Registered Company number: 03261722

# Sainsbury's Supermarkets Ltd

# Annual Report and Financial Statements

For the 52 weeks to 9 March 2019

**Principal activities and review of business**

The principal activities of the Company are grocery and related retailing. All material operations are carried out in the United Kingdom.

J Sainsbury plc (the Group) of which the Company forms a part has seen another year of progress against its strategic priorities, with a solid food performance in the year. Following important structural changes made in Sainsbury's stores in the prior year, significant improvements have been made to store standards which continue to be a focus, using the new customer feedback service Lettuce Know, to inform store managers on how customers feel about shopping in their specific store in real time. Convenience and Online remain strong drivers of growth, with sales increases of 3.7 per cent and 6.9 per cent respectively.

A full review of the business and the market can be found in the 2019 Annual Report and Financial Statements of J Sainsbury plc, the parent undertaking, on the following website: www.about.sainsburys.co.uk.

Revenue for the Company increased to £24,030 million for the financial year (2018: £23,606 million), partially due to new space and an increase in fuel sales driven by retail price inflation and volume growth. Underlying profit before tax decreased to £318 million (2018: £325 million).

The profit before tax of the Company is £174 million (2018: £187 million) and the profit after tax for the financial year is £100 million (2018: £206 million). The financial position as at 9 March 2019 is shown on the statement of financial position set out on page 12.

**Principal risks and uncertainties**

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 30 to 36 of the Group's Annual Report, which does not form part of this report.

**Financial risk management**

The financial risk management and policies of the Group, which include those of the Company, are disclosed in note 24 on pages 130 to 140 of the Group's Annual Report.

Financial risk management is managed by a central treasury department in accordance with policies and guidelines which are reviewed and approved by the Group 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.

The principal financial risks faced by the Company relate to liquidity risk, counterparty credit risk, foreign currency risk, interest rate risk and commodity risk.

*Liquidity risk*

Liquidity risk is the risk that the Company could be unable to meet its financial obligations as they fall due and is managed centrally by the Group treasury function.

The principal operational cash flow of the Company 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. Group cash flow forecasts are produced to assist management in identifying future liquidity requirements.

The Group maintains a contingent committed revolving credit facility of £1,450 million. The £1,450m facility is split into two facilities, a £300 million Facility (A) maturing in April 2024 and a £1,150 million Facility (B) consisting of three tranches; a £300 million tranche A maturing October 2021, a £400 million tranche B maturing October 2022 and a £450 tranche C maturing October 2023. As at 9 March 2019, £35 million had been drawn (2018: £nil).

*Counterparty credit risk*

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities and trade and other receivables.

Counterparty limits are set based on their credit ratings and routinely monitored.

*Foreign currency risk*
Currency risk is the risk of increased costs arising from unexpected movements in exchange rates impacting the Company's foreign currency denominated supply contracts.

The Company seeks to limit the impact of fluctuating exchange rates on the income statement by requiring highly probable foreign currency cash flows to be hedged. Highly probable future cash flows, which may be either contracted or un-contracted, are hedged on a layered basis using foreign currency forward contracts.

*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 and is managed by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

*Commodity risk*
Commodity risk is the risk of increased costs arising from unexpected movements in commodity prices impacting the Company's own use consumption of electricity, gas and diesel.

Own use consumption of electricity and gas is hedged with forward purchases under flexible purchasing arrangements with its suppliers. Fuel exposures are hedged through a combination of purchasing agreements and financial derivatives.

**Key performance indicators ('KPIs')**
The Directors of J Sainsbury plc manage the Group's operations on a divisional basis. The Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, are discussed on pages 3 to 29 of the Group's Annual Report, which does not form part of this report.

By order of the Board

Tim Fallowfield
**Director**
12 December 2019

**Sainsbury's Supermarkets Ltd**
**Directors report**
**for the 52 weeks to 9 March 2019**
**Registered number: 03261722**

The Directors present their report and the audited financial statements of Sainsbury's Supermarkets Ltd (the 'Company') for the 52 weeks to 9 March 2019. The prior financial year's financial statements were for the 52 weeks to 10 March 2018.

**Dividend**
In the prior year, a dividend of £500 million, representing 17.2 pence per share, was paid in the year to the ordinary shareholders as shown in note 8. No dividends were paid in the current year or have been paid or proposed by the Directors since the balance sheet date.

**Directors**
The Directors of Sainsbury's Supermarkets Ltd who held office during the financial year and up to the date of signing are shown below:

Mike Coupe
Tim Fallowfield
Angela Risley
John Rogers (resigned on 31 October 2019)
Paul Mills-Hicks
Peter Griffiths (resigned on 27 August 2019)
James Brown (appointed on 28 August 2019)
Kevin O'Byrne
Phil Jordan
Simon Roberts
Clodagh Moriarty (appointed 6 June 2018)

**Company Secretary**
The Company Secretary of the Company who held office during the financial year and up to the date of signing the financial statements is shown below:

Tim Fallowfield

**Directors' indemnities**
The Directors are indemnified to the extent permitted by the Articles of Association of the Company in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The parent company purchased and maintained Directors' and Officers' liability insurance throughout 2018/19, which was renewed for 2019/20. The insurance covers all Directors and Officers of companies in the Group. Neither the indemnities nor insurance provide cover in the event that the Director or Officer is proved to have acted fraudulently.

**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. See pages 26, 27 and 86 of the Annual Report and Financial Statements 2019 of J Sainsbury plc ("Group Annual Report"), which does not form part of this report, for further information on our diversity strategy.

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.

Colleagues have always been encouraged to hold shares in the parent company; J Sainsbury plc. The Company offers a full range of employee share schemes, details of which are set out in note 22 on pages 44 to 47 of the financial statements.

**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 Conduct 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.

**Corporate responsibility**
The Company's parent has developed a wide variety of projects and policies to meet the needs of stakeholders under the heading 'Corporate Responsibility'. Further details can be found at the following web address: www.about.sainsburys.co.uk/making-a-difference/our-values.

**Donations**
The Company made no political donations in 2019 (2018: £nil). See page 88 of the Group Annual Report, which does not form part of this report, for details of J Sainsbury plc and its subsidiaries' (the 'Group's') political donations.

**Essential contracts**
The Company 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 Company's business.

**Financial risk management**
This is discussed in the Strategic Report on page 2.

**Post-balance sheet events**
Subsequent to 9 March 2019, J Sainsbury plc, the Company's immediate parent company, announced that it had reached agreement with the Company's Pension Scheme Trustees on the terms of the triennial actuarial valuation as at 30 September 2018 and related funding plan. The actuarial deficit as at 30 September 2018 was £309 million which is a decrease of £431 million from the deficit of £740 million in March 2015. Under the revised funding plan, J Sainsbury plc established a new property partnership (Sainsbury's Thistle Scottish Limited Partnership) with the Pension Scheme (the "Partnership") on 17 July 2019. This replaces the existing property partnership (Sainsbury's Property Scottish Partnership). In respect of the establishment of the Partnership, Sainsbury's Supermarkets Ltd made contributions totalling £353 million to the merged pension scheme. Properties were transferred into a newly formed property holding company (Sainsbury's Property Holdings Ltd) from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. These will be leased by the Company under a 40 year arrangement.

Subsequent to 9 March 2019, a store estate review was announced which will result in 10-15 supermarket closures and 30-40 convenience store closures. As the decision was made after the year-end date, no adjustments have been made in the current year for impairment and closure costs.

**Going concern and future developments**
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The parent company, J Sainsbury plc, has confirmed its present intention to provide financial support such that the Company is able to repay its liabilities as they fall due. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report of the Group Annual Report on pages 3 to 29, which does not form part of this report. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 38 to 43, which does not form part of this report. The Group, including the Company, manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of standby liquidity. Full details of the Group's financing arrangements can be found in note 27 on pages 150 to 151 to the Group Annual Report, which does not form part of this report.

**Disclosure of information to auditors**
Each of the Directors has confirmed that, so far as he/she is aware, there is no relevant audit information of which the auditors are unaware. Each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

**Independent auditors**
The auditors, Ernst & Young LLP, have indicated their willingness to continue in office.

**Sainsbury's Supermarkets Ltd**
**Directors report (continued)**
**for the 52 weeks to 9 March 2019**
**Registered number: 03261722**

By order of the Board

Tim Fallowfield
**Director**
12 December 2019

**Sainsbury's Supermarkets Ltd**
**Statement of Directors' responsibilities**
**for the 52 weeks to 9 March 2019**
**Registered number: 03261722**

The Directors are responsible for preparing the Strategic report, the Directors' report, and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 Company and of the profit or loss of the Company 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 applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

K O'Byrne

Kevin O'Byrne
**Director**
12 December 2019

## Independent auditors' report to the members of Sainsbury's Supermarkets Ltd

### Opinion

We have audited the financial statements of Sainsbury's Supermarkets Ltd for the 52 week period ended 9 March 2019 which comprise of the Income statement, Statement of comprehensive income, the Statement of financial position, Statement of changes in equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 9 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### 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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements are not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The other information comprises the information included in the annual report 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.

### Opinions on other matters prescribed by 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 directors' report have been prepared in accordance with applicable legal requirements.

**Independent auditors' report to the members of Sainsbury's Supermarkets Ltd (continued)**

**Matters on which we are required to report by exception**
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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 or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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 7, 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 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 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.

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.

**Use of our report**
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP.

John Flaherty (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
13 December 2019

**Sainsbury's Supermarkets Ltd**
**Income statement**
**for the 52 weeks to 9 March 2019**

| | Note | 2019 £m | 2018 £m |
|---|---|---|---|
| **Revenue** | | **24,030** | 23,606 |
| Cost of sales | | **(23,030)** | (22,686) |
| **Gross profit** | | **1,000** | 920 |
| Administrative expenses | 4 | **(830)** | (788) |
| Other income | 4 | **6** | 51 |
| **Operating profit** | | **176** | 183 |
| Finance income | 5 | **10** | 29 |
| Finance costs | 5 | **(12)** | (25) |
| **Profit before tax** | | **174** | 187 |
| Analysed as: | | | |
| Underlying profit before tax | 3 | **318** | 325 |
| Non-underlying items | 3 | **(144)** | (138) |
| | | **174** | 187 |
| Income tax (expense)/credit | 7 | **(74)** | 19 |
| **Profit for the financial year** | | **100** | 206 |

The notes on pages 14 to 48 form an integral part of these financial statements.

**Sainsbury's Supermarkets Ltd**
**Statement of comprehensive income**
**for the 52 weeks to 9 March 2019**

| | Note | 2019 £m | 2018 £m |
|---|---|---|---|
| **Profit for the financial year** | | **100** | 206 |
| **Items that will not be reclassified subsequently to the income statement** | | | |
| Remeasurement on defined benefit pension schemes | 21 | **1,180** | 630 |
| Current tax relating to items not reclassified | 7 | **-** | 19 |
| Deferred tax relating to items not reclassified | 7 | **(197)** | (124) |
| | | **983** | 525 |
| **Items that may be reclassified subsequently to the income statement** | | | |
| Cash flow hedges effective portion of fair value movements | | **32** | (64) |
| Items reclassified from cash flow hedge reserve | 20 | **(17)** | 12 |
| Deferred tax relating to items not reclassified | 7 | **(3)** | 8 |
| | | **12** | (44) |
| **Total other comprehensive income for the year (net of tax)** | | **995** | 481 |
| **Total comprehensive income for the year** | | **1,095** | 687 |

The notes on pages 14 to 48 form an integral part of these financial statements

**Sainsbury's Supermarkets Ltd**
**Statement of financial position**
**as at 9 March 2019 and 10 March 2018**

| | Note | 2019 £m | 2018 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **6,587** | 6,937 |
| Intangible assets | 10 | **169** | 150 |
| Investments in subsidiaries | 11 | **4** | 4 |
| Investments in joint ventures and associates | 12 | **23** | 18 |
| Other receivables | 14a | **8** | 12 |
| Derivative financial instruments | | **1** | - |
| Retirement benefit surplus | 21 | **1,440** | 367 |
| | | **8,232** | 7,488 |
| **Current assets** | | | |
| Inventories | 13 | **1,077** | 998 |
| Trade and other receivables | 14a | **1,126** | 1,248 |
| Derivative financial instruments | | **12** | 3 |
| Cash and cash equivalents | | **271** | 284 |
| | | **2,486** | 2,533 |
| Assets held for sale | 15 | **-** | 1 |
| | | **2,486** | 2,534 |
| **Total assets** | | **10,718** | 10,022 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | **(3,392)** | (3,927) |
| Borrowings | 17 | **(13)** | (29) |
| Derivative financial instruments | | **(10)** | (27) |
| Taxes payable | | **(164)** | (105) |
| Provisions | 18 | **(37)** | (161) |
| | | **(3,616)** | (4,249) |
| **Net current liabilities** | | **(1,130)** | (1,715) |
| **Non-current liabilities** | | | |
| Other payables | 16 | **(721)** | (680) |
| Borrowings | 17 | **(91)** | (90) |
| Derivative financial instruments | | **(1)** | (11) |
| Deferred income tax liability | 7 | **(357)** | (186) |
| Provisions | 18 | **(94)** | (94) |
| | | **(1,264)** | (1,061) |
| **Net assets** | | **5,838** | 4,712 |
| **Equity** | | | |
| Called up share capital | 19 | **2,900** | 2,900 |
| Other reserves | 20 | **(5)** | (17) |
| Retained earnings | 20 | **2,943** | 1,829 |
| **Total equity** | | **5,838** | 4,712 |

The notes on pages 14 to 48 form an integral part of these financial statements.

The financial statements on pages 10 to 48 were approved by the Board of Directors on 12 December 2019, and are signed on its behalf by:

Kevin O'Byrne
**Director**

**Sainsbury's Supermarkets Ltd**
**Statement of changes in equity**
**for the 52 weeks to 9 March 2019**

| | Note | Called up share capital £m | Other reserves £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|
| At 11 March 2018 | | **2,900** | **(17)** | **1,829** | **4,712** |
| Profit for the year | 20 | **-** | **-** | **100** | **100** |
| Other comprehensive income | 20 | **-** | **12** | **983** | **995** |
| Total comprehensive income for the year ended 9 March 2019 | | **-** | **12** | **1,083** | **1,095** |
| Transactions with owners: | | | | | |
| Share-based payment (net of tax) | 22 | **-** | **-** | **31** | **31** |
| At 9 March 2019 | | **2,900** | **(5)** | **2,943** | **5,838** |

| | | | | | |
|---|---|---|---|---|---|
| At 12 March 2017 | | 2,900 | 27 | 1,571 | 4,498 |
| Profit for the year | 20 | - | - | 206 | 206 |
| Other comprehensive income | 20 | - | (44) | 525 | 481 |
| Total comprehensive income for the year ended 10 March 2018 | | - | (44) | 731 | 687 |
| Transactions with owners: | | | | | |
| Dividends | | - | - | (500) | (500) |
| Share-based payment (net of tax) | 22 | - | - | 27 | 27 |
| At 10 March 2018 | | 2,900 | (17) | 1,829 | 4,712 |

The notes on pages 14 to 48 form an integral part of these financial statements.

## 1 General information & basis of preparation

### General information

Sainsbury's Supermarkets Ltd (the 'Company') is a private limited company incorporated and domiciled in England and Wales. The Company's registered address is 33 Holborn, London EC1N 2HT and is part of the J Sainsbury plc Group ("Group").

The financial year represents the 52 weeks to 9 March 2019 (prior financial year 52 weeks to 10 March 2018).

The principal activities of the Company are grocery and related retailing. All material operations are carried out in the United Kingdom.

### Basis of preparation

The Company's financial statements are prepared in accordance with 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 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 requirement of IAS 1, Presentation of financial statements' comparative information requirements in respect of Property, plant and equipment and Intangible assets.

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 and defined benefit scheme assets.

The Company is a wholly-owned subsidiary of J Sainsbury plc and is included in the consolidated financial statements of J Sainsbury plc which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006. J Sainsbury plc address is 33 Holborn, London, EC1N 2HT.

### Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The parent company, J Sainsbury plc has confirmed its present intention to provide financial support such that the Company is able to repay its liabilities as they fall due. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

### Amendments to published standards

The Company considered the following amendments to published standards that are effective for the Company for the financial year beginning 11 March 2018 and concluded that, with the exception of IFRS 15 'Revenue from Contracts with Customers', they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- Amendments to IFRS 2 'Share-based Payment' on the classification and measurement of share-based payment transactions
- Amendments to IAS 40 'Investment Property' on the transfers of investment property
- IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
- Annual Improvements Cycle 2014-2016 (issued in December 2016)
- IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

## 1 *General information & basis of preparation (continued)*

Further information on the impact of IFRS 15 is included below.

**Standards and revisions effective for future periods:**
The following standards and revisions will be effective for future periods:

- IFRS 16 'Leases'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of material
- Amendments to IAS 19 'Employee Benefits' on plan amendments, curtailments or settlements
  Amendments to IAS 28 'Investments in Associates and Joint Ventures' on long-term interests in associates and joint ventures
  Annual Improvements Cycle 2015-2017 (issued in December 2017)

The impact of these new standards has been detailed within the Annual Report and Financial Statements 2019 of J Sainsbury plc.

**IFRS 15 'Revenue from Contracts with Customers'**
IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and is required for annual periods beginning on or after 1 January 2018. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer, and supersedes all current revenue recognition requirements of IFRS.

The Company performed a detailed impact assessment, identifying all current sources of revenue and analysing the accounting requirements for each under IFRS 15. The Company has adopted IFRS 15 using the full retrospective transition option. Full retrospective adoption of IFRS 15 requires comparatives to be restated in order to present values on a consistent basis. However, having quantified the impact of IFRS 15, management has assessed this impact as immaterial and has chosen not to restate the primary statements. The disclosure below sets out the impact of IFRS 15 on prior periods.

Impact on the comparative statement of financial position on the adoption of IFRS 15:

| | 52 weeks to 10 March 2018 £m |
|---|---|
| Revenue from contracts with customers | 7 |
| Cost of sales | (7) |

There is no impact on gross margin. IFRS 15 does not impact other comprehensive income.

From time to time the Company enters into contracts with suppliers for which an assessment must be made to determine whether the Company is acting as principal or agent when selling the related goods to customers. In performing its analysis, the Company identified arrangements where there is a change in the agent/principal classification. The impact to revenue and cost of sales for the 52 weeks to 10 March 2018 is a £7 million reduction. This is immaterial to the Company results and has not been restated within the comparatives within the profit and loss statement.

## 2 Accounting policies

### Revenue

For sales through retail outlets and online, the transaction price is the value of the goods, net of returns, colleague discounts, vouchers, the cost of Nectar points issued and redeemed, and sales made on an agency basis. Revenue is recognised when the customer obtains control of the goods, which is when the transaction is completed in-store or, for online orders, when goods have been delivered. Commission income is recognised in revenue based on the terms of the contract.

## 2 Accounting policies (continued)

**Other income**
Other income generally consists of profits and losses on disposal of assets and dividend income from other Group entities.

**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.

**Finance income and costs**
Finance income and costs are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method.

**Intangible assets**
*a) Goodwill*
Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the acquired retail chain of stores. Goodwill is recognised as an asset on the Company's balance sheet in the year in which it arises, and 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 capitalised and amortised on a straight-line basis over their useful economic lives of five to ten 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 ten years within administrative expenses.

**Property, plant and equipment**
*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, on the following bases:

- Freehold buildings and leasehold properties – 50 years, or the lease term if shorter
- Fixtures, equipment and vehicles – three to 15 years
- Freehold land is not depreciated

Capital work in progress is not depreciated.

Gains and losses on disposal are determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and are recognised within operating profit. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**Impairment of non-financial assets**
At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, 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.

## 2 Accounting policies (continued)

**Impairment of non-financial assets (continued)**
Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. For retail property, plant and equipment and intangible assets excluding goodwill, the CGU is deemed to be each trading store or store pipeline development site. For retail goodwill, the CGU is deemed to be each retail chain of stores acquired. Non-store assets, including depots and IT assets, are reviewed separately.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss, 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.

**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.

**Assets and liabilities held for sale**
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 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. Assets held for sale are not depreciated as the sale is expected within one year from the date of classification.

**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 Company. 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.

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

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

*Leases with predetermined fixed rental increases*
The Company 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.

*Operating leases*
Rental expenses for assets leased under operating leases are charged directly to the income statement on a straight-line basis over the lease term.

**Inventories**
Inventories comprise of goods held for resale 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.

**Cash and cash equivalents**
Cash and bank balances in the Company balance sheet comprise cash in hand and at bank 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.

## 2 Accounting policies (continued)

### Current tax
Current tax is accounted for on the basis of tax laws enacted or substantively enacted at the balance sheet date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity or other comprehensive income.

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

Deferred tax is recognised for all temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit. It is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

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.

### Receivables
Trade receivables are non-interest bearing and are on commercial terms. Other receivables are generally non-interest bearing. Trade and other receivables are stated at their carrying amount and are written off when management deems them uncollectable or forgiven.

### Payables
The Company's policy on the payment of creditors is to agree the 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.

### Provisions
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 Company'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 Company 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.

## 2 Accounting policies (continued)

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

**Employee benefits**
*a) Retirement benefit surplus/obligations*
In respect of the defined benefit pension scheme, the pension scheme 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.

Payments 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 Company has no further payment obligations once the contributions have been paid.

*b) Long service awards*
The costs of long service awards are accrued over the period the service is provided by the employee when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

*c) Share-based payments*
The Company provides benefits to employees (including Directors) of the Company 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). The fair value is charged to the income statement over the vesting period of the share-based payment scheme with a corresponding increase in equity.

For cash-settled share-based payments the fair value of the employee services rendered is determined at each balance sheet date and the charge recognised through the income statement over the vesting period of the share-based payment scheme, with a corresponding increase in accruals.

The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustments made in equity and accruals.

**Share capital**
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.

**Foreign currencies**
*Foreign currency transactions*
Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

## 2 Accounting policies (continued)

### Financial instruments

*a) Financial assets*

From 11 March 2018, the Company classifies all of its financial assets as either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Before 11 March 2018, the Company classified its financial assets as loans and receivables or FVPL in accordance with IAS 39.

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The business model assessment reflects how the Company manages the risks relating to the underlying financial assets, including whether the Company's principal objective is to collect the contractual cash flows arising from the instruments (amortised cost), to sell the financial instruments (FVPL) or a combination thereof (FVOCI).

**Financial instruments at amortised cost**

Financial assets that are principally held for the collection of contractual cash flows and which pass the SPPI test are classified as amortised cost. For the Company, these are financial assets that are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company has no intention of trading these loans and receivables. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures these financial assets at fair value plus transaction costs. Subsequently these assets are carried at amortised cost less impairment using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

**Financial assets at fair value through other comprehensive income**

Financial assets that are held for both the purpose of collecting contractual cash flows and to sell are classified as FVOCI. Initial recognition is at fair value plus transaction costs, with subsequent movements in fair value being recognised through OCI. Interest income measured using the effective interest rate method and impairment gains and losses are recognised in the income statement.

**Financial assets at fair value through profit and loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

*b) Impairment of financial assets*

The adoption of IFRS 9 has fundamentally changed the Company's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a 3 stage forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECL for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables, the Company establishes provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9.

## 2 Accounting policies (continued)

### Financial instruments (continued)

*c) Financial liabilities*

The classification and measurement requirements of IFRS 9 are largely unchanged with all of the Company's financial liabilities recognised at amortised cost, and derivative financial liabilities classified as FVPL.

Financial liabilities costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option which is recognised in shareholders' equity, net of income tax effects and is not subsequently remeasured.

Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue.

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

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

*d) Fair value estimation*

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.

*e) 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 Company uses derivative financial instruments to hedge its exposure to foreign exchange, 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 Company documents, at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction, the nature of the risks being hedged and an assessment of the effectiveness of the hedging relationship to ensure it is highly effective on an ongoing basis.

Where a derivative does qualify for hedge accounting, any changes in fair value are recognised depending on the nature of the hedge relationship and the item being hedged as follows:

*Cash flow hedges*

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the Company's exposure to variability in cash flows resulting from a highly probable forecast 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.

## 2 Accounting policies (continued)

**Derivative financial instruments and hedge accounting (continued)**
If a cash flow hedge is hedging a firm commitment or forecast transaction that results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability.

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

**Judgements**
In the process of applying the Company'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) Assets and liabilities held for sale*
At each balance sheet date management assesses whether any assets and liabilities, 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 and liabilities 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 15.

*b) Operating lease commitments*
The Company 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 Company and these leases are accounted for as operating leases.

**Estimates and assumptions**
The areas where assumptions and estimates are significant to the financial statements are as described below. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

*a) Impairment of non-financial assets*
The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which it is allocated. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates. Actual outcomes could vary from these estimates.

Non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance.

*b) Post-employment benefits*
The Company operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on the discount rate applied which is derived from the expected yields on high quality corporate bonds over the duration of the Company's pension scheme. High quality corporate bonds are those which at least one of the main rating agencies considers to be at least AA (or equivalent).

## 2 Accounting policies (continued)

**Significant accounting judgements, estimates and assumptions (continued)**
Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 21. 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 21.

*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 value 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) Supplier arrangements*
Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and directly affect the Company'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 three 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 for 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 Company'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, supplier confirmations are obtained to agree the value to be recognised at year-end, prior to it being invoiced. Rebates represent the smallest element of the Company's supplier arrangements and by aligning the agreements to the Company's financial year, where possible, the judgements required are minimised.

Of the above categories, fixed amounts and supplier rebates involve a level of judgement and estimation. The amounts recognised in the income statement for these two categories in the financial year are as follows:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Fixed amounts (within cost of sales) | **101** | 127 |
| Supplier rebates (within cost of sales) | **26** | 44 |
| Total supplier arrangements | **127** | 171 |

## 2 Accounting policies (continued)

**Significant accounting judgements, estimates and assumptions (continued)**
Of the above amounts, the following was outstanding and held on the balance sheet at year-end:

| | 2019 £m | 2018 £m |
|---|---|---|
| **Within current trade receivables** | | |
| Supplier arrangements due | **8** | 3 |
| Accrued supplier arrangements | **9** | - |
| **Within current trade payables** | | |
| Supplier arrangements due | **19** | 23 |
| Accrued supplier arrangements | **7** | 14 |

### 3 Non GAAP performance measures

In order to provide shareholders with additional insight in to 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 Company's underlying performance are excluded from the Company's underlying results.

These adjusted items are as follows:

| | 2019<br>£m | 2018<br>£m |
|---|---|---|
| **Underlying profit before tax** | **318** | 325 |
| **Property related** | | |
| Loss on disposal of properties | **(35)** | (3) |
| Net impairment and onerous contract charge | **(3)** | - |
| **Argos** | | |
| Argos integration costs | **(4)** | (9) |
| **Nectar UK** | | |
| Transaction costs relating to the acquisition of Nectar UK | **-** | (2) |
| **Restructuring costs** | **(15)** | (149) |
| **Recharges to Group companies** | **4** | - |
| **Other** | | |
| Non-underlying finance movements | **4** | (1) |
| IAS 19 pension (expenses)/income | **(112)** | 3 |
| Dividend income from investments | **17** | 23 |
| **Total adjustments** | **(144)** | (138) |
| **Profit before tax** | **174** | 187 |

**Property related**
- Loss on disposal of properties for the financial year comprised £(35) million (2018: £(3) million) included within other income.
- Impairment charges comprised £(3) million (2018: £nil million) within property, plant and equipment.

**Argos**
- Argos integration costs for the year were £(4) million (2018: £(9) million) which principally comprise of store-in-store related costs. The Argos integration programme is now complete.

**Nectar**
- Acquisition-related costs (included in administrative expenses and recognised outside of underlying profit) amounted to £(2) million in the prior year.

**Restructuring costs**
- Restructuring costs of £(15) million in the year have been recognised following announced transformational changes to the Group's in-store operating model, responding to changing customer shopping habits and reducing costs throughout the store estate. These costs mainly consist of people costs.

## 3 Non GAAP performance measures (continued)

**Recharges to Group companies**

- During the year, J Sainsbury plc concluded a group-wide transfer pricing review, which has resulted in some changes to the arm's length pricing of intercompany transactions. The financial impact of these changes has been excluded from underlying profit.

**Other**

- Non-underlying finance movements for the financial year comprised £4 million (2018: £(1) million). See note 5 for more information.
- IAS 19 pension (expenses)/income comprise the pension financing charge of £(4) million (2018: £(20) million) and scheme expenses of £(8) million (2018: £(8) million). Also included are £(2) million of pension related expenses incurred directly by the Company.
- In addition there are £(98) million non-cash past service costs relating to Guaranteed Minimum Pension (GMP) equalisation. The prior year included a £31 million past service credit in relation to a Pension Increase Exchange (PIE) at retirement option introduced from 1 April 2018, following a deed of amendment signed during the financial year. See note 21 for more information.

## 4 Operating profit

| | | 2019 £m | 2018 £m |
|---|---|---|---|
| Employee costs (note 6) | | **2,545** | 2,565 |
| Depreciation expense (note 9) | | **537** | 548 |
| Amortisation expense (note 10) | | **20** | 19 |
| Loss on disposal of properties (note 3) | | **35** | 3 |
| Operating lease rentals | - land and buildings | **872** | 860 |
| | - other leases | **79** | 79 |
| | - sublease payments receivable | **(78)** | (54) |
| Foreign exchange (gains)/losses | | **(12)** | 19 |
| Impairment and onerous contract charges (note 3) | | **3** | - |

| | 2019 £m | 2018 £m |
|---|---|---|
| **Auditors' remuneration** | | |
| Fees payable to the Company's auditors for the audit of the Company financial statements | **0.5** | 0.5 |
| Fees payable to the Company's auditors for other services: | | |
| Audit related assurance services | **0.0** | 0.0 |
| **Total fees** | **0.5** | 0.5 |

## 5. Finance income and finance costs

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Underlying £m** | **Non-underlying £m** | **Total £m** | Underlying £m | Non-underlying £m | Total £m |
| Interest on amounts owed by Parent company | - | - | - | 26 | - | 26 |
| Non-underlying finance movements[1] | - | **10** | **10** | - | 3 | 3 |
| **Finance income** | - | **10** | **10** | 26 | 3 | 29 |
| Borrowing costs: | | | | | | |
| Obligations under finance leases | **(6)** | - | **(6)** | (7) | - | (7) |
| Provisions - amortisation of discount (note 18) | - | **(6)** | **(6)** | (1) | (4) | (5) |
| | **(6)** | **(6)** | **(12)** | (8) | (4) | (12) |
| Other finance costs: | | | | | | |
| Interest capitalised - qualifying assets | **6** | - | **6** | 7 | - | 7 |
| Intercompany interest costs | **(2)** | - | **(2)** | - | - | - |
| IAS 19 pension financing charge (note 22) | - | **(4)** | **(4)** | - | (20) | (20) |
| | **4** | **(4)** | - | 7 | (20) | (13) |
| **Finance costs** | **(2)** | **(10)** | **(12)** | (1) | (24) | (25) |

1 Finance fair value movements relate to fair value movements on derivative financial instruments not designated in a hedging relationship.

## 6 Employee costs

| | **2019 £m** | 2018 £m |
|---|---|---|
| Employee costs for the Group during the year amounted to: | | |
| Wages and salaries, including bonus and termination benefits | **2,264** | 2,272 |
| Social security costs | **145** | 145 |
| Pension costs – defined contribution schemes | **104** | 121 |
| Share-based payments expense (note 22) | **32** | 27 |
| | **2,545** | 2,565 |

| | **2019 Number 000s** | 2018 Number 000s |
|---|---|---|
| The average number of employees, including directors, during the year was: | | |
| Full-time | **28.6** | 42.7 |
| Part-time | **120.1** | 112.5 |
| | **148.7** | 155.2 |
| Full-time equivalent | **97.4** | 102.4 |

In addition to the above, 754 (2018: 811) full-time employees and 755 (2018: 816) full-time equivalent employees are employed by the Company; however, the related employee costs are borne directly by JS Information Systems Limited, a fellow subsidiary of J Sainsbury plc.

## 6 Employee costs (continued)

### Key management personnel

| | 2019 £m | 2018 £m |
|---|---|---|
| Short-term employee benefits | **10** | 7 |
| Post-employment employee benefits | **1** | 1 |
| Share-based payments | **9** | 4 |
| | **20** | 12 |

The Chief Executive Officer of the parent company, J Sainsbury plc, who was also a director of Sainsbury's Supermarkets Ltd during the financial year was the highest paid director. His remuneration is disclosed on pages 70 to 85 of the J Sainsbury plc Annual Report and Financial Statements 2019; included within the key management personnel total above.

## 7 Income tax expense

| | 2019 £m | 2018 £m |
|---|---|---|
| Current tax expense: | | |
| Current year UK tax | **88** | 57 |
| Under/(over) provision in prior years | **15** | (11) |
| **Total current tax expense** | **103** | 46 |
| Deferred tax expense: | | |
| Origination and reversal of temporary differences | **(38)** | (28) |
| Over provision in prior years | **(1)** | (40) |
| Revaluation of deferred tax balances in the income statement | **10** | 3 |
| **Total deferred tax credit** | **(29)** | (65) |
| **Total tax expense/(credit) in income statement** | **74** | (19) |
| Analysed as: | | |
| Underlying tax | **85** | 64 |
| Non-underlying tax | **(11)** | (83) |
| **Total tax expense/(credit) in income statement** | **74** | (19) |
| Underlying tax rate | **26.7%** | 19.7% |
| Effective tax rate | **42.5%** | (10.2)% |

The effective tax rate of 42.5 per cent (2018: (10.2) per cent) is higher than (2018: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

## 7 Income tax expense (continued)

| | 2019 £m | 2018 £m |
|---|---|---|
| Profit before tax | **174** | 187 |
| Income tax at UK corporation tax rate of 19% (2018: 19.06%) | **33** | 36 |
| Effects of underlying items: | | |
| Disallowed depreciation on UK properties | **20** | 16 |
| Under provision in prior years | **16** | 5 |
| Revaluation of deferred tax balances in the income statement | **(2)** | 3 |
| Group relief claimed | **(6)** | (23) |
| Other | **(3)** | 2 |
| Effects of non-underlying items: | | |
| Loss on disposal of properties | **7** | 2 |
| Non-taxable dividends received | **(3)** | (4) |
| Revaluation of deferred tax balances in the income statement | **12** | - |
| Over provision in prior years | **(2)** | (56) |
| Other | **2** | - |
| **Total tax expense in income statement** | **74** | (19) |

The main rate of UK corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017. A further reduction in the corporation tax rate to 17 per cent, rather than 18 per cent, effective from 1 April 2020 was substantively enacted in a prior period, so its effect is reflected in these financial statements. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse.

Income tax charged or (credited) to equity and/or other comprehensive income during the year is as follows:

| | Share-based Payments £m | Retirement benefit obligations £m | Fair value movements £m | Total £m |
|---|---|---|---|---|
| **52 weeks to 9 March 2019** | | | | |
| Current tax recognised in equity or other comprehensive income | **(1)** | **-** | **-** | **(1)** |
| Deferred tax recognised in equity or other comprehensive income | **-** | **225** | **3** | **228** |
| Revaluation of deferred tax balances in equity or other comprehensive income | **-** | **(28)** | **-** | **(28)** |
| Total tax (credited)/charged | **(1)** | **197** | **3** | **199** |
| 52 weeks to 10 March 2018 | | | | |
| Current tax recognised in equity or other comprehensive income | - | (19) | - | (19) |
| Deferred tax recognised in equity or other comprehensive income | - | 139 | (9) | 130 |
| Revaluation of deferred tax balances in equity or other comprehensive income | - | (15) | 1 | (14) |
| Total tax charged/(credited) | - | 105 | (8) | 97 |

The current and deferred tax in relation to the Company's defined benefit pension scheme's remeasurements and fair value movements have been charged or credited through other comprehensive income where appropriate.

## 7 Income tax expense (continued)

### Deferred tax

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.

| | At 11 March 2018 | Prior year adjustment to income statement | Credit/(charge) to income statement | (Charge)/credit to equity or other comprehensive income | Revaluation of deferred tax balances in the income statement | Revaluation of deferred tax balances in equity or other comprehensive income | At 9 March 2019 |
|---|---|---|---|---|---|---|---|
| **Accelerated capital allowances** | (148) | 2 | 14 | - | (1) | - | **(133)** |
| **Capital losses** | 63 | - | (1) | - | - | - | **62** |
| **Fair value movements** | 2 | - | - | (3) | - | - | **(1)** |
| **Deferred rental deduction** | 35 | - | 4 | - | - | - | **39** |
| **Capitalised interest** | (25) | - | 1 | - | - | - | **(24)** |
| **Other** | (1) | (1) | (1) | - | 4 | - | **1** |
| **Rolled over capital gains** | (62) | - | - | - | - | - | **(62)** |
| **Retirement benefit surplus** | (57) | - | 16 | (225) | (12) | 28 | **(250)** |
| **Share-based payment** | 7 | - | 5 | - | (1) | - | **11** |
| **Total** | (186) | 1 | 38 | (228) | (10) | 28 | **(357)** |

| | At 12 March 2017 | Prior year adjustment to income statement | Credit/(charge) to income statement | Credit/(charge) to equity or other comprehensive income | Revaluation of deferred tax balances in the income statement | Revaluation of deferred tax balances in equity or other comprehensive income | At 10 March 2018 |
|---|---|---|---|---|---|---|---|
| Accelerated capital allowances | (151) | (14) | 19 | - | (2) | - | (148) |
| Capital losses | 9 | 55 | (1) | - | - | - | 63 |
| Fair value movements | (6) | - | - | 9 | - | (1) | 2 |
| Deferred rental deduction | 32 | - | 4 | - | (1) | - | 35 |
| Capitalised interest | (27) | - | 2 | - | - | - | (25) |
| Other | (5) | 1 | 2 | 1 | - | - | (1) |
| Rolled over capital gains | (61) | (2) | 1 | - | - | - | (62) |
| Retirement benefit surplus | 67 | - | - | (139) | - | 15 | (57) |
| Share-based payment | 7 | - | 1 | (1) | | - | 7 |
| Total | (135) | 40 | 28 | (130) | (3) | 14 | (186) |

| | **2019 £m** | 2018 £m |
|---|---|---|
| Total deferred income tax liabilities | **(470)** | (267) |
| Total deferred income tax assets | **113** | 81 |
| **Net deferred income tax liability recognised in non-current liabilities** | **(357)** | (186) |

Deferred income tax assets have been recognised in respect of all temporary differences giving rise to deferred income tax assets because it is probable that these assets will be recovered. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority.

## 8 Dividends

| | **2019 Pence per share** | 2018 Pence per share | **2019 £m** | 2018 £m |
|---|---|---|---|---|
| Amounts recognised as distributions to ordinary shareholders in the year: | | | | |
| Dividend of current financial year | - | 17.2 | - | 500 |
| | **-** | **17.2** | **-** | **500** |

## 9 Property, plant and equipment

| | **Land and buildings £m** | **Fixtures and equipment £m** | **Total £m** |
|---|---|---|---|
| **Cost** | | | |
| At 11 March 2018 | **6,742** | **4,531** | **11,273** |
| Additions | **105** | **367** | **472** |
| Disposals | **(336)** | **(340)** | **(676)** |
| **At 9 March 2019** | **6,511** | **4,558** | **11,069** |
| | | | |
| **Accumulated depreciation and impairment** | | | |
| At 11 March 2018 | **1,489** | **2,847** | **4,336** |
| Depreciation expense for the year | **143** | **394** | **537** |
| Impairment loss for the year | **2** | **1** | **3** |
| Disposals | **(62)** | **(332)** | **(394)** |
| **At 9 March 2019** | **1,572** | **2,910** | **4,482** |
| | | | |
| **Net book value at 9 March 2019** | **4,939** | **1,648** | **6,587** |
| | | | |
| **Capital work-in-progress included above** | **135** | **107** | **242** |

*Interest capitalised*
Interest capitalised included in additions amounted to £6 million (2018: £7 million). Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £283 million (2018: £298 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.1 per cent (2018: 4.1 per cent).

### Analysis of assets held under finance leases

| | **2019 Land and buildings £m** | **2019 Fixtures and equipment £m** | **2019 Total £m** | 2018 Land and buildings £m | 2018 Fixtures and equipment £m | 2018 Total £m |
|---|---|---|---|---|---|---|
| Cost | **79** | **20** | **99** | 82 | 5 | 87 |
| Accumulated depreciation and impairment | **(35)** | **(1)** | **(36)** | (35) | - | (35) |
| Net book value | **44** | **19** | **63** | 47 | 5 | 52 |

## 10 Intangible assets

| | Goodwill £m | Computer software £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 11 March 2018 | 90 | 78 | 168 |
| Additions | - | 40 | 40 |
| Disposals | (1) | (5) | (6) |
| **At 9 March 2019** | **89** | **113** | **202** |
| | | | |
| **Accumulated amortisation and impairment** | | | |
| At 11 March 2018 | - | 18 | 18 |
| Amortisation expense for the year | - | 20 | 20 |
| Disposals | - | (5) | (5) |
| **At 9 March 2019** | **-** | **33** | **33** |
| | | | |
| **Net book value at 9 March 2019** | **89** | **80** | **169** |

Goodwill comprised of:

| | **2019 £m** | 2018 £m |
|---|---|---|
| Bells | **19** | 19 |
| Jacksons | **51** | 52 |
| Other | **19** | 19 |
| | **89** | 90 |

The goodwill balances above are allocated to the respective cash-generating units (CGUs) or group of CGUs. The CGUs to which goodwill has been allocated and the level at which it is monitored in the retailing segment are deemed to be the respective acquired retail stores.

The value of the goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU or group of CGUs with the carrying value of its goodwill. The calculation of the Retail CGU's value in use is calculated on the cash flows expected to be generated by the stores using the latest budget and forecast data. Estimates of sales and costs are based on past experience and expectations of future changes in the market. Board approved cash flow projections for five years are used and then extrapolated out assuming flat cash flows and discounted at a pre-tax rate of nine per cent (2018: nine per cent) over the earlier of a 25-year period (being the estimated average remaining useful life of a freehold store) or lease length for leasehold stores.

Based on the operating performance of the CGUs, an impairment of goodwill of £nil million was identified in the current financial year (2018: £nil million). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill. Sensitivity analysis on the impairment tests for each group of CGUs to which goodwill has been allocated has been performed. Management are satisfied that there are no changes to assumptions that would lead to an impairment.

## 11 Investments in subsidiaries

| | 2019 £m | 2018 £m |
|---|---|---|
| **At 10 March 2018 and 9 March 2019** | **4** | 4 |

The Company's direct and indirect subsidiaries of the Company are:

| Entity | Country of registration or incorporation | Share of ordinary allotted capital and voting rights | Holding | Address[3] |
|---|---|---|---|---|
| Barleygold Limited | Northern Ireland | 100.0% | Direct | 50 Bedford Street |
| BLSSP (PHC7) Limited | England | 100.0% | Direct | 33 Holborn |
| Coolidge Investments Limited | England | 100.0% | Direct | 33 Holborn |
| Home Retail (Asia) Limited[1] | Hong Kong | 62.5% | Indirect | Units C & D 5/F, D2 Place Two |
| Home Retail (Hong Kong) Limited[1] | Hong Kong | 62.5% | Indirect | Units C & D 5/F, D2 Place Two |
| Nash Court (Kenton) Limited | England | 100.0% | Direct | 33 Holborn |
| Portfolio Investments Limited[2] | England | 100.0% | Direct | Hill House |
| Sainsbury's Argos Asia Commercial Limited[1] | Hong Kong | 62.5% | Indirect | 7/F Mapletree Bay Point |
| Sainsbury's Argos Asia Limited[1] | Hong Kong | 62.5% | Indirect | 7/F Mapletree Bay Point |
| Sainsbury's Argos Asia Sourcing Limited[1] | Hong Kong | 62.5% | Indirect | Units C & D 5/F, D2 Place Two |
| Sainsbury's Argos Asia Technical Limited[1] | Hong Kong | 62.5% | Indirect | 7/F Mapletree Bay Point |
| Sainsbury's Commercial Consulting (Dongguan) Company Limited[1] | China | 62.5% | Indirect | Room 1813, 18/F, Block 2, Haide Plaza |
| Sainsbury's Argos Commercial Consulting (Shanghai) Limited | China | 62.5% | Indirect | 26/F, Tower 1 |
| Town Centre Retail (Bicester) Limited | England | 100.0% | Direct | 33 Holborn |

1 Subsidiaries of Nash Court (Kenton) Limited.
2 In liquidation.
3 See full address on page 171 of the J Sainsbury plc Annual Report 2019.

The following subsidiaries were dissolved in the year (or following the year-end where indicated):

| Entity | Country of registration or incorporation | Share of ordinary allotted capital and voting rights | Holding | Post year-end dissolved date |
|---|---|---|---|---|
| Argos Retail Group (Hong Kong) Limited | Hong Kong | 62.5% | Indirect | |
| Maloney's Retail Stores (Shepperton) Limited | England | 100.0% | Direct | 2 June 2019 |
| Quarternate | Jersey | 100.0% | Direct | 14 June 2019 |
| Sainsbury's Basingstoke Limited | England | 100.0% | Direct | |
| Sainsbury's Entertainment Limited | England | 100.0% | Direct | |
| Stockdale Land (Bicester) Limited | England | 100.0% | Direct | 9 April 2019 |

During the year, a provision of £nil (2018: £nil million) was made against investments in subsidiaries where the carrying value exceeded the recoverable amount.

## 12 Investments in joint ventures and associates

| | **2019** £m | 2018 £m |
|---|---|---|
| Beginning of the year | **18** | 9 |
| Additions in year | **5** | 9 |
| **End of the year** | **23** | 18 |

The joint ventures directly owned by the Company were:

| | **Year-end** | **Share of ordinary allotted capital** | **Country of registration or incorporation** | **Address[1]** |
|---|---|---|---|---|
| Harvest 2 Limited Partnership | 31-Mar | 50% | England | 100 Victoria Street |
| Harvest Development Management Limited | 31-Mar | 50% | England | 100 Victoria Street |
| Nectar 360 Services LLP | 31-Mar | 50% | England | 80 Strand |
| 3BW Ltd | 31-Mar | 50% | England | 33 Holborn |

1 See full address on page 171 of the J Sainsbury plc Annual Report 2019.

## 13 Inventories

| | **2019** £m | 2018 £m |
|---|---|---|
| Goods held for resale | **1,077** | 998 |

*The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 9 March* 2019 was £18,257 million (2018: £17,769 million).

## 14 Receivables

### (a) Trade and other receivables

| | **2019** £m | 2018 £m |
|---|---|---|
| **Non-current** | | |
| Amounts owed by Group entities | **-** | 3 |
| Prepayments and accrued income | **8** | 9 |
| | **8** | 12 |
| **Current** | | |
| Trade receivables | **89** | 44 |
| Amounts owed by Parent company | **503** | 586 |
| Amounts owed by Group entities | **347** | 343 |
| Other receivables | **91** | 193 |
| | **1,030** | 1,166 |
| Prepayments and accrued income | **96** | 82 |
| | **1,126** | 1,248 |

Trade receivables are non-interest bearing and are on commercial terms. Other receivables of £91 million (2018: £193 million) are generally non-interest bearing. The carrying amounts of trade and other receivables are denominated in sterling.

The current amounts owed by the Parent company and other Group entities are denominated in sterling, are non-interest bearing and are repayable on demand.

## 14 Receivables (continued)

The Company'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 Company are credit checked prior to invoices being raised and credit limits are determined on an individual basis.

### (b) Major counterparties

Major counterparties are identified as follows:

| | **2019 Number of counterparties** | **2019 Balance £m** | 2018 Number of counterparties | 2018 Balance £m |
|---|---|---|---|---|
| Other receivables | - | - | 2 | 32 |
| Parent company | **1** | **503** | 1 | 586 |
| Other Group entities | **6** | **307** | 7 | 327 |

The Company's exposure to credit risk on amounts owed by the Parent and other Group companies is considered minimal and is managed by the Group.

No major counterparty balances are considered overdue or impaired.

## 15 Assets and liabilities held for sale

| | **2019 £m** | 2018 £m |
|---|---|---|
| **Assets held for sale** | | |
| Retail segment properties | - | 1 |
| | - | 1 |

All of the Company's assets and liabilities held for sale at 9 March 2019 were sold during the current financial year.

## 16 Trade and other payables

| | **2019 £m** | 2018 £m |
|---|---|---|
| **Current** | | |
| Trade payables | **2,551** | 2,329 |
| Amounts owed to Parent company | - | 698 |
| Amounts owed to other Group entities | **175** | 185 |
| Other payables | **339** | 356 |
| Accruals and deferred income/gains | **327** | 359 |
| | **3,392** | 3,927 |
| **Non-current** | | |
| Amounts owed to other Group entities | **408** | 397 |
| Accruals and deferred income/gains | **313** | 283 |
| | **721** | 680 |

The Company's policy on the payment of creditors is to agree the 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.

### 16 Trade and other payables (continued)

Current amounts owed to Parent company in the prior year of £698 million are denominated in sterling and interest bearing at an interest rate of base rate plus 1.5 per cent and repayable on demand. This was repaid in full in the current financial year. Current amounts owed to other Group entities of £123 million (2018: £130 million) are denominated in sterling and non-interest bearing. The remaining £52 million (2018: £55 million) are interest bearing at an interest rate of 12 month LIBOR plus 1.0 per cent (2018: LIBOR plus 1.0 per cent). All amounts are repayable on demand. Non-current amounts owed to Group entities are denominated in sterling and are non-interest bearing.

### 17 Borrowings

| | **2019 Current** | **2019 Non-current** | **2019 Total** | 2018 Current | 2018 Non-current | 2018 Total |
|---|---|---|---|---|---|---|
| Bank overdrafts | **1** | **-** | **1** | 2 | - | 2 |
| Finance lease obligations | **12** | **91** | **103** | 27 | 90 | 117 |
| Total borrowings | **13** | **91** | **104** | 29 | 90 | 119 |

Bank overdrafts are repayable on demand and bear interest at a spread above bank base rate.

***Finance lease obligations***

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **£m** | £m | **£m** | £m |
| Amounts payable under finance lease: | | | | |
| Within one year | **19** | 35 | **12** | 28 |
| Within two to five years inclusive | **38** | 38 | **17** | 17 |
| After five years | **196** | 201 | **74** | 72 |
| | **253** | 274 | **103** | 117 |
| Less: future finance charges | **(150)** | (157) | | |
| Present value of lease obligations | **103** | 117 | | |

Finance leases have effective interest rates ranging from 4.3 per cent to 8.5 per cent (2018: 4.3 per cent to 8.5 per cent). The average remaining lease term is 70 years (2018: 71 years).

## 18 Provisions

| | Onerous leases and onerous contracts £m | Insurance provisions £m | Restructuring £m | Other provisions £m | Total £m |
|---|---|---|---|---|---|
| At 11 March 2018 | **87** | **23** | **135** | **10** | **255** |
| Additional provisions | **16** | **21** | **2** | **11** | **50** |
| Unused amounts reversed | **(6)** | **-** | **-** | **-** | **(6)** |
| Utilisation of provision | **(19)** | **(15)** | **(132)** | **(8)** | **(174)** |
| Amortisation of discount | **6** | **-** | **-** | **-** | **6** |
| **At 9 March 2019** | **84** | **29** | **5** | **13** | **131** |
| | | | | | |
| At 12 March 2017 | 89 | 16 | 21 | 4 | 130 |
| Additional provisions | 14 | 15 | 138 | 6 | 173 |
| Unused amounts reversed | (2) | - | - | - | (2) |
| Utilisation of provision | (19) | (8) | (24) | - | (51) |
| Amortisation of discount | 5 | - | - | - | 5 |
| At 10 March 2018 | 87 | 23 | 135 | 10 | 255 |

| | 2019 £m | 2018 £m |
|---|---|---|
| Disclosed as: | | |
| Current | **37** | 161 |
| Non-current | **94** | 94 |
| | **131** | 255 |

The onerous lease provision covers residual lease commitments of up to an average of 34 years (2018: 34 years), after allowance for existing or anticipated sublet rental income.

The insurance provision relates to the Company'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.

A restructuring provision is recognised when a detailed formal plan for the restructuring has been developed, and has raised a valid expectation in those affected that it will be carried out, or that the main features of the project have been announced to those affected by it.

Other provisions includes provisions for warranties and long service awards.

## 19 Called up share capital

| | 2019 million | 2018 million | 2019 £m | 2018 £m |
|---|---|---|---|---|
| **Called up share capital** | | | | |
| Allotted and fully paid ordinary shares - £100 | **29** | 29 | **2,900** | 2,900 |

## 20 Retained earnings and other reserves

| | Profit and loss account £m | Actuarial losses £m | Total retained earnings £m | Cash flow hedge reserve £m | Total other reserves £m |
|---|---|---|---|---|---|
| At 11 March 2018 | **2,535** | **(706)** | **1,829** | **(17)** | **(17)** |
| Profit for the year | **100** | **-** | **100** | **-** | **-** |
| Remeasurements on defined benefit pension schemes (net of tax) | **-** | **983** | **983** | **-** | **-** |
| Cash flow hedges effective portion of fair value movements (net of tax) | **-** | **-** | **-** | **29** | **29** |
| Items reclassified from cash flow hedge reserve | **-** | **-** | **-** | **(17)** | **(17)** |
| Share-based payment (net of tax) | **31** | **-** | **31** | **-** | **-** |
| **At 9 March 2019** | **2,666** | **277** | **2,943** | **(5)** | **(5)** |
| | | | | | |
| At 12 March 2017 | 2,802 | (1,231) | 1,571 | 27 | 27 |
| Profit for the year | 206 | - | 206 | - | - |
| Remeasurements on defined benefit pension schemes (net of tax) | - | 525 | 525 | - | - |
| Cash flow hedges effective portion of fair value movements (net of tax) | - | - | - | (56) | (56) |
| Items reclassified from cash flow hedge reserve | - | - | - | 12 | 12 |
| Dividends paid | (500) | - | (500) | - | - |
| Share-based payment (net of tax) | 27 | - | 27 | - | - |
| At 10 March 2018 | 2,535 | (706) | 1,829 | (17) | (17) |

The actuarial losses reserve represents the actuarial gains and losses on the defined benefit pension schemes operated by the Company and is included as part of retained earnings. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Company.

## 21 *Retirement benefit obligations*

### Background

At 9 March 2019, retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme as well as unfunded pension liabilities relating to senior former employees of Sainsbury's.

The retirement benefit obligations at the year-end have been calculated by KPMG, as actuarial advisers to the Company, 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 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 paying 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.

### Triennial valuation

The Scheme was subject to a triennial actuarial valuation, carried out by Willis Towers Watson for the Trustee, as at 30 September 2018 on the projected unit basis and a recovery plan was agreed. On the basis of the assumptions agreed, the actuarial deficit at 30 September 2018 was £309 million.

## 21 Retirement benefit obligations (continued)

Under the revised funding plan, Sainsbury's established a new property partnership - Sainsbury's Thistle Scottish Limited Partnership ("The Partnership") with the Scheme on 17 July 2019. This replaces the existing property partnership (Sainsbury's Property Scottish Partnership).

In respect of the establishment of the Partnership, Sainsbury's Supermarkets Ltd made contributions totalling £353 million to the merged pension scheme. Properties were transferred into a newly formed property holding company (Sainsbury's Property Holdings Ltd) from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. These will be leased by the Company under a 40 year arrangement. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership.

The Scheme's interest in the Partnership entitles it to annual distributions over up to 20 years. The distributions will be made through three payment streams:

1) Payments to the Sainsbury's section
2) Payments to the Argos section (recognised in Argos Limited, another Group company)
3) Switching payment stream, paid to either the Sainsbury's section or Argos section

The payments to the Sainsbury's and Argos sections (streams 1 and 2) stop in 2030, or when the relevant section reaches its funding target if earlier.

The third stream is initially paid to the Sainsbury's section. Once that funding target is achieved, payments switch to the Argos section. Payments continue until 2038 or until both sections have reached their funding targets if earlier.

Payments to the Sainsbury's section are initially approximately £38 million per year until 2030.

**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.

### a) Income statement

The amounts recognised in the income statement are as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| Excluded from underlying profit before tax: | | |
| Interest cost on pension liabilities[1] | **(242)** | (251) |
| Interest income on plan assets | **238** | 231 |
| Total included in finance costs (note 5) | **(4)** | (20) |
| Defined benefit pension scheme expenses | **(8)** | (8) |
| Past service (cost)/credit | **(98)** | 31 |
| Total excluded from underlying profit before tax (note 3) | **(106)** | 23 |
| Total income statement expense | **(110)** | 3 |

[1] Includes interest of £1 million for the unfunded pension scheme (2018: £1 million).

## 21 Retirement benefit obligations (continued)

**Past service amounts**

On 26 October 2018, the High Court ruled in the landmark Lloyds Banking Group case on Guaranteed Minimum Pensions (GMPs). The judgment requires equalisation between men and women for the effect of unequal GMPs.

The Company has worked with the Trustee of the Scheme and independent actuaries and estimated the cost of equalising benefits at £98 million for the Scheme. This cost has been recognised in the consolidated income statement as a non-underlying item for the 52 weeks ended 9 March 2019 (2018: £nil). Any subsequent changes to these amounts in future periods will be treated as a change in actuarial assumption, and as such will be recognised in other comprehensive income.

In the prior year, the past service credit of £31 million was in relation to a Pension Increase Exchange (PIE) option introduced in the Scheme from 1 April 2018, following a deed of amendment signed during the prior financial year.

### b) Other comprehensive income

Remeasurements of the retirement benefit obligations have been recognised as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| Return on plan assets, excluding amounts included in interest | **131** | (29) |
| Actuarial gains/(losses) arising from changes in: | | |
| Finance assumptions | **(67)** | 464 |
| Demographic assumptions[1] | **504** | 210 |
| Experience | **612** | (15) |
| Total actuarial gains/(losses) | **1,049** | 659 |
| Total remeasurements | **1,180** | 630 |

[1] Includes £1 million gain for the unfunded pension scheme (2018: £1 million gain).

### c) Valuations

The movements in the net defined benefit obligations are as follows:

| | 2019 £m | 2018 £m |
|---|---|---|
| As at the beginning of the year | **367** | (334) |
| Interest cost | **(4)** | (20) |
| Remeasurement gains | **1,180** | 630 |
| Pension scheme expenses | **(8)** | (8) |
| Contribution by employer | **3** | 68 |
| Past service (cost)/credit | **(98)** | 31 |
| **As at the end of the year** | **1,440** | 367 |

## 21 Retirement benefit obligations (continued)

The movements in the retirement benefit obligations (including unfunded obligations) are as follows:

| | **2019 £m** | 2018 £m |
|---|---|---|
| As at the beginning of the year | **(8,762)** | (9,463) |
| Interest cost | **(242)** | (251) |
| Remeasurement gains | **1,049** | 618 |
| Benefits paid | **378** | 303 |
| Past service credit | **(98)** | 31 |
| **As at the end of the year** | **(7,675)** | (8,762) |
| Analysed as: | | |
| Retirement benefit obligations | **(7,654)** | (8,741) |
| Unfunded obligations | **(21)** | (21) |

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

| | **2019 £m** | 2018 £m |
|---|---|---|
| As at the beginning of the year | **9,129** | 9,129 |
| Interest income on plan assets | **238** | 231 |
| Pension scheme expenses | **(8)** | (8) |
| Remeasurement gains | **131** | 12 |
| Contributions by employer | **3** | 68 |
| Benefits paid | **(378)** | (303) |
| **As at the end of the year** | **9,115** | 9,129 |

### Risks associated with the Company's defined benefit pension schemes

The defined benefit schemes expose the Company 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. The scheme holds 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. |

## 21 Retirement benefit obligations (continued)

| Risk | Description | Mitigation |
|---|---|---|
| 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. |
| Longevity | Beneficiaries living longer than expected could increase the Scheme's liabilities. | The Trustee and Company regularly monitor the potential impact of changes in longevity on the Scheme's obligation. |
| 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. |

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

| | **Quoted 2019 £m** | **Unquoted[1] 2019 £m** | Quoted 2018 £m | Unquoted 2018 £m |
|---|---|---|---|---|
| **Equity** | | | | |
| Public | **839** | **-** | 1,294 | - |
| Private | **-** | **322** | - | 267 |
| **Bonds** | | | | |
| Government Bonds | **1,621** | **-** | 1,270 | - |
| Corporate Bonds | **3,752** | **(51)** | 3,560 | (35) |
| Emerging Market Bonds | **395** | **(6)** | 444 | - |
| **Derivatives[2]** | **-** | **743** | - | 558 |
| **Alternatives** | | | | |
| Real Estate | **-** | **858** | - | 913 |
| Private Debt | **-** | **433** | - | 357 |
| Cash and Cash equivalents | **211** | **(2)** | 509 | (8) |
| | **6,818** | **2,297** | 7,077 | 2,052 |

**Notes**

1. Certain unquoted fixed interest securities, private equity and debt investments, property investments and hedge funds are stated at fair values. These fair values may differ from their realisable values due to the absence of liquid markets in these investments.
2. Swap contracts derivatives outstanding at the year-end are stated at the net present value of future discounted cash flows of each leg of the swap.

Of the above assets, £3,319 million are denominated in sterling and £5,796 million are denominated in overseas currencies.

## 21 Retirement benefit obligations (continued)

### d) Assumptions

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

| | 2019<br>% | 2018<br>% |
|---|---|---|
| Discount rate | **2.80** | 2.80 |
| Inflation rate - RPI | **3.20** | 3.15 |
| Inflation rate - CPI | **2.20** | 2.15 |
| Future pension increases | **2.00 - 3.05** | 1.90 - 3.00 |

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements have been updated from CMI 2017 projections at 2018 year-end to CMI 2018 projections with a long-term rate of improvement of 1.25 per cent p.a. at 9 March 2019.

The life expectancy for the Scheme operated at the balance sheet date is as follows:

| | Sainsbury's Main Scheme<br>2019<br>Years | Sainsbury's Executive Scheme<br>2019<br>Years | Sainsbury's Main Scheme<br>2018<br>Years | Sainsbury's Executive Scheme<br>2018<br>Years |
|---|---|---|---|---|
| Male pensioner | **19.8** | **24.0** | 21.3 | 24.4 |
| Female pensioner | **23.5** | **25.1** | 23.9 | 25.5 |

The life expectancy at age 65 for members aged 45 years at the balance sheet date is as follows:

| | Sainsbury's Main Scheme<br>2019<br>Years | Sainsbury's Executive Scheme<br>2019<br>Years | Sainsbury's Main Scheme<br>2018<br>Years | Sainsbury's Executive Scheme<br>2018<br>Years |
|---|---|---|---|---|
| Male pensioner | **21.1** | **25.3** | 22.7 | 25.7 |
| Female pensioner | **25.0** | **26.5** | 25.4 | 27.0 |

### e) Sensitivities

An increase of 0.5 per cent in the discount rate would decrease the retirement benefit obligations by £681 million. A decrease of 0.5 per cent in the discount rate would increase the retirement benefit obligations by £774 million.

An increase of 0.5 per cent in the inflation rate would increase the retirement benefit obligations by £489 million. A decrease of 0.5 per cent in the inflation rate would decrease the retirement benefit obligations by £478 million.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £283 million.

The 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 obligation for a given change in assumption. The net retirement obligation is the difference between the retirement obligation and the fair value of plan assets. Changes in 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.

## 21 Retirement benefit obligations (continued)

### f) Future benefit payments

The duration of the plan liabilities is around 19 years. The following table provides information on the timing of benefit payments (amounts undiscounted):

| | 2019 £m |
|---|---|
| Within the next 12 months (next annual reporting period) | **172** |
| Between 2 and 5 years | **754** |
| Between 6 and 15 years | **3,006** |
| Between 16 and 25 years | **3,892** |
| Beyond 25 years | **6,644** |
| **Total expected payments** | **14,468** |

## 22 Share-based payments

The Company recognised £32 million (2018: £27 million) of employee costs (note 6) related to share-based payment transactions made during the financial year. Of these, £1 million (2018: £nil) were cash-settled.

The Company operates a number of share-based payment schemes which are consistent with those described in the Group accounts on pages 160 to 163.

### a) Savings-Related Share Option Scheme (Sharesave)

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

A reconciliation of Sharesave option movements is shown below:

| | **2019 Number of options million** | **2019 Weighted average exercise price pence** | 2018 Number of options million | 2018 Weighted average exercise price pence |
|---|---|---|---|---|
| Outstanding at the beginning of the year | **68.5** | **196** | 66.5 | 210 |
| Opening adjustment | **(8.6)** | **-** | - | - |
| Granted | **13.5** | **260** | 23.7 | 184 |
| Forfeited | **(12.4)** | **206** | (15.8) | 230 |
| Exercised | **(9.7)** | **205** | (5.9) | 207 |
| **Outstanding at the end of the year** | **51.3** | **210** | 68.5 | 196 |
| Exercisable at the end of the year | **5.5** | **225** | 6.4 | 228 |
| Exercisable price range | | **184 to 332** | | 184 to 332 |

The weighted average share price for options exercised over the year was 268 pence (2018: 257 pence). The weighted average remaining contractual life of options outstanding at 9 March 2019 was 2.1 years (2018: 2.3 years).

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:

**22 Share-based payments (continued)**

| | | 2019 | 2018 |
|---|---|---|---|
| Share price at grant date (pence) | | **300** | 238 |
| Exercise price (pence) | | **260** | 184 |
| Expected volatility | – 3 year period (%) | **24.5** | 27.2 |
| | – 5 year period (%) | **26.9** | 26.0 |
| Option life | – 3 year period (years) | **3.2** | 3.2 |
| | – 5 year period (years) | **5.2** | 5.2 |
| Expected dividends (expressed as dividend yield %) | | **3.5** | 4.8 |
| Risk-free interest rate | – 3 year period (%) | **0.9** | 0.8 |
| | – 5 year period (%) | **1.3** | 1.3 |
| Fair value per option | – 3 year period (pence) | **53** | 51 |
| | – 5 year period (pence) | **62** | 49 |

The expected volatility is based on the standard deviation of the Company's share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

**b) Long-Term Incentive Plan**

**i) Future Builder**

Under the Long-Term Incentive Plan, shares are conditionally awarded to the senior managers in the Company. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

Performance is measured at the end of the three-year performance period. If the required performance conditions have been met, the awards vest and 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will then be released one year after the vesting date. Options granted to acquire the award of shares will expire five years from the grant date.

For Executive Directors, awards will normally be subject to a two year holding period following the end of the three year performing period. Options granted to acquire the award of shares will expire six years from the date of grant.

Dividends will accrue on the shares that vest in the form of additional shares.

The core award can grow by up to four times, dependent on the level of performance. Straight-line vesting will apply if performance falls between two points. Awards are structured as nil cost options.

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

| | 2019 million | 2018 million |
|---|---|---|
| Outstanding at the beginning of the year | **7.2** | 5.8 |
| Opening adjustment | **(1.0)** | - |
| Conditionally allocated | **3.6** | 3.2 |
| Forfeited | **(0.3)** | (1.2) |
| Released to participants | **(1.9)** | (0.6) |
| **Outstanding at the end of the year** | **7.6** | 7.2 |

The weighted average remaining contractual life of share options outstanding at 9 March 2019 was 1.4 years (2018: 1.6 years).

Details of shares conditionally allocated at 9 March 2019 are set out below:

| Date of conditional award | 2019 million | 2018 million |
|---|---|---|
| 15 May 2014 (2014 Future Builder) | **0.2** | 0.9 |
| 14 May 2015 (2015 Future Builder) | **1.4** | 1.6 |
| 12 May 2016 (2016 Future Builder) | **1.7** | 2.0 |
| 11 May 2017 (2017 Future Builder) | **2.1** | 2.7 |
| 11 May 2018 (2018 Future Builder) | **2.2** | - |
| | **7.6** | 7.2 |

**22 Share-based payments (continued)**

No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

| | 2019 | 2018 |
|---|---|---|
| Share price at grant date (pence) | **301** | 267 |
| Option life (years) | **3 or 4** | 4 |
| Fair value per option (pence) | **301** | 267 |

During the year, a total number of 1.9 million shares were exercised (2018: 0.6 million shares). The weighted average share price during the year for options exercised was 303 pence (2018: 266 pence).

**ii) Deferred Share Award**

The Deferred Share Award targets a diverse range of financial and strategic scorecard measures. These are intended to reward the Directors in the Company, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. Awards are structured as nil cost options.

Share-based awards are made to participants subject to performance against a basket of measures. At least 50 per cent of the awards are based on the delivery of financial performance and returns to shareholders. The balance is based on measures which will assess the Company's performance relative to its competitors as well as key strategic goals.

Performance against the target is measured over one financial year. Any shares awarded are deferred for a further two years to ensure that management's interests continue to be aligned with those of shareholders. The shares are subject to forfeiture if the participant resigns or is dismissed. Dividends accrue on the shares that vest in the form of additional shares.

A reconciliation of the number of shares granted over the year is shown below:

| | 2019 million | 2018 million |
|---|---|---|
| Outstanding at the beginning of the year | **3.4** | 3.0 |
| Opening adjustment | **(0.3)** | - |
| Granted | **2.0** | 2.0 |
| Forfeited | **(1.8)** | (0.7) |
| Exercised | **(0.1)** | (0.9) |
| **Outstanding at the end of the year** | **3.2** | 3.4 |

The number of shares allocated at the end of the year is set out below:

| | 2019 million | 2018 million |
|---|---|---|
| 13 May 2016 | **-** | 1.8 |
| 12 May 2017 | **1.4** | 1.6 |
| 11 May 2018 | **1.8** | - |
| | **3.2** | 3.4 |

The weighted average remaining contractual life of share options outstanding at 9 March 2019 was 0.6 years (2018: 0.5 years). The weighted average share price during the year for options exercised was 301 pence (2018: 260 pence).

## 22 Share-based payments (continued)

### iii) Bonus Share Award

The bonus arrangements for our senior managers and supermarket store managers include corporate and personal performance targets. A profit gateway is in place where a certain level of underlying profit before tax must be achieved before any bonus related to the corporate element of the bonus is released.

60 per cent of the bonus is paid in cash and 40 per cent awarded in shares. They are automatically released after three financial years. Shares are subject to forfeiture if the participant resigns or is dismissed.

Dividends accrue on these shares and are released at the end of the three-year retention period.

A reconciliation of the number of shares granted over the year is shown below:

| | **2019 million** | 2018 million |
|---|---|---|
| Outstanding at the beginning of the year | **10.2** | 10.9 |
| Opening adjustment | **(1.0)** | - |
| Granted | **4.2** | 3.8 |
| Exercised | **(2.7)** | (3.4) |
| Forfeited | **(0.7)** | (1.1) |
| **Outstanding at the end of the year** | **10.0** | 10.2 |

The number of shares allocated at the end of the year is set out below:

| | **2019 million** | 2018 million |
|---|---|---|
| 14 May 2015 | **-** | 2.2 |
| 13 May 2016 | **4.1** | 5.0 |
| 12 May 2017 | **2.2** | 3.0 |
| 11 May 2018 | **3.7** | - |
| | **10.0** | 10.2 |

The weighted average remaining contractual life of share options outstanding at 9 March 2019 was 1.0 years (2018: 1.1 years). The weighted average share price during the year for options exercised was 246 pence (2018: 267 pence).

## 23 Related party transactions

### (a) Joint Ventures and other related parties

The Company entered into transactions with joint ventures and other related parties as set out below.

*Transactions with joint ventures and other related parties:*

| | **2019 £m** | 2018 £m |
|---|---|---|
| Investment in joint ventures and associates | **(5)** | (9) |
| Rental expenses paid | **(38)** | (46) |

As at 9 March 2019 there were nil year end balances arising from transactions with joint ventures and other related parties.

## 24 Operating lease commitments

The Company leases various retail stores, offices, depots and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

| | **2019** **£m** | 2018 £m |
|---|---|---|
| Aggregate future minimum lease payments: | | |
| Within one year | **950** | 914 |
| in the second to fifth years inclusive | **3,602** | 3,544 |
| After five years | **11,617** | 11,971 |
| | **16,169** | 16,429 |

Lease payments after 5 years:

| | **2019** **£m** | 2018 £m |
|---|---|---|
| Aggregate future minimum lease payments: | | |
| Greater than five years but less than ten years | **3,832** | 3,433 |
| Greater than ten years but less than 15 years | **3,558** | 3,223 |
| After 15 years | **4,227** | 5,315 |
| | **11,617** | 11,971 |

The commercial terms of the Company's operating leases vary, but 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 Company has pre-emption rights over a minor number of properties, which provides the Company 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 Company sublets certain leased properties:

| | **2019** **£m** | 2018 £m |
|---|---|---|
| Aggregate future minimum lease receipts: | | |
| Within one year | **41** | 40 |
| in the second to fifth years inclusive | **115** | 112 |
| After five years | **107** | 119 |
| | **263** | 271 |

## 25 Capital commitments

During the current financial year, the Company entered into contracts of £75 million (2018: £81 million) for future capital expenditure in relation to property plant and equipment not provided for in the financial statements.

## 26 Contingent liabilities

Along with other retailers, the Company is currently subject to approximately 3,600 claims brought by current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. Typically, claims of this nature can take many years to be determined. Given that the claims against the Company are still at a relatively early stage and the outcome of such claims is highly uncertain at this stage, the Company considers the likelihood of a material pay-out to be remote.