 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 88, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- those that relate to the form and content of the financial statements, such as the Group accounting policy, International Financial Reporting Standards as adopted by the EU (IFRS), the UK Companies Act 2006 and the UK Corporate Governance Code;
- those that relate to the payment of employees; and
- industry related such as compliance with the requirements of the Grocery Supply Code of Practice.

We understood how J Sainsbury plc is complying with those frameworks by observing the oversight of those charged with governance, the culture of honesty and ethical behaviour and a strong emphasis placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by making an assessment of the key fraud risks to the Group and the manner in which such risks may manifest themselves in practice, based on our previous knowledge of the Group as well as an assessment of the current business environment.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error. We evaluated the design and operational effectiveness of controls put in place to address the risks identified, or that otherwise prevent, deter and detect fraud. We also considered performance targets and their influence on efforts made by management to manage earnings.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the Audit Committee we were appointed by the Company at its Annual General Meeting on 8 July 2015. We have been the statutory auditor since that date.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the Financial Statements.

Nigel Jones
(Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London
1 May 2018

1 The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

for the 52 weeks to 10 March 2018

	Note	2018 £m	2017 £m
Revenue	4	**28,456**	26,224
Cost of sales		**(26,574)**	(24,590)
Gross profit		**1,882**	1,634
Administrative expenses	5	**(1,415)**	(1,207)
Other income	5	**51**	215
Operating profit		**518**	642
Finance income	6	**19**	34
Finance costs	6	**(140)**	(136)
Share of post-tax profit/(loss) from joint ventures and associates	12	**12**	(37)
Profit before tax		**409**	503
Analysed as:			
Underlying profit before tax	3	**589**	581
Non-underlying items	3	**(180)**	(78)
		409	503
Income tax expense	7	**(100)**	(126)
Profit for the financial year		**309**	377

	Note	Pence	Pence
Earnings per share	8		
Basic earnings		**13.3**	17.5
Diluted earnings		**12.7**	16.5
Underlying basic earnings		**20.4**	21.8
Underlying diluted earnings		**19.1**	20.4

The notes on pages 99 to 168 form an integral part of these financial statements.

Consolidated statement of comprehensive income

for the 52 weeks to 10 March 2018

	Note	2018 £m	2017 £m
Profit for the financial year		**309**	377
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	29	**592**	(407)
Current tax relating to items not reclassified	7	**19**	41
Deferred tax relating to items not reclassified	7	**(118)**	28
		493	(338)
Items that may be reclassified subsequently to the income statement			
Currency translation differences		**(4)**	5
Available-for-sale financial assets fair value movements		**14**	10
Items reclassified from available-for-sale assets reserve		**2**	(1)
Cash flow hedges effective portion of fair value movements		**(139)**	115
Items reclassified from cash flow hedge reserve		**50**	(87)
Current tax on items that may be reclassified	7	**–**	(1)
Deferred tax relating to items that may be reclassified	7	**13**	5
		(64)	46
Total other comprehensive income/(expense) for the year (net of tax)		**429**	(292)
Total comprehensive income for the year		**738**	85

The notes on pages 99 to 168 form an integral part of these financial statements.

Consolidated balance sheet

At 10 March 2018 and 11 March 2017

	Note	2018 £m	2017 Restated £m
Non-current assets			
Property, plant and equipment	10	**9,898**	10,006
Intangible assets	11	**1,072**	803
Investments in joint ventures and associates	12	**232**	237
Available-for-sale financial assets	13	**540**	435
Other receivables	15a	**44**	69
Amounts due from Financial Services customers	15b	**2,332**	1,916
Derivative financial instruments	24	**17**	10
		14,135	13,476
Current assets			
Inventories	14	**1,810**	1,775
Trade and other receivables	15a	**744**	574
Amounts due from Financial Services customers	15b	**3,360**	2,686
Available-for-sale financial assets	13	**203**	100
Derivative financial instruments	24	**10**	94
Cash and cash equivalents	25	**1,730**	1,083
		7,857	6,312
Assets held for sale	16	**9**	10
		7,866	6,322
Total assets		**22,001**	19,798
Current liabilities			
Trade and other payables	17a	**(4,322)**	(3,741)
Amounts due to Financial Services customers and other deposits	17b	**(4,841)**	(4,284)
Borrowings	27	**(638)**	(172)
Derivative financial instruments	24	**(53)**	(22)
Taxes payable		**(247)**	(219)
Provisions	18	**(201)**	(148)
		(10,302)	(8,586)
Net current liabilities		**(2,436)**	(2,264)
Non-current liabilities			
Other payables	17a	**(313)**	(304)
Amounts due to Financial Services customers and other deposits	17b	**(1,683)**	(637)
Borrowings	27	**(1,602)**	(2,039)
Derivative financial instruments	24	**(26)**	(38)
Deferred income tax liability	7	**(241)**	(162)
Provisions	18	**(166)**	(186)
Net retirement benefit obligations	29	**(257)**	(974)
		(4,288)	(4,340)
Net assets		**7,411**	6,872
Equity			
Called up share capital	19	**627**	625
Share premium account	19	**1,130**	1,120
Capital redemption reserve	20	**680**	680
Merger reserve	19	**568**	568
Other reserves	20	**121**	193
Retained earnings	22	**3,789**	3,190
Total equity before perpetual securities		**6,915**	6,376
Perpetual capital securities	21	**248**	248
Perpetual convertible bonds	21	**248**	248
Total equity		**7,411**	6,872

The prior year restatements relate to hindsight adjustments to the acquired Home Retail Group plc balance sheet as required under IFRS 3 'Business Combinations'. See note 31 for more information.

The notes on pages 99 to 168 form an integral part of these financial statements.

The financial statements on pages 94 to 168 were approved by the Board of Directors on 1 May 2018, and are signed on its behalf by:

Mike Coupe Chief Executive
Kevin O'Byrne Chief Financial Officer

Consolidated cash flow statement

for the 52 weeks to 10 March 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit before tax		**409**	503
Net finance costs		**121**	102
Share of post-tax (profit)/loss from joint ventures and associates		**(12)**	37
Operating profit		**518**	642
Adjustments for:			
Depreciation expense		**659**	600
Amortisation expense		**72**	28
Non-cash adjustments arising from acquisitions		**1**	12
Financial Services impairment losses on loans and advances		**68**	33
Profit on sale of properties		**(11)**	(101)
Loss on disposal of intangibles		**2**	36
Profit on disposal of joint ventures		**(4)**	–
Profit on disposal of Pharmacy business		**–**	(98)
Impairment charge of property, plant and equipment		**–**	55
Share-based payments expense		**33**	32
Retirement benefit obligations		**(151)**	(311)
Operating cash flows before changes in working capital		**1,187**	928
Changes in working capital			
Increase in inventories		**(36)**	(6)
Increase in current available-for-sale financial assets		**(192)**	(126)
(Increase)/decrease in trade and other receivables		**(44)**	37
Increase in amounts due from Financial Services customers and other deposits		**(1,161)**	(681)
Increase in trade and other payables		**142**	29
Increase in amounts due to Financial Services customers and other deposits		**1,602**	1,166
Increase/(decrease) in provisions and other liabilities		**28**	(24)
Cash generated from operations		**1,526**	1,323
Interest paid		**(89)**	(95)
Corporation tax paid		**(72)**	(75)
Net cash generated from operating activities		**1,365**	1,153
Cash flows from investing activities			
Purchase of property, plant and equipment		**(561)**	(634)
Purchase of intangible assets		**(140)**	(110)
Proceeds from disposal of property, plant and equipment		**54**	55
Acquisition of subsidiaries, net of cash acquired	31	**135**	101
Capital return to Home Retail Group plc shareholders	31	**–**	(226)
Share issuance costs on acquisition of Home Retail Group plc	31	**–**	(3)
Investment in joint ventures	12	**(9)**	(16)
Interest received		**14**	18
Dividends and distributions received	12	**37**	65
Net cash used in investing activities		**(470)**	(750)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**12**	6
Drawdown of short-term borrowings		**–**	448
Repayment of borrowings		**(148)**	(622)
Proceeds from borrowings		**174**	–
Purchase of own shares		**(14)**	–
Repayment of capital element of obligations under finance lease borrowings		**(26)**	(37)
Interest elements of obligations under finance lease payments		**(7)**	(8)
Dividends paid on ordinary shares	9	**(212)**	(230)
Dividends paid on perpetual securities	21	**(23)**	(23)
Net cash used in financing activities		**(244)**	(466)
Net increase/(decrease) in cash and cash equivalents		**651**	(63)
Opening cash and cash equivalents		**1,077**	1,140
Closing cash and cash equivalents	25	**1,728**	1,077

The notes on pages 99 to 168 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the 52 weeks to 10 March 2018

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 12 March 2017		625	1,120	873	568	3,190	6,376	248	248	6,872
Profit for the year	21,22	–	–	–	–	291	291	12	6	309
Other comprehensive (expense)/income	20,22	–	–	(64)	–	493	429	–	–	429
Total comprehensive (expense)/income for the year ended 10 March 2018		–	–	(64)	–	784	720	12	6	738
Transactions with owners:										
Dividends	9,22	–	–	–	–	(212)	(212)	–	–	(212)
Distribution to holders of perpetual securities (net of tax)	21	–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	20,22	–	–	(8)	–	8	–	–	–	–
Share-based payment (net of tax)	30	–	–	–	–	33	33	–	–	33
Purchase of own shares	22	–	–	–	–	(14)	(14)	–	–	(14)
Allotted in respect of share option schemes	19,22	2	10	–	–	–	12	–	–	12
At 10 March 2018		**627**	**1,130**	**801**	**568**	**3,789**	**6,915**	**248**	**248**	**7,411**

At 13 March 2016		550	1,114	835	–	3,370	5,869	248	248	6,365
Profit for the year	21,22	–	–	–	–	359	359	12	6	377
Other comprehensive income	20,22	–	–	46	–	(338)	(292)	–	–	(292)
Total comprehensive income for the year ended 11 March 2017		–	–	46	–	21	67	12	6	85
Transactions with owners:										
Dividends	9,22	–	–	–	–	(232)	(232)	–	–	(232)
Acquisition of subsidiaries		75	–	–	568	(3)	640	–	–	640
Adjustment to consideration in respect of share options		–	–	–	–	3	3	–	–	3
Distribution to holders of perpetual securities (net of tax)	21	–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	20,22	–	–	(8)	–	8	–	–	–	–
Share-based payment (net of tax)	30	–	–	–	–	32	32	–	–	32
Purchase of own shares	22	–	–	–	–	(9)	(9)	–	–	(9)
Allotted in respect of share option schemes	19,22	–	6	–	–	–	6	–	–	6
At 11 March 2017		625	1,120	873	568	3,190	6,376	248	248	6,872

The notes on pages 99 to 168 form an integral part of these financial statements.

Notes to the consolidated financial statements

1 Basis of preparation

J Sainsbury plc is a public limited company (the 'Company') incorporated in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 33 Holborn, London EC1N 2HT, United Kingdom.

The financial year represents the 52 weeks to 10 March 2018 (prior financial year 52 weeks to 11 March 2017). The consolidated financial statements for the 52 weeks to 10 March 2018 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

Sainsbury's Bank and its subsidiaries have been consolidated for the 12 months to 28 February 2018 (28 February 2017). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

Nectar Loyalty Holding Limited and its subsidiaries have been consolidated for the four weeks from acquisition on 1 February 2018 to 28 February 2018. Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

The year ended 10 March 2018 includes 52 weeks of Home Retail Group results (11 March 2017: 27 weeks).

The Group's principal activities are Food, General Merchandise and Clothing retailing and Financial Services.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments, defined benefit pension scheme assets, investment properties and available-for-sale financial assets that have been measured at fair value.

Significant accounting policies have been included in the relevant notes to which the policies relate, and those relating to the financial statements as a whole can be read further below. Significant accounting policies have been applied consistently to all periods presented in the financial statements.

The prior year balance sheet has been restated this year. The restatements relate to hindsight adjustments to the acquired Home Retail Group plc balance sheet as required under IFRS 3 'Business Combinations'. See note 31 for more information.

Basis of consolidation

The consolidated financial statements of the Group consist of the financial statements of the ultimate parent company J Sainsbury plc, all entities controlled by the Company and the Group's share of its interests in joint ventures and associates.

a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. This is when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the income statement from the date of acquisition or, in the case of disposals, up to the effective date of disposal. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

Sainsbury's Property Scottish Partnership, Sainsbury's Property Scottish Limited Partnership and now Insight 2 Communication LLP, are partnerships the Group has an interest in, which are fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships ('Accounts') Regulations 2008 and has therefore not appended the accounts of these qualifying partnerships to these accounts.

b) Joint ventures and associates

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

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

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

Investment properties held by the Group are those contained within its joint ventures with Land Securities Group PLC and The British Land Company PLC. These are properties held for capital appreciation and/or to earn rental income. They are initially measured at cost, including related transaction costs. After initial recognition at cost, they are carried at their fair values based on market value determined by professional valuers at each reporting date. The difference between the fair value of an investment property at the reporting date and its carrying amount prior to remeasurement is included within the income statement (within the profit / (loss) from joint ventures line item) but is excluded from underlying profit in order to provide a clear and consistent presentation of the underlying performance of the Group's ongoing business for shareholders.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the ultimate parent company's functional currency.

a) Foreign operations

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

b) Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Amendments to published standards

Effective for the Group and Company in these financial statements:

The Group considered the following amendments to published standards that are effective for the Group for the financial year beginning 12 March 2017 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. These standards and interpretations have been endorsed by the European Union.

- Amendments to IAS 7 'Statement of Cash Flows' on the disclosures in financial statements
- Annual Improvements Cycle – 2014-2016
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities': Clarification of the scope of disclosure requirements in IFRS 12

1 Basis of preparation continued

Standards and revisions effective for future periods:

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

- IFRS 9 'Financial Instruments', effective for the financial year commencing 11 March 2018
- IFRS 15 'Revenue from Contracts with Customers', effective for the financial year commencing 11 March 2018
- IFRS 16 'Leases', effective for the financial year commencing 10 March 2019

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the complete version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes the new standard introduces are:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising impairments of financial assets; and
- changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.

The changes will be applied by adjusting the Group balance sheet on 11 March 2018, the date of initial application, with no restatement of comparative information.

a) Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Financial assets are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. Classification is determined by the nature of the cash flows of the assets and the business model in which they are held. These categories replace the existing IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

The Group does not expect any material changes in relation to the classification and measurement of financial assets and liabilities, and the associated accounting policies as detailed in the notes to the financial statements.

b) Impairment

IFRS 9 introduces an expected credit loss impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in earlier recognition of credit losses. Additional details on the key elements of the new expected credit loss model are described below. The most significant impact will be on Sainsbury's Bank's unsecured lending portfolios.

Expected credit loss (ECL) impairment model

Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-stage expected credit loss impairment model. As soon as a financial instrument is originated or purchased, 12-month expected credit losses must be recognised in profit and loss and an impairment allowance will be established (Stage 1). If the credit risk increases significantly (and the resulting credit quality is not considered to be low credit risk) full lifetime expected credit losses will be provided for (Stage 2). Under both Stage 1 and Stage 2, interest income is recognised on the gross carrying value of the financial asset. Financial assets will move into Stage 3 when they are considered to be credit impaired, i.e. when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets will continue to recognise lifetime expected impairment losses and interest income will be recognised on the net carrying amount (i.e. gross amount less impairment allowance) – as under IAS 39.

The expected impact is an increase in impairment provisions held within the Financial Services business as at 11 March 2018 of approximately £80 million, with a corresponding reduction to retained earnings of approximately £66 million, net of deferred tax.

Post-Day 1 movements in the ECL provisions reported through the income statement are expected to reduce profits at the Bank next year and be more volatile than under IAS 39 due to the forward-looking nature of the new approach and the need to take account of future macro-economic conditions in the ECL modelling, which will be sensitive to management judgement and estimates.

c) Hedge accounting

When initially applying IFRS 9, the Group expects to exercise the accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for its macro hedging relationships (applicable to the Financial Services business) and will adopt IFRS 9 in respect of its micro hedge accounting. Although the micro hedge accounting requirements under IFRS 9 are generally less restrictive, this is not expected to have a material impact on the Group.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements of IFRS. Either a full retrospective application or modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 15 on 11 March 2018 using the full retrospective method. During the year-ended 11 March 2017, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis in the year-ended 10 March 2018.

The majority of sales transactions are for goods sold in-store and online, where the sale (and delivery in the case of online sales) of these items is the only performance obligation. Revenue recognition occurs at a point in time when control of the asset is transferred to the customer. This is generally when the goods are purchased in-store, or delivered to the customer. IFRS 15 therefore is not expected to have a material impact on the Group's consolidated financial statements.

The assessment also included areas that required additional specific consideration, including rights of return, principal vs agent considerations and Financial Services income. No material impact is expected to the Group's current revenue recognition policies which are disclosed in the notes to the financial statements.

Nectar loyalty programme

On 1 February 2018, the Group acquired the shares of Aimia Inc's UK business, enabling the full and independent operation of the Nectar loyalty programme in the UK. Refer to note 31 for further information.

Prior to acquisition, the Group's accounting policy for Nectar points was to recognise sales net of the cost of Nectar points issued and redeemed, based on agreed rates with Aimia UK. Since acquisition, any points issued and redeemed in Sainsbury's and Argos are accounted for in line with IFRIC 13 'Customer Loyalty Programmes'. Under IFRIC 13, on issuance of Nectar points within the Group, a portion of the transaction price is allocated to the loyalty programme using the fair value of points issued and a corresponding deferred revenue recognised in relation to points issued but not yet redeemed.

1 Basis of preparation continued

Under IFRS 15, the Group will need to allocate a portion of the transaction price to the loyalty programme based on relative standalone selling price instead of the allocation using the fair value of points issued, i.e. residual approach, as it did under IFRIC 13. Due to only consolidating four weeks of Nectar UK results during the year-ended 10 March 2018, the adjustment to current year revenue is not expected to be material. A more detailed assessment of the impact of IFRS 15 to the Group's consolidation of the Nectar scheme is currently underway.

IFRS 16 'Leases'
IFRS 16 was issued in January 2016 and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will supersede the current lease guidance including IAS 17 'Leases' and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and the Group plans to adopt IFRS 16 on 10 March 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

A preliminary assessment indicates that the Group's current operating lease arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify as low value or short-term leases upon the application of IFRS 16. The Group is also currently assessing service type arrangements to determine whether any of those are deemed to include an embedded lease which would fall under the scope of IFRS 16.

IFRS 16 allows a choice of transitional approaches, either:

i. The full retrospective approach where IFRS 16 is applied to each prior reporting period presented and an adjustment is made to the opening retained earnings of the earliest comparative period presented; or
ii. The modified retrospective approach where the cumulative effect of initially applying IFRS 16 is recognised at the date of initial application.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on reported assets, liabilities and the income statement of the Group.

The Group has a comprehensive project underway to assess the impact to the Group of the transitional approaches available, determine the preferred transitional approach and to assess the overall impact to the Group's financial position of adopting IFRS 16. The project has also assessed the data required under each of the transitional approaches and is currently addressing these comprehensive data requirements.

IFRS 16 is expected to have the largest impact on the Group's property portfolio and will impact the leases of the Sainsbury's supermarkets the most due to the size of their passing rentals and their generally longer-term leases. The Argos property portfolio is generally shorter term and of lower value and will be impacted less.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, and in cases where the Group is a lessor (for both operating and finance leases), the Directors of the Company do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

IFRS 16 requires the use of judgements in certain key areas which will directly affect the impact to the Group on adoption. These include:

- The assessment of how reasonably certain it is considered to be that a lease option (extension, termination or purchase) will be exercised;
- The determination of an appropriate discount rate used to present value the lease liability and to initially measure the right-of-use asset; and
- When a lease is deemed to be embedded in a service type arrangement.

As part of the Group's implementation project, the Directors are evaluating what they believe to be appropriate judgements and policies to address the above.

2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those which are significant to the Group are discussed separately below:

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

a) Non-current assets and liabilities held for sale
At each balance sheet date management assesses whether any assets, whose carrying amount will be recovered through a sale transaction rather than continued use, meet the definition of held for sale. Where there is an active plan in place to locate a buyer, management consider such assets to meet the criteria to be classified as held for sale if they are available for immediate sale and the sale is highly probable.

For more information on the assets and liabilities held for sale, refer to note 16.

2 Significant accounting judgements, estimates and assumptions continued

b) Operating lease commitments
The Group is party to commercial property leases on a number of its stores. At inception of each lease, the terms and conditions of the arrangements are evaluated to assess whether the lease terms constitute a major part of the economic life of the assets and whether the present value of the minimum lease payments amount to substantially all of the fair value of the commercial property. Where there is no evidence of this, management concludes that all the significant risks and rewards of ownership do not transfer to the Group and these leases are accounted for as operating leases. Further information about committed operating lease payments is included in note 32.

c) Consolidation of structured entities
A structured entity is one in which the Group does not hold the majority interest but for which management has concluded that voting rights are not the dominant factor in deciding who controls the entity. In making such an assessment, management considers the terms of the arrangement to assess who has responsibility for the management of the entity and its assets. Where the Group has this responsibility, it is deemed that the Group controls the entity and it is fully consolidated into the Group accounts. The structured entities applicable to the Group are Sainsbury's Property Scottish Partnership and Sainsbury's Property Scottish Limited Partnership.

d) Aggregation of operating segments
Management has determined the operating segments based on the information provided to the Operating Board (the Chief Operating Decision Maker for the Group) to make operational decisions on the management of the Group. Following the acquisition of Home Retail Group plc in September 2016, four operating segments were identified as follows:

- Retail – Food
- Retail – General Merchandise and Clothing
- Financial Services
- Property Investment

Management has considered the economic characteristics, similarity of products, production processes, customers, sales methods and regulatory environment of its two Retail segments. In doing so it has been concluded that they should be aggregated into one 'Retail' segment in the financial statements. This aggregated information provides users the financial information needed to evaluate the business and the environment in which it operates.

Estimates and assumptions
The areas where estimates and assumptions are significant to the financial statements are as described below. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

a) Impairment of assets
The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which it is allocated. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates, as disclosed in note 11. Actual outcomes could vary from these estimates.

Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance.

Impairment loss calculations on loans and advances within Financial Services (note 15(b)) involve the estimation of future cash flows of financial assets, based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. This will typically take into account the level of arrears, security, past loss experience and default levels. These calculations are undertaken on a portfolio basis using various statistical modelling techniques.

Impairment models are continually reviewed to ensure data and assumptions are appropriate, with the most material assumption being around expected loss rates. The accuracy of any such impairment calculation will be affected by unexpected changes to the economic situation, and assumptions which differ from actual outcomes. As such, judgement is applied when determining the levels of provisioning.

b) Post-employment benefits
The Group operated two defined benefit schemes for its employees during the financial year – the Sainsbury's Pension Scheme and the Home Retail Group Scheme. The present value of the schemes' liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on the discount rate applied. During the financial year the Group has changed the model used for deriving the discount rate assumption for valuing the Scheme's liabilities under IAS 19 to use an approach that the Group believes better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes.

For long duration liabilities there exists limited data. Under the old model the extrapolation for long duration liabilities projected in line with a risk-free curve, whereas the new method extrapolates the available corporate bond data at a credit spread above gilt rates. In addition, in order to broaden the corporate bond dataset, we have assumed that 'high quality' corporate bonds are those for which at least one of the main ratings agencies considers to be at least AA (or equivalent), whereas in previous years we required that the majority of the rating agencies rated a bond as AA.

The discount rate used under the updated approach is 2.8 per cent. The resulting gain (recognised in other comprehensive income) is included within the £495 million of actuarial gains due to changes in financial assumptions as disclosed in note 29. This gain also includes movements due to inflation changes.

Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 29. The carrying value of the retirement benefit obligations will be impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate. Sensitivities to movements in the discount rate are included in note 29.

Subsequent to year-end, the Home Retail Group Pension Scheme was merged into the Sainsbury's Pension Scheme on 20 March 2018. The liabilities and assets are held in segregated sections – the Sainsbury's section and the Argos section.

2 Significant accounting judgements, estimates and assumptions continued

c) Provisions
Provisions have been made for onerous leases, onerous contracts, dilapidations, restructuring, insurance and long service awards. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events and market conditions. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. The carrying amount of provisions will be impacted by changes in the discount rate. Details of provisions are set out in note 18.

d) Determining fair values
The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, overdrafts and payables are assumed to approximate to their book values.

e) Revenue recognition – Fair value of Nectar points
The Group estimates the fair value of points awarded under the Nectar programme by reference to the value per point to a customer, multiplied by expected breakage assumptions. Breakage represents management's estimate of points issued that will never be redeemed. As points issued under the programme do not expire, such estimates are subject to uncertainty. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions that may affect members' redemption patterns.

On acquisition, if the breakage estimate of six per cent used in determining the deferred revenue for the Group had been one per cent lower, the acquired deferred points liability would have been £41 million higher. If the breakage estimate had been one per cent higher, the acquired deferred points liability would have been £41 million lower. Refer to note 31 for more information.

f) Supplier arrangements
Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and administrative expenses and directly affect the Group's reported margin. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset. The four key types are as follows:

- Discounts and supplier incentives – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.
- Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.
- Supplier rebates – these are typically agreed on an annual basis, aligned with the Group's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes and requires estimates of the amount earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, agreements from suppliers are obtained to agree the value to be recognised at year-end, prior to it being invoiced. By aligning the agreements to the Group's financial year, where possible, the judgements required are minimised.
- Marketing and advertising income – income which is directly linked to the cost of producing the Argos catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Group, which is the point at which the catalogue costs are recognised.

Of the above categories, fixed amounts, supplier rebates and marketing and advertising income involve a level of judgement and estimation. The amounts recognised in the income statement for these three categories in the financial year are as follows:

	2018 £m	2017 £m
Within cost of sales		
Fixed amounts	**261**	204
Supplier rebates	**97**	87
Marketing and advertising income	**92**	52
Total supplier arrangements	**450**	343

Of the above amounts, the following was outstanding and held on the balance sheet at year-end:

	2018 £m	2017 £m
Within inventory	**(7)**	(9)
Within current trade receivables		
Supplier arrangements due	**23**	29
Within current trade payables		
Supplier arrangements due	**23**	25
Accrued supplier arrangements	**14**	13
Total supplier arrangements	**53**	58

The above amounts exclude supplier income in relation to discounts and supplier incentives which do not involve any level of judgement or estimation.

3 Non-GAAP performance measures

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

	2018 £m	2017 £m
Underlying profit before tax	**589**	581
Property related		
Profit on disposal of properties	**5**	98
Joint venture investment property fair value movements	**7**	(25)
Net impairment and onerous contract charge	**–**	(37)
Argos		
Transaction costs relating to the acquisition of Home Retail Group	**–**	(22)
Argos integration costs	**(75)**	(27)
Homebase separation	**(10)**	(4)
Sainsbury's Bank transition	**(38)**	(60)
Nectar UK		
Transaction costs relating to the acquisition of Nectar UK	**(2)**	–
Revaluation of previously held equity interest in Insight 2 Communication LLP	**4**	–
Divestments		
Business rationalisation	**–**	72
IT write-offs	**–**	(57)
Restructuring costs	**(85)**	(33)
Other		
Perpetual securities coupons	**23**	23
Non-underlying finance movements	**(2)**	10
Acquisition adjustments	**(2)**	8
IAS 19 pension expenses	**(5)**	(24)
Total adjustments	**(180)**	(78)
Profit before tax	**409**	503

Property related

- Profit on disposal of properties for the financial year comprised £11 million for the Group (2017: £101 million) included within other income and £(6) million for the property joint ventures (2017: £(3) million) included within share of post-tax profit from joint ventures and associates.
- Net impairment and onerous contract charge in the prior year comprised £(19) million within property, plant and equipment and £(18) million onerous lease provisions. There were no impairment charges nor reversals during the current financial year.

Argos

- Argos integration costs for the year of £(75) million were part of the previously announced £(130) million required over the three years in order to achieve the synergies of £160 million. These costs include the reallocation of property, dilapidations, lease-break costs and people costs.
- The Homebase separation and restructuring costs for the year of £(10) million were part of the revised anticipated total exceptional costs of £45 million.

Sainsbury's Bank transition

- Sainsbury's Bank transition costs of £(38) million (2017: £(60) million) were incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme.

Nectar UK

- Acquisition-related costs (included in administrative expenses and recognised outside underlying profit) amount to £(2) million in the year (see note 31). In addition, an acquisition fair value gain of £4 million on the previously held equity interest in Insight 2 Communication LLP has been recorded in other income (and excluded from underlying profit before tax).

Divestments

- Divestments in the prior year include £98 million profit on disposal of the Pharmacy business (included within other income), offset by £(26) million of costs incurred closing non-core businesses to enable the Group to focus on its strategy. This included the closure of Netto, Sainsbury's Entertainment and Phoneshops.
- The Group incurred £(57) million in the prior year in relation to the cessation of non-core IT projects. This includes £(36) million in property, plant and equipment (note 10), £(19) million in intangibles (note 11) and £(2) million other directly attributable costs.

Restructuring costs

- Restructuring costs in the year have been recognised following announced transformational changes to the Group's in-store operating model, responding to changing customer shopping habits and reducing costs throughout the store estate. These mainly consist of people costs.

3 Non-GAAP performance measures continued

Other

- The coupons on the perpetual subordinated capital securities and the perpetual subordinated convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit before tax.
- Non-underlying finance movements for the financial year comprised £1 million for the Group (2017: £12 million) and £(3) million for the joint ventures (2017: £(2) million).
- Acquisition adjustments of £(2) million (2017: £8 million) reflect the unwind of fair value adjustments arising from the Sainsbury's Bank, Home Retail Group and Nectar UK acquisitions and are split as follows:

	2018				2017			
	Financial Services £m	**Argos £m**	**Nectar £m**	**Total Group £m**	Financial Services £m	Argos £m	Nectar £m	Total Group £m
Revenue	**(3)**	**–**	**–**	**(3)**	(7)	–	–	(7)
Cost of sales	**–**	**2**	**–**	**2**	–	(5)	–	(5)
Depreciation	**–**	**(18)**	**–**	**(18)**	–	(6)	–	(6)
Amortisation	**(3)**	**22**	**(2)**	**17**	(6)	32	–	26
	(6)	**6**	**(2)**	**(2)**	(13)	21	–	8

- IAS 19 pension expenses comprise the pension financing charge of £(26) million (2017: £(16) million) and scheme expenses of £(10) million (2017: £(8) million). These are offset this year by a £31 million past service credit in relation to a Pension Increase Exchange (PIE) at retirement option introduced from 1 April 2018, following a deed of amendment signed during the financial year. Refer to note 29 for more information.

Cash flow statement

The table below shows the impact of non-underlying items on the Group cash flow statement, where not already separately presented in the cash flow statement:

	2018 £m	2017 £m
IAS 19 pension expenses	**(10)**	(8)
Sainsbury's Bank transition	**(38)**	(47)
Divestments	**(1)**	(5)
Argos integration costs	**(32)**	(12)
Transaction costs relating to acquisition of Home Retail Group	**–**	(22)
Homebase separation	**(14)**	(2)
Restructuring costs	**(28)**	(19)
Cash used in operating activities	**(123)**	(115)
Profit on disposal of properties	**54**	55
Divestments (sale of Pharmacy business)	**–**	(4)
Cash generated from investing activities	**54**	51
Net cash flows	**(69)**	(64)

The tax impact of adjusted items is included within note 7.

4 Segment reporting

Background

The Group's businesses are organised into four operating segments:

- Retail – Food;
- Retail – General Merchandising and Clothing;
- Financial Services (Sainsbury's Bank plc and Argos Financial Services entities); and
- Property Investments (the British Land Company PLC joint venture and Land Securities Group PLC joint venture).

As discussed in note 2, the Food and General Merchandise and Clothing segments have been aggregated into a Retail segment in the financial statements.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. All material operations and assets are in the UK. The year ended 10 March 2018 includes 52 weeks of Home Retail Group results (11 March 2017: 27 weeks) and four weeks of Nectar UK results.

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.

Income statement and balance sheet

52 weeks to 10 March 2018	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	**27,944**	**–**	**–**	**27,944**
Financial Services to external customers	**–**	**515**	**–**	**515**
Underlying revenue	**27,944**	**515**	**–**	**28,459**
Acquisition adjustment fair value unwind[1]	**–**	**(3)**	**–**	**(3)**
Revenue	**27,944**	**512**	**–**	**28,456**
Underlying operating profit	**625**	**69**	**–**	**694**
Underlying finance income	**14**	**–**	**–**	**14**
Underlying finance costs[2]	**(133)**	**–**	**–**	**(133)**
Underlying share of post-tax profit from joint ventures and associates	**4**	**–**	**10**	**14**
Underlying profit before tax	**510**	**69**	**10**	**589**
Non-underlying expense (note 3)				**(180)**
Profit before tax				**409**
Income tax expense (note 7)				**(100)**
Profit for the financial period				**309**
Assets	**13,897**	**7,872**	**–**	**21,769**
Investment in joint ventures and associates	**1**	**–**	**231**	**232**
Segment assets	**13,898**	**7,872**	**231**	**22,001**
Segment liabilities	**(7,694)**	**(6,896)**	**–**	**(14,590)**
Other segment items				
Capital expenditure[3]	**640**	**77**	**–**	**717**
Depreciation expense[4]	**651**	**8**	**–**	**659**
Amortisation expense[5]	**59**	**13**	**–**	**72**
Net impairment and onerous contract charge	**–**	**–**	**–**	**–**
Share-based payments	**30**	**3**	**–**	**33**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.
2 The coupons on the perpetual capital securities and the perpetual convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying finance costs, as detailed in note 3.
3 Retail capital expenditure consists of property, plant and equipment additions of £570 million and intangible asset additions of £70 million. Financial Services capital expenditure consists of property, plant and equipment additions of £8 million and intangible asset additions of £69 million.
4 Depreciation within the Retail segment includes an £18 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.
5 Amortisation expense within the Retail segment includes £20 million income in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK. Amortisation expense within the Financial Services segment includes a £(3) million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

4 Segment reporting continued

52 weeks to 11 March 2017	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	25,824	–	–	25,824
Financial Services to external customers	–	407	–	407
Underlying revenue	25,824	407	–	26,231
Acquisition adjustment fair value unwind[1]	–	(7)	–	(7)
Revenue	25,824	400	–	26,224
Underlying operating profit	626	62	–	688
Underlying finance income	18	–	–	18
Underlying finance costs[2]	(137)	–	–	(137)
Underlying share of post-tax profit from joint ventures and associates	–	–	12	12
Underlying profit before tax	507	62	12	581
Non-underlying expense (note 3)				(78)
Profit before tax				503
Income tax expense (note 7)				(126)
Profit for the financial period				377
Assets	13,637	5,924	–	19,561
Investment in joint ventures and associates	4	–	233	237
Segment assets (restated)	13,641	5,924	233	19,798
Segment liabilities (restated)	(7,762)	(5,164)	–	(12,926)
Other segment items				
Capital expenditure[3]	741	58	–	799
Depreciation expense	593	7	–	600
Amortisation expense[4]	18	10	–	28
Net impairment and onerous contract charge[5]	37	–	–	37
Share-based payments	30	2	–	32

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.
2 The coupons on the perpetual capital securities and the perpetual convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying finance costs, as detailed in note 3.
3 Retail capital expenditure consists of property, plant and equipment additions of £683 million and intangible asset additions of £58 million. Financial Services capital expenditure consists of property, plant and equipment additions of £12 million and intangible asset additions of £46 million.
4 Depreciation within the Retail segment includes a £6 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG.
5 Amortisation expense within the Retail segment includes £32 million income in relation to the unwind of fair value adjustments recognised on acquisition of HRG. Amortisation expense within the Financial Services segment includes £6 million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

4 Segment reporting continued

Cash flow

	APM reference	52 weeks to 10 March 2018 Retail £m	52 weeks to 10 March 2018 Financial Services £m	52 weeks to 10 March 2018 Group £m	52 weeks to 11 March 2017 Retail £m	52 weeks to 11 March 2017 Financial Services £m	52 weeks to 11 March 2017 Group £m
Profit/(loss) before tax		**382**	**27**	**409**	516	(13)	503
Net finance costs		**121**	**–**	**121**	102	–	102
Share of post-tax (profit)/loss from joint ventures and associates[1]		**(12)**	**–**	**(12)**	37	–	37
Operating profit		**491**	**27**	**518**	655	(13)	642
Adjustments for:							
Depreciation/amortisation		**710**	**21**	**731**	611	17	628
Non-cash adjustments arising from acquisitions[2]		**(2)**	**3**	**1**	5	7	12
Financial Services impairment losses on loans and advances		**–**	**68**	**68**	–	33	33
Profit on sale of properties		**(11)**	**–**	**(11)**	(101)	–	(101)
Loss on disposal of intangibles		**–**	**2**	**2**	22	14	36
Profit on disposal of joint ventures		**(4)**	**–**	**(4)**	–	–	–
Profit on disposal of Pharmacy business		**–**	**–**	**–**	(98)	–	(98)
Impairment charge of property, plant and equipment		**–**	**–**	**–**	55	–	55
Share-based payments expense		**30**	**3**	**33**	30	2	32
Retirement benefit obligations		**(151)**	**–**	**(151)**	(112)	–	(112)
Exceptional pension contributions		**–**	**–**	**–**	(199)	–	(199)
Operating cash flows before changes in working capital		**1,063**	**124**	**1,187**	868	60	928
Changes in working capital							
Decrease in working capital		**196**	**143**	**339**	61	334	395
Cash generated from operations		**1,259**	**267**	**1,526**	929	394	1,323
Interest paid	a	**(89)**	**–**	**(89)**	(95)	–	(95)
Corporation tax paid		**(72)**	**–**	**(72)**	(87)	12	(75)
Net cash generated from operating activities		**1,098**	**267**	**1,365**	747	406	1,153
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(473)**	**(8)**	**(481)**	(530)	(12)	(542)
Strategic capital expenditure	b	**(80)**	**–**	**(80)**	(92)	–	(92)
Purchase of property, plant and equipment		**(553)**	**(8)**	**(561)**	(622)	(12)	(634)
Purchase of intangible assets		**(69)**	**(71)**	**(140)**	(58)	(52)	(110)
Proceeds from disposal of property, plant and equipment		**54**	**–**	**54**	55	–	55
Acquisition of subsidiaries	c	**(33)**	**–**	**(33)**	(447)	–	(447)
Cash acquired upon acquisition of subsidiaries	c	**168**	**–**	**168**	548	–	548
Capital return to Home Retail Group plc shareholders	c	**–**	**–**	**–**	(226)	–	(226)
Share issuance costs on acquisition of Home Retail Group plc	c	**–**	**–**	**–**	(3)	–	(3)
Investment in joint ventures		**(9)**	**–**	**(9)**	(16)	–	(16)
Interest received	a	**14**	**–**	**14**	18	–	18
Dividends and distributions received[3]		**37**	**–**	**37**	65	–	65
Net cash used in investing activities		**(391)**	**(79)**	**(470)**	(686)	(64)	(750)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	**12**	**–**	**12**	6	–	6
Drawdown of short-term borrowings	d	**–**	**–**	**–**	448	–	448
Repayment of borrowings	d	**(148)**	**–**	**(148)**	(622)	–	(622)
Proceeds from long-term borrowings	d	**–**	**174**	**174**	–	–	–
Purchase of own shares	e	**(14)**	**–**	**(14)**	–	–	–
Repayment of capital element of obligations under finance lease payments	d	**(26)**	**–**	**(26)**	(37)	–	(37)
Interest elements of obligations under finance lease payments	a	**(7)**	**–**	**(7)**	(8)	–	(8)
Dividends paid on ordinary shares		**(212)**	**–**	**(212)**	(230)	–	(230)
Dividends paid on perpetual securities	a	**(23)**	**–**	**(23)**	(23)	–	(23)
Net cash used in financing activities		**(418)**	**174**	**(244)**	(466)	–	(466)
Intra group funding							
Bank capital injections		**(190)**	**190**	**–**	(130)	130	–
HRG acquisition and AFS loan book refinancing	c	**–**	**–**	**–**	585	(585)	–
Net cash (used in)/generated from intra group funding		**(190)**	**190**	**–**	455	(455)	–
Net increase/(decrease) in cash and cash equivalents		**99**	**552**	**651**	50	(113)	(63)

1 Includes £8 million (2017: £(18) million) relating to the Property Investment segment.
2 The total Group balance excludes a £1 million acquisition adjustment unwind expense (2017: £20 million income) already included in depreciation and amortisation in this note.
3 Included within dividends and distributions received is £30 million (2017: £55 million) of dividends received from property investment joint ventures.

5 Operating profit

Accounting policies

Revenue

Revenue consists of sales through retail outlets and online and, in the case of Financial Services, interest receivable, fees and commissions and excludes Value Added Tax. Revenue is recognised when the significant risks and rewards of goods and services have been passed to the buyer and it can be measured reliably.

a) Retail – sale of goods

Sales through retail outlets are shown net of returns, colleague discounts, vouchers and sales made on an agency basis. Commission income is recognised in revenue based on the terms of the contract. Prior to the acquisition of Nectar UK, revenue was also shown net of the cost of Nectar reward points issued and redeemed.

Prior to acquisition, the Group's accounting policy for Nectar points was to recognise sales net of the cost of Nectar points issued and redeemed, based on agreed rates with Aimia UK. Since acquisition, any points issued and redeemed in Sainsbury's and Argos are accounted for in line with IFRIC 13 'Customer Loyalty Programmes'. Under IFRIC 13, on issuance of Nectar points within the Group, a portion of the transaction price is allocated to the loyalty programme using the fair value of points issued and corresponding deferred revenue recognised in relation to points issued but not yet redeemed. The deferral is treated as a deduction from revenue. The fair value of the points awarded is determined with reference to the fair value to the customer and considers factors such as breakage and the money off that each point entitles a customer to. Deferred revenue is subsequently recognised when Nectar points are redeemed.

Sales of in-store goods are generally recognised at the point of cash receipt. For delivered goods, sales are recognised when the goods have been delivered.

b) Other income

Other income generally consists of profits and losses on disposal of assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Nectar revenue earned from non-Sainsbury's redemption partners is included within other income and recognised once points have been redeemed.

c) Financial Services interest receivable

Interest income is recognised in the income statement for all instruments measured at amortised cost using the effective interest method. This calculation takes into account all amounts that are integral to the yield as well as incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset or liability at initial recognition.

d) Financial Services fees and commissions

Fees and commissions that are not integral to the effective interest rate calculation relate primarily to certain credit card and storecard fees, ATM interchange fees, insurance introduction commission and warranty commission receivable. These are recognised in the income statement on an accruals basis as services are provided. Where in the case of insurance commissions the income comprises an initial commission and profit share, both are recognised on completion of the service to the extent reliably measurable. Where there is a risk of potential claw back, an appropriate element of the commission receivable is deferred and amortised over the clawback period. Where the relevant contract requires Financial Services to perform future services in respect of the income receivable, initial commission is recognised on completion of the service provided, with an element deferred to reflect services yet to be performed in future periods.

e) Financial Services other operating income

Margin from the sale of travel money, representing the difference between the cost price and the selling price, is recognised when the sale to the customer takes place within other operating income.

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:

	2018 £m	2017 £m
Employee costs (note 28)	**3,134**	2,878
Depreciation expense (note 10)[1]	**659**	600
Amortisation expense (note 11)[2]	**72**	28
Profit on disposal of properties (note 3)	**(11)**	(101)
Operating lease rentals		
– land and buildings	**706**	625
– other leases	**90**	80
– sublease payments receivable	**(54)**	(53)
Foreign exchange losses/(gains)	**22**	(7)
Impairment losses on loans and advances	**68**	33
Impairment and onerous contract charges (note 3)[3]	**–**	37
IT write-offs (note 3)	**–**	57

1 Depreciation expense includes £18 million (2017: £6 million) in relation to the unwind of acquisition adjustments.
2 Amortisation expense includes £20 million income (2017: £32 million) in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK, and a £3 million charge (2017: £6 million charge) in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.
3 Includes an impairment of £nil (2017: £19 million) recognised against property, plant and equipment as detailed in note 10.

5 Operating profit continued

	2018 £m	2017 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	**1.0**	0.8
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**1.2**	0.9
Audit related assurance services	**0.2**	0.1
Tax advisory, tax compliance and other non-audit fees	**–**	0.1
Total fees	**2.4**	1.9

The increase in audit fees during the year is as a result of Sainsbury's Bank and its subsidiaries being audited by Ernst & Young LLP for the first time this financial year (previously audited by PricewaterhouseCoopers LLP).

6 Finance income and finance costs

Accounting policies

Finance income and costs, excluding those arising from Financial Services, are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method. For Financial Services, finance income and finance costs are recognised in revenue and cost of sales.

Interest paid and interest received for the purpose of the cash flow statement relates to Retail only, with Financial Services interest paid and interest received included in the net operating cash flow.

The coupons on the perpetual capital securities and perpetual convertible bonds are accounted for as dividends in accordance with IAS 32 'Financial Instruments: Presentation' and hence are not a finance cost.

	2018			2017		
	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Interest on bank deposits and other financial assets	**14**	**–**	**14**	18	–	18
Non-underlying finance movements	**–**	**5**	**5**	–	16	16
Finance income	**14**	**5**	**19**	18	16	34
Borrowing costs:						
Secured borrowings	**(79)**	**–**	**(79)**	(81)	–	(81)
Unsecured borrowings	**(30)**	**–**	**(30)**	(30)	–	(30)
Obligations under finance leases	**(7)**	**–**	**(7)**	(8)	–	(8)
Provisions – amortisation of discount (note 18)	**(1)**	**(4)**	**(5)**	(2)	(4)	(6)
	(117)	**(4)**	**(121)**	(121)	(4)	(125)
Other finance costs:						
Interest capitalised – qualifying assets (note 10)	**7**	**–**	**7**	7	–	7
IAS 19 pension financing charge (note 29)	**–**	**(26)**	**(26)**	–	(16)	(16)
Interest expense on Pharmacy sale advance proceeds	**–**	**–**	**–**	–	(2)	(2)
Perpetual securities coupon	**(23)**	**23**	**–**	(23)	23	–
	(16)	**(3)**	**(19)**	(16)	5	(11)
Finance costs	**(133)**	**(7)**	**(140)**	(137)	1	(136)

Non-underlying finance movements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship.

Following the refinancing of the Group's revolving credit facility (see note 27), £3 million of capitalised fees in relation to the previous facility have been recognised within borrowing costs this year.

7 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 or credited directly to equity or other comprehensive income.

Deferred tax

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

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

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

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

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

	2018 £m	2017 £m
Current year UK tax	**121**	124
Current year overseas tax	**1**	–
Over-provision in prior years	**(15)**	(11)
Total current tax expense	**107**	113
Origination and reversal of temporary differences	**(13)**	17
Under-provision in prior years	**5**	14
Revaluation of deferred tax balances	**1**	(18)
Total deferred tax (credit)/charge	**(7)**	13
Total income tax expense in income statement	**100**	126
Analysed as:		
Underlying tax	**142**	135
Non-underlying tax	**(42)**	(9)
Total income tax expense in income statement	**100**	126
Underlying tax rate	**24.1%**	23.2%
Effective tax rate	**24.4%**	25.0%

7 Taxation continued

The effective tax rate of 24.4 per cent (2017: 25.0 per cent) is higher than (2017: higher than) the standard rate of corporation tax in the UK of 19.06 per cent. The differences are explained below:

	2018 £m	2017 £m
Profit before tax	**409**	503
Income tax at UK corporation tax rate of 19.06% (2017: 20.05%)	**78**	101
Effects of underlying items:		
Disallowed depreciation on UK properties	**26**	27
Under/(over) provision in prior years	**3**	(1)
Revaluation of deferred tax balances	**2**	(9)
Other	**(1)**	2
Effects of non-underlying items:[1]		
Profit on disposal of properties	**1**	(8)
Joint venture investment property fair value movements	**(1)**	5
Net impairment and onerous contract charge	**–**	6
Transaction costs relating to the acquisition of Home Retail Group	**–**	4
Argos integration costs	**7**	1
Homebase separation	**1**	1
Sainsbury's Bank transition	**(2)**	–
Revaluation of previously held equity interest in Insight 2 Communication LLP	**(1)**	–
IT write-offs	**–**	1
Non-underlying finance movements	**–**	1
(Over)/under provision in prior years	**(12)**	4
Revaluation of deferred tax balances	**(1)**	(9)
Total income tax expense in income statement	**100**	126

1 Disclosed where the tax on non-underlying items differs from the statutory rate.

The main rate of UK corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017. A further reduction in the UK corporation tax rate from 19 per cent to 17 per cent, rather than 18 per cent, effective from 1 April 2020 was substantively enacted in the prior year. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse.

Income tax charged or (credited) to equity and/or other comprehensive income during the year is as follows:

	Retirement benefit obligations[1] £m	Fair value movements[1] £m	Perpetual security coupons[2] £m	Total £m
52 weeks to 10 March 2018				
Current tax recognised in equity or other comprehensive income	**(19)**	**–**	**(5)**	**(24)**
Deferred tax recognised in equity or other comprehensive income	**118**	**(13)**	**–**	**105**
Income tax charged/(credited)	**99**	**(13)**	**(5)**	**81**
52 weeks to 11 March 2017				
Current tax recognised in equity or other comprehensive income	(41)	1	(5)	(45)
Deferred tax recognised in equity or other comprehensive income	(28)	(5)	–	(33)
Income tax credited	(69)	(4)	(5)	(78)

1 Recognised in other comprehensive income.
2 Recognised in equity.

7 Taxation continued

The current and deferred tax in relation to the Group's defined benefit pension scheme's remeasurements, available-for-sale fair value movements and perpetual securities coupons have been charged or credited through other comprehensive income where appropriate.

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

	Accelerated capital allowances £m	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payments £m	Other £m	Total £m
At 12 March 2017 (restated)	**(166)**	**31**	**(48)**	**(84)**	**124**	**8**	**(27)**	**(162)**
Acquisition of subsidiaries	**3**	**–**	**16**	**–**	**–**	**–**	**–**	**19**
Prior year adjustment to income statement	**(11)**	**5**	**–**	**(2)**	**–**	**–**	**3**	**(5)**
Credit/(charge) to income statement	**17**	**(1)**	**–**	**1**	**(11)**	**2**	**5**	**13**
(Charge)/credit to equity or other comprehensive income	**–**	**–**	**15**	**–**	**(132)**	**–**	**–**	**(117)**
Rate change adjustment to income statement	**(2)**	**–**	**–**	**–**	**1**	**–**	**–**	**(1)**
Rate change adjustment to equity or other comprehensive income	**–**	**–**	**(2)**	**–**	**14**	**–**	**–**	**12**
At 10 March 2018	**(159)**	**35**	**(19)**	**(85)**	**(4)**	**10**	**(19)**	**(241)**
At 13 March 2016	(159)	51	(25)	(95)	19	7	(35)	(237)
Acquisition of subsidiaries (restated)	(19)	–	(28)	–	82	1	19	55
Prior year adjustment to income statement	(16)	(12)	–	15	–	–	(1)	(14)
Prior year adjustment to equity or other comprehensive income	–	–	9	–	–	–	–	9
Credit/(charge) to income statement	21	(7)	(2)	(10)	(6)	–	(13)	(17)
(Charge)/credit to equity or other comprehensive income	–	–	(6)	–	40	–	–	34
Rate change adjustment to income statement	7	(1)	2	6	1	–	3	18
Rate change adjustment to equity or other comprehensive income	–	–	2	–	(12)	–	–	(10)
At 11 March 2017 (restated)	(166)	31	(48)	(84)	124	8	(27)	(162)

	2018 £m	2017 £m
Total deferred income tax liabilities	**(286)**	(325)
Total deferred income tax assets	**45**	163
Net deferred income tax liability recognised in non-current liabilities	**(241)**	(162)

Deferred income tax assets have been recognised in respect of all temporary differences and tax losses giving rise to deferred income tax assets because it is probable that these assets will be recovered. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority.

8 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan Trusts (note 22), which are treated as cancelled. For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated convertible bonds (net of tax).

The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the number of shares that would be issued if all senior convertible bonds and perpetual subordinated convertible bonds are assumed to be converted.

Underlying earnings per share is provided by excluding the effect of any non-underlying items as defined in note 3. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance. All operations are continuing for the periods presented.

	2018 million	2017 million
Weighted average number of shares in issue	**2,186.2**	2,049.0
Weighted average number of dilutive share options	**21.8**	18.2
Weighted average number of dilutive senior convertible bonds	**143.5**	137.7
Weighted average number of dilutive subordinated perpetual convertible bonds	**78.3**	75.1
Total number of shares for calculating diluted earnings per share	**2,429.8**	2,280.0

	£m	£m
Profit for the financial year (net of tax)	**309**	377
Less profit attributable to:		
Holders of perpetual capital securities	**(12)**	(12)
Holders of perpetual convertible bonds	**(6)**	(6)
Profit for the financial year attributable to ordinary shareholders	**291**	359

	£m	£m
Profit for the financial year attributable to ordinary shareholders	**291**	359
Add interest on senior convertible bonds (net of tax)	**12**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted earnings for calculating diluted earnings per share	**309**	377

	£m	£m
Profit for the financial year attributable to ordinary shareholders of the parent	**291**	359
Adjusted for non-underlying items (note 3)	**180**	78
Tax on non-underlying items	**(42)**	(9)
Add back coupons on perpetual securities (net of tax)[1]	**18**	18
Underlying profit after tax attributable to ordinary shareholders of the parent	**447**	446
Add interest on convertible bonds (net of tax)	**12**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**465**	464

	Pence per share	Pence per share
Basic earnings	**13.3**	17.5
Diluted earnings	**12.7**	16.5
Underlying basic earnings	**20.4**	21.8
Underlying diluted earnings	**19.1**	20.4

1 Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities (note 21) are added back.

9 Dividends

	2018 Pence per share	2017 Pence per share	2018 £m	2017 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**6.6**	8.1	**144**	155
Interim dividend of current financial year	**3.1**	3.6	**68**	77
	9.7	11.7	**212**	232

After the balance sheet date on 30 April 2018 a final dividend of 7.1 pence per share (2017: 6.6 pence per share) was proposed by the Directors in respect of the 52 weeks to 10 March 2018. This results in a total final proposed dividend of £156 million (2017: £144 million), an increase of 8.3 per cent on the previous year. Subject to shareholders' approval at the Annual General Meeting, the dividend will be paid on 13 July 2018 to the shareholders on the register at 8 June 2018. The proposed final dividend has not been included as a liability at 10 March 2018.

10 Property, plant and equipment

Accounting policies

a) Land and buildings

Land and buildings are held at historical cost less accumulated depreciation and any recognised provision for impairment. Capital work in progress is held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs to bringing the asset to its working condition for intended use. This includes capitalised borrowing costs.

b) Fixtures and equipment

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and its intended use.

c) Depreciation

Depreciation is calculated to write down the cost of the assets to their residual values, on a straight-line basis, using the following rates:

- Freehold buildings and leasehold properties – 50 years, or the lease term if shorter
- Fixtures, equipment and vehicles – three to 15 years
- Freehold land is not depreciated

Capital work in progress is not depreciated.

Gains and losses on disposal are determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and are recognised within operating profit.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Retail property, plant and equipment, the CGU is deemed to be each trading store, store pipeline development site or in the case of Argos a cluster of stores. Non-store assets, including depots and IT assets, are reviewed separately, whilst Financial Services is deemed a separate CGU.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

Capitalisation of interest

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

Leased assets

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

a) Finance leases

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

b) Lease incentives

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

c) Leases with predetermined fixed rental increases

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

10 Property, plant and equipment continued

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 12 March 2017	**10,445**	**5,084**	**15,529**
Acquisition of subsidiaries (note 31)	**–**	**3**	**3**
Additions	**189**	**389**	**578**
Disposals	**(56)**	**(384)**	**(440)**
Transfer to assets held for sale	**(1)**	**–**	**(1)**
At 10 March 2018	**10,577**	**5,092**	**15,669**
Accumulated depreciation and impairment			
At 12 March 2017	**2,494**	**3,029**	**5,523**
Depreciation expense for the year	**199**	**460**	**659**
Disposals	**(36)**	**(375)**	**(411)**
At 10 March 2018	**2,657**	**3,114**	**5,771**
Net book value at 10 March 2018	**7,920**	**1,978**	**9,898**
Capital work-in-progress included above	**250**	**78**	**328**
Cost			
At 13 March 2016	10,114	5,145	15,259
Acquisition of subsidiaries (note 31)	111	151	262
Additions	301	394	695
Disposals	(71)	(607)	(678)
Transfer to assets held for sale	(11)	–	(11)
Exchange differences	1	1	2
At 11 March 2017	10,445	5,084	15,529
Accumulated depreciation and impairment			
At 13 March 2016	2,313	3,182	5,495
Depreciation expense for the year	193	407	600
Impairment loss for the year[1]	17	38	55
Disposals	(28)	(599)	(627)
Transfer to assets held for sale	(1)	–	(1)
Exchange differences	–	1	1
At 11 March 2017	2,494	3,029	5,523
Net book value at 11 March 2017	**7,951**	**2,055**	**10,006**
Capital work-in-progress included above	**213**	**86**	**299**

1 Prior year comprises an impairment reversal of £17 million which was recognised on land where there had been an increase in the market value during the year, and an impairment charge of £72 million recognised on assets where impairment indicators existed. Net charge of £55 million comprises £36 million of non-core IT assets, and £19 million of other fixed asset impairments, both as detailed in note 3.

10 Property, plant and equipment continued

Interest capitalised

Interest capitalised included in additions amounted to £7 million (2017: £7 million) for the Group. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £340 million (2017: £352 million) for the Group. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.1 per cent (2017: 4.0 per cent).

Security

Property, plant and equipment pledged as security is as follows:

	2018 Number of properties	2018 Net book value £bn	2017 Number of properties	2017 Net book value £bn
Loan due 2018 and Loan due 2031	**125**	**2.5**	125	2.6
Revolving credit facility	**60**	**1.3**	60	1.3
Sainsbury's Property Scottish Partnership	**24**	**0.6**	24	0.6
Bank loans due 2019	**10**	**0.2**	10	0.2
Other	**6**	**0.1**	6	0.1
	225	**4.7**	225	4.8

Analysis of assets held under finance leases

	2018 Land and buildings £m	2018 Fixtures and equipment £m	2018 Total £m	2017 Land and buildings £m	2017 Fixtures and equipment £m	2017 Total £m
Cost	**82**	**16**	**98**	82	1	83
Accumulated depreciation and impairment	**(35)**	**(2)**	**(37)**	(33)	–	(33)
Net book value	**47**	**14**	**61**	49	1	50

11 Intangible assets

Accounting policies

a) Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

b) Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are amortised on a straight-line basis over their useful economic lives of five to fifteen years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of five to fifteen years within administrative expenses.

c) Acquired intangible assets

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets with finite useful economic lives are carried at cost less accumulated amortisation and any provision for impairment and are amortised on a straight-line basis over their estimated useful economic lives, ranging from three to ten years, within administrative expenses.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

11 Intangible assets continued

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Other £m	Total £m
Cost						
At 12 March 2017	**254**	**429**	**218**	**–**	**–**	**901**
Acquisition of subsidiaries (note 31)	**147**	**13**	**12**	**32**	**–**	**204**
Additions	**–**	**139**	**–**	**–**	**–**	**139**
Disposals	**–**	**(56)**	**–**	**–**	**–**	**(56)**
At 10 March 2018	**401**	**525**	**230**	**32**	**–**	**1,188**
Accumulated amortisation and impairment						
At 12 March 2017	**4**	**50**	**44**	**–**	**–**	**98**
Amortisation expense for the year	**–**	**48**	**22**	**2**	**–**	**72**
Disposals	**–**	**(54)**	**–**	**–**	**–**	**(54)**
At 10 March 2018	**4**	**44**	**66**	**2**	**–**	**116**
Net book value at 10 March 2018	**397**	**481**	**164**	**30**	**–**	**1,072**

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Other £m	Total £m
Cost						
At 13 March 2016	142	231	39	–	10	422
Reclassification	–	10	–	–	(10)	–
Acquisition of subsidiaries (restated) (note 31)	119	143	179	–	–	441
Additions	–	104	–	–	–	104
Disposals	(7)	(59)	–	–	–	(66)
At 11 March 2017	254	429	218	–	–	901
Accumulated amortisation and impairment						
At 13 March 2016	4	59	29	–	1	93
Reclassification	–	1	–	–	(1)	–
Amortisation expense for the year	–	13	15	–	–	28
Disposals	–	(23)	–	–	–	(23)
At 11 March 2017	4	50	44	–	–	98
Net book value at 11 March 2017 (restated)	250	379	174	–	–	803

Goodwill comprises the following:

	2018 £m	2017 (restated) £m
Jacksons Stores Limited	**47**	47
Home Retail Group	**119**	119
Sainsbury's Bank plc	**45**	45
Nectar UK	**147**	–
Bells Stores Limited	**16**	16
Other	**23**	23
	397	250

The goodwill balances above are allocated to the respective cash-generating units (CGUs) or group of CGUs within the Retail or Financial Services segments. The CGUs to which goodwill has been allocated and the level at which it is monitored in the Retail segment are deemed to be the respective acquired retail chains of stores, whilst Financial Services is a separate CGU.

The value of the goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU or group of CGUs with the carrying value of its goodwill. The calculation of the Retail CGUs value in use is calculated on the cash flows expected to be generated by the stores using the latest budget and forecast data. Estimates of sales and costs are based on past experience and expectations of future changes in the market. Board approved cash flow projections for five years are used and then extrapolated out assuming flat cash flows and discounted at a pre-tax rate of nine per cent (2017: nine per cent) over the earlier of a 25-year period (being the estimated average remaining useful life of a freehold store) or lease length for leasehold stores. Financial Services CGUs value in use is calculated using Board approved cash flows discounted at a pre-tax rate of nine per cent (2017: nine per cent) over a five-year period with a terminal value.

Home Retail Group (acquisition of the Argos brand) is considered a separate CGU. Total value in use for Argos is calculated using total Board approved cash flows for the Argos business as a whole over a five-year period and then into perpetuity and discounted at a pre-tax rate of nine per cent. Goodwill arising on the purchase of Nectar has been allocated to the Group's Retail segment.

11 Intangible assets continued

Based on the operating performance of the CGUs, an impairment of goodwill of £nil was identified in the current financial year (2017: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill. Sensitivity analysis on the impairment tests for each group of CGU to which goodwill has been allocated has been performed. Management are satisfied that there are no changes to assumptions that would lead to impairment.

Additions to acquired brands and customer relationships in the current year arose from the acquisition of Nectar UK. The brand is amortised over five years whilst the customer relationships are amortised between one and five years. Additions to acquired brands in the prior year arose from the acquisition of HRG and relates to the Argos brand. This is being amortised over ten years.

12 Investments in joint ventures and associates

Accounting policies

The Group applies IFRS 11 'Joint Arrangements' to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

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

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

The Group's principal joint venture is:

	Statutory year-end	Share of ordinary allotted capital	Country of registration or incorporation
BL Sainsbury Superstores Limited (British Land property investment)	31 March	50%	England

A full list of the Group's joint ventures is included in note 38. Joint ventures with a different year-end date to the Group are reported to include the results up to 28 February 2018, the nearest month-end to the Group's year-end. Adjustments are made for the effects of significant transactions or events that occurred between 28 February and the Group's balance sheet date.

	British Land £m	Other joint ventures £m	Total £m
At 12 March 2017	**205**	**32**	**237**
Additions	**–**	**9**	**9**
Disposals	**–**	**(2)**	**(2)**
Dividends and distributions received	**(30)**	**(7)**	**(37)**
Share of retained profit:			
Underlying profit after tax	**10**	**4**	**14**
Investment property fair value movements	**(1)**	**8**	**7**
Finance fair value movements	**(3)**	**–**	**(3)**
Share of loss on disposal of properties	**(7)**	**1**	**(6)**
Share of joint venture (loss)/profit after tax	**(1)**	**13**	**12**
Disposals from the Group	**13**	**–**	**13**
At 10 March 2018	**187**	**45**	**232**
At 13 March 2016	275	52	327
Additions[1]	–	18	18
Dividends and distributions received	(54)	(11)	(65)
Share of retained loss:			
Underlying profit after tax	12	–	12
Investment property fair value movements	(23)	(2)	(25)
Finance fair value movements	(2)	–	(2)
Share of loss on disposal of properties[2]	(5)	–	(5)
Other non-underlying joint venture items	–	(19)	(19)
Share of retained loss	(18)	(21)	(39)
Disposals to the Group[2]	2	–	2
Share of joint venture loss after tax	(16)	(21)	(37)
Disposals from the Group	–	(6)	(6)
At 11 March 2017	205	32	237

1 In the prior year, additions of £18 million include a non-cash element of £2 million.
2 In the prior year, total joint venture property losses of £(3) million as per note 3.

12 Investments in joint ventures and associates continued

On 1 February 2018, as part of the acquisition of Nectar UK the Group acquired an additional 50 per cent of the share capital of Insight 2 Communication LLP, previously a joint venture, making the company a wholly-owned subsidiary which has been consolidated within the Group results from the date of acquisition onwards. The joint venture had a carrying value of £2 million and a fair value of £6 million, leading to a non-underlying gain of £4 million. The acquisition of Nectar UK has been detailed in note 31.

The total assets, liabilities, income and expenses of the Group's principal joint venture BL Sainsbury Superstores Limited are detailed below:

	2018 £m	2017 £m
Non-current assets	**522**	769
Cash and cash equivalents	**80**	3
Current liabilities	**(21)**	(24)
Non-current liabilities	**(221)**	(324)
Joint venture net assets	**360**	424
Group share of joint venture net assets (at 50%)	**180**	212
Goodwill	**5**	5
Unrealised profit/(loss) on disposal of properties	**2**	(12)
Group share of joint venture net assets as disclosed above	**187**	205
Revenue	**40**	48
Other expenses	**(28)**	(61)
Interest expenses	**(15)**	(20)
Joint venture loss before tax	**(3)**	(33)
Analysed as:		
Underlying profit before tax	**24**	27
Investment property fair value movements	**(2)**	(45)
Finance fair value movements	**(6)**	(3)
Loss on disposal of properties	**(19)**	(12)
	(3)	(33)
Underlying income tax expense	**(4)**	(5)
Non-underlying income tax expense	**5**	2
Joint venture loss after tax	**(2)**	(36)
Total comprehensive expense	**(2)**	(36)

13 Available-for-sale financial assets

Accounting policies

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

	2018 £m	2017 £m
Non-current		
Equity		
Unlisted equity investment	–	2
Other financial assets	**177**	161
Debt		
Interest bearing financial assets	**40**	39
Financial Services related investment securities	**323**	233
	540	435
Current		
Debt		
Financial Services related investment securities	**203**	100
	743	535

The other financial asset predominantly represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of 0.6 per cent (2017: 0.5 per cent) and a weighted average cost of capital of nine per cent (2017: nine per cent). In the current year there was a £1.6 million disposal of an available-for-sale financial asset (2017: £nil). There were no impairment provisions in either the current or the previous financial year.

14 Inventories

Accounting policies

Inventories comprise goods held for resale and properties held for resale or in the course of development and are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

	2018 £m	2017 £m
Goods held for resale	**1,810**	1,774
Development properties	–	1
	1,810	1,775

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 10 March 2018 was £21,209 million (2017: £19,483 million).

15 Receivables

(a) Trade and other receivables

Accounting policies

Trade receivables are non-interest bearing and are on commercial terms. Other receivables have both non-interest and interest bearing receivables. Trade and other receivables are stated at their carrying amounts and are written off when management deems them uncollectable or forgiven.

	2018 £m	2017 £m
Non-current		
Other receivables	**35**	59
Prepayments and accrued income	**9**	10
	44	69
Current		
Trade receivables	**117**	106
Other receivables	**470**	312
	587	418
Prepayments and accrued income	**157**	156
	744	574

Current other receivables of £470 million (2017: £312 million), which include £213 million (2017: £165 million) of bank funds in the course of settlement, are generally non-interest bearing. The carrying amounts of trade and other receivables are denominated in sterling.

The Group's exposure to credit risk arising from its retail operations is minimal given that the customer base is large and unrelated and that the overwhelming majority of customer transactions are settled through cash or secure electronic means. New parties wishing to obtain credit terms with the Group are credit checked prior to invoices being raised and credit limits are determined on an individual basis.

(b) Amounts due from Financial Services customers

Accounting policies

Loans and advances are initially recognised at fair value and subsequently held at amortised cost, using the effective interest method, less provision for impairment and recognised on the balance sheet when cash is advanced. For the Financial Services portfolios of loans, such as credit card lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. Such evidence may include a missed interest or principal payment or the breach of a banking covenant.

Provisioning on unsecured balances identified as being in arrears is calculated based on past experience, with regularly updated assumptions. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement and a provision recognised in the balance sheet.

The written down value of the impaired loan is compounded back to the net realisable balance over time using the effective interest rate. This is reported through revenue within the income statement and represents the unwinding of the discount.

A write-off is made when all or part of a loan or advance is deemed uncollectable or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement. Subsequent recoveries of amounts written off decrease the charge for loan impairment in the income statement.

15 Receivables continued

An allowance for impairment losses is also maintained in respect of assets which are impaired at the balance sheet date but which have not been identified as such, based on historical loss experience and other relevant factors. This includes analysis of the likelihood of a particular balance to move into an arrears status within a defined period of time and application of an appropriate loss rate. The emergence period into an arrears state represents the average time elapsed between the loss trigger event and default. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results.

	2018 £m	2017 £m
Non-current		
Loans and advances to customers	**2,373**	1,948
Impairment of loans and advances	**(41)**	(32)
	2,332	1,916
Current		
Loans and advances to customers	**3,451**	2,743
Impairment of loans and advances	**(91)**	(57)
	3,360	2,686

Loans and advances to customers accrue interest at the effective interest rate. Financial Services has pledged the rights to £1,519 million (2017: £678 million) of its personal loans book with the Bank of England as collateral for its funding facilities. As at 10 March 2018 £950 million (2017: £nil) of borrowings were drawn under the Term Funding Scheme. There was no funding received under the Funding for Lending Scheme (2017: £260 million of Treasury Bills received) and the Indexed Long-Term Repo Facility (2017: £155 million of borrowings). Funding for Lending Treasury Bills could be converted to cash as a source of future funding to the Bank however none had been converted as at 11 March 2017.

Financial Services has assigned the beneficial interest in £379 million (2017: £378 million) of its personal loans book to a Special Purpose Entity for use as collateral in securitisation transactions, facilitating £312 million (2017: £311 million) of drawings.

Refer to note 23 for details on Financial Services credit risk.

(c) Provision for impairment of loans and advances

	2018 £m	2017 £m
Opening provision	**(89)**	(79)
Additional provisions	**(68)**	(33)
Utilisation of provision	**26**	24
Amortisation of discount	**(1)**	(1)
Closing provision	**(132)**	(89)

The Group acquired Home Retail Group plc in the prior year. The loan book fair value acquired was £615 million net of provisions. Gross provisions at the date of acquisition were £66 million which are not shown in the table above in line with IFRS 3 'Business Combinations'.

(d) Major counterparties

The Group has three major counterparties totalling £67 million (2017: two major counterparties totalling £55 million). No major counterparty balances are considered overdue or impaired.

16 Assets and liabilities held for sale

Accounting policies

Assets and liabilities are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable within one year from the date of classification and the assets and liabilities are 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.

	2018 £m	2017 £m
Assets held for sale		
Retail segment properties	**9**	10

Of the Group's assets held for sale at 11 March 2017, £2 million were sold during the current financial year. For the remaining assets, the sale is still considered probable in the next financial year and so they remain classified as held for sale.

17 Payables

(a) Trade and other payables

Accounting policies

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

Accruals and deferred income/gains includes accounting for leases with fixed rental increases and lease incentives on a straight-line basis over the term of the lease.

	2018 £m	2017 £m
Current		
Trade payables	**2,852**	2,685
Other payables	**598**	571
Accruals and deferred income/gains	**872**	485
	4,322	3,741
Non-current		
Other payables	**12**	19
Accruals and deferred income/gains	**301**	285
	313	304

Foreign currency risk

The Group has net euro denominated trade payables of £35 million (2017: £17 million) and US dollar denominated trade payables of £56 million (2017: £64 million).

(b) Amounts due to Financial Services customers and banks

Accounting policies

With the exception of fixed rate bonds, amounts due to Financial Services customers are generally repayable on demand and accrue interest at retail deposit rates.

	2018 £m	2017 £m
Current		
Customer accounts	**4,667**	3,885
Other deposits	**49**	278
Senior secured loan notes	**125**	121
	4,841	4,284
Non-current		
Customer accounts	**313**	216
Other deposits	**1,183**	231
Senior secured loan notes	**187**	190
	1,683	637

Sainsbury's Bank, via its subsidiary undertakings, has entered a £400 million asset-backed commercial paper securitisation of consumer loans. Of this facility, £312 million had been drawn as at 10 March 2018 (11 March 2017: £311 million). Interest on the notes is repayable at a floating rate linked to three-month LIBOR and their contractual repayment is determined by cash flows on the relevant personal loans included in the collateral pool.

Other deposits of £1,232 million (2017: £509 million) relate to deposits from wholesale counterparties.

18 Provisions

Accounting policies

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

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

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

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

	Onerous leases and onerous contracts £m	Insurance provisions £m	Restructuring £m	Financial Services related provisions £m	Other provisions £m	Total £m
At 12 March 2017 (restated)	**100**	**80**	**50**	**83**	**21**	**334**
Additional provisions	**60**	**35**	**81**	**–**	**12**	**188**
Unused amounts reversed	**(3)**	**(12)**	**–**	**–**	**(6)**	**(21)**
Utilisation of provision	**(38)**	**(25)**	**(37)**	**(31)**	**(8)**	**(139)**
Amortisation of discount	**5**	**–**	**–**	**–**	**–**	**5**
At 10 March 2018	**124**	**78**	**94**	**52**	**19**	**367**
At 13 March 2016	96	57	2	–	20	175
Acquisition of subsidiaries (restated)	–	28	31	108	8	175
Additional provisions	32	21	33	–	5	91
Unused amounts reversed	(5)	(5)	–	–	–	(10)
Utilisation of provision	(29)	(21)	(16)	(25)	(12)	(103)
Amortisation of discount	6	–	–	–	–	6
At 11 March 2017 (restated)	100	80	50	83	21	334

	2018 £m	2017 restated £m
Disclosed as:		
Current	**201**	148
Non-current	**166**	186
	367	334

18 Provisions continued

Onerous lease and contract provisions

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

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

The onerous lease provision covers residual lease commitments of up to an average of 34 years (2017: 32 years), after allowance for existing or anticipated sublet rental income.

Insurance provisions

The provision relates to the Group's outstanding insurance claims liabilities in relation to public and employer's liability claims, and third party motor claims. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent actuary and are intended to provide a best estimate of the most likely or expected outcome.

Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring. The charge for the year is driven by the announced transformational changes to the Group's in-store operating model, responding to changing customer shopping habits and reducing costs throughout the store estate.

Financial Services related provisions

Financial Services related provisions are primarily in relation to Argos Financial Services customers in respect of potential redress payable arising from the historic sales of Payment Protection Insurance (PPI), and in respect of potential customer redress payable in relation to other customer conduct issues arising from a review of the governance and risk management framework.

Other provisions

Provisions for warranties and long service awards have been included within other provisions.

19 Called up share capital, share premium and merger reserve

Accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	2018 million	2017 million	2018 £m	2017 £m
Called up share capital				
Allotted and fully paid ordinary shares 28$^4/_7$p	**2,194**	2,188	**627**	625

	2018 £m	2017 £m
Share premium account		
Share premium	**1,130**	1,120

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 12 March 2017	**2,188**	**625**	**1,120**	**568**
Allotted in respect of share option schemes	**6**	**2**	**10**	**–**
At 10 March 2018	**2,194**	**627**	**1,130**	**568**
At 13 March 2016	1,924	550	1,114	–
Acquisition of subsidiaries[1]	261	75	–	568
Allotted in respect of share option schemes	3	–	6	–
At 11 March 2017	2,188	625	1,120	568

1 261 million new J Sainsbury plc shares of 28$^4/_7$p nominal value each were issued (being 0.321 new J Sainsbury plc shares per existing Home Retail Group plc share); fair value of the consideration is based on a J Sainsbury plc share price of £2.4610 as of 2 September 2016. This is accounted for as £75 million in share capital, plus the premium arising from the consideration in excess of the nominal amount of shares issued of £568 million, which is recognised in the merger reserve as the transaction qualified for merger relief.

20 Capital redemption and other reserves

	Currency translation reserve £m	Available-for-sale assets £m	Cash flow hedge £m	Convertible bond reserve £m	Total other reserves £m	Capital redemption reserve £m
At 12 March 2017	**8**	**143**	**21**	**21**	**193**	**680**
Currency translation differences	**(4)**	**–**	**–**	**–**	**(4)**	**–**
Available-for-sale financial assets fair value movements (net of tax)	**–**	**11**	**–**	**–**	**11**	**–**
Items reclassified from available-for-sale financial asset reserve	**–**	**2**	**–**	**–**	**2**	**–**
Cash flow hedges effective portion of fair value movements (net of tax)	**–**	**–**	**(123)**	**–**	**(123)**	**–**
Items reclassified from cash flow hedge reserve	**–**	**–**	**50**	**–**	**50**	**–**
Amortisation of convertible bond – equity component	**–**	**–**	**–**	**(8)**	**(8)**	**–**
At 10 March 2018	**4**	**156**	**(52)**	**13**	**121**	**680**
At 13 March 2016	3	126	(3)	29	155	680
Currency translation differences	5	–	–	–	5	–
Available-for-sale financial assets fair value movements (net of tax)	–	18	–	–	18	–
Items reclassified from available-for-sale financial asset reserve	–	(1)	–	–	(1)	–
Cash flow hedges effective portion of fair value movements (net of tax)	–	–	111	–	111	–
Items reclassified from cash flow hedge reserve	–	–	(87)	–	(87)	–
Amortisation of convertible bond – equity component	–	–	–	(8)	(8)	–
At 11 March 2017	8	143	21	21	193	680

The currency translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.

The available-for-sale assets reserve represents the fair value gains and losses on the available-for-sale financial assets held by the Group. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Group.

The convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014.

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

21 Perpetual securities

Accounting policies and key information

Perpetual securities (perpetual capital securities and perpetual convertible bonds) are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity and as a liability at the time it becomes obligated to pay the periodic return. Any associated tax impacts are recognised directly in equity.

On 30 July 2015 the Group issued £250 million of perpetual subordinated capital securities and £250 million of perpetual subordinated convertible bonds, collectively known as perpetual securities. Costs directly associated with the issue of £6 million were offset against the value of the proceeds. The securities are perpetual with no fixed redemption date. Holders of the perpetual securities do not benefit from any put option rights however the Group does have the right to call the perpetual subordinated capital securities at their principal amount on 30 July 2020, and the perpetual subordinated convertible bonds on 30 July 2021. The perpetual subordinated convertible bonds may be converted into ordinary shares of the Company at the option of the holders at any time up to 23 July 2021 at a conversion price of 315.0195 pence.

The Group has the right to defer coupons on the perpetual securities on any coupon payment date where the Company has not either paid a dividend on its ordinary shares or bought back ordinary shares (excluding shares bought to satisfy employee share schemes) within the previous 12 month period. The coupon rate on the perpetual subordinated capital securities increases after the fifth anniversary and for the perpetual subordinated convertible bonds after the sixth anniversary.

The next coupon date on the perpetual securities is 30 July 2018. As the Company paid a dividend to ordinary shareholders in the 12 months prior to this date (in January 2018), the periodic distributions of £7 million (2017: £7 million) for the perpetual subordinated capital securities and £16 million (2017: £16 million) for the perpetual subordinated convertible bonds have been recognised in the financial year.

	Perpetual capital securities £m	Perpetual convertible bonds £m
At 12 March 2017	**248**	**248**
Distributions to holders of perpetual securities	**(16)**	**(7)**
Current tax relief on distributions to holders of perpetual securities	**4**	**1**
Profit for the year attributable to holders of perpetual securities	**12**	**6**
At 10 March 2018	**248**	**248**
At 13 March 2016	248	248
Distributions to holders of perpetual securities	(16)	(7)
Current tax relief on distributions to holders of perpetual securities	4	1
Profit for the year attributable to holders of perpetual securities	12	6
At 11 March 2017	248	248

22 Retained earnings

	Own shares £m	Profit and loss account £m	Total retained earnings £m
At 12 March 2017	**(11)**	**3,201**	**3,190**
Profit for the year	**–**	**291**	**291**
Remeasurements on defined benefit pension schemes (net of tax)	**–**	**493**	**493**
Dividends paid	**–**	**(212)**	**(212)**
Amortisation of convertible bond-equity component	**–**	**8**	**8**
Share-based payment (net of tax)	**–**	**33**	**33**
Purchase of own shares	**(14)**	**–**	**(14)**
Allotted in respect of share option schemes	**19**	**(19)**	**–**
At 10 March 2018	**(6)**	**3,795**	**3,789**
At 13 March 2016	(21)	3,391	3,370
Profit for the year	–	359	359
Remeasurements on defined benefit pension schemes (net of tax)	–	(338)	(338)
Dividends paid	–	(232)	(232)
Acquisition of subsidiaries	–	(3)	(3)
Adjustment to consideration in respect of share options (note 31)	–	3	3
Amortisation of convertible bond equity component	–	8	8
Share-based payment (net of tax)	–	32	32
Purchase of own shares	(9)	–	(9)
Allotted in respect of share option schemes	19	(19)	–
At 11 March 2017	(11)	3,201	3,190

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

The Group owns 2,421,178 (2017: 4,303,928) of its ordinary shares of 28 4/7 pence nominal value each. At 10 March 2018, the total nominal value of the own shares was £0.7 million (2017: £1.2 million).

All shares (2017: all shares) are held by Group trusts for the Executive Share Plans. All Group trusts waive the rights to the dividends receivable in respect of the shareholder under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 10 March 2018 was £6 million (2017: £11 million).

23 Financial risk management

The principal financial risks faced by the Group relate to liquidity risk, counterparty credit risk, foreign currency risk, interest rate risk, commodity risk and capital risk.

Financial risk management is managed by a central treasury department in accordance with policies and guidelines which are reviewed and approved by the Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying financial exposures and setting appropriate risk limits and controls. The risk management policies also ensure sufficient liquidity is available to the Group to meet foreseeable financial obligations and that cash assets are invested safely.

Financial risk management with respect to Financial Services is separately managed within the Financial Services' governance structure. The risks are more fully described in the Financial Services section below.

The Group uses forward contracts to hedge foreign exchange and commodity exposures, and cross currency swap contracts and interest rate swap contracts to hedge interest rate exposures. The use of financial derivatives is governed by Board approved policies which prohibit the use of derivative financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the Group could be unable to meet its financial obligations as they fall due.

The principal operational cash flow of the Group is largely stable and predictable reflecting the low business risk profile of the food retail sector and the cyclical profile of the non-food retail sector. Cash flow forecasts are produced to assist management in identifying future liquidity requirements. The Group's liquidity policy sets a minimum funding headroom of £400 million in excess of forecast net debt over a rolling 12 month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding contingent committed credit facilities.

On 17 October 2017 the Group refinanced its syndicated committed revolving credit facility. The £1,450 million facility is split into two facilities, a £300 million Facility (A) maturing in April 2023 and a £1,150 million Facility (B) consisting of three tranches: a £300 million tranche A maturing in October 2020, a £400 million tranche B maturing in October 2021 and a £450 million tranche C maturing in October 2022. As at 10 March 2018, £nil had been drawn (2017: £nil).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows or an estimate of cash flows in respect of floating interest rate liabilities.

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 10 March 2018				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	**(575)**	**–**	**–**	**–**
Loan due 2031[1]	**(68)**	**(71)**	**(227)**	**(698)**
Unsecured loans:				
Bank overdraft	**(2)**	**–**	**–**	**–**
Bank loans due 2019[2]	**(4)**	**(202)**	**–**	**–**
Convertible bond due 2019	**(6)**	**(453)**	**–**	**–**
Finance lease obligations[2]	**(37)**	**(18)**	**(27)**	**(202)**
Trade and other payables	**(4,037)**	**–**	**–**	**–**
Amounts due to Financial Services customers and banks[5]	**(4,841)**	**(722)**	**(1,205)**	**–**
Derivative contracts – net settled				
Commodity contracts	**1**	**–**	**–**	**–**
Interest rate swaps in hedging relationships[1, 4]	**7**	**8**	**8**	**–**
Other interest rate swaps[4]	**–**	**–**	**–**	**–**
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	**(1,366)**	**(69)**	**–**	**–**
Foreign exchange forwards – inflow[3]	**1,323**	**68**	**–**	**–**
Commodity contracts – outflow	**(15)**	**(26)**	**(25)**	**(4)**
Commodity contracts – inflow	**13**	**20**	**22**	**5**

Assumptions:

1 Cash flows relating to debt and swaps linked to inflation rates have been calculated using a RPI of 2.6 per cent for the year ended 10 March 2018, 2.7 per cent for the year ending 9 March 2019 and 2.7 per cent for future years (2017: RPI of 1.3 per cent for the year ended 11 March 2017, 2.6 per cent for the year ended 10 March 2018, and 3.6 per cent for future years).

2 Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates as at 10 March 2018 and 11 March 2017.

3 Cash flows in foreign currencies have been translated using spot rates as at 10 March 2018 and 11 March 2017.

4 The swap rate that matches the remaining term of the interest rate swap as at 10 March 2018 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2017: 11 March 2017).

5 Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.

23 Financial risk management continued

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 11 March 2017				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	(137)	(575)	–	–
Loan due 2031[1]	(66)	(68)	(219)	(777)
Unsecured loans:				
Bank overdraft	(6)	–	–	–
Bank loans due 2019[2]	(4)	(4)	(202)	–
Convertible bond due 2019	(6)	(6)	(453)	–
Finance lease obligations[2]	(31)	(34)	(32)	(206)
Trade and other payables	(3,741)	–	–	–
Amounts due to Financial Services customers and banks[5]	(4,365)	(364)	(293)	–
Derivative contracts – net settled				
Commodity contracts	3	–	–	–
Interest rate swaps in hedging relationships[1, 4]	(5)	(4)	(9)	(5)
Other interest rate swaps[4]	(1)	–	–	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	(1,327)	(92)	–	–
Foreign exchange forwards – inflow[3]	1,405	97	–	–
Commodity contracts – outflow	(15)	(15)	(37)	(29)
Commodity contracts – inflow	12	12	27	29

Assumptions:
1 Cash flows relating to debt and swaps linked to inflation rates have been calculated using a RPI of 2.6 per cent for the year ended 10 March 2018, 2.7 per cent for the year ending 9 March 2019 and 4.0 per cent for future years (2017: RPI of 1.3 per cent for the year ended 11 March 2017, 2.6 per cent for the year ended 10 March 2018, and 3.6 per cent for future years).
2 Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates as at 10 March 2018 and 11 March 2017.
3 Cash flows in foreign currencies have been translated using spot rates as at 10 March 2018 and 11 March 2017.
4 The swap rate that matches the remaining term of the interest rate swap as at 10 March 2018 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2017: 11 March 2017).
5 Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.

Further information relating to liquidity risk in Financial Services is more fully described in the separate section on Financial Services financial risk factors below.

Counterparty credit risk

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of the Group's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers. The Group considers its maximum credit risk to be £8,980 million (2017: 6,967 million), equivalent to the Group's total financial assets and commitments, and of this amount £7,798 million relates to Financial Services (2017: £5,620 million).

The Group (excluding Financial Services) sets counterparty limits for each of its banking and investment counterparties based on their credit ratings. The minimum unsecured long-term credit rating accepted by the Group is BBB- (Standard & Poor's and Fitch) or Baa3 (Moody's) or, in the case of sterling liquidity funds, AAA or Aaa/MR1+ from Moody's. In the event of a split credit rating, the lower rating applies.

The table below analyses the Group's cash and cash equivalents by credit exposure excluding bank balances, store cash, cash in transit and cash at ATMs:

Counterparty	Long-term rating	Group 2018 £m	Group 2017 £m
Financial institutions – Money market funds	AAAm/Aaa	**299**	294
Financial institutions – Money market deposits	AAAm/Aaa	**30**	9
Financial institutions – Money market deposits	AA+/Aa1 to A/A2	**66**	100
UK Government Treasury Bills	AA+/Aa1 to A/A2	**–**	–
Deposits at central banks	AA+/Aa1	**683**	241

Management does not expect any losses arising from non-performance of deposit counterparties.

23 Financial risk management continued

Interest rate swaps, forward contracts and commodity contracts for difference are used by the Group to hedge interest rate, foreign currency and fuel exposures. The table below analyses the fair value of the Group's derivative financial assets by credit exposure, excluding any collateral held.

Counterparty	Long-term rating	Group 2018 £m	Group 2017 £m
Interest rate swaps	AA+/Aa1 to A/A2	**22**	25
FX forward contracts	AA+/Aa1 to A/A2	**2**	65
FX forward contracts	A/A3- to BBB+/Baa1	**1**	11
FX forward contracts	BBB-	**–**	1
Commodity forward contracts	AA+/Aa1 to A/A2	**1**	2

Further information relating to counterparty credit risk in Financial Services is more fully described in the section on Financial Services financial risk factors below.

Offsetting of financial assets and liabilities

The following table sets out the Group's financial assets and financial liabilities that are subject to counterparty offsetting or a master netting agreement. The master netting agreements regulate settlement amounts in the event either party defaults on their obligations.

				Amounts not offset in balance sheet		
	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	Net amounts recognised in the balance sheet £m	Balances subject to a contractual right of offset £m	Cash collateral pledged £m	Net amounts £m
At 10 March 2018						
Derivative financial assets	**27**	**–**	**27**	**(37)**	**–**	**(10)**
Derivative financial liabilities	**(79)**	**–**	**(79)**	**37**	**(8)**	**(50)**
Trade and other receivables	**823**	**(35)**	**788**	**–**	**–**	**788**
Cash and cash equivalents	**1,730**	**–**	**1,730**	**–**	**–**	**1,730**
Bank overdrafts	**(2)**	**–**	**(2)**	**–**	**–**	**(2)**
Trade and other payables	**(1,712)**	**35**	**(1,677)**	**–**	**–**	**(1,677)**
	787	**–**	**787**	**–**	**(8)**	**779**
At 11 March 2017						
Derivative financial assets	104	–	104	(2)	–	102
Derivative financial liabilities	(60)	–	(60)	2	19	(39)
Trade and other receivables	703	(60)	643	–	–	643
Cash and cash equivalents	1,083	–	1,083	–	–	1,083
Bank overdrafts	(6)	–	(6)	–	–	(6)
Trade and other payables	(1,705)	60	(1,645)	–	–	(1,645)
	119	–	119	–	19	138

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 10 March 2018, the Group held no collateral against financial derivative assets (2017: nil).

Financial Services has derivatives that are governed by the International Swaps and Derivatives Association and their associated credit support annex bilateral agreements whereby if the fair value exceeds a pre-agreed level, cash collateral is exchanged. As at 10 March 2018, Financial Services and its subsidiary undertakings had received collateral of £8 million (2017: provided collateral of £19 million) against the derivatives.

The Group also operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. As at 10 March 2018, the Group had £2 million (2017: £6 million) under this facility.

Foreign currency risk

Currency risk is the risk of increased costs arising from unexpected movements in exchange rates impacting the Group's foreign currency denominated supply contracts.

The Group's currency risk policy seeks to limit the impact of fluctuating exchange rates on the Group's income statement by requiring highly probable foreign currency cash flows to be hedged. Highly probable future cash flows, which may be either contracted or 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.

23 Financial risk management continued

The Group considers that a ten per cent movement in exchange rates against sterling is a reasonable measure of volatility. The impact of a ten per cent movement in the exchange rate of US dollar and euro versus sterling as at the balance sheet date, with all other variables held constant, is summarised in the table below:

Group	2018 Change in exchange rate impact on post-tax profit +/-10% £m	2018 Change in exchange rate impact on cash flow hedge reserve +/-10% £m	2017 Change in exchange rate impact on post-tax profit +/-10% £m	2017 Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	**19/(19)**	**(98)/119**	12/(15)	(114)/139
EUR/GBP	**1/(1)**	**(19)/23**	(2)/2	(10)/13

Interest rate risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates impacting on the Group's borrowing and investment portfolios. The Group's interest rate policy seeks to limit the impact of fluctuating interest and inflation rates by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

Interest on financial instruments is classified as fixed rate if interest re-sets on the borrowings are less frequent than once every 12 months. Interest on financial instruments is classified as floating rate if interest re-sets on the borrowings occur every 12 months or more frequently. Floating rate instruments are considered variable capped rate if the nominal interest rate is subject to a cap.

The mix of the Group's financial assets and liabilities at the balance sheet date was as follows:

Group	Fixed £m	Floating £m	Variable capped £m	Total £m
At 10 March 2018				
Interest bearing available-for-sale financial assets	**526**	**40**	**–**	**566**
Amounts due from Financial Services customers	**3,089**	**2,603**	**–**	**5,692**
Cash and cash equivalents	**583**	**1,147**	**–**	**1,730**
Borrowings	**(1,182)**	**(201)**	**(730)**	**(2,113)**
Finance lease obligations	**(87)**	**(40)**		**(127)**
Amounts due to Financial Services customers and banks	**(739)**	**(5,785)**	**–**	**(6,524)**
Derivative effect:				
Interest rate swaps	**(2,607)**	**2,607**	**–**	**–**
Inflation linked swaps	**(590)**	**–**	**590**	**–**
Total	**(1,007)**	**371**	**(140)**	**(776)**
At 11 March 2017				
Interest bearing available-for-sale financial assets	334	39	–	373
Amounts due from Financial Services customers	2,862	1,740	–	4,602
Cash and cash equivalents	423	660	–	1,083
Borrowings	(1,108)	(205)	(761)	(2,074)
Finance lease obligations	(88)	(50)	–	(138)
Amounts due to Financial Services customers and banks	(770)	(4,151)	–	(4,921)
Derivative effect:				
Interest rate swaps	(2,437)	2,437	–	–
Inflation linked swaps	(400)	–	400	–
Total	(1,184)	470	(361)	(1,075)

23 Financial risk management continued

Further information relating to interest rate risk in Financial Services is more fully described in the section on Financial Services financial risk factors below.

(i) Cash flow sensitivity for floating rate instruments

The Group considers that a 100 basis point movement in interest rates is a reasonable measure of volatility. The sensitivity of floating rate balances to a change of 100 basis points in the interest rate (or such lesser amount as would result in a zero rate of interest) at the balance sheet date is shown below:

	2018 Impact on post-tax profit £m	2018 Impact on cash flow hedge reserve £m	2017 Impact on post-tax profit £m	2017 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(8)/5**	**10/(5)**	(10)/5	2/(2)

(ii) Cash flow sensitivity for variable capped rate liabilities

The Group holds £730 million of capped inflation-linked borrowings (2017: £761 million) of which £590 million (2017: £400 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing April 2018 to April 2023.

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

	2018 Impact on post-tax profit £m	2018 Impact on cash flow hedge reserve £m	2017 Impact on post-tax profit £m	2017 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(6)/6**	**20/(22)**	(3)/3	2/(2)

Commodity risk

Commodity risk is the risk of increased costs arising from unexpected movements in commodity prices impacting the Group's own use consumption of electricity, gas and diesel.

The Group hedges own use consumption of electricity and gas with forward purchases under flexible purchasing arrangements with its suppliers. The Group uses a combination of purchasing agreements and financial derivatives to hedge fuel exposures on a layered basis using contracts for difference.

The Group considers a ten per cent movement in commodity prices a reasonable measure of volatility.

	2018 Impact on cash flow hedge reserve £m	2017 Impact on cash flow hedge reserve £m
Change in the fair value of electricity, diesel and gas price +/-10%	**2/(2)**	2/(2)

Capital risk management

The Group defines capital as total equity plus net debt.

The Board's capital objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide optimal returns for shareholders and safeguard the Group's status as a going concern. There has been no change to capital risk management policies during the year.

The Board monitors a broad range of financial metrics including return on capital employed, balance sheet gearing and fixed charge cover.

The Board can manage the Group's capital structure by diversifying the debt portfolio, adjusting the size and timing of dividends paid to shareholders, recycling capital through sale and leaseback transactions, issuing new shares or repurchasing shares in the open market and flexing capital expenditure.

From time-to-time the Company purchases its own shares in the market for the purpose of issuing shares under the Group's share option programmes; however the Group does not operate a defined share buy-back plan.

Part of the Group's capital risk management is to ensure compliance with the general covenants included in the Group's various borrowing facilities. There have been no breaches of general covenants in the financial year ended 10 March 2018.

23 Financial risk management continued

Information relating to Financial Services capital risk management is detailed below.

Financial Services

Sainsbury's Bank (including Argos Financial Services) has identified a set of primary risk types (see table) that are actively managed by the Sainsbury's Bank Board Risk Committee (BRC) and Executive Risk Committee (ERC) in line with the guiding risk principles and overall risk appetite approved by the Sainsbury's Bank Board.

	Primary risk	How we manage the risk
Financial primary risk	**Liquidity and funding risk** The risk that the Bank is unable to meet its obligations as they fall due or can only do so at excessive cost. *How the risk may arise:* Loss of confidence in the Bank leading to a material and rapid outflow of savings deposits and/or difficulties in accessing wholesale funding markets.	— Daily monitoring and reporting of key Liquidity and Funding EWIs, with triggers in place for escalation. — Liquidity and funding targets built into our strategic planning and capital plans. — The annual ILAAP review determines the adequacy of liquidity and funding plans. — Liquidity Contingency Plan in place with identified management actions under stress conditions.
	Market risk The risk of loss as a result of the value of financial assets or liabilities (including off balance sheet instruments) being adversely affected by movements in market rates or prices. *How the risk may arise:* The Bank does not have a trading book, but is exposed to the impact of sudden changes in interest rates on its lending book as well as market risk in the assets held for liquidity purposes.	— A range of market risk limits are in place. Exposures are modelled and reported on a regular basis. — Hedging risk management strategies are used to reduce exposures to earnings volatility. — Behavioural assumptions are applied to the treatment of non-interest bearing balances and expectations within the Bank's balance sheet.
	Retail credit risk Losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. *How the risk may arise:* Changes in the economic conditions in the UK may impact on the ability of our customers to repay their loans leading to an increase in levels of bad debt.	— We lend responsibly, considering the suitability of the product to meet our customers' needs and their ability to repay any debt. — We have policies in place to support vulnerable customers and those in financial difficulties. — Credit decisioning based on information from a number of credit related sources. — Regular stress testing is undertaken using a variety of plausible stress scenarios.
	Wholesale credit risk Losses arising from institutional counterparties failing to meet their contractual cash flow obligations. *How the risk may arise:* Default or downgrades in the credit rating of counterparties.	— Counterparty limits and credit assessment process are in place to control exposure levels. — Key ratios are monitored and reported on a daily basis with triggers in place for escalation. — Investment activity for liquid assets focused on a small set of asset classes with proven credit performance.
	Capital adequacy risk Holding insufficient capital to absorb losses in normal and stressed conditions or the ineffective deployment of capital. *How the risk may arise:* Changes in economic conditions or regulatory requirements may impact on the level of capital resources required.	— Daily monitoring and reporting of capital position, with triggers in place for escalation. — Capital adequacy built in to our strategic planning and capital plans. — The annual ICAAP review determines the adequacy of the level and type of capital resources held.

Further detail on each of these risks is shown below:

Liquidity and funding risk

Liquidity risk is the risk that the Bank cannot meet its payment obligations as they fall due, or can only do so at extreme cost. We seek to ensure that we can meet our financial obligations at all times, even under liquidity stress conditions.

The annual Internal Liquidity Adequacy Assessment Process (ILAAP) enables the Bank to:

(1) demonstrate that it understands the liquidity risks it is running

(2) assess its liquidity needs under various stress scenarios and

(3) put in place appropriate controls to mitigate liquidity risks.

In meeting its internal limits as well as PRA requirements, the Bank maintains a stock of high quality liquid assets that can be readily monetised by outright sale or repurchase agreement to meet the Bank's obligations to depositors and other creditors.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside cash flow and funding ratios. We prepare long-term and short-term forecasts to assess liquidity requirements, taking into account factors such as ATM cash management, contractual maturities and customer deposit patterns (stable or less stable deposits) as well as outflows regarding pipelines and commitments. These reports support daily liquidity management, with early warning indicators reviewed on a daily basis and appropriate triggers for escalation and action in line with the risk appetite, Liquidity and Funding Policy and Liquidity Contingency Plan. Asset encumbrance ratios and risk indicators for wholesale funding concentrations by type (total/secured/unsecured), maturity, sector, geography and counterparty are also regularly monitored and reported to ALCO.

23 Financial risk management continued

Market risk

Market risk is the risk that the value of the Bank's assets, liabilities, capital and earnings are exposed to the adverse change of the market risk drivers. The Bank's market risks include Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange (FX) Risk. The Bank does not have a trading book.

Interest rate risk

IRRBB arises from interest rate movements which impact present value and timing of future cash flows resulting in changes to the underlying value of a bank's assets, liabilities and off-balance sheet instruments and hence its economic value. Interest rate 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:

a) Re-pricing gap risk: the risk arising from timing differences in the interest rate changes of bank assets and liabilities (e.g. fixed rate personal loans and instant access savings accounts).

b) Yield curve risk: the risk arising from changes in the slope and shape of the yield curve.

c) Basis risk: risk arising from imperfect correlation between different interest rate indices (e.g. administered rate on savings products and treasury assets linked to LIBOR).

d) Prepayment risk: the risk arising from the timing of customer prepayments which differ from planning and hedging assumptions.

e) Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for the Bank.

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. The hedging strategies are implemented to ensure the Bank remains within its limits and that it takes advantage of natural hedging opportunities between fixed rate assets and liabilities with similar re-pricing characteristics.

In order to measure the exposure to interest rate risk under various interest rates shock scenarios, the Bank uses both economic value and earnings-based metrics: Market Value Sensitivity and Earnings at Risk. These metrics are monthly monitored and reported to ALCO.

For interest rate risk measurement, products are allocated within re-pricing gap analysis based on their nearest re-pricing date (all non-maturing deposits are assumed to re-price in month one) and personal loans are allocated according to behavioural repayment profile.

Foreign exchange risk

The Bank is exposed to FX risk through its holding of cash denominated in foreign currencies, primarily euro and US dollar, within its Travel Money bureaux in J Sainsbury's stores. From February 2017 onwards the FX positions are hedged on a daily basis.

Credit risk

Credit risk is central to the Bank's day-to-day activities and is managed in line with the Bank Board approved risk appetite. Key developments over the course of the year have been the successful roll out of Sainsbury's Bank mortgages providing our customers with a wider range of financial services to meet their needs, and the successful transition of loans applications from LBG to the New Banking Programme systems and processes. Work continues on the transfer of the Credit Card Portfolio onto the New Banking Programme systems, with this due to complete within the 2018/19 financial year.

Retail credit risk

Retail credit risk is the possibility of losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. Retail Credit utilise automated scorecards to assess the credit-worthiness and affordability criteria of new applicants and ongoing behavioural characteristics of existing customers. The outcomes from all scorecard models are monitored utilising a set of credit quality metrics to ensure actual performance is in line with agreed expectations. Additional expert underwriting of credit applications is undertaken by a specialist operational team where further consideration is appropriate.

The Retail Credit Risk Committee provides portfolio oversight control over credit strategy to maintain lending in line with the Board approved risk appetite, with additional oversight and control provided by the Executive Risk Committee and the Board Risk Committee. Finally, Internal Audit provide additional assurance by undertaking regular reviews on the adequacy of credit risk policies and procedures.

Wholesale and derivative credit risk

The Bank invests its liquidity resources in eligible investment securities that qualify for the regulatory Liquidity Coverage Ratio (LCR) and internal Operational Liquidity Pool (OLP). These investments include the Bank of England's (BoE) reserve account, UK government securities (gilts or Treasury bills), multilateral development bank securities, government guaranteed agency securities, UK regulated covered bond programmes and asset backed securities.

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings. Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark to market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures. Daily monitoring is undertaken by the Bank's Treasury department, including early warning indicators with appropriate triggers for escalation.

23 Financial risk management continued

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	2018 £m	2017 £m
Credit risk exposures relating to on balance sheet items		
Loans and advances to customers		
Unsecured	**5,383**	4,564
Secured	**309**	38
Cash and balances with central banks	**1,005**	453
Derivative financial instruments	**18**	1
Investment securities	**526**	333
Other assets	**291**	231
Credit risk exposures relating to off balance sheet items		
Loans commitment and other related liabilities	**267**	98
Treasury bills drawn under FLS	**–**	260
Total credit risk exposures	**7,799**	5,978

Credit quality per class of financial asset

Loans and advances to customers are summarised as follows:

	2018 £m	2017 £m
Impaired	**169**	146
Past due but not impaired	**55**	50
Neither past due nor impaired	**5,612**	4,485
Gross	**5,836**	4,681
Less: allowance for impairment	**(132)**	(89)
Less: hedging fair value adjustment	**(12)**	10
Net book value	**5,692**	4,602

23 Financial risk management continued

Credit quality analysis

	Unsecured lending £m	Secured lending £m	Total £m
10 March 2018			
Past due and impaired			
Less than three months, but impaired	**2**	**1**	**3**
Past due three to six months	**22**	**–**	**22**
Past due six to 12 months	**–**	**1**	**1**
Past due over 12 months	**–**	**1**	**1**
Recoveries	**142**	**–**	**142**
Total gross impaired loans	**166**	**3**	**169**
Past due but not impaired			
Past due less than three months but not impaired	**53**	**2**	**55**
Total gross past due but not impaired	**53**	**2**	**55**
Neither past due nor impaired			
Not impaired	**5,307**	**305**	**5,612**
Total gross neither past due nor impaired	**5,307**	**305**	**5,612**
Total gross amount due	**5,526**	**310**	**5,836**
11 March 2017			
Past due and impaired			
Less than three months, but impaired	2	–	2
Past due three to six months	16	2	18
Past due six to 12 months	–	–	–
Past due over 12 months	–	–	–
Recoveries	126	–	126
Possession	–	–	–
Total gross impaired loans	144	2	146
Past due but not impaired			
Past due less than three months but not impaired	49	1	50
Total gross past due but not impaired	49	1	50
Neither past due nor impaired			
Not impaired	4,450	35	4,485
Total gross neither past due nor impaired	4,450	35	4,485
Total gross amount due	4,643	38	4,681

Mortgages held over residential properties represent the only collateral held by the Bank for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired was £6 million (2017: £7 million). The fair value of collateral held against possession cases was £nil (2017: £nil).

Financial Services capital resources (unaudited)

The following table analyses the regulatory capital resources under CRD IV. From a prudential perspective, the Bank is monitored and supervised on a consolidated basis with its subsidiary, Home Retail Group Card Services Limited, from the point of acquisition of Argos Financial Services in September 2016. The Bank has obtained an individual consolidation waiver from the PRA, which allows the Bank to monitor its capital position on a consolidated basis only. Therefore, the 2018 and 2017 capital positions shown below are on a regulatory consolidated basis.

	2018 £m	2017 £m
Common Equity Tier 1 (CET 1) capital:		
Ordinary share capital	**756**	566
Allowable reserves	**174**	148
Regulatory adjustments	**(205)**	(147)
Total Common Equity Tier 1 (CET 1) capital	**725**	567
Tier 1 capital	**725**	567

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV) as enacted in the UK. Common Equity Tier 1 (CET 1) capital includes ordinary share capital, other reserves, losses and regulatory deductions.

23 Financial risk management continued

The movement of CET 1 capital during the financial year is analysed as follows:

	2018 £m	2017 £m
At 1 March 2018 and 1 March 2017	**567**	485
Share capital issued	**190**	130
Verified profits / (losses) attributable to shareholders	**23**	(21)
Other reserve movements	**3**	2
Increase in intangible assets	**(58)**	(29)
At 28 February 2018 and 28 February 2017	**725**	567

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 2018. The Bank's leverage ratio of 8.6 per cent exceeds the minimum Basel leverage ratio of three per cent.

	2018 £m	2017 £m
Components of the leverage ratio		
Total assets as per published financial statements (Sainsbury's Bank plc)	**7,765**	5,794
Uplift on consolidation of subsidiary undertakings	**61**	42
Exposure value for derivatives and securities financing transactions	**27**	269
Off balance sheet exposures: unconditionally cancellable (10%)	**716**	633
Off balance sheet: other (100%)	**54**	20
Other adjustments	**(205)**	(168)
	8,418	6,590
Tier 1 capital	**725**	567
Leverage ratio	**8.6%**	8.6%

Capital management

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. During the year to 28 February 2018, the Bank received further injections of £190 million of ordinary share capital from J Sainsbury plc and £175 million of subordinated debt (of which £155 million is currently eligible as Tier 2 capital). Capital adequacy is monitored on an ongoing basis by senior management, the ALCO, the Executive Risk Committee and the Board Risk Committee. Our submissions to the PRA in the year have shown that the Bank has complied with all externally imposed capital requirements. The Bank's tier 1 capital ratio of 14.1 per cent exceeds internal and regulatory thresholds.

The Bank will disclose Pillar 3 information as required by the Capital Requirements Regulations and PRA prudential sourcebook on the J Sainsbury plc external website.

24 Financial instruments

Accounting policies

a) Financial assets

The Group classifies its financial assets in the following categories: fair value through profit or loss (FVTPL), loans and receivables, and available-for-sale (AFS). Financial assets held at FVTPL are initially recognised at fair value and transaction costs are expensed. AFS investments are initially measured at fair value including transaction costs and are recognised at the trade date.

Financial assets held at FVTPL include financial assets held for trading and those designated at FVTPL at inception and are recorded at fair value, with any fair value gains or losses recognised in the income statement in the period in which they arise.

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

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

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

Within Financial Services, securities sold subject to standard sale and repurchase agreements ('repos') are not derecognised where the Bank retains substantially all the risks and rewards of ownership by virtue of the predetermined repurchase price. The counterparty liability is included in other deposits.

b) Impairment of financial assets

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

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

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

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

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the income statement.

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

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

c) Financial Services loans and advances including impairment

For Financial Services portfolios of loans, such as credit card lending, storecard lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. Such evidence may include a missed interest or principal payment or the breach of a banking covenant. Provisioning on unsecured balances identified as being in arrears is calculated based on past experience, with regularly updated assumptions. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement and a provision recognised in the balance sheet.

The written down value of the impaired loan is compounded back to its net realisable balance over time using an effective interest rate. This is reported through interest receivable within the income statement and represents the unwinding of the discount.

A write-off is made when all or part of a claim is deemed uncollectable or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement. Subsequent recoveries of amounts written off decrease the charge for loan impairment in the income statement.

24 Financial instruments continued

An allowance for impairment losses is also maintained in respect of assets which are impaired at the balance sheet date but which have not been identified as such, based on historical loss experience and other relevant factors. This includes analysis of the likelihood of a particular balance to move into an arrears status within a defined period of time and application of an appropriate loss rate. The emergence period into an arrears state represents the average time elapsed between the loss trigger event and default. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results.

Interest-bearing bank loans, overdrafts, other deposits and amounts due to Sainsbury's Bank customers are recorded initially at fair value, which is generally the proceeds received, net of direct issue costs. Subsequently, these liabilities are held at amortised cost using the effective interest method.

d) Financial liabilities

Financial liabilities costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option which is recognised in shareholders' equity, net of income tax effects and is not subsequently remeasured.

Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

e) Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed below in the financial disclosure section.

f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates. Where derivatives do not qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised in the income statement as finance income or costs as they arise.

To qualify for hedge accounting, the Group documents, at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction, the nature of the risks being hedged and an assessment of the effectiveness of the hedging relationship to ensure it is highly effective on an ongoing basis.

Where a derivative does qualify for hedge accounting, any changes in fair value are recognised depending on the nature of the hedge relationship and the item being hedged as follows:

a) Cash flow hedges

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the Group's exposure to variability in cash flows resulting from a highly probable forecasted transaction. These include the exchange rate risk of inventory purchases denominated in foreign currency, as well as the commodity risk on purchases of power and fuel. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

If a cash flow hedge is hedging a firm commitment or forecast transaction that results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability.

b) Fair value hedges

Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of a financial asset or liability due to movements in interest rates. The changes in fair value of the hedging instrument are recognised in the income statement. The hedged item is also adjusted for changes in fair value with the corresponding adjustment made in the income statement.

c) Portfolio fair value hedging

During the period Sainsbury's Bank used portfolio fair value hedging as a risk management tool for hedging interest rate risk on the personal loans portfolio. Portfolio fair value hedging allows the designation of the whole or part of a portfolio of assets or liabilities with similar risk exposures. The hedged item can be designated based on expected maturities to match the hedging derivative maturity.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement for the period.

24 Financial instruments continued

The fair value of derivative financial instruments has been disclosed in the balance sheet as follows:

	2018 Asset £m	2018 Liability £m	2017 Asset £m	2017 Liability £m
Non-current	**17**	**(26)**	10	(38)
Current	**10**	**(53)**	94	(22)
Total	**27**	**(79)**	104	(60)

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

	2018				2017			
	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	**18**	**2,559**	**(8)**	**942**	8	774	(22)	2,386
Cash flow hedges								
Interest rate swaps	**–**	**–**	**(2)**	**100**	–	–	(4)	100
Inflation rate swaps	**–**	**–**	**(7)**	**590**	–	–	(2)	400
Foreign exchange forward contracts	**3**	**227**	**(50)**	**1,080**	77	1,301	(2)	119
Commodity contracts	**2**	**22**	**–**	**–**	3	21	–	–
Derivatives not in a formal hedging relationship								
Interest rate swaps	**4**	**404**	**(3)**	**302**	16	341	(15)	295
Commodity contracts	**–**	**–**	**(9)**	**15**	–	–	(15)	15
Total	**27**	**3,212**	**(79)**	**3,029**	104	2,437	(60)	3,315

Fair value hedges

Interest rate swaps

The Group holds a £110 million portfolio of interest rate swaps (2017: £160 million) to hedge a portion of fixed rate borrowings maturing in April 2018. Under the terms of the swaps, the Group receives fixed rate interest and pays floating rate interest.

For the year to 10 March 2018, the fair value movement in the Group's interest rate swaps resulted in a charge to the income statement of £6 million (2017: £7 million). The fair value movement in the underlying fixed rate borrowings resulted in a credit to the income statement of £5 million (2017: £6 million).

Financial Services holds a £3,391 million portfolio of interest rate swaps accounted for as fair value hedges (2017: £3,000 million). Interest rate swaps are transacted to hedge interest rate risk associated with the Bank's fixed rate customer asset lending (personal loans and mortgages), fixed interest treasury instruments and its debt issuance through a combination of pay and receive fixed swaps (£2,900 million and £491 million respectively (2017: £2,354 million and £646 million respectively)). All derivatives are designated as effective fair value hedge accounting relationships.

For the year to 10 March 2018, the fair value movement in Financial Services interest rate swaps resulted in a credit to the income statement of £23 million (2017: £3 million). The fair value movement in the underlying fixed rate borrowings, Sainsbury's Bank loans and advances to customers and fixed interest treasury instruments resulted in a charge to the income statement of £22 million (2017: £2 million).

Cash flow hedges

Interest rate swaps

The Group holds a £590 million (2017: £400 million) portfolio of inflation rate swaps to hedge a portion of the inflation linked secured loan due 2031. Under the terms of the swaps, the Group receives annual RPI inflation (subject to a cap at five per cent and floor at nil per cent) and pays fixed rate interest.

The Group holds a £100 million (2017: £100 million) portfolio of interest rate swaps to hedge £100 million of a £200 million floating rate bank loan due 2019. Under the terms of the swaps, the Group receives floating rate interest and pays fixed rate interest.

As at 10 March 2018, an unrealised loss of £9 million (2017: loss of £4 million) is included in other comprehensive income in respect of the swaps designated as cash flow hedges.

Foreign exchange forward contracts

The Group holds a portfolio of foreign exchange forward contracts to hedge its future foreign currency trading liabilities. As at 10 March 2018 the Group had forward purchased a net €238 million (2017: €135 million) and sold sterling with maturities from March 2018 to June 2019 (2017: March 2017 to July 2018) and forward purchased US$1,486 million (2017: US$1,521 million) and sold sterling with maturities from March 2018 to June 2019 (2017: March 2017 to June 2018).

As at 10 March 2018, an unrealised profit of £33 million (2017: £28 million) is included in other comprehensive income in respect of the forward contracts. During the year a debit of £52 million was transferred from the cash flow hedge equity reserve to inventory (2017: £83 million credit).

24 Financial instruments continued

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

At 10 March 2018, an unrealised gain of £1 million (2017: gain of £3 million) is included in other comprehensive income in respect of the commodity contracts.

Derivatives not in a hedge relationship
Some of the Group's derivative contracts do not qualify for hedge accounting and are therefore not designated in a hedging relationship. In addition, where gains or losses on a derivative contract economically offset the losses or gains on an underlying transaction, the derivative is not designated as being in a hedging relationship.

Interest rate and foreign exchange swaps
The Group holds a £302 million (2017: £295 million) portfolio of interest rate swaps at fair value through profit or loss to convert floating rate obligations into fixed rates. Under the terms of the swaps the Group receives floating rate interest and pays fixed rate interest. Offsetting these swaps the Group holds a £404 million (2017: £341 million) portfolio of interest rate swaps at fair value through profit or loss, to convert fixed rate obligations into floating rate interest. Under the terms of the swaps the Group receives fixed rate interest and pays floating rate interest.

Sainsbury's Bank and its subsidiaries hold a £156 million portfolio of interest rate swaps hedging mortgage pipeline offers that do not qualify for hedge accounting (2017: £nil) with fair value movements accounted for in full through profit or loss, with no effective offset. The fair value movement crediting the income statement for interest rate swaps economically hedging mortgage pipeline interest rate risk but not qualifying for hedge accounting was £1 million.

Commodity forward contracts
Commodity forward contracts at fair value through profit and loss relate to the Group's long-term fixed price power purchase agreements with independent producers.

Fair value
Set out below is a comparison of the carrying amount and the fair value of financial instruments that are carried in the financial statements at a value other than fair value. The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, other receivables, overdrafts and payables are assumed to approximate to their book values.

	Group Carrying amount £m	**Group Fair value £m**
At 10 March 2018		
Financial assets		
Amounts due from Financial Services customers[1]	**5,692**	**5,736**
Financial liabilities		
Loans due 2018[2]	**(572)**	**(575)**
Loans due 2031	**(730)**	**(980)**
Bank overdrafts	**(2)**	**(2)**
Bank loans due 2019	**(199)**	**(199)**
Convertible bond due 2019	**(436)**	**(452)**
Tier 2 Capital due 2023	**(174)**	**(184)**
Obligations under finance leases	**(127)**	**(127)**
Amounts due to Financial Services customers and other banks	**(6,524)**	**(6,514)**

	Group Carrying amount £m	Group Fair value £m
At 11 March 2017		
Financial assets		
Amounts due from Financial Services customers[1]	4,602	4,640
Financial liabilities		
Loans due 2018[2]	(680)	(706)
Loans due 2031	(761)	(1,062)
Bank overdrafts	(6)	(6)
Bank loans due 2019	(199)	(199)
Convertible bond due 2019	(427)	(473)
Obligations under finance leases	(138)	(138)
Amounts due to Financial Services customers and other banks	(4,921)	(4,924)

1 Included within a portfolio fair value hedging relationship with £3,391 million (2017: £3,000 million) of interest rate swaps.
2 Includes £110 million accounted for as a fair value hedge (2017: £160 million).

24 Financial instruments continued

The fair value of financial assets as disclosed in the table above as at 10 March 2018 was £5,736 million (2017: £4,640 million). The fair value of the financial assets has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy (see below for fair value hierarchy description). The fair value of financial liabilities was £9,033 million (2017: £7,508 million) of which £452 million (2017: £473 million) has been determined using market values and is within Level 1 of the fair value hierarchy. The remaining £8,581 million (2017: £7,035 million) has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy.

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are recognised at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

— Level 1 fair value measurements are derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities at the balance sheet date. This level includes listed equity securities and debt instrument on public exchanges;

— Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates; and

— Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 10 March 2018				
Available-for-sale financial assets				
Interest bearing financial assets	**–**	**40**	**–**	**40**
Other financial assets	**–**	**13**	**164**	**177**
Investment securities	**526**	**–**	**–**	**526**
Financial assets				
Derivative financial assets	**–**	**27**	**–**	**27**
Financial liabilities				
Derivative financial liabilities	**–**	**(70)**	**(9)**	**(79)**
At 11 March 2017				
Available-for-sale financial assets				
Interest bearing financial assets	–	39	–	39
Other financial assets	–	13	148	161
Investment securities	333	–	–	333
Financial assets				
Derivative financial assets	–	104	–	104
Financial liabilities				
Derivative financial liabilities	–	(45)	(15)	(60)

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

52 weeks to 10 March 2018	Available-for-sale financial assets £m	Commodity derivatives £m	Investment securities £m	Total £m
At 11 March 2017	**148**	**(15)**	**–**	**133**
In finance cost in the Group income statement	**–**	**6**	**–**	**6**
In other comprehensive income	**16**	**–**	**–**	**16**
At 10 March 2018	**164**	**(9)**	**–**	**155**

52 weeks to 11 March 2017	Available-for-sale financial assets £m	Commodity derivatives £m	Investment securities £m	Total £m
At 12 March 2016	146	(34)	1	113
In finance cost in the Group income statement	–	19	(1)	18
In other comprehensive income	2	–	–	2
At 11 March 2017	148	(15)	–	133

24 Financial instruments continued

The available-for-sale financial assets relate to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 0.6 per cent per annum (2017: 0.5 per cent) and a discount rate of nine per cent (2017: nine per cent), (see note 13). The sensitivity of this balance to changes of one per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

	2018 Change in growth rate +/-1.0% £m	**2018 Change in discount rate +/-1.0% £m**	2017 Change in growth rate +/-1.0% £m	2017 Change in discount rate +/-1.0% £m
Available-for-sale assets	**12/(12)**	**(8)/9**	13/(13)	(8)/9

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial liabilities is £10 million (2017: £15 million) relating to these agreements. The Group values its Power Purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

	2018 Change in volume +/-20.0% £m	**2018 Change in electricity forward price +/- 20.0% £m**	2017 Change in volume +/- 20.0% £m	2017 Change in electricity forward price +/- 20.0% £m
Derivative financial instruments	**(2)/2**	**11/(12)**	(3)/3	12/(13)

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 10 March 2018 and 11 March 2017.

Group	**Loans and receivables £m**	**Available-for-sale £m**	**Fair value through profit or loss £m**	**Derivatives used for hedging £m**	**Other financial liabilities £m**	**Total £m**
At 10 March 2018						
Cash and cash equivalents	**1,730**	**–**	**–**	**–**	**–**	**1,730**
Trade and other receivables	**622**	**–**	**–**	**–**	**–**	**622**
Amounts due from Financial Services customers	**5,692**	**–**	**–**	**–**	**–**	**5,692**
Available-for-sale financial assets	**–**	**743**	**–**	**–**	**–**	**743**
Trade and other payables	**–**	**–**	**–**	**–**	**(4,037)**	**(4,037)**
Current borrowings	**–**	**–**	**–**	**–**	**(638)**	**(638)**
Non-current borrowings	**–**	**–**	**–**	**–**	**(1,602)**	**(1,602)**
Amounts due to Financial Services customers and banks	**–**	**–**	**–**	**–**	**(6,524)**	**(6,524)**
Derivative financial instruments	**–**	**–**	**(8)**	**(44)**	**–**	**(52)**
	8,044	**743**	**(8)**	**(44)**	**(12,801)**	**(4,066)**

Group	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
At 11 March 2017						
Cash and cash equivalents	1,083	–	–	–	–	1,083
Trade and other receivables	477	–	–	–	–	477
Amounts due from Financial Services customers	4,602	–	–	–	–	4,602
Available-for-sale financial assets	–	535	–	–	–	535
Trade and other payables	–	–	–	–	(3,741)	(3,741)
Current borrowings	–	–	–	–	(172)	(172)
Non-current borrowings	–	–	–	–	(2,039)	(2,039)
Amounts due to Financial Services customers and banks	–	–	–	–	(4,921)	(4,921)
Derivative financial instruments	–	–	(14)	58	–	44
	6,162	535	(14)	58	(10,873)	(4,132)

25 Cash and cash equivalents

Accounting policies

Cash and cash equivalents

Cash and bank balances comprise cash in hand and at bank, deposits at central banks, investments in money market funds and deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

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

	2018 £m	2017 £m
Cash in hand and bank balances	**585**	439
Money market funds and deposits	**462**	403
Deposits at central banks	**683**	241
Cash and bank balances	**1,730**	1,083
Bank overdrafts	**(2)**	(6)
Net cash and cash equivalents	**1,728**	1,077

Of the above balances, £38 million was restricted as at year-end.

26 Analysis of net debt

The Group's definition of net debt includes the capital injections to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities.

A reconciliation of opening to closing net debt is included below. Balances and movements for the total Group and Financial Services are shown in addition to Retail to enable reconciliation between the Group balance sheet and Group cash flow statement.

		Cash changes		Non-cash changes			
	11 March 2017 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Acquisition movements £m	Other non-cash movements £m	Changes in fair value £m	10 March 2018 £m
Retail							
Available-for-sale assets[1]	**39**	**–**	**(1)**	**–**	**1**	**1**	**40**
Derivative assets	**103**	**–**	**(20)**	**–**	**19**	**(93)**	**9**
Derivative liabilities	**(38)**	**–**	**17**	**–**	**(15)**	**(36)**	**(72)**
Cash and cash equivalents	**630**	**95**	**–**	**–**	**–**	**–**	**725**
Bank overdrafts	**(6)**	**4**	**–**	**–**	**–**	**–**	**(2)**
Borrowings[2]	**(2,067)**	**148**	**79**	**(15)**	**(87)**	**5**	**(1,937)**
Finance leases	**(138)**	**26**	**7**	**–**	**(22)**	**–**	**(127)**
Retail net debt	**(1,477)**	**273**	**82**	**(15)**	**(104)**	**(123)**	**(1,364)**
Financial Services							
Available-for-sale assets[1]	**333**	**192**	**–**	**–**	**–**	**1**	**526**
Derivative assets	**1**	**–**	**–**	**–**	**–**	**17**	**18**
Derivative liabilities	**(22)**	**–**	**–**	**–**	**–**	**15**	**(7)**
Cash and cash equivalents	**453**	**552**	**–**	**–**	**–**	**–**	**1,005**
Borrowings	**–**	**(174)**	**–**	**–**	**–**	**–**	**(174)**
Financial Services net debt	**765**	**570**	**–**	**–**	**–**	**33**	**1,368**
Group							
Available-for-sale assets[1]	**372**	**192**	**(1)**	**–**	**1**	**2**	**566**
Derivative assets	**104**	**–**	**(20)**	**–**	**19**	**(76)**	**27**
Derivative liabilities	**(60)**	**–**	**17**	**–**	**(15)**	**(21)**	**(79)**
Cash and cash equivalents	**1,083**	**647**	**–**	**–**	**–**	**–**	**1,730**
Bank overdrafts	**(6)**	**4**	**–**	**–**	**–**	**–**	**(2)**
Borrowings[2]	**(2,067)**	**(26)**	**79**	**(15)**	**(87)**	**5**	**(2,111)**
Finance leases	**(138)**	**26**	**7**	**–**	**(22)**	**–**	**(127)**
Group net debt	**(712)**	**843**	**82**	**(15)**	**(104)**	**(90)**	**4**

26 Analysis of net debt continued

	12 March 2016 £m	Cash changes: Cash flows excluding interest £m	Cash changes: Net interest (received)/ paid £m	Non-cash changes: Acquisition movements £m	Non-cash changes: Other non-cash movements £m	Non-cash changes: Changes in fair value £m	11 March 2017 £m
Retail							
Available-for-sale assets[1]	35	–	(1)	–	–	5	39
Derivative assets	64	–	(23)	39	23	–	103
Derivative liabilities	(89)	–	23	–	(23)	51	(38)
Cash and cash equivalents	577	53	–	–	–	–	630
Bank overdrafts	(3)	(3)	–	–	–	–	(6)
Borrowings[2]	(2,235)	174	78	–	(84)	–	(2,067)
Finance leases	(175)	37	8	–	(8)	–	(138)
Retail net debt	(1,826)	261	85	39	(92)	56	(1,477)
Financial Services							
Available-for-sale assets[1]	204	126	–	–	1	2	333
Derivative assets	4	–	–	–	–	(3)	1
Derivative liabilities	(23)	–	–	–	–	1	(22)
Cash and cash equivalents	566	(113)	–	–	–	–	453
Financial Services net debt	751	13	–	–	1	–	765
Group							
Available-for-sale assets[1]	239	126	(1)	–	1	7	372
Derivative assets	68	–	(23)	39	23	(3)	104
Derivative liabilities	(112)	–	23	–	(23)	52	(60)
Cash and cash equivalents	1,143	(60)	–	–	–	–	1,083
Bank overdrafts	(3)	(3)	–	–	–	–	(6)
Borrowings[2]	(2,235)	174	78	–	(84)	–	(2,067)
Finance leases	(175)	37	8	–	(8)	–	(138)
Group net debt	(1,075)	274	85	39	(91)	56	(712)

1 Available-for-sale assets exclude other financial assets (see note 13) which predominantly relate to the Group's beneficial interest in a commercial property investment pool.
2 Borrowings exclude bank overdrafts and finance leases as they are disclosed separately.

27 Borrowings

	2018 Current £m	**2018 Non-current £m**	**2018 Total £m**	2017 Current £m	2017 Non-current £m	2017 Total £m
Loan due 2018	**572**	**–**	**572**	108	572	680
Loan due 2031	**33**	**697**	**730**	34	727	761
Bank overdrafts	**2**	**–**	**2**	6	–	6
Bank loans due 2019	**–**	**199**	**199**	–	199	199
Convertible bond due 2019	**1**	**435**	**436**	1	426	427
Sainsbury's Bank Tier 2 Capital due 2023	**–**	**174**	**174**	–	–	–
Finance lease obligations	**30**	**97**	**127**	23	115	138
Total borrowings	**638**	**1,602**	**2,240**	172	2,039	2,211

a) Loan due 2018 and Loan due 2031

Secured loans are secured on 125 (2017: 125) supermarket properties (note 10) and comprise loans from two finance companies, Eddystone Finance plc and Longstone Finance plc:

- a fixed rate amortising loan from Eddystone Finance plc with an outstanding principal value of £568 million (2017: £670 million) at a weighted average rate of 5.48 per cent and carrying amount of £572 million (2017: £680 million) with a final repayment date of April 2018; and
- an inflation linked amortising loan from Longstone Finance plc with an outstanding principal value of £712 million (2017: £743 million) at a fixed real rate of 2.36 per cent where principal and interest are uplifted annually by RPI subject to a cap at five per cent and floor at nil per cent with a carrying amount of £730 million (2017: £761 million) with a final repayment date of April 2031.

27 Borrowings continued

The Group has entered into interest rate swaps to convert £110 million (2017: £160 million) of the £568 million (2017: £670 million) loan due 2018 from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 24). In previous years, £572 million of fixed to floating rate swaps accounted for as fair value hedges were de-designated from their fair value hedging relationship. The fair value adjustment of the debt previously hedged by these swaps will be amortised over the remaining life of the loans, resulting in an amortisation charge to the income statement in the current financial year of £1 million (2017: £1 million).

The Group has entered into inflation swaps to convert £590 million (2017: £400 million) of the £712 million (2017: £743 million) loan due 2031 from RPI linked interest to fixed rate interest for periods maturing April 2018 to April 2019. These transactions have been designated as cash flow hedges (note 24).

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

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

b) Bank overdrafts

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

c) Revolving credit facility

On 17 October 2017 the Group refinanced its syndicated committed revolving credit facility. The revised facility of £1.45 billion has three, four and five-year tranches with an initial final maturity for the longer dated tranche of April 2023. As at 10 March 2018, £nil had been drawn (2017: £nil).

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

d) Bank loans due 2019

On 5 May 2015, the Group amended its £200 million unsecured bank loan due August 2019 into a secured corporate £200 million bank loan due August 2019 at a floating rate of interest. £100 million of this has been swapped into a fixed rate liability. The £100 million portion of the loan and associated interest rate swap has been designated as a cash flow hedge.

e) Convertible bond due 2019

In November 2014, the Group issued £450 million of unsecured convertible bonds due November 2019. The bonds pay a coupon of 1.25 per cent payable semi-annually. Each bond is convertible into ordinary shares of J Sainsbury plc at any time up to 21 November 2019 at a conversion price of 309.26 pence.

The net proceeds of the convertible bond have been split as at 10 March 2018 into a liability component of £436 million and an equity component of £14 million. The equity component represents the fair value of the embedded option to convert the bond into ordinary shares of the Company.

	2018 £m	2017 £m
Liability component brought forward	**427**	418
Interest expense	**14**	13
Interest paid	**(6)**	(6)
Other[1]	**1**	2
Liability component as at the end of the year	**436**	427

1 Other relates to fees.

f) Sainsbury's Bank Tier 2 Capital due 2027

The Bank issued £175 million of fixed rate reset callable subordinated Tier 2 notes on 23 November 2017. The notes pay interest on the principal amount at a rate of six per cent per annum, payable in equal instalments semi-annually in arrears, until 23 November 2022 at which time the interest rate will reset. The Bank has the option to redeem these notes on 23 November 2022.

27 Borrowings continued

g) Finance lease obligations

	Minimum lease payments 2018 £m	Minimum lease payments 2017 £m	Present value of minimum lease payments 2018 £m	Present value of minimum lease payments 2017 £m
Obligations under finance leases:				
Less than one year	**37**	31	**30**	23
Within two and five years inclusive	**45**	66	**23**	41
After five years	**203**	207	**74**	74
	285	304	**127**	138
Less: future finance charges	**(158)**	(166)		
Present value of lease obligations	**127**	138		
Disclosed as:				
Current	**30**	23		
Non-current	**97**	115		
	127	138		

Finance leases have effective interest rates ranging from 4.3 per cent to 8.5 per cent (2017: 4.3 per cent to 8.5 per cent). The average remaining lease term is 71 years (2017: 72 years).

28 Employee costs

	2018 £m	2017 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**2,811**	2,579
Social security costs	**186**	165
Pension costs – defined contribution schemes	**104**	102
Share-based payments expense (note 30)	**33**	32
	3,134	2,878

	2018 Number 000s	2017 Number 000s
The average number of employees, including Directors, during the year was:		
Full-time	**52.8**	51.9
Part-time	**134.1**	130.0
	186.9	181.9
Full-time equivalent	**121.2**	118.7

Details of key management compensation can be found in note 36 and within the Directors' Remuneration Report on pages 66 to 83.

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29 Retirement benefit obligations

Accounting policies

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

Actuarial gains and losses are reported in the statement of other comprehensive income as incurred, and comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses.

The financing charge is determined by applying the discount rate used to measure the defined benefit obligation to the pension scheme liabilities and plan assets at the beginning of the financial year.

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

Background

At 10 March 2018, retirement benefit obligations related to two defined benefit schemes, the Sainsbury's Pension Scheme and, from 2 September 2016, the Home Retail Group Pension Scheme (the 'Schemes') as well as two unfunded pension liabilities relating to senior former employees of Sainsbury's and Home Retail Group.

The retirement benefit obligations at the year-end have been calculated by KPMG, as actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at the date of the previous triennial valuations (see below) for known events and changes in market conditions as allowed under IAS 19 'Employee Benefits'.

Sainsbury's Pension Scheme

The Scheme has three different benefit categories: Final Salary, Career Average and Cash Balance. For Final Salary and Career Average members, benefits at retirement are determined by length of service and salary. For Cash Balance members, benefits are determined by the accrued retirement account credits.

The Scheme was closed to new employees on 31 January 2002 and closed to future benefit accrual on 28 September 2013. The Scheme is also used to pay life assurance benefits to current (including new) colleagues. The assets of the Scheme are valued at bid price and are held separately from the Group's assets.

The Scheme was subject to a triennial actuarial valuation, carried out by Willis Towers Watson for the Trustee, as at 14 March 2015 on the projected unit basis. On the basis of the assumptions agreed, the actuarial deficit at 14 March 2015 was £740 million, an increase of £148 million from the March 2012 deficit of £592 million.

A Recovery Plan was agreed in September 2016 which included:

- Two special contributions of £125 million paid in August 2015 and August 2016.
- Deficit contributions increasing to £65 million a year until March 2021.
- The interest in the property partnership to continue, of up to £600 million payable in 2030 if there is a deficit at that time.

The Scheme continues to receive annual coupons from the property partnership which are based on the average weighted discount rate used in the triennial valuation and so are effectively reset every three years. These coupons reduced from 2017/18 to £19 million a year.

The Scheme has a well-defined investment strategy that has been agreed with the Company. This aims for the Scheme to be funded on a low risk basis by 2023 referencing investment returns by asset class based on forward looking assumptions. A new investment strategy will be agreed as the current funding target is approached.

Home Retail Group Pension Scheme

The Scheme was closed to new employees in 2009 and closed to future benefit accrual in January 2013. The Scheme is used to pay life assurance benefits only to current (including new) colleagues. Pension benefits were based on service and final salary. The assets of the Scheme are valued at bid price and are held separately from the Group's assets.

The Home Retail Group defined benefit pension scheme was subject to a Trustees' triennial valuation as at 31 March 2015. This was carried out by Willis Towers Watson for the Trustee. On the basis of the assumptions agreed, the actuarial deficit as at 31 March 2015 was £315 million, an increase of £157 million from the March 2012 deficit of £158 million.

A Recovery Plan was agreed and implemented on acquisition which included:

- An immediate payment on acquisition by Sainsbury's of £50 million.
- Deficit contributions of £40 million a year, £10 million payable each quarter, until October 2021.
- Security over £80 million of freehold property.
- A parent guarantee of £470 million which reduces over time in line with deficit contributions paid and will be reset following triennial valuations.
- An additional payment of £50 million on the sale of Homebase by Home Retail Group.

29 Retirement benefit obligations continued

Scheme merger agreement

On 20 March 2018, subsequent to year-end, the HRG Pension Scheme was merged into the Sainsbury's Pension Scheme. The merger is on a segregated basis with two sections – the Argos section and the Sainsbury's section. There is no change to members' benefits and each section's assets are ring-fenced for the benefit of the members of that section.

As part of the merger agreement, the merged Scheme's year end has been moved to 30 September which better fits the triennial valuation process. The Merged Scheme's Trustee has directors from both the Sainsbury's Pension Scheme and the HRG Pension Scheme. There are currently 11 directors but this will reduce to nine once the 2018 triennial valuation is complete. The current chair of the merged Scheme's Trustee is retiring in June 2018 and will be replaced by a new independent chair. This is a Company appointment in consultation with the Trustee.

The investment strategy of the Argos section is being developed following the merger with the Sainsbury's Pension Scheme. A date by which a low risk funding level is to be achieved by reference to a forward looking asset return assumption will be agreed with the Trustee board. The assets and liabilities of the HRG Scheme form a separate section in the Sainsbury's Pension Scheme.

As part of the merger agreement, eligible pension scheme members were offered the opportunity to take a Winding Up Lump Sum. These will be paid to those members who accepted in May 2018 when the HRG Pension Scheme will be wound up. All other assets and liabilities have been transferred to the Argos section of the Sainsbury's Pension Scheme.

The next triennial valuation is due as at 10 March 2018.

Unfunded pension liabilities

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

IFRIC 14

IFRIC 14 is the interpretation that details when a company can recognise any pension surplus that exists. Furthermore, if the company has a funding commitment in excess of the IAS 19 deficit, then IFRIC 14 requires recognition of this excess in those circumstances when the surplus that would result on fulfilling that commitment cannot be recognised. A surplus may be recognised either because of an unconditional right to a refund to the company, or on grounds of a future contribution reduction where schemes are still open to future accrual.

For the Sainsbury's Pension Scheme, management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such no adjustment has been made for potential additional liabilities.

Based on the net deficit of the Home Retail Group Pension Scheme as at 10 March 2018 and the committed payments under the Schedule of Contributions signed on 2 September 2016, there is a notional surplus of £78 million. Management is of the view that, based on the scheme rules, it does not have an unconditional right to a refund of surplus under IFRIC 14, and therefore an additional balance sheet liability in respect of a 'minimum funding requirement' of £78 million has been recognised.

a) Income statement

The amounts recognised in the income statement are as follows:

	2018 £m	2017 £m
Excluded from underlying profit before tax:		
Interest cost on pension liabilities[1]	**(289)**	(292)
Interest income on plan assets	**263**	276
Total included in finance costs (note 6)	**(26)**	(16)
Defined benefit pension scheme expenses	**(10)**	(8)
Past service credit	**31**	–
Total excluded from underlying profit before tax	**(5)**	(24)
Total income statement expense	**(5)**	(24)

1 Includes interest of £1 million for the unfunded pension scheme (2017: £1 million).

The past service credit of £31 million is in relation to a Pension Increase Exchange (PIE) option introduced in the Sainsbury's Pension Scheme from 1 April 2018, following a deed of amendment signed during the current financial year.

29 Retirement benefit obligations continued

b) Other comprehensive income

Remeasurement of the retirement benefit obligations have been recognised as follows:

	2018 £m	2017 £m
Return on plan assets, excluding amounts included in interest	**(57)**	1,182
Actuarial gains/(losses) arising from changes in:		
Finance assumptions[1]	**495**	(2,005)
Demographic assumptions[2]	**245**	320
Experience	**(13)**	96
Total actuarial gains/(losses)	**727**	(1,589)
Additional liability due to minimum funding requirements (IFRIC 14)	**(78)**	–
Total remeasurements	**592**	(407)

1 Includes £2 million gain for the unfunded pension scheme (2017: £3 million loss).
2 Includes £1 million gain for the unfunded pension scheme (2017: £1 million gain).

c) Balance sheet

The amounts recognised in the balance sheet are as follows:

	Sainsbury's 2018 £m	Home Retail Group 2018 £m	Group 2018 £m	Sainsbury's 2017 £m	Home Retail Group 2017 £m	Group 2017 £m
Present value of funded obligations	**(8,744)**	**(1,284)**	**(10,028)**	(9,441)	(1,413)	(10,854)
Fair value of plan assets	**8,669**	**1,215**	**9,884**	8,708	1,212	9,920
	(75)	**(69)**	**(144)**	(733)	(201)	(934)
Additional liability due to minimum funding requirements (IFRIC 14)	**–**	**(78)**	**(78)**	–	–	–
Retirement benefit deficit	**(75)**	**(147)**	**(222)**	(733)	(201)	(934)
Present value of unfunded obligations	**(21)**	**(14)**	**(35)**	(23)	(17)	(40)
Retirement benefit obligations	**(96)**	**(161)**	**(257)**	(756)	(218)	(974)
Deferred income tax (liability)/asset (note 7)	**(38)**	**34**	**(4)**	77	47	124
Net retirement benefit obligations	**(134)**	**(127)**	**(261)**	(679)	(171)	(850)

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

The movements in the Group's net defined benefit obligation are as follows:

	2018 £m	2017 £m
As at the beginning of the year	**(974)**	(408)
Acquisition of Home Retail Group plc (note 31)	**–**	(454)
Interest cost	**(26)**	(16)
Remeasurement gains/(losses)	**592**	(407)
Pension scheme expenses	**(10)**	(8)
Contributions by employer	**130**	319
Past service credit	**31**	–
As at the end of the year	**(257)**	(974)

29 Retirement benefit obligations continued

The movements in the retirement benefit obligations (including unfunded obligations) are as follows:

	2018 £m	2017 £m
As at the beginning of the year	**(10,894)**	(7,643)
Acquisition of Home Retail Group plc (note 31)	**–**	(1,587)
Interest cost	**(289)**	(292)
Remeasurement gains/(losses)	**727**	(1,589)
Additional liability due to minimum funding requirements (IFRIC 14)	**(78)**	–
Benefits paid	**362**	217
Past service credit	**31**	–
As at the end of the year	**(10,141)**	(10,894)
Analysed as:		
Retirement benefit obligations	**(10,028)**	(10,854)
Unfunded obligations	**(35)**	(40)
Additional liability due to minimum funding requirements (IFRIC 14)	**(78)**	–

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

	2018 £m	2017 £m
As at the beginning of the year	**9,920**	7,235
Acquisition of Home Retail Group plc (note 31)	**–**	1,133
Interest income on plan assets	**263**	276
Pension scheme expenses	**(10)**	(8)
Remeasurement (losses)/gains	**(57)**	1,182
Contributions by employer	**130**	319
Benefits paid	**(362)**	(217)
As at the end of the year	**9,884**	9,920

Risks associated with the Group's defined benefit pension schemes

The defined benefit schemes expose the Group to a number of risks as detailed below:

Risk	Description	Mitigation
Asset volatility	Returns on assets that vary from the discount rate create funding level volatility. Both schemes hold a significant proportion of growth assets such as equities and real estate. Whilst growth assets are expected to outperform corporate bond yields over the long term this might not always occur in the short term.	All equities are invested passively. The equity portfolio includes both emerging markets and smaller companies in order to track global economic growth by replicating global equity capitalisation. Asset volatility is therefore mitigated by investing in as many companies as possible. All other assets are invested actively and are widely diversified to reduce returns risk and enhance returns.
Currency	The schemes' liabilities are sterling based whereas the majority of assets are denominated in foreign currencies.	Currency hedging programmes help dampen returns volatility caused by the fluctuation of sterling against other leading currencies.
Changes in bond yields	A decrease in bond yields, which in turn drive the discount rate, will increase the present value of the schemes' liabilities for accounting purposes.	A significant proportion of assets are held in corporate bonds that provide a hedge against falling bond yields. Furthermore significant levels of interest rate hedging within the schemes' liability hedging portfolios through interest rate derivatives serve to protect against falling bond yields. Buy-in policies transfer a proportion of interest rate risk to an insurer.
Inflation	The majority of the schemes' liabilities are linked to UK price inflation indices (to a maximum of five per cent per year).	Liability hedging portfolios hedge significant proportions of inflation liabilities by holding index linked bonds and inflation rate derivatives. The schemes' equity portfolio provides a natural hedge against inflation. Buy-in policies transfer a proportion of inflation risk to an insurer.
Longevity	Beneficiaries living longer than expected could increase the schemes' liabilities.	Buy-in policies transfer some longevity risk to an insurer.
Operational	Poor administration of benefits may result in an increased defined benefit obligation in future years.	The schemes' benefits administrators have agreed service level agreements and controls are carefully monitored.

29 Retirement benefit obligations continued

The major categories of plan assets are as follows:

	Quoted 2018 £m	Unquoted[1] 2018 £m	Quoted 2017 £m	Unquoted 2017 £m
Equity				
Public[2]	**1,422**	**–**	1,987	–
Private	**–**	**267**	–	267
Bonds[3]				
Government bonds	**1,269**	**–**	1,272	–
Corporate bonds	**3,695**	**(35)**	3,483	(60)
Emerging market bonds	**444**	**–**	419	–
Derivatives[4]	**163**	**558**	–	519
Alternatives				
Real estate	**64**	**561**	58	524
Private debt	**–**	**404**	–	436
Diversified growth	**188**	**–**	185	–
Insurance policy[5]	**–**	**334**	–	357
Other	**–**	**–**	102	59
Cash and cash equivalents	**558**	**(8)**	390	(78)
	7,803	**2,081**	7,896	2,024

Notes

1 Certain unquoted fixed interest securities, private equity and debt investments, property investments and hedge funds are stated at fair value. These fair values may differ from their realisable values due to the absence of liquid markets in these investments.
2 Quoted equities – circa 78 per cent of the scheme's equities are invested in publicly quoted, highly liquid securities across developed markets. The remainder are invested in smaller companies and emerging markets.
3 Bonds – circa 91 per cent of the scheme's bonds are invested in investment grade credit. The remainder are below investment grade.
4 Swap contract derivatives outstanding at the year-end are stated at the net present value of future discounted cash flows of each leg of the swap.
5 Insurance policy of £334 million (2017: £357 million) refers to a buy-in policy held by the HRG scheme. The income from this policy exactly matches the amount and timing of all of the benefits payable for the insured pensioner members. Therefore the fair value of the insurance policy has been calculated to be the present value of the related obligations.

Of the above assets, £2,902 million are denominated in sterling and £6,982 million are denominated in overseas currencies.

d) Assumptions

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

	2018 %	2017 %
Discount rate	**2.80**	2.70
Inflation rate – RPI	**3.15**	3.30
Inflation rate – CPI	**2.15**	2.30
Future pension increases	**1.90 – 3.00**	2.00 – 3.15

During the financial year the Group has changed the model used for deriving the discount rate assumption for valuing the Schemes' liabilities under IAS 19 to use an approach that the Group believes better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes.

For long duration liabilities there exists limited data. Under the old model the extrapolation for long duration liabilities projected in line with a risk-free curve, whereas the new method extrapolates the available corporate bond data at a credit spread above gilt rates. In addition, in order to broaden the corporate bond dataset, we have assumed that 'high quality' corporate bonds are those which at least one of the main ratings agencies considers to be at least AA (or equivalent), whereas in previous years we required that the majority of the rating agencies rated a bond as AA.

The discount rate used under the updated approach is 2.8 per cent. The resulting gain (recognised in other comprehensive income) is included within the £495 million of actuarial gains due to changes in financial assumptions as disclosed in Section b above. This gain also includes movements due to inflation changes.

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements have been updated from CMI 2015 projections at 2017 year-end to CMI 2017 projections with a long-term rate of improvement of 1.25 per cent p.a. at 10 March 2018.

The life expectancy for members aged 65 years at the balance sheet date is as follows:

	Sainsbury's Main Scheme 2018 Years	Sainsbury's Executive Scheme 2018 Years	Home Retail Group 2018 Years	Sainsbury's Main Scheme 2017 Years	Sainsbury's Executive Scheme 2017 Years	Home Retail Group 2017 Years
Male pensioner	**21.3**	**24.4**	**22.3**	21.5	24.8	22.6
Female pensioner	**23.9**	**25.5**	**24.6**	24.3	26.0	25.0

29 Retirement benefit obligations continued

The life expectancy at age 65 for members aged 45 years at the balance sheet date is as follows:

	Sainsbury's Main Scheme 2018 Years	Sainsbury's Executive Scheme 2018 Years	Home Retail Group 2018 Years	Sainsbury's Main Scheme 2017 Years	Sainsbury's Executive Scheme 2017 Years	Home Retail Group 2017 Years
Male pensioner	**22.7**	**25.7**	**23.7**	23.3	26.5	24.4
Female pensioner	**25.4**	**27.0**	**26.1**	26.3	27.9	26.9

e) Sensitivities

The following sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

	Sainsbury's £m	HRG[1] £m	Total £m
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	886	122	1,008
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	1,029	145	1,174
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	653	132	785
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	620	117	737
An increase of one year to the life expectancy would increase the present value of funded obligations by	316	33	349

1 Changes in the 'insured' defined benefit obligations are matched by changes in the fair value of the buy-in policy and therefore the sensitivities above relate to the non-insured defined benefit obligations only.

f) Future benefit payments

The Group's expected contributions to the defined benefit scheme for the next financial year ending 9 March 2019 are £91 million for Sainsbury's and £40 million for HRG. Details of future committed payments are included in the Background section at the beginning of this note.

The duration of the plan liabilities is around 22 years for Sainsbury's and 25 years for HRG. The following table provides information on the timing of benefit payments (amounts undiscounted):

	2018 £m
Within the next 12 months (next annual reporting period)	**224**
Between 2 and 5 years	**998**
Between 6 and 15 years	**3,468**
Between 16 and 25 years	**4,580**
Beyond 25 years	**9,918**
Total expected payments	**19,188**

30 Share-based payments

Accounting policies

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

For equity-settled share-based payments, the fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions. All share options are valued using an option-pricing model (Black-Scholes or Monte Carlo). This fair value is charged to the income statement over the vesting period of the share-based payment scheme.

For cash-settled share-based payments, the fair value of the employee services rendered is determined at each balance sheet date and the charge recognised through the income statement over the vesting period of the share-based payment scheme, with the corresponding increase in accruals.

The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustments made in equity and accruals.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The Group recognised £33 million (2017: £32 million) of employee costs (note 28) related to share-based payment transactions made during the financial year. Of these, £nil (2017: £nil) were cash-settled.

30 Share-based payments continued

The Group operates a number of share-based payment schemes as set out below:

a) Savings-Related Share Option Scheme (Sharesave)

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

A reconciliation of Sharesave option movements is shown below:

	2018 Number of options million	**2018 Weighted average exercise price pence**	2017 Number of options million	2017 Weighted average exercise price pence
Outstanding at the beginning of the year	**66.5**	**210**	59.0	234
Granted	**23.7**	**184**	27.1	184
Forfeited	**(15.8)**	**230**	(16.7)	249
Exercised	**(5.9)**	**207**	(2.6)	249
Expired	**–**	**–**	(0.3)	208
Outstanding at the end of the year	**68.5**	**196**	66.5	210
Exercisable at the end of the year	**6.4**	**228**	5.7	301
Exercisable price range		**184 to 332**		185 to 332

The weighted average share price for options exercised over the year was 257 pence (2017: 269 pence). The weighted average remaining contractual life of options outstanding at 10 March 2018 was 2.3 years (2017: 2.4 years).

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

		2018	2017
Share price at grant date (pence)		**238**	231
Exercise price (pence)		**184**	185
Expected volatility	– 3 year period (%)	**27.2**	29.9
	– 5 year period (%)	**26.0**	25.5
Option life	– 3 year period (years)	**3.2**	3.2
	– 5 year period (years)	**5.2**	5.2
Expected dividends (expressed as dividend yield %)		**4.8**	4.9
Risk-free interest rate	– 3 year period (%)	**0.8**	0.8
	– 5 year period (%)	**1.3**	1.6
Fair value per option	– 3 year period (pence)	**51**	49
	– 5 year period (pence)	**49**	45

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.

As part of the prior year acquisition of Home Retail Group plc (HRG) colleagues had the option to roll over their HRG Save As You Earn (SAYE) options to a J Sainsbury plc SAYE option or let their HRG options vest. Therefore the above outstanding SAYE options include the rollover options. The calculation of the fair value per option rolled over has not been included within the table above.

b) Long-Term Incentive Plan

Under the Long-Term Incentive Plan, shares are conditionally awarded to the senior managers in the Company. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

Performance is measured at the end of the three-year performance period. If the required performance conditions have been met, the awards vest and 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will then be released one year after the vesting date. Options granted to acquire the award of shares will expire two years from the vesting date. 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.

30 Share-based payments continued

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

	2018 million	2017 million
Outstanding at the beginning of the year	**5.8**	5.4
Conditionally allocated	**3.2**	2.5
Forfeited	**(1.2)**	(1.7)
Released to participants	**(0.6)**	(0.4)
Outstanding at the end of the year	**7.2**	5.8

The weighted average remaining contractual life of share options outstanding at 10 March 2018 was 1.6 years (2017: 1.8 years).

Details of shares conditionally allocated at 10 March 2018 are set out below:

Date of conditional award	2018 million	2017 million
15 May 2014 (2014 Future Builder)	**0.9**	1.6
14 May 2015 (2015 Future Builder)	**1.6**	1.9
12 May 2016 (2016 Future Builder)	**2.0**	2.3
11 May 2017 (2017 Future Builder)	**2.7**	–
	7.2	5.8

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

	2018	2017
Share price at grant date (pence)	**267**	265
Option life (years)	**4.0**	4.2
Fair value per option (pence)	**267**	265

During the year, a total number of 0.6 million shares were exercised (2017: 0.4 million shares). The weighted average share price during the year for options exercised was 266 pence (2017: 272 pence).

c) Deferred Share Award

The Deferred Share Award targets a diverse range of financial and strategic scorecard measures. These are intended to reward the top managers in the Company, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. Awards are structured as nil cost options.

Share-based awards 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:

	2018 million	2017 million
Outstanding at the beginning of the year	**3.0**	2.2
Granted	**2.0**	2.2
Forfeited	**(0.7)**	(0.1)
Exercised	**(0.9)**	(1.3)
Outstanding at the end of the year	**3.4**	3.0

The number of shares allocated at the end of the year is set out below:

	2018 million	2017 million
14 May 2015	**–**	0.9
13 May 2016	**1.8**	2.1
12 May 2017	**1.6**	–
	3.4	3.0

The weighted average remaining contractual life of share options outstanding at 10 March 2018 was 0.5 years (2017: 0.7 years). The weighted average share price during the year for options exercised was 260 pence (2017: 269 pence).

30 Share-based payments continued

d) Bonus Share Award

The bonus arrangements for our senior managers and supermarket store managers include corporate and personal performance targets. A profit gateway is in place where a certain level of underlying profit before tax must be achieved before any bonus related to the corporate element of the bonus is released.

60 per cent of the bonus is paid in cash and 40 per cent awarded in shares. They are automatically released after three financial years. Shares are subject to forfeiture if the participant resigns or is dismissed.

Dividends accrue on these shares and are released at the end of the three-year retention period.

A reconciliation of the number of shares granted over the year is shown below:

	2018 million	2017 million
Outstanding at the beginning of the year	**10.9**	8.9
Granted	**3.8**	6.3
Exercised	**(3.4)**	(3.8)
Forfeited	**(1.1)**	(0.5)
Outstanding at the end of the year	**10.2**	10.9

The number of shares allocated at the end of the year is set out below:

	2018 million	2017 million
15 May 2014	**–**	2.7
14 May 2015	**2.2**	2.5
13 May 2016	**5.0**	5.7
12 May 2017	**3.0**	–
	10.2	10.9

The weighted average remaining contractual life of share options outstanding at 10 March 2018 was 1.1 years (2017: 1.5 years). The weighted average share price during the year for options exercised was 267 pence (2017: 277 pence).

31 Acquisition of subsidiaries

Accounting policies for business combinations

The Group applies the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of identifiable assets transferred, the liabilities incurred and the equity interests issued by the Group at the acquisition date. Acquisition-related costs are expensed as incurred.

a. Acquisition of Nectar loyalty scheme

On 1 February 2018, the Group acquired 100 per cent of the share capital of Nectar Loyalty Holding Limited, a United Kingdom registered private company which owns the Nectar UK loyalty scheme as well as the remaining 50 per cent share of the Group's joint venture Insight 2 Communication LLP. The acquisition enables the full and independent operation of the Nectar loyalty programme in the UK.

Form of consideration	Consideration fair value at acquisition date £m
Cash	**33**
Acquisition-date fair value of the previously held equity interest	**6**
Total	**39**

None of the goodwill recognised of £147 million is expected to be deductible for income tax purposes. The goodwill was calculated as the difference between the fair value of consideration paid and the fair value of net assets acquired as set out in the following table.

31 Acquisition of subsidiaries continued

The provisional assets and liabilities recognised as a result of the acquisition are as follows:

Fair value of net assets acquired (provisional)	£m
Fixed assets	**3**
Intangible assets	**57**
Trade and other receivables	**141**
Deferred tax assets	**19**
Cash and cash equivalents	**168**
Total assets acquired	**388**
Trade and other payables	**(228)**
Deferred revenue	**(268)**
Total liabilities acquired	**(496)**
Net identifiable assets acquired at fair value	**(108)**
Goodwill arising on acquisition	**147**
Purchase consideration transferred	**39**

In accordance with IFRS 3 'Business Combinations', the acquisition accounting will be finalised within 12 months of the acquisition date of 1 February 2018.

Intangible assets

Intangible assets of £57 million relate to the Nectar brand, customer relationships and reacquired rights in relation to existing contractual relationships with Sainsbury's, as well as acquired software assets.

Trade and other receivables

Trade and other receivables of £141 million includes £nil of provisions for doubtful debts.

Cash and cash equivalents

Cash acquired included cash left in the business to settle accounts payable balances owed to the Group.

Deferred revenue

£265 million of the deferred revenue relates to points issued by issuance partners (including Sainsbury's) but not yet redeemed and has been included within trade and other payables within the Group balance sheet.

Revenue and profit contribution

Prior to acquisition, the Group's accounting policy for Nectar points was to recognise sales net of the cost of Nectar points issued and redeemed, based on agreed rates with Aimia UK. Since acquisition, any points issued and redeemed in Sainsbury's and Argos are accounted for in line with IFRIC 13 'Customer Loyalty Programmes'. Under IFRIC 13, on issuance of Nectar points within the Group, a portion of the transaction price is allocated to the loyalty programme using the fair value of points issued and corresponding deferred revenue recognised in relation to points issued but not yet redeemed or expired. Deferred revenue is then recognised as points are redeemed. Nectar revenue earned from non-Sainsbury's redemption partners is included within other income and recognised once points have been redeemed.

Cash impact of acquisition

	£m
Cash consideration	**(33)**
Cash acquired	**168**
Acquisition of subsidiaries, net of cash acquired (included in cash flow statement)	**135**

Acquisition-related costs

Acquisition-related costs (included in administrative expenses and recognised outside of underlying profit) amount to £2 million in the year (see note 3). In addition, an acquisition fair value gain of £4 million on the previously held equity interest in Insight 2 Communication LLP has been recorded in other income (and excluded from underlying profit before tax).

b. Acquisition of Home Retail Group plc

On 2 September 2016, the Group acquired 100 per cent of the issued share capital of Home Retail Group plc (HRG), a listed company based in the United Kingdom, by means of a Scheme of Arrangement under Part 26 of the Act for a consideration of £1,093 million. The full analysis of the consideration is shown below:

Form of consideration	Consideration fair value at acquisition date £m
Cash of £447 million (being 55p per existing share); fair value is based on Home Retail Group plc's share capital of 813,445,001 shares in existence as at the acquisition date	**447**
£3 million in relation to the contractual requirement to settle certain existing HRG share scheme awards and options	**3**
261 million new J Sainsbury plc shares of $28\frac{4}{7}$p nominal value each were issued (being 0.321 new J Sainsbury plc shares per existing Home Retail Group plc share); fair value of the consideration is based on a J Sainsbury plc share price of £2.4610 as of 2 September 2016	**643**
Total	**1,093**

31 Acquisition of subsidiaries continued

Home Retail Group's activities mainly comprise General Merchandise retail. The acquisition is expected to accelerate the Group's growth strategy in General Merchandise and Clothing retail as well as its online presence. The combination brings together two of the UK's leading retail businesses with complementary product offers through an integrated, multi-channel proposition.

None of the goodwill recognised of £119 million is expected to be deductible for income tax purposes. The goodwill was calculated as the difference between the fair value of consideration paid and the fair value of net assets acquired as set out in the following table.

The assets and liabilities recognised as a result of the acquisition were finalised in September 2017 and are as follows:

Fair value of net assets acquired	As consolidated at 10 March 2018 £m	As consolidated at 11 March 2017 £m
Fixed assets	**262**	262
Intangible assets	**322**	322
Inventories	**810**	810
Trade and other receivables	**146**	146
Deferred tax assets	**55**	45
Amounts due from Financial Services customers (the 'loan book')	**615**	615
Other financial assets[1]	**59**	59
Cash and cash equivalents[2]	**548**	548
Total assets acquired	**2,817**	2,807
Trade and other payables[2]	**(1,214)**	(1,214)
Provisions	**(175)**	(104)
Defined benefit obligation	**(454)**	(454)
Total liabilities acquired	**(1,843)**	(1,772)
Net identifiable assets acquired at fair value	**974**	1,035
Goodwill arising on acquisition	**119**	58
Purchase consideration transferred	**1,093**	1,093

1 Other financial assets includes £9 million of J Sainsbury plc shares (converted from Home Retail Group plc own shares at the point of acquisition). On consolidation these become J Sainsbury plc own shares in the consolidated statement of changes in equity.
2 Cash and cash equivalents and trade and other payables acquired are both presented gross of the capital return of £226 million.

Intangible assets
Intangible assets include a brand of £179 million relating to the Argos brand name. This reflects its fair value at the acquisition date and is estimated to have a useful economic life of ten years.

Trade and other receivables
Trade and other receivables include £40 million of trade receivables, against which a bad debt provision of £(1) million was held. Also included are prepayments and accrued income of £29 million, and other debtors of £78 million.

Amounts due from Financial Services customers (the 'loan book')
The loan book fair value of £615 million includes a fair value increase of £20 million and a provision for impairment of £(66) million.

Acquisition-related costs
Acquisition-related costs (included in administrative expenses and recognised outside of underlying profit) amounted to £22 million in the prior year (see note 3). In addition £3 million of costs relating to the issuance of J Sainsbury plc shares were recognised directly within equity in the prior year.

Cash impact of acquisition

	£m
Cash consideration	**(447)**
Cash acquired	**548**
Acquisition of subsidiaries, net of cash acquired (included in prior year cash flow statement)	**101**
Capital return to shareholders of Home Retail Group plc (see below)	**(226)**
Net cash impact of acquisition	**(125)**

Capital return
Prior to the acquisition of Home Retail Group plc, it was announced that Home Retail Group plc shareholders would be entitled to a £226 million capital return comprising the following:

- 25.0 pence per share, reflecting the £200 million return to shareholders in respect of the sale of Homebase by Home Retail Group plc on 29 February 2016; and
- 2.8 pence per share (totalling £26 million) in lieu of a final dividend in respect of Home Retail Group plc's financial year ended 27 February 2016.

This was recorded as a liability in the net assets acquired above within trade and other payables. The full amount was paid on 12 September 2016.

31 Acquisition of subsidiaries continued

Finalisation of acquisition balance sheet

The final acquisition balance sheet was consolidated as follows:

	Restated £m	Prior period adjustment £m	As previously reported £m
Balance sheet at 11 March 2017			
Intangibles	**803**	61	742
Current provisions	**(148)**	(13)	(135)
Deferred income tax liability	**(162)**	10	(172)
Non-current provisions	**(186)**	(58)	(128)

There has been no impact on the previously reported income statement, statement of other comprehensive income, statement of changes in equity or cash flow statement.

Since the year-end date of 11 March 2017, movements in the acquisition balance sheet relate to the following:

Provisions

An in-depth review of provisions within HRG has been performed since the acquisition, resulting in changes to the estimates and assumptions applied.

Deferred income tax liability

Relates to deferred tax on the above adjustments.

Intangible assets

Movement to goodwill of £61 million since the prior year-end is as a result of the above adjustments.

32 Operating lease commitments

Accounting policies

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

a) Operating leases

Assets leased under operating leases are charged directly to the income statement on a straight-line basis over the lease term.

b) Sale and leaseback

A sale and leaseback transaction is one where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer.

For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and the profit or loss from the sale is recognised immediately in the income statement.

c) Leases with predetermined fixed rental increases

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

d) Operating lease income

Operating lease income consists of rentals from sub-tenant agreements and is recognised as earned on a straight-line basis over the lease term.

The Group leases various retail stores, offices, depots and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

The table below sets out the Group's reasonably certain future lease payments:

	2018 £m	2017 £m
Aggregate future minimum lease payments:		
Within one year	**743**	760
In the second to fifth years inclusive	**2,565**	2,615
After five years	**6,711**	7,117
	10,019	10,492

Further analysis of the Group's future minimum lease payments after five years is as follows:

	2018 £m	2017 £m
Aggregate future minimum lease payments:		
Greater than five years but less than ten years	**2,073**	1,924
Greater than ten years but less than 15 years	**1,396**	1,253
After 15 years	**3,242**	3,940
	6,711	7,117

32 Operating lease commitments continued

The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index linked rent review (with a cap and collar). The timing of when rent reviews take place differs for each lease. The Group has pre-emption rights over a minor number of properties, which provides the Group with the right of first refusal to purchase the property in the event the landlord chooses to sell. The option price payable for the asset in each instance is normally referenced to current market value prevailing at the point of pre-emption.

The Group sublets certain leased properties:

	2018 £m	2017 £m
Aggregate future minimum lease receipts:		
Within one year	**41**	39
In the second to fifth years inclusive	**113**	119
After five years	**119**	116
	273	274

33 Capital commitments

At 10 March 2018, capital commitments contracted, but not provided for by the Group, amounted to £103 million (11 March 2017: £118 million).

34 Financial commitments

Sainsbury's Bank has off balance sheet commitments to extend credit to customers of £267 million (2017: £98 million).

35 Contingent liabilities

The Group has a number of contingent liabilities in respect of historic lease guarantees, particularly in relation to the disposal of assets, which if the current tenant and their ultimate parents become insolvent, may expose the Group to a material liability. This is not expected to materialise.

The Company is currently subject to claims brought by approximately 1,000 employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. The claimants, who are predominantly female store employees, allege that their pay should be equal to that of the Company's predominantly male depot/warehouse employees on the basis that their work is of equal value to that of their depot comparators and that any disparity in pay between these different job positions is not objectively justified. A number of other grocery and other retailers are subject to similar claims.

Typically, claims of this nature can take many years to be determined. Given that the claims against the Company are at an early stage and are currently stayed, the outcome of such claims is highly uncertain at this stage and, at present, it is not possible to predict the number of such claims that may be filed or reasonably estimate any loss or range of loss that may arise from these proceedings were the claims to be upheld. The Company believes that it has strong legal and factual defences to the claims.

36 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:

	2018 £m	2017 £m
Short-term employee benefits	**9**	10
Post-employment employee benefits	**1**	1
Share-based payments	**5**	6
	15	17

Eight key management personnel had credit card balances with Financial Services (2017: nine). These arose in the normal course of business and were immaterial to the Group and the individuals. Three key management personnel held saving deposit accounts with Financial Services (2017: five). 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 10 March 2018, the Group entered into various transactions with joint ventures and associates as set out below:

	2018 £m	2017 £m
Management services provided	**1**	8
Income share received from joint ventures and associates	**26**	29
Dividends and distributions received	**37**	65
Proceeds from repayment of loan to joint ventures and associates	**–**	2
Investment in joint ventures	**(9)**	(18)
Disposals of joint ventures	**2**	–
Rental expenses paid	**(46)**	(57)

Year-end balances arising from transactions with joint ventures and associates

	2018 £m	2017 £m
Receivables		
Other receivables	**6**	12
Loans due from joint ventures	**–**	3
Payables		
Loans due to joint ventures	**(5)**	(5)

Insight 2 Communication LLP became a wholly owned subsidiary as at 1 February 2018; up until this point it was a joint venture. All transactions up to the acquisition date have been included above. Outstanding balances as at 10 March 2018 have been excluded as they have now been fully consolidated.

Loans with joint ventures are interest bearing and repayable on demand.

c) Retirement benefit obligations

As discussed in note 29, 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 29 to these financial statements.

37 Post balance sheet events

On 20 March 2018, subsequent to year-end, the HRG Pension Scheme was merged into the Sainsbury's Pension Scheme. The merger is on a segregated basis with two sections – the Argos section and the Sainsbury's section. There is no change to members' benefits and each section's assets are ring-fenced for the benefit of the members of that section. Further details are included in note 29.

On 19 April 2018, a fixed rate amortising loan from Eddystone Finance plc with a final principal balance of £568 million was repaid in full.

On 30 April 2018, Sainsbury's announced a proposed combination with Asda Group Limited, a wholly owned subsidiary of Walmart Inc. In exchange for the entire issued share capital of Asda, Sainsbury's will issue to Walmart cash of £2.975 billion and £4.3 billion of shares, based on the closing share price of Sainsbury's on 27 April 2018 of 269.8 pence.

The shares will comprise ordinary voting shares representing 29.9 per cent of Sainsbury's enlarged ordinary voting share capital and ordinary non-voting shares, which are convertible into ordinary voting shares such that Walmart will hold 42 per cent of the issued equity share capital of the Combined Business.

Completion of the Combination is expected in the second half of calendar year 2019. The Combination is conditional upon, amongst other things, Sainsbury's shareholder approval, Competition and Markets Authority approval, approvals in connection with the Asda defined benefit pension scheme and other regulatory approvals.

38 Details of related undertakings

All companies listed below are owned by the Group and all interests are in the ordinary share capital, except where otherwise indicated. All subsidiaries have been consolidated.

a) Subsidiary undertakings

The Group holds a majority of the voting rights of the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address*
ARG Personal Loans Limited	UK	100%	Indirect	Avebury
ARG Services Limited	UK	100%	Indirect	33 Holborn
Argos (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Argos (Hong Kong) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Argos Best Sellers Limited	UK	100%	Indirect	33 Holborn
Argos Business Solutions Limited	UK	100%	Indirect	Avebury
Argos Card Transactions Limited	UK	100%	Indirect	33 Holborn
Argos Direct Limited	UK	100%	Indirect	33 Holborn
Argos Distributors (Ireland) Limited	Ireland	100%	Indirect	Unit 7, Ashbourne Retail Park
Argos Extra Limited	UK	100%	Indirect	33 Holborn
Argos Holdings Limited	UK	100%	Indirect	Avebury
Argos Limited	UK	100%	Indirect	Avebury
Argos Retail Group (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Argos Retail Group (Hong Kong) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Argos Retail Group Limited	UK	100%	Indirect	33 Holborn
Argos Superstores Limited	UK	100%	Indirect	33 Holborn
Argos Surbs Investments Limited	UK	100%	Indirect	Avebury
Avebury (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Barleygold Limited	UK	100%	Indirect	50 Bedford Street
Bed Store & More Limited	UK	100%	Indirect	33 Holborn
Bells Stores Limited	UK	100%	Direct	33 Holborn
BLSSP (PHC 7) Limited	UK	100%	Indirect	33 Holborn
Braemar Castle Limited	UK	100%	Direct	33 Holborn
Brand Leader's Limited	UK	100%	Indirect	33 Holborn
Chad Valley Limited	UK	100%	Indirect	33 Holborn
Clearance Bargains Limited	UK	100%	Indirect	33 Holborn
Cliffrange Limited	UK	100%	Indirect	33 Holborn
Coolidge Investments Limited	UK	100%	Indirect	33 Holborn
Financial Recovery Services Limited	UK	100%	Indirect	Avebury
First Stop Stores Limited	UK	100%	Indirect	33 Holborn
Flint Castle Limited	UK	100%	Direct	33 Holborn
Global (Guernsey) Limited	Guernsey	100%	Indirect	Maison Trinity
Habitat Retail Limited	UK	100%	Indirect	Avebury
Holborn UK Investments Limited	UK	100%	Direct	33 Holborn
Home Retail (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Home Retail (Hong Kong) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Home Retail Group (Cyprus) Limited	Cyprus	100%	Indirect	Michalaki Karaoli, 8
Home Retail Group (Finance) LLP	UK	100%	Indirect	Avebury
Home Retail Group (Guernsey) LP	Guernsey	100%	Indirect	Maison Trinity
Home Retail Group (Jersey) Limited	Jersey	100%	Indirect	44 Esplanade
Home Retail Group (UK) Limited	UK	100%	Indirect	Avebury
Home Retail Group Card Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Holdings (Overseas) Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Insurance Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Limited	UK	100%	Indirect	Avebury
Home Retail Group Nominees Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Pension Scheme Nominees Limited	UK	100%	Indirect	Avebury
Home Retail Group UK Service Company Limited	UK	100%	Indirect	33 Holborn
Home Store & More Limited	UK	100%	Indirect	33 Holborn
Insight 2 Communication LLP	UK	100%	Indirect	80 Strand
J Sainsbury Common Investment Fund Limited	UK	100%	Indirect	33 Holborn
J Sainsbury Distribution Limited	UK	100%	Direct	33 Holborn

*See full address on page 168.

38 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Address*
J Sainsbury Limited	Ireland	100%	Direct	6th Floor, South Bank House
J Sainsbury Pension Scheme Trustees Limited	UK	100%	Direct	33 Holborn
J Sainsbury Trustees Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores 2002 Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores Limited	UK	100%	Direct	33 Holborn
JS Information Systems Limited	UK	100%	Direct	33 Holborn
JS Insurance Limited	Isle of Man	100%	Direct	Third Floor, St George's Court
JSD (London) Limited	UK	100%	Indirect	33 Holborn
Jungle Online	UK	100%	Indirect	33 Holborn
Jungle.com Holdings Limited	UK	100%	Indirect	33 Holborn
Jungle.com Limited	UK	100%	Indirect	33 Holborn
Maloney's Retail (Shepperton) Stores Limited	UK	100%	Indirect	33 Holborn
Nash Court (Kenton) Limited	UK	100%	Indirect	33 Holborn
Nectar EMEA Limited	UK	100%	Direct	80 Strand
Nectar Loyalty Holding Limited	UK	100%	Direct	80 Strand
Nectar Loyalty Limited	UK	100%	Direct	80 Strand
Premier Incentives Limited	UK	100%	Indirect	33 Holborn
Quarternate Holdings Limited	Jersey	100%	Indirect	44 Esplanade
Ramheath Properties Limited	UK	100%	Direct	33 Holborn
Sainsbury Bridgeco Holdco Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco A Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco B Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco A Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco B Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco C Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco D Limited	UK	100%	Direct	33 Holborn
Sainsbury Property Investments Limited	UK	100%	Direct	33 Holborn
Sainsbury's Argos Asia Commercial Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Sainsbury's Argos Asia Sourcing Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Sainsbury's Argos Commercial Consulting (Shanghai) Limited	China	100%	Indirect	Room 02-04, 12/F, Tower 1
Sainsbury's Argos Asia Limited	Hong Kong	100%	Indirect	27/F Standard Chartered Tower
Sainsbury's Argos Asia Technical Limited	Hong Kong	100%	Indirect	27/F Standard Chartered Tower
Sainsbury's Bank plc	UK	100%	Direct	33 Holborn
Sainsbury's Commercial Consulting (Dongguan) Company Limited	China	100%	Indirect	Room 1813, 18/F, Block 2, Haide Plaza
Sainsbury's Convenience Stores Limited	UK	100%	Direct	33 Holborn
Sainsburys Corporate Director Limited	UK	100%	Direct	33 Holborn
Sainsbury's Intermediate Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Limited	Ireland	100%	Direct	6th Floor, South Bank House
Sainsbury's Limited	UK	100%	Direct	No.2 Lochrin Square
Sainsbury's Manor GP Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Manor II Property Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Manor Property Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Planet Limited	UK	100%	Direct	33 Holborn
Sainsbury's Supermarkets Limited	UK	100%	Direct	33 Holborn
Software Warehouse Holdings Limited	UK	100%	Indirect	33 Holborn
Stamford House Investments Limited	UK	100%	Indirect	33 Holborn
Stamford Properties One Limited	UK	100%	Direct	33 Holborn
Stamford Properties Three Limited	UK	100%	Direct	33 Holborn
Stamford Properties Two Limited	UK	100%	Direct	33 Holborn
Stanhope Finance Limited	UK	100%	Indirect	33 Holborn
Tintagel Castle Limited	UK	100%	Direct	33 Holborn
Town Centre Retail (Bicester) Limited	UK	100%	Indirect	33 Holborn

*See full address on page 168.

38 Details of related undertakings continued

b) Associated undertakings

The Group has a participating interest in the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address*
3BW Limited	UK	100%	Direct	33 Holborn
Arcus FM Limited	UK	Preference shares	Indirect	Enterprise House
Arcus Solutions Limited	UK	Preference shares	Indirect	Enterprise House
BL Sainsbury Superstores Limited	UK	50%	Indirect	York House
Harvest 2 GP Limited	UK	50%	Indirect	100 Victoria Street
Harvest 2 Limited Partnership	UK	50%	Indirect	100 Victoria Street
Harvest Development Management Limited	UK	50%	Indirect	100 Victoria Street
Harvest GP Limited	UK	50%	Indirect	100 Victoria Street
Hedge End Park Limited	UK	50%	Direct	33 Holborn
Manor II Property Scottish Partnership	UK	0.01%	Indirect	Hurlawcrook Road
Manor Property Scottish Partnership	UK	0.01%	Indirect	Hurlawcrook Road
Manor Scottish Limited Partnership	UK	0.01%	Indirect	Hurlawcrook Road
PXS Limited	UK	85,000 B shares	Indirect	One New Change
Sainsbury's Property Scottish Limited Partnership	UK	10%	Indirect	Hurlawcrook Road
Sainsbury's Property Scottish Partnership	UK	33%	Indirect	Hurlawcrook Road

c) Undertakings other than subsidiaries and associated undertakings

The direct or indirect holder of 100 per cent of the voting interests in the following undertakings is an associate of the Group:

Entity	Country of incorporation	Interest	Holding	Address*
B.L.C.T. (10775) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (11546) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (20720) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (27255) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (38775) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (39214) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (39215) Limited	Jersey	50%	Indirect	47 Esplanade
BL Crawley	Jersey	50%	Indirect	47 Esplanade
BL Superstores Finance PLC	UK	50%	Indirect	York House
BL Superstores (Funding) Limited	UK	50%	Indirect	York House
BLS Non Securitised 2012 1 Limited	UK	50%	Indirect	York House
BLS Non-Securitised 2012 2 Limited	UK	50%	Indirect	York House
BLSSP (Cash Management) Limited	UK	50%	Indirect	York House
BLSSP (Lending) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1 2010) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1 2012) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1) Limited	UK	50%	Indirect	York House
BLSSP (PHC 10) Limited	UK	50%	Indirect	York House
BLSSP (PHC 12) Limited	UK	50%	Indirect	York House
BLSSP (PHC 14) Limited	UK	50%	Indirect	York House
BLSSP (PHC 16) Limited	UK	50%	Indirect	York House
BLSSP (PHC 19) Limited	UK	50%	Indirect	York House
BLSSP (PHC 2 2010) Limited	UK	50%	Indirect	York House
BLSSP (PHC 2) Limited	UK	50%	Indirect	York House
BLSSP (PHC 20) Limited	UK	50%	Indirect	York House
BLSSP (PHC 21) Limited	UK	50%	Indirect	York House
BLSSP (PHC 22) Limited	UK	50%	Indirect	York House
BLSSP (PHC 23) Limited	UK	50%	Indirect	York House
BLSSP (PHC 24) Limited	UK	50%	Indirect	York House

*See full address on page 168.

38 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Address*
BLSSP (PHC 25) Limited	UK	50%	Indirect	York House
BLSSP (PHC 28) Limited	UK	50%	Indirect	York House
BLSSP (PHC 3) Limited	UK	50%	Indirect	York House
BLSSP (PHC 32) Limited	UK	50%	Indirect	York House
BLSSP (PHC 33) Limited	UK	50%	Indirect	York House
BLSSP (PHC 34) Limited	UK	50%	Indirect	York House
BLSSP (PHC 35) Limited	UK	50%	Indirect	York House
BLSSP (PHC 5) Limited	UK	50%	Indirect	York House
BLSSP (PHC 6) Limited	UK	50%	Indirect	York House
BLSSP Property Holdings Limited	UK	50%	Indirect	York House
British Land Superstores (Non-Securitised)	UK	50%	Indirect	York House
Clarendon Property Company	UK	50%	Indirect	York House
Harvest 2 Selly Oak Limited	UK	50%	Indirect	100 Victoria Street
Harvest Nominee No. 1 Limited	UK	50%	Indirect	100 Victoria Street
Harvest Nominee No. 2 Limited	UK	50%	Indirect	100 Victoria Street
Pencilscreen Limited	UK	50%	Indirect	York House
Selected Land and Property Company	UK	50%	Indirect	York House
Ten Fleet Place	UK	50%	Indirect	York House
Vyson	UK	50%	Indirect	York House

d) Overseas branches
The Group has the following branches overseas:

Entity	Country	Holding	Address*
Sainsbury's Asia Limited – Bangladesh Liaison Office	India	Indirect	Level 10, Simpletree Anarkali
Sainsbury's Asia Limited – India Branch Office	India	Indirect	Unit No. 1, 1st Floor, Ambience Corporate Tower II
Sainsbury's Commercial Consulting (Dongguan) Company Limited – Shanghai Branch Office	China	Indirect	Suite 2202-2205, 22F., Raffles City

e) Companies in liquidation

Entity	Country of incorporation	Interest	Holding	Address*
J Sainsbury Holdings	Ireland	100%	Indirect	29 Earlsfort
JS Finance Corporation	Ireland	100%	Indirect	29 Earlsfort
Netto Limited	UK	50%	Direct	33 Holborn
Portfolio Investments Ltd	UK	100%	Indirect	Hill House
Romford Developments Limited	UK	50%	Indirect	55 Baker Street
Sainsbury's Basingstoke Limited	UK	100%	Indirect	Hill House
Sainsbury's Entertainment Ltd	UK	100%	Indirect	Hill House
Stockdale Land (Bicester) Limited	UK	100%	Indirect	Hill House

*See full address on page 168.

38 Details of related undertakings continued

Address	Full address
100 Victoria Street	100 Victoria Street, London, SW1E 5JL, United Kingdom
27/F Standard Chartered Tower	27/F Standard Chartered Tower, Millennium City 1, 388 Kwun Tong Road, Kwun, Hong Kong
33 Holborn	33 Holborn, London, EC1N 2HT, United Kingdom
44 Esplanade	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands
47 Esplanade	47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands
50 Bedford Street	50 Bedford Street, Belfast, BT2 7FN, United Kingdom
80 Strand	80 Strand, 6th Floor, London, WC2R 0NN, United Kingdom
6th Floor, South Bank House	6th Floor, South Bank House, Barrow Street, Dublin 4, Republic of Ireland
Avebury	Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW, United Kingdom
No.2 Lochrin Square	No.2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA, United Kingdom
Enterprise House	Enterprise House, 168-170 Upminster Road, Upminster, Essex, RM14 2RB, United Kingdom
Level 10, Simpletree Anarkali	Level 10, Simpletree Anarkali, 89 Gulshan Avenue Plet 03, Block – CWS(A), Dhaka – 1212, Bangladesh
Maison Trinity	Maison Trinity, Trinity Square, St Peter Port, GY1 4AT, Guernsey, Channel Islands
One New Change	One New Change, London, EC4M 9AF, United Kingdom
Michalaki Karaoli, 8	Michalaki Karaoli, 8, Anemomylos Building, 4th Floor, Flat/Office 401, P.C. 1504, Nicosia, Cyprus
Room 02-04, 12/F., Tower 1	Room 02-04, 12/F., Tower 1, Kerry Everybright City Phase III – Enterprise Centre, No 128 West Tian Mu Road, Ahzbei, Shanghai, 200070, Shanghai, People's Republic of China
Room 1813, 18/F, Block 2, Haide Plaza	Room 1813, 18/F, Block 2, Haide Plaza, No. 200, Hongfu Road, Nancheng District, Dongguan, People's Republic of China
Hurlawcrook Road	Scottish Commercial Office, Hurlawcrook Road, Langlands Park Industrial Estate, East Kilbride, G75 0QH, United Kingdom
Units C & D 5/F, D2 Place Two	Units C & D 5/F, D2 Place Two, No 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong
Unit 7, Ashbourne Retail Park	Unit 7, Ashbourne Retail Park, Ballybin Road, Ashbourne, Republic of Ireland
Unit No. 1, 1st Floor, Ambience Corporate Tower II	Unit No. 1, 1st Floor, Ambience Corporate Tower II, Ambience Island, NH-8, Gurgaon – 122011, Haryana, India
Suite 2202-2205, 22F., Raffles City	Suite 2202-2205, 22F., Raffles City, 268 Xi Zang Middle Road, Shanghai 200001, People's Republic of China
York House	York House, 45 Seymour Street, London, W1H 7LX, United Kingdom
Third Floor, St George's Court	Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Hill House	Hill House, 1 Little New Street, London, EC4A 3TR
29 Earlsfort Terrace	Deloitte, 29 Earlsfort Terrace, Dublin 2, Republic of Ireland
55 Baker Street	55 Baker Street, London, W1U 7EU, United Kingdom

Five year financial record

Five year financial record

	2018	2017	2016	2015	2014
Financial results (£m)					
Underlying sales (including VAT, including fuel, including Financial Services)	**31,741**	29,112	25,829	26,122	26,353
Underlying operating profit					
Retail	**625**	626	635	720	873
Financial Services	**69**	62	65	62	6
	694	688	700	782	879
Underlying net finance costs[1]	**(119)**	(119)	(121)	(107)	(111)
Underlying share of post-tax profit from joint ventures	**14**	12	8	6	30
Underlying profit before tax[1,2]	**589**	581	587	681	798
Increase/(decrease) on previous year (%)	**1.4**	(1.0)	(13.8)	(14.7)	5.3
Retail underlying operating margin (%)[3]	**2.24**	2.42	2.74	3.07	3.65
Earnings per share					
Underlying (pence)	**20.4**	21.8	24.2	26.4	32.8
(Decrease)/increase on previous year (%)	**(6.4)**	(9.9)	(8.3)	(19.5)	6.5
Proposed dividend per share (pence)[4]	**10.2**	10.2	12.1	13.2	17.3

1 Net finance costs before non-underlying finance movements, IAS 19 pension financing charge but after accrued coupons on the perpetual securities.
2 Profit before tax from continuing operations before non-underlying items as described in note 3.
3 Retail operating profit margin based on retail sales excluding Value Added Tax, including fuel, excluding Financial Services.
4 Total proposed dividend to ordinary shareholders in relation to the financial year.

Company balance sheet

At 10 March 2018 and 11 March 2017

	Note	2018 £m	2017 £m
Non-current assets			
Investments in subsidiaries	2	**6,013**	5,757
Investments in joint ventures and associates	3	**6**	10
Available-for-sale financial assets	4	**40**	39
Other receivables	5	**219**	1,716
Derivative financial instruments		**7**	6
		6,285	7,528
Current assets			
Trade and other receivables	5	**2,656**	1,042
Derivative financial instruments		**4**	19
Cash and cash equivalents		**309**	300
		2,969	1,361
Total assets		**9,254**	8,889
Current liabilities			
Trade and other payables	6	**(824)**	(375)
Borrowings	7	**(1)**	(1)
Derivative financial instruments		**(3)**	(17)
Provisions	8	**(1)**	–
Taxes payable		**(33)**	(31)
		(862)	(424)
Net current assets		**2,107**	937
Non-current liabilities			
Other payables	6	**–**	(587)
Borrowings	7	**(634)**	(625)
Derivative financial instruments		**(9)**	(4)
Provisions	8	**(1)**	(2)
		(644)	(1,218)
Net assets		**7,748**	7,247
Equity			
Called up share capital	10	**627**	625
Share premium account	10	**1,130**	1,120
Capital redemption reserve	10	**680**	680
Merger reserve	10	**568**	568
Other reserves	10	**23**	28
Retained earnings	11	**4,224**	3,730
Total equity before perpetual securities		**7,252**	6,751
Perpetual capital securities		**248**	248
Perpetual convertible bonds		**248**	248
Total equity		**7,748**	7,247

The notes on pages 172 to 176 form an integral part of these financial statements.

The financial statements on pages 170 to 176 were approved by the Board of Directors on 1 May 2018, and are signed on its behalf by:

Mike Coupe Chief Executive
Kevin O'Byrne Chief Financial Officer

Company statement of changes in equity

for the 52 weeks to 10 March 2018

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 12 March 2017		**625**	**1,120**	**708**	**568**	**3,730**	**6,751**	**248**	**248**	**7,247**
Profit for the period	11	–	–	–	–	665	665	12	6	683
Other comprehensive income	10	–	–	3	–	–	3	–	–	3
Total comprehensive income for the year ended 10 March 2018		–	–	3	–	665	668	12	6	686
Transactions with owners:										
Dividends	11	–	–	–	–	(212)	(212)	–	–	(212)
Distribution to holders of perpetual securities (net of tax)		–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	10, 11	–	–	(8)	–	8	–	–	–	–
Allotted in respect of share option schemes	10, 11	2	10	–	–	33	45	–	–	45
At 10 March 2018		**627**	**1,130**	**703**	**568**	**4,224**	**7,252**	**248**	**248**	**7,748**
At 13 March 2016		550	1,114	711	–	3,240	5,615	248	248	6,111
Profit for the period	11	–	–	–	–	682	682	12	6	700
Other comprehensive income	10	–	–	5	–	–	5	–	–	5
Total comprehensive income for the period ended 11 March 2017		–	–	5	–	682	687	12	6	705
Transactions with owners:										
Dividends	11	–	–	–	–	(232)	(232)	–	–	(232)
Acquisition of subsidiaries		75	–	–	568	(3)	640	–	–	640
Adjustment to consideration in respect of share options		–	–	–	–	3	3	–	–	3
Distribution to holders of perpetual securities (net of tax)	10, 11	–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	10, 11	–	–	(8)	–	8	–	–	–	–
Allotted in respect of share option schemes		–	6	–	–	32	38	–	–	38
At 11 March 2017		625	1,120	708	568	3,730	6,751	248	248	7,247

The notes on pages 172 to 176 form an integral part of these financial statements.

Notes to the Company financial statements

1 Basis of preparation

The parent company's financial statements are prepared in accordance with United Kingdom Accounting Standards, in particular Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the Standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Company's transition date to FRS 101 was 13 March 2016. FRS 101 sets out amendments to IFRS as adopted by the European Union that are necessary to achieve compliance with the Companies Act and related regulations. These amendments had no impact on the statement of comprehensive income, balance sheet or statement of changes in equity for the Company for the year of transition.

The financial year represents the 52 weeks to 10 March 2018 (prior financial year 52 weeks to 11 March 2017).

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 to present a cash flow statement.
- The requirements of paragraph 17 of IAS 24 'Related Party Transactions', to disclose information related to key management personnel, and the requirements of IAS 24 to disclose related party transactions between two or more members of a group for wholly owned subsidiaries.
- The requirements of paragraphs 30 and 31 of IAS 8 to disclose information assessing the possible impact of new standards issued but which are not yet effective.
- The requirements of IFRS 7 and IFRS 13 for disclosure of financial instruments and fair values.

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

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement nor a statement of comprehensive income for the Company alone.

The profit after tax for the Company for the year was £683 million (2017: £700 million).

2 Investments in subsidiaries

Accounting policies
Investments in subsidiaries are carried at cost less any impairment loss in the financial statements of the Company.

	2018 £m	2017 £m
Shares in subsidiaries		
At the beginning of the year	**5,757**	4,500
Additions	**256**	1,257
At the end of the year	**6,013**	5,757

Additions in the current year predominantly relate to capital injections into Sainsbury's Bank of £190 million, in addition to the acquisition of Nectar UK of £33 million. Additions in the prior year predominantly relate to the acquisition of Home Retail Group.

3 Investments in joint ventures and associates

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

	Company shares at cost 2018 £m	Company shares at cost 2017 £m
At the beginning of the year	**10**	33
Additions	**–**	16
Provision for diminution in value of investment	**(4)**	(39)
At the end of the year	**6**	10

A provision of £4 million (2017: £39 million) was made against investments in joint ventures where the carrying amounts exceeded the recoverable amount.

4 Available-for-sale financial assets

Accounting policies

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

	2018 £m	2017 £m
Non-current		
Interest bearing financial assets	**40**	39

5 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.

	2018 £m	2017 £m
Non-current		
Amounts owed by Group companies	**219**	1,716
Current		
Amounts owed by Group companies	**2,642**	1,038
Other debtors	**14**	4
	2,656	1,042

6 Trade and other payables

Accounting policies

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

	2018 £m	2017 £m
Current		
Amounts owed to Group entities	**794**	346
Other payables	**30**	29
	824	375
Non-current		
Amounts owed to Group entities	**–**	587

7 Borrowings

	2018 Current £m	2018 Non-current £m	2018 Total £m	2017 Current £m	2017 Non-current £m	2017 Total £m
Bank loans due 2019	**–**	**199**	**199**	–	199	199
Convertible bond due 2019	**1**	**435**	**436**	1	426	427
Total borrowings	**1**	**634**	**635**	1	625	626

8 Provisions

Accounting policies

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

	Onerous leases and onerous contracts £m	Disposal provision £m	Total £m
At 11 March 2017 and 12 March 2016	1	1	2
Additional provisions	–	–	–
Utilisation of provision	–	–	–
At 10 March 2018	1	1	2

	2018 £m	2017 £m
Disclosed as:		
Current	**1**	–
Non-current	**1**	2
	2	2

9 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 the 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 12 March 2017	21	(21)	–
Rate change adjustment to income statement	–	–	–
At 10 March 2018	**21**	**(21)**	**–**
At 13 March 2016	22	(22)	–
Rate change adjustment to income statement	(1)	1	–
At 11 March 2017	21	(21)	–

	2018 £m	2017 £m
Total deferred income tax liabilities	**(21)**	(21)
Total deferred income tax assets	**21**	21
Net deferred income tax liability recognised in non-current liabilities	–	–

10 Share capital and reserves

Accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share capital, share premium and merger reserve

	2018 million	2017 million	2018 £m	2017 £m
Called up share capital				
Allotted and fully paid ordinary shares 28 4/7p	**2,194**	2,188	**627**	625

Share premium account		
Share premium	**1,130**	1,120

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

	Number of ordinary shares million	Ordinary shares £m	Share premium account £m
At 12 March 2017	2,188	625	1,120
Allotted in respect of share option schemes	6	2	10
At 10 March 2018	**2,194**	**627**	**1,130**
At 13 March 2016	1,924	550	1,114
Acquisition of subsidiaries[1]	261	75	–
Allotted in respect of share option schemes	3	–	6
At 11 March 2017	2,188	625	1,120

1 261 million new J Sainsbury plc shares of 28 4/7p nominal value each were issued (being 0.321 new J Sainsbury plc shares per existing Home Retail Group plc share); fair value of the consideration is based on a J Sainsbury plc share price of £2.4610 as at 2 September 2016. This is accounted for as £75 million in share capital, plus the premium arising from the consideration in excess of the nominal amount of shares issued of £568 million, which is recognised in the merger reserve as the transaction qualified for merger relief.

Capital redemption and other reserves

	Available-for-sale assets £m	Cash flow hedge reserve £m	Convertible bond reserve £m	Total other reserves £m	Capital redemption reserve £m	Merger reserve £m
At 12 March 2017	10	(3)	21	28	680	568
Acquisition of subsidiaries	–	–	–	–	–	–
Available-for-sale financial assets fair value movements (net of tax)	1	–	–	1	–	–
Items reclassified from cash flow hedge reserve	–	2	–	2	–	–
Amortisation of convertible bond – equity component	–	–	(8)	(8)	–	–
At 10 March 2018	**11**	**(1)**	**13**	**23**	**680**	**568**
At 13 March 2016	6	(4)	29	31	680	–
Acquisition of subsidiaries	–	–	–	–	–	568
Available-for-sale financial assets fair value movements (net of tax)	4	–	–	4	–	–
Cash flow hedges effective portion of fair value movements (net of tax)	–	(1)	–	(1)	–	–
Items reclassified from cash flow hedge reserve	–	2	–	2	–	–
Amortisation of convertible bond – equity component	–	–	(8)	(8)	–	–
At 11 March 2017	10	(3)	21	28	680	568

The available-for-sale assets reserve represents the fair value gains and losses on the available-for-sale financial assets held by the Company. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Company.

The convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014.

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

11 Retained earnings

	2018 £m	2017 £m
Beginning of the year	**3,730**	3,240
Acquisition of subsidiaries	**–**	(3)
Adjustment to consideration in respect of share options	**–**	3
Profit for the year	**665**	682
Dividends paid	**(212)**	(232)
Allotted in respect of share option schemes	**33**	32
Amortisation of convertible bond – equity component	**8**	8
End of the year	**4,224**	3,730

Additional shareholder information

Financial calendar

Ex-dividend date	7 June 2018
Record date	8 June 2018
Last date for return of revocation of DRIP mandates	22 June 2018
Q1 Trading Statement	4 July 2018
Annual General Meeting	11 July 2018
Payment date and DRIP share purchase	13 July 2018
Interim results announced	8 November 2018*
Q3 Trading Statement	9 January 2019*
Preliminary results announced	1 May 2019*
Annual General Meeting	4 July 2019*

*provisional dates

The interim dividend was paid on 4 January 2018.

Shareholder profiles

End of year information as at 10 March 2018

	2018	2017
Number of shareholders	**124,464**	133,332
Number of shares in issue	**2,194,100,874**	2,188,149,787

By size of holding

	Shareholders %		Shares %	
	2018	2017	2018	2017
500 and under	**68.56**	69.13	**0.43**	0.47
501 to 1,000	**11.12**	11.23	**0.47**	0.51
1,001 to 10,000	**18.48**	17.98	**2.89**	3.01
10,001 to 100,000	**1.39**	1.24	**1.97**	1.85
100,001 to 1,000,000	**0.31**	0.29	**5.85**	6.12
Over 1,000,000	**0.13**	0.13	**88.39**	88.04
	100	100	**100**	100

By category of shareholder

	Shareholders %		Shares %	
	2018	2017	2018	2017
Individuals	**96.44**	96.47	**4.84**	5.26
Insurance companies	**0.00**	0.06	**0.00**	0.03
Banks and Nominees	**1.26**	3.18	**81.39**	93.59
Investment Trusts	**0.01**	0.03	**0.01**	0.01
Pension Funds	**0.01**	0.01	**0.01**	0.01
Other Corporate Bodies	**2.29**	0.25	**13.76**	1.1
	100	100	**100**	100

Annual General Meeting (AGM)
The AGM will be held at 11.00am on Wednesday, 11 July 2018 at QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report.

Registrars
For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact:

Equiniti Registrars
Aspect House
Spencer Road
Lancing
BN99 6DA
Telephone: 0371 384 2030

Please remember to tell Equiniti if you move house or change bank details or if there is any other change to your account information.

You can view and manage your shareholding online at **www.shareview.co.uk**. You will require your 11-digit Shareholder Reference Number (SRN) to log in. It can be found on share certificates and dividend confirmations.

Dividends
Having your dividends paid directly into your bank or building society account is a more secure way than receiving your dividend by cheque. If you would prefer your dividends to be paid directly into your bank or building society account further information is available from Equiniti (address and telephone number above). You will still receive an annual dividend confirmation detailing each dividend to enable you to complete your tax return to HMRC.

Dividend Reinvestment Plan (DRIP)
The Company has a DRIP, which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. No new shares are allotted under this DRIP and approximately 30,086 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from the Registrars. Alternatively, you can elect to join the DRIP by registering for Shareview at **www.shareview.co.uk**.

Annual Dividend Confirmations
The Company sends out an Annual Dividend Confirmation (ADC) in relation to dividend payments. This means that those shareholders receiving their dividend direct into their bank account will receive an ADC once a year detailing all payments made throughout that year.

Shareholder communications Company website
J Sainsbury plc Interim and Annual Reports, and results announcements are available via the internet on our website at **www.j-sainsbury.co.uk**. As well as providing share price data and financial history, the site also provides background information about the Company, regulatory and news releases, and current issues.

Electronic shareholder communications
The Company encourages all shareholders to receive their shareholder communications electronically in order to reduce our impact on the environment and has set up a facility for shareholders to take advantage of electronic communications. The service allows you to:

- view the Annual Report and Financial Statements on the day it is published;
- receive electronic notification of the availability of future shareholder information (you must register your email for this service);
- check the balance and current value of your shareholding and view your dividend history; and
- submit your vote online prior to a general meeting.

To register visit **www.shareview.co.uk**. You will need your 11-digit Shareholder Reference Number which can be found on your share certificate or recent dividend confirmation.

Shareholder security
Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company annual reports. If you receive any unsolicited investment advice, whether over the telephone, through the post or by email:

- make sure you get the name of the person and organisation;
- check that they are properly authorised by the FCA before getting involved by visiting **https://register.fca.org.uk/**; and
- report the matter to the FCA either by calling 0800 111 6768 or by completing an online form at **www.fca.org.uk/consumers/report-scam-unauthorised-firm**

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website **www.scamsmart.fca.org.uk**

Share dealing services

To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or a high street bank who will usually be able to assist you. Alternatively, you may consider using:

- The Share Centre Ltd, who offer a postal dealing service and they can be contacted at The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or Freephone 08000 282812 and quote Sainsbury's; or
- Equiniti, who offer a telephone and internet facility which gives shareholders the opportunity to trade at a known price. The telephone service is available from 8.00am to 4.30pm, Monday to Friday, excluding bank holidays, on telephone number 0345 6037 037. The internet share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting **www.shareview.co.uk/4/Info/Portfolio/Default/en/Home/products/pages/buyandsellshares.aspx**.

Further information and detailed terms and conditions are available on request by calling either provider.

American Depositary Receipts (ADRs)

The Company has a sponsored Level I ADR programme for which the Bank of New York Mellon acts as depositary. The ADRs are traded on the over-the-counter (OTC) market in the US under the symbol JSAIY, where one ADR is equal to four ordinary shares. All enquiries relating to ADRs should be addressed to:

BNY Mellon
Shareowner Services
PO Box 30170
College Station
TX 77842-3170

Toll Free Telephone # for domestic callers: 1-888-269-2377

International callers can call: +1-201-680-6825

Website: **www.mybnymdr.com**

Email: shrrelations@bnymellon.com

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form may be obtained from Equiniti. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from **www.sharegift.org**.

Tax information – Capital Gains Tax (CGT)

For CGT purposes, the market value of J Sainsbury plc ordinary shares on 31 March 1982 adjusted for all capital adjustments was 91.99 pence and B shares 10.941 pence.

CGT information on historic Home Retail Group corporate actions can be found in the Investor Section on our website **www.j-sainsbury.co.uk/investor-centre**.

Share capital consolidation

The original base cost of shares apportioned between ordinary shares of $28\frac{4}{7}$ pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding came into existence. The market value for CGT purposes of any share or security quoted on the Stock Exchange Daily Official List is generally the lower of the two quotations on any day plus one quarter of the difference between the values.

On Monday, 19 July 2004 the values were determined as follows:

New ordinary shares 257.5 pence

B shares 35 pence

Historic share capital consolidation information relating to Home Retail Group can be found in the Investor Section on our website **www.j-sainsbury.co.uk/investor-centre**.

Key contacts and advisers

General contact details

For general enquiries about Sainsbury's Bank call: 0808 540 5060

For any customer enquiries please contact our Sainsbury's Customer Careline by calling: 0800 636 262 or Argos helpline by calling: 0345 640 2020

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Registered number 185647

Investor relations

James Collins
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Registrar

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1 More London Place
London SE1 2AF

Solicitors

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Stockbrokers

UBS
5 Broadgate
London
EC2M 2QS

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Cautionary statement

Certain statements included in this Annual Report are forward looking and are therefore subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied because they relate to future events. These forward-looking statements include, but are not limited to, statements relating to the Company's expectations. Forward-looking statements can be identified by the use of relevant terminology including the words: 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'plans', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses we operate. Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Alternative performance measures

In the reporting of financial information, the Directors use various APMs which they believe provide additional useful information for understanding the financial performance and financial health of the Group. These APMs should be considered in addition to, and are not intended to be a substitute for IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures. All of the following APMs relate to the current period's results and comparative periods where provided.

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Income statement			
Like-for-like sales	**No direct equivalent**	Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year. The relocation of Argos stores into Sainsbury's supermarkets are classified as new space, while the host supermarket is classified as like-for-like. The measure is used widely in the retail industry as an indicator of current trading performance and is useful when comparing growth between retailers that have different profiles of expansion, disposals and closures.	The reported retail like-for-like sales growth of 1.3 per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for the 52 weeks to 10 March 2018, i.e. assuming that Argos sales are in the base. Additionally, the impact of the disposal of Pharmacy is not treated as like-for-like. See movements below:

	2018	2017
Underlying retail like-for-like (exc. fuel, inc. Argos in base)	**1.3%**	–
Underlying net new space impact (exc. Pharmacy, inc. Argos in base)	**0.3%**	0.8%
Underlying total retail sales growth (exc. fuel, exc. Pharmacy, inc. Argos in base)	**1.6%**	0.8%
Argos consolidation & Pharmacy impact	**8.4%**	13.3%
Underlying total retail sales growth (exc. fuel, inc. Pharmacy impact, exc. Argos in base)	**10.0%**	14.1%
Fuel impact	**(1.2)%**	(1.5)%
Underlying total retail sales growth (inc. fuel)	**8.8%**	12.6%
Bank impact	**0.2%**	0.1%
Underlying Group sales inc VAT	**9.0%**	12.7%

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Underlying Group sales	**Revenue**	Total sales less acquisition fair value unwinds on Argos Financial Services. This is the headline measure of revenue for the Group. It shows the annual rate of growth in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying profit before tax	**Profit before tax**	Profit or loss before tax before any items recognised which, by virtue of their size and/or nature, do not reflect the Group's underlying performance.	A reconciliation of underlying profit before tax is provided in note 3 of the financial statements.
Retail underlying operating profit	**Profit before tax**	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying basic earnings per share	**Basic earnings per share**	Earnings per share using underlying profit as described above. This is a key measure to evaluate the performance of the business and returns generated for investors.	A reconciliation of the measure is provided in note 8 of the financial statements.
Retail underlying EBITDAR	**No direct equivalent/Profit before tax**	Retail underlying operating profit as above, before rent, depreciation and amortisation. Retail rent excludes £2 million relating to Sainsbury's Bank.	A reconciliation of the measure is provided on page 38 of the Financial Review. A reconciliation of Group rent is provided in note 5 of the financial statements.

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition/Purpose</th><th>Reconciliation</th></tr>
<tr><td colspan="4">Cash flows and net debt</td></tr>
<tr><td>Cash flow items in Financial Review</td><td>No direct equivalent</td><td>To help the reader understand cash flows of the business a summarised cash flow statement is included within the Financial Review. As part of this a number of line items have been combined. The cash flow in note 4 of the financial statements includes a reference to show what has been combined in these line items.</td><td><table>
<tr><th></th><th>Ref</th><th>2018 £m</th><th>2017 £m</th></tr>
<tr><td>Net interest paid</td><td>a</td><td>(105)</td><td>(108)</td></tr>
<tr><td>Strategic capital expenditure</td><td>b</td><td>(80)</td><td>(92)</td></tr>
<tr><td>Acquisition of subsidiaries</td><td>c</td><td>135</td><td>(128)</td></tr>
<tr><td>Repayment of borrowings</td><td>d</td><td>(174)</td><td>(211)</td></tr>
<tr><td>Other</td><td>e</td><td>(2)</td><td>6</td></tr>
</table></td></tr>
<tr><td>Retail free cash flow[1]</td><td>Net cash generated from operating activities</td><td>Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure and after investments in joint ventures and associates and Sainsbury's Bank capital injections.

This measures cash generation, working capital efficiency and capital expenditure of the retail business.</td><td><table>
<tr><th>Reconciliation of retail free cash flow</th><th>2018 £m</th><th>2017 £m</th></tr>
<tr><td>Cash generated from retail operations</td><td>1,259</td><td>929</td></tr>
<tr><td>Add back: Exceptional pension contribution</td><td>–</td><td>199</td></tr>
<tr><td>Net interest paid (ref (a) above)</td><td>(105)</td><td>(108)</td></tr>
<tr><td>Corporation tax</td><td>(72)</td><td>(87)</td></tr>
<tr><td>Retail purchase of property, plant and equipment</td><td>(553)</td><td>(622)</td></tr>
<tr><td>Retail purchase of intangible assets</td><td>(69)</td><td>(58)</td></tr>
<tr><td>Retail proceeds from disposal of property, plant and equipment</td><td>54</td><td>55</td></tr>
<tr><td>Add back: Strategic capital expenditure</td><td>80</td><td>92</td></tr>
<tr><td>Dividends and distributions received</td><td>37</td><td>65</td></tr>
<tr><td>Investment in joint ventures and associates</td><td>(9)</td><td>(16)</td></tr>
<tr><td>Bank capital injections</td><td>(190)</td><td>(130)</td></tr>
<tr><td>Free cash flow</td><td>432</td><td>319</td></tr>
</table></td></tr>
<tr><td>Cash generated from retail operations (per Financial Review)</td><td>Cash generated from operations</td><td>Retail cash generated from operations after changes in working capital but before pension contributions and exceptional pension contributions.

This enables management to assess the cash generated from its core retail operations.</td><td>The reconciliation between retail and Group cash generated from operations is provided in note 4 of the financial statements.</td></tr>
<tr><td>Core retail capital expenditure</td><td>No direct equivalent</td><td>Capital expenditure excludes Sainsbury's Bank, after proceeds on disposals and before strategic capital expenditure.

This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance.

The reconciliation from the cash flow statement is included here.</td><td><table>
<tr><th>Reconciliation of free cash flow</th><th>2018 £m</th><th>2017 £m</th></tr>
<tr><td>Purchase of property, plant and equipment</td><td>(473)</td><td>(530)</td></tr>
<tr><td>Purchase of intangibles</td><td>(69)</td><td>(58)</td></tr>
<tr><td>Cash capital expenditure before strategic capital expenditure (note 4)</td><td>(542)</td><td>(588)</td></tr>
<tr><td>Strategic capital expenditure (ref (b) above)</td><td>(80)</td><td>(92)</td></tr>
<tr><td>Proceeds on disposal</td><td>54</td><td>55</td></tr>
<tr><td>Cash capital expenditure including strategic capital expenditure</td><td>(568)</td><td>(625)</td></tr>
<tr><td>Capitalised interest</td><td>(7)</td><td>(7)</td></tr>
<tr><td>Other (including strategic capital expenditure)</td><td>80</td><td>85</td></tr>
<tr><td>Total net retail core capital expenditure</td><td>(495)</td><td>(547)</td></tr>
</table></td></tr>
</table>

1 The definition of retail free cash flow has changed in the financial year from 'net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure' to 'net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure and after investments in joint ventures and associates and Sainsbury's Bank capital injections'.

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Cash flows and net debt			
Retail net debt	**Borrowings, cash, derivatives and available-for-sale financial assets, finance leases**	Net debt includes the capital injections in to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities. It is calculated as: available-for-sale assets (excluding equity investments) + net derivatives + net cash and cash equivalents + loans + finance lease obligations. This shows the overall strength of the balance sheet alongside the liquidity and its indebtedness and whether the Group can cover its debt commitments.	A reconciliation of the measure is provided in note 26 of the financial statements.
Gearing	**No direct equivalent**	Retail net debt divided by Group net assets. Gearing measures the Group's proportion of borrowed funds to its equity.	Retail net debt as per above and net assets as per the Group balance sheet.
Other			
Lease adjusted net debt/ underlying EBITDAR	**No direct equivalent**	Net debt plus capitalised lease obligations divided by Group underlying EBITDAR. This helps management measure the ratio of the business's debt to operational cash flow.	A reconciliation of this is provided in the Financial Review on page 41.
Return on capital employed	**No direct equivalent**	Return on capital employed is calculated as return divided by average capital employed. Return is defined as underlying profit before interest and tax. Capital employed is defined as net assets excluding net debt. The average is calculated on a 14 point basis. This represents the total capital that the Group has utilised in order the generate profits. Management use this to assess the performance of the business.	An explanation of the calculation is provided in the Financial Review on page 41.
Interest cover	**No direct equivalent**	Underlying operating profit, plus underlying share of post-tax profit from joint ventures and associates, divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs. This measures the ability of the Group to pay the interest on its outstanding debt. This measurement is used by creditors, lenders and investors to determine the risk of lending funds to the Group.	Underlying operating profit as per note 4 of the financial statements. Underlying share of post-tax profit from joint ventures and associates as per note 4 of the financial statements. Underlying net finance costs as per note 6 of the financial statements.
Fixed charge cover	**No direct equivalent**	Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs. This helps assess the Group's ability to satisfy fixed financing expenses from performance of the business.	EBITDAR is reconciled in the Financial Review on page 41. Underlying net finance costs as per note 6 of the financial statements.

Glossary

Active Kids – Our nationwide scheme to help inspire school children to take more exercise and to eat more healthily. Launched in 2005, Active Kids is open to all nursery, primary and secondary schools as well as Scouts and Girl Guides in the UK. **www.sainsburys.co.uk/activekids**

Annual General Meeting (AGM) – This year the AGM will be held on Wednesday 18 July 2018 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am.

Argos Financial Services (AFS) – ARG Personal Loans Limited; Home Retail Group Card Services Limited; and Home Retail Group Insurance Services Limited.

basics – Sainsbury's entry level own-brand range of products.

bps – Basis points.

by Sainsbury's – Core own-label brand.

Click & Collect – Service which allows customers to place general merchandise and grocery orders online for collection in-store.

CMBS – Commercial Mortgage Backed Securities.

Corporate Responsibility and Sustainability (CR&S) – The need to act responsibly in managing our impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment.

CPI – Consumer Price Index.

Dividend cover –Underlying profit after tax from continuing operations attributable to ordinary shareholders divided by total value of dividends declared during the year.

Earnings Per Share (EPS) – Earnings attributable to ordinary shareholders of the parent divided by the weighted average number of ordinary shares in issue during the year, excluding those held by ESOP Trusts, which are treated as cancelled.

Fairtrade – The Fairtrade label is an independent consumer label that guarantees a fair deal for marginalised workers and small scale farmers in developing countries. Producers receive a minimum price that covers the cost of production and an extra premium that is invested in the local community. **www.fairtrade.org.uk**

Fair value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FTSE4Good – The FTSE Group, an indexing company, runs the FTSE4Good index series to measure the performance of companies that meet corporate responsibility standards, and to facilitate investment in those companies. **www.ftse.com/products/indices/FTSE4Good**

FVTPL – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

Group – The Company and its subsidiaries.

IFRIC – International Financial Reporting Interpretations Committee.

IFRSs – International Financial Reporting Standard(s).

Joint venture (JV) – A business jointly owned by two or more parties.

Kantar Worldpanel (Kantar) – An independent third party providing data on the UK Grocery Market.

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.

MSC – Marine Stewardship Council.

Nectar – One of the most popular loyalty schemes in the UK.

Non-controlling interest – The equity in a subsidiary not attributable, directly or indirectly, to the Company.

OFT – Office of Fair Trading.

PRA – Prudential Regulation Authority.

Real discount rate – Discount rate less inflation rate.

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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