J Sainsbury plc

Annual Report and Financial Statements 2020

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COMPANIES HOUSE

Live well for less

Our purpose is to help our customers live well for less. It's about helping our customers get the most out of life, no matter how much money or time they have. We do this by giving them easy, affordable access to the things they need: like healthy food, quality clothes, stylish homewares, the latest technology and more ways to manage their money. We do all of this sustainably, so we can help our customers live well today and tomorrow.

We offer our customers distinctive, quality products at competitive prices across food, general merchandise, clothing and financial services. Driving efficiency in our day-to-day operations enables us to invest in our customer offer in areas that they value: choice, quality, low prices, convenience and great service.

We have created a multi brand, multi channel business that provides choice, flexibility and convenience for our customers. We will continue to invest in both our digital offer and our stores so that customers can buy more and save time as well as money by shopping with us.

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Non-financial information statement

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

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26 Be a place where we all love to work

Reference to our policies, due diligence processes and information on how we are performing on various measures in these areas are contained throughout the Strategic Report. Information on our principal risks and uncertainties can be found on pages 36 to 47, information on our non-financial key performance indicators can be found on 29 and a description of our business model can be found on pages 10 and 11.

Performance highlights

£32,394m

Group sales (inc VAT), down 0.1 per cent

£586m

Underlying profit before tax, down 2 per cent

(0.6)%

Group like-for-like sales

19.8p

Underlying basic earnings per share, down 4.3 per cent

7.4%

Return on capital employed

£255m

Statutory profit before tax, up 26 per cent

£29m

Raised this year for local and national causes, bringing the total to £359m

42%

Absolute reduction in carbon emissions against our 2005 baseline

75%

Percentage of colleagues engaged, based on results from our colleague engagement survey

Read more about our financial KPIs on page 28.

Find out more at
www.about.sainsburys.co.uk/ar2020

Chairman's letter

Chairman Martin Scicluna reviews the business activity in the year.

2019/20 highlights

£586m

Underlying profit before tax

7.4%

Return on capital employed

19.8p

Underlying basic earnings per share

£611m

Free cash flow

In my first full year as Chairman of the Sainsbury's Board I have been hugely impressed by the quality of our leadership and our colleagues' passion for providing our customers with outstanding service every day. This has been particularly evident to me throughout the past three months as we have pulled together to protect our customers and colleagues, to feed the nation and to navigate the business through the COVID-19 pandemic.

Throughout this time, the Board and Operating Board, led by Mike Coupe, have been working tirelessly, guided by a clear sense of purpose. Now, more than ever, we have been trying to help our customers live well for less. This has meant taking difficult decisions along the way and I must say that Mike has shown himself to be a truly exceptional leader. I would like to thank Mike for his hard work over these past few months and also for his excellent stewardship as Chief Executive over the past six years.

Simon Roberts became the Chief Executive Officer effective on 1 June 2020. He and Mike have worked closely together for a number of years and have been working on a thorough handover over the past few months.

This is a time unlike any other in retail. COVID-19 has put our colleagues on the front line and they are working around the clock to get food and other essential items onto the shelves for customers. I feel extremely proud of colleagues throughout our business who have risen to the challenge and have achieved so much in such challenging circumstances.

We have had three clear priorities throughout: keeping our customers and colleagues safe; helping to feed the nation; and supporting our communities and the most vulnerable in society. For that reason, whilst complying with all of the relevant requirements, we have produced a simpler, scaled down version of our Annual Report.

> "Throughout the past three months we have pulled together to protect our customers and colleagues, to feed the nation and to navigate the business through the COVID-19 pandemic."

Review of the year

In a competitive market, underlying profit before tax was £586 million, a decline of two per cent. Basic earnings per share decreased 23.7 per cent to 5.8 pence (2018/19: 7.6 pence) due to the £331 million charge recognised outside of underlying results. Underlying basic earnings per share decreased 4.3 per cent to 19.8 pence (2018/19: 20.7 pence).

Our purpose

Sainsbury's purpose is to help customers to live well for less and we recognise that living well means living sustainably. This year we announced our commitment to be Net Zero across all our operations by 2040 and that we will invest £1 billion over the next 20 years to achieve this. The Board is accountable for the delivery of the seven pillars of our Net Zero plan and we will report progress against each of them at our interim results in November. In a further demonstration of the importance we place on helping customers to live sustainably, we became signatories of the Task Force on Climate-related Financial Disclosures, to provide consistent information to our stakeholders.

The Board also plays an active role in making Sainsbury's a place where colleagues love to work and the welfare of our colleagues is a key priority for us. As part of this activity, the Board discussed the results of the 'We're Listening' colleague engagement survey, which invites every colleague across the business to give honest, confidential feedback on what it is like to work for Sainsbury's. This survey and our engagement with our Great Place to Work groups (which are our Workforce Advisory Panels) informs many of the decisions we make.

We also aim to be the most inclusive retailer. The Board has a good balance of gender and ethnic backgrounds and we are committed to supporting the business to build female and BAME representation at senior manager level.

Business activity in the year

We are making strong progress against the strategy that we set out at our Capital Markets Day in September. Customers are responding positively to our improved value proposition, our distinctive food offer and our increased focus on customer service. We have accelerated investment in our stores, improving and upgrading them more frequently. We have also accelerated investment in technology; for example, SmartShop, which allows customers to shop quickly and conveniently with faster checkout, is now in all our supermarkets. Together with our new store operations model, these initiatives are delivering improved customer satisfaction scores.

Argos continues to offer customers market-leading delivery and collection services and these channels are growing sales. The general merchandise market remains challenging and there was weakness in the key toy and gaming categories in the last financial year.

Jim Brown joined Sainsbury's Bank as Chief Executive Officer during the year and oversaw a strategic review of our financial services business and we have made good progress. We have a leaner structure, greater digital uptake and we have stopped underwriting new mortgages. We will provide an update in November on the impact of COVID-19 on the financial services five-year targets we announced in September 2019.

Board

After 15 years at Sainsbury's, almost six of those leading the business, Mike Coupe confirmed his intention to retire as Chief Executive Officer on 31 May. Mike's knowledge and understanding of the retail sector and customer behaviour are second to none. Mike has been bold and ambitious on behalf of our shareholders, customers and our colleagues. Investing in convenience, online and our digital capability, selling Sainsbury's pharmacy business and acquiring Argos and Nectar have all proved to be sound strategic moves which have set us up well as we come together to create one multi brand, multi channel business for our customers.

I was delighted to announce Simon Roberts as Mike's successor. Simon is a dedicated, determined and enthusiastic champion of the customer and of our colleagues and has overseen sustained improvements in the grocery business during his time so far. He is ideally placed to lead and develop our strategy for the future. The Board and I are looking forward to working closely with him over the coming years.

In October this year John Rogers, CEO of Argos, left the business. John joined Sainsbury's in 2005 and was instrumental in the integration of Argos and I would like to thank him for all he achieved for our business.

Sainsbury's Bank Chairman Roger Davis informed us of his intention to step down from the Sainsbury's Bank Board and a process to find his replacement is underway.

Matt Brittin and Jean Tomlin will also step down later this year. Matt Brittin has been on the Board for just over nine years and is stepping down in line with good corporate governance. He has been an important member of the Nomination and Remuneration Committees and his knowledge of digital and technology has helped us hugely as we bring new innovations to our customers. Jean Tomlin has been on the Board for seven years and is a member of the Audit, CR&S and Nomination Committees and has made an important contribution to the business over the years. We wish Jean and Matt well for the future. Their replacements will be announced in due course.

Dividend

Given a wide range of potential profit and cash flow outcomes, the Board believes it is prudent to defer any dividend payment decisions until later in the financial year, when there will be improved visibility on the potential impact of COVID-19 on the business.

Martin Scicluna
Chairman

Alternative performance measures (APMs) referred to in this statement are defined in pages 205 to 208.

Chief Executive Officer's letter

Mike Coupe shares his highlights for the year and explains how Sainsbury's has responded to the COVID-19 pandemic.

2019/20 highlights

£586m

Underlying profit before tax

£32,394m

Group sales (inc VAT)

(0.6)%

Group like-for-like sales

£343m

Reduction in net debt

Dear Shareholder

Our response to COVID-19

In the last few weeks, we have made huge changes to the business as a result of COVID-19. Our colleagues have worked around the clock to help feed the nation and I am so proud of their dedication and commitment during this difficult time. Thank you to every single one of our colleagues, their efforts have been exceptional and hugely valued by our customers.

The COVID-19 pandemic has had a significant impact on our business since early March. We have had three clear priorities throughout: keeping our customers and colleagues safe; helping to feed the nation; and supporting our communities and the most vulnerable in society. At the start of the pandemic customers bought significantly more groceries than usual and colleagues in our stores, distribution centres and store support centres worked around the clock with our suppliers to rapidly and continually increase the stock levels of popular and essential items. This was a major logistical challenge and our business and the industry more broadly showed incredible flexibility and adaptability to maintain supply and fulfil customer demand.

We made a decision early on to prioritise all of our online delivery slots for elderly and vulnerable customers. We were able to contact over 450,000 vulnerable customers and offer them access to priority online booking, based on data we held on those customers and calls into our Customer Careline. Once we received government data, we were able to contact another 350,000, meaning we could give 800,000 vulnerable customers the opportunity to book priority online shopping. Throughout this time we also significantly increased our online shopping capacity – and we are working towards increasing capacity from 340,000 weekly orders to an ambition of 600,000 slots per week across delivery and Click & Collect. We also offer dedicated shopping hours in our stores for NHS and social care workers from 07.30-08.00 Monday to Saturday and for elderly and vulnerable customers from 08.00-09.00 on Mondays, Wednesdays and Fridays.

When the Government required us to close standalone Argos stores we repurposed Argos into an online-only retailer and redeployed a large number of Argos colleagues into Sainsbury's stores. Argos stores in Sainsbury's supermarkets are open solely for online collection so that customers who are shopping for food and other essentials can collect orders made and paid for online.

Protecting customers and colleagues and keeping them safe has been our priority and we have made major changes to our ways of working to achieve this. These include queuing systems outside stores, limiting the number of people inside stores and at ATMs and placing markers at two metre intervals throughout stores. We are regularly sanitising stores, including baskets and trollies, fitting safety screens at all manned checkouts and providing colleagues with masks, hand sanitiser and gloves if they want them.

To limit interaction between customers and colleagues we encouraged people to use SmartShop and increased its capacity. We are also launching SmartShop Scan, Pay and Go in particularly busy convenience stores.

Our colleagues have shown amazing dedication and resilience throughout this difficult time and have really gone above and beyond for our customers. We have also done our best to support them. We have offered all store colleagues who are extremely vulnerable, vulnerable or who live with extremely vulnerable household members up to 12 weeks off work with full pay and colleagues who are sick or who need to self-isolate will be paid full pay for up to 14 days. We are also giving our front line colleagues and managers a thank you payment of 10 per cent of their pay from 8 March to 5 April. To help meet demand, we have welcomed thousands of temporary colleagues since March, including online grocery pickers, delivery drivers and front line managers.

Working together with communities and suppliers

In these challenging circumstances, we continue to work closely with the Government and Public Health Authorities to support our customers, colleagues, suppliers and our communities. We have donated £3 million to the charity Fareshare to ensure that much needed supplies get to the people who desperately need them and are working with Comic Relief to support their fundraising efforts. Sainsbury's matched customer donations for Comic Relief's Big Night In on the BBC and together we have raised over £4 million.

We have introduced a range of over 90 essential grocery items to 80 WHSmith stores in hospitals across the UK, helping hard-working NHS staff access food more easily. We also launched a school voucher scheme to ensure that children who are eligible for free school meals continue to

access these while they stay at home. We were pleased to launch a partnership with The Big Issue to sell the magazine in our stores and online as a temporary measure until vendors are able to return to work, with all proceeds going back to the charity and to vendors.

> "Our colleagues have shown amazing dedication and resilience throughout this difficult time and have really gone above and beyond for our customers."

We have extended support to suppliers with vital cash flow where needed and committed to pay at least 1,500 small suppliers immediately. We have also offered our concession partners and other tenants the ability to pay monthly in advance rather than quarterly in advance and a one month rent free period for 1 to 30 April 2020.

Business update

This year we have made good progress against our strategy and our seven priorities as we create one multi brand, multi channel business. While underlying profits before tax reduced by two per cent to £586 million and Group sales declined 0.1 per cent, profit before tax grew by 26 per cent to £255 million. We delivered strong free cash flow and net debt reduction of £343 million, in line with guidance.

Our purpose is to help our customers to live well for less and the investment we have made to lower prices, enhance ranges and create new convenient ways for people to shop has driven improved grocery sales and helped us outperform our main supermarket peers.

Sainsbury's customer service scores are consistently improving, with ease and speed of checkout improving by just over 3 per cent and just under 4 per cent respectively, as customers respond well to store upgrades and the acceleration of our in-store digital offer, including SmartShop, which makes shopping quicker and more convenient. Over £6 billion of our sales across the business are digital. We are continuing to invest in this channel to deliver easy, speedy and seamless shopping.

The general merchandise market remains challenging, particularly in toys and gaming, and our sales declined 2.9 per cent. Clothing sales grew 1.2 per cent and clothing performed particularly well online, growing 47 per cent.

Financial Services and Nectar provide our customers with affordable ways to manage their finances and reward them for their loyalty. Our Nectar loyalty programme is the biggest in the UK with over 18 million members. Over 4.5 million people have downloaded the new digital app which enhances customer engagement with personalised offers and access to promotions and rewards.

As a business, we are structurally reducing our costs by £500 million over five years, in addition to ongoing savings to cover the impact of cost inflation. We are able to achieve these cost savings because of the unique opportunity to bring Sainsbury's and Argos together. By managing our costs we can sustainably fund investment in what matters most to our customers: choice, quality, low prices, convenience and great service.

To deliver our purpose we know that engaging our colleagues in the long-term success of our business is critical. Our colleagues make the difference to our customers day in, day out and we are committed to being a company that people love to work for. This means being an inclusive employer where colleagues are encouraged to develop their skills and fulfil their potential. It is also very important to us that we continue to play an active role in our communities and we have high ethical standards that we and our suppliers adhere to.

I am delighted with the progress we made against our 2020 Sustainability Plan but there is more to do. We recognise that living well means living sustainably and in January of this year I was proud to launch our ambitious plan to invest £1 billion over the next 20 years to become Net Zero across all our operations by 2040. We know this is an ambitious target, but we are confident we can achieve it.

Outlook

The last few weeks have been unsettling for our customers and our colleagues and we cannot predict what will happen over the coming months. Given the wide range of potential profit and cash flow outcomes, the Board believes it is prudent to defer any dividend payment decisions until later in the financial year when there will be improved visibility on the potential impact of COVID-19 on the business. We have decided not to take up the Government's offer to reclaim furlough payments through the Government Job Retention Scheme. We also will not be taking up the Government's offer of delaying VAT payments. Customers continue to rely on us for food and other essentials and we continue to take on significant costs to ensure we can provide food while keeping our customers and colleagues safe. The business rates relief helps to offset some of the costs to our business of COVID-19 as we support our customers, colleagues and communities during this uncertain time.

Retirement

In January I announced my retirement. I feel very privileged to have spent almost six years running Sainsbury's, during one of the most competitive and challenging periods of my 35-year career in retail. Sainsbury's is a very different business today to the one I took over in 2014. I have focused on setting the business up for the future so it is able to anticipate and address the strategic challenges of our industry. I am proud that almost 20 per cent of total sales now come from our online channels and that we are becoming a multi brand, multi channel business, able to evolve and adapt with customers' ever changing needs. Adding Argos and Nectar to the business improves our ability to make shopping increasingly convenient for customers and to reward them for their loyalty. Investment we have made in quality and low prices means our customers can feel confident they are getting great value when they shop with us.

In the year I have worked with our Chairman, Martin Scicluna, he has shown great skill and leadership and has encouraged a culture of openness and constructive debate on the Board. He shares our company values and is a fantastic addition to Sainsbury's. Martin and I both believe the business is well set up, with a strong management team and a clear plan for the future. I am delighted that Simon will be the next Chief Executive and am confident that he is the right choice for our customers, our colleagues and our investors.

I would like to take this opportunity to thank all my colleagues for their outstanding efforts over the past few months and I wish Simon and the team every success in the future.

Mike Coupe
Chief Executive Officer

Alternative performance measures (APMs) referred to in this statement are defined in pages 205 to 208

Response to COVID-19

The COVID-19 pandemic has had a significant impact on our business since early March. We have had three clear priorities throughout: keeping our customers and colleagues safe; helping to feed the nation; and supporting our communities and the most vulnerable in society.

For more information on how we supported our people and society, please go to page 4.

Setting up the business to deal with the pandemic

We implemented our well-rehearsed crisis management protocols to deal with the COVID-19 crisis in late February, having analysed the results of measures put in place in other countries to deal with the threat.

We mobilised our Incident Response team, led by a Senior Director who was dedicated to that role. Daily calls between our internal and external public affairs teams, health and safety, human resources and legal advisers ensured that our decision-making was well-informed and timed appropriately. A daily call with the Operating Board ensured fast decision making and the plc Board was kept fully updated throughout.

A key aspect of our crisis management plan is to communicate effectively with our customers and colleagues. We kept customers updated through regular emails from the Chief Executive, highlighting where we are making changes to shopping practices in our stores and online. We briefed our store management teams daily, informing them as we were making key decisions that affected shopping and working patterns and activities. We engaged with Government and industry bodies on a regular basis and helped to lead, develop and coordinate the grocery industry's response to the crisis.

We have maintained a disciplined approach to governance and decision-making. We continue to adhere to our crisis management protocols to ensure that we can respond and adapt to the changing needs of our customers. As part of our normal procedures, we will review the management of this crisis in due course to take lessons learned into the future.

Because we sell groceries and other essential items and with Government support to keep our operations running, we have not seen the dramatic decline in demand that has put pressure on other businesses. With our multi brand, multi channel model we are, in many ways, well positioned to remain relevant and solvent through the COVID-19 crisis.

From 'response' to 'recovery'

In addition to dealing with the short-term actions necessitated by the crisis, we are exploring the impact on our business as we move from the 'response' to the 'recover' phase. Clearly, the timelines for this are still unclear, but we are working to create a new plan across all areas of our business.

Although demand for food and groceries has been resilient, we expect that we will see continuing impact on our supply chains over the coming months, with supply restricted or disrupted from many European countries and potentially from UK growers struggling to recruit the labour needed to harvest their crops. We will need to determine a critical path for reopening our cafés and food counters; it is possible they will be disrupted for most of the coming financial year. Fuel volumes and sales in our petrol filling station stores have declined significantly and we have adapted the way we operate these sites, reducing opening hours and selling only fuel.

> "A key aspect of our crisis management plan is to communicate effectively with our customers and colleagues."

Clothing sales have declined substantially, along with the rest of the market. We therefore have an overstock situation to deal with and we have made decisions about forward ordering which could impact supply as we come out of the current crisis into the autumn/winter season.

We have seen some reduction in Argos sales as we have closed 573 Argos standalone stores per Government advice and customers can now only order and pay online for home delivery or collection. The current situation will inform the future proposition and operating model of the Argos business longer term.

We have offered support to suppliers across the business, paying small suppliers immediately and helping others with cash flow. This has had an impact on our working capital.

We have delayed some store investments which were scheduled for 2020/21. These were expected to drive sales and profit by providing new propositions, new ranges and a better shopping experience. We have a large programme of digital and systems development, to deliver customer experience and efficiency benefits in the coming years; these may be delayed and we will prioritise what we can deliver.

There has been a significant impact on our Financial Services business, in lower sales and an anticipated increase in bad debt.

Longer-term outlook for our business

When the immediate impact of COVID-19 has passed, the economy and the retail industry will enter a 'new normal' phase, but the timescale and duration for this is uncertain. In many ways, the situation over recent weeks has accelerated inevitable changes in how customers will want to shop in the future. The crisis has confirmed the importance of enabling customers to access products digitally and to have multiple ways to collect their purchases. The investments we have made over the last five years to become a multi brand, multi channel retailer, supported by an increasingly integrated operating model, give us the platform to serve our customers now and in the future.

Through the crisis, we have been able to provide customers with a wide range of products and fulfilment options and, where necessary, we have rapidly shifted supply and capacity to the areas where they are most needed. This flexibility will be even more important in the future. In parallel with continuing our extensive efforts to maintain supply in core food, grocery and general merchandise products, we will be working on the longer-term outlook for the product and fulfilment proposition we offer customers post COVID-19. We will update further on this at our interim results in November.

Principal risks and uncertainties

The impact of the COVID-19 pandemic on the principal risks and uncertainties was reviewed by the Board at year end. The pervasive nature and impact of the pandemic across the UK and global supply chains means that the business is currently operating in a more uncertain environment. Reflecting this, there is heightened risk around most/all of the principal risks, although to different degrees. On balance, there are two principal risks where we are not flagging a heightened risk currently – these relate to Brexit and Environment and Sustainability. In terms of Brexit, we are confident in our preparations and plans, some of which were activated in our response to the pandemic. On Environment and Sustainability, our response to mitigate risks associated with this are long term and hence, the short-term impact is viewed as being limited.

The duration of this state of heightened risk will vary depending on the length of the pandemic. Timelines for – and the nature of – the recovery from the pandemic are not yet clear and hence we are unable to assess with certainty the medium or longer-term impact on the principal risks. Scenario modelling, as part of the viability statement, has been undertaken to assess the potential range of outcomes so relevant actions can be taken at the appropriate point. Reflecting this uncertainty, we set out below the current or short-term impact on the principal risks and an overview of some of the mitigations we have implemented to manage these. Risks, including emerging risks, will continue to be actively monitored as the situation develops, allowing ways of working and other mitigations to be flexed so that risks are managed. Details of our risk management framework and the principal risks and uncertainties to our business are set out from page 36.

COVID-19 risks modelled in the viability assessment are marked: ©

The current impact of COVID-19 on the principal risks:

Overview of impact of COVID-19 on principal risks	Current mitigations, which are subject to change as risks evolve
Brand perception There is greater focus on our brand, reflecting we are a large business with continuing operations and are also playing a key role in helping to feed the nation, keeping customers and colleagues safe and supporting our communities during the pandemic. It is important that we continue to maintain trust through our focus on making all decisions with our values at their heart.	— All decisions in relation to our response are being taken with a focus on the impact on customers and colleagues — We seek to communicate frequently and transparently with customers and colleagues so they understand the decisions we are making to support them, including those who are vulnerable — As a multi brand, multi channel retailer we have reviewed and will continue to review which brands continue to operate through which channels
Business continuity, operational resilience and major incident response © The impact of and response to COVID-19 has affected most if not all of our business operations. This is being actively managed and business recovery plans are being activated. That said, the level of business disruption caused by COVID-19 is outside of our risk appetite.	— Sainsbury's Incident Response Team was convened in response to COVID-19, reporting frequently to the Operating Board, which provided strategic direction and decision making across financial, operational and regulatory matters. There was and continues to be a focus on all stakeholders during the crisis as well as ensuring systems and processes operate effectively — As new and temporary ways of working emerge, business recovery plans are starting to be activated — All decisions being made to respond to COVID-19 are being tracked and monitored so they can be included, as appropriate, as part of our recovery strategy — Whilst too early to assess any sustained impact on market conditions, the Operating Board has started to focus on recovery
Business strategy and change © The execution of our strategy is currently impacted by the operational response to the pandemic.	— Our current ways of working ensure that our strategy is driven by stakeholder, including customer, needs. This will continue to be the case as any medium and longer-term impacts of COVID-19 on our customers, colleagues and supply chains become more certain — We continue to review business change programmes in terms of their operational impact and will reduce the pace of non-critical change programmes to ensure they do not unduly impact or distract focus on operations — We will review the impact of necessary delays/re-phased change activity across planned efficiency saving programmes this year, identifying and accelerating alternative options in order to realise the level of budgeted savings for 20/21 and beyond

Overview of impact of COVID-19 on principal risks	Current mitigations, which are subject to change as risks evolve
Colleague engagement, retention and capability © Increased risk of colleague disengagement and labour shortages as a result of the pandemic, particularly amongst colleagues who are vulnerable or who live with extremely vulnerable people.	— We communicate regularly and transparently so colleagues understand the decisions we are making to support them and customers and have made additional resources and guidance available — We have flexed our policies to support our colleagues and managers as they help feed the nation. In particular, we have reviewed our paid leave policy and have committed to paying colleagues up to two weeks' paid leave if they are sick or isolating due to COVID-19 (irrespective of their sick pay entitlement); we have also committed to paying colleagues who are extremely vulnerable up to 12 weeks' paid leave; as well as providing those who are vulnerable or who live with extremely vulnerable people up to 12 weeks' paid leave — We have redeployed colleagues from other areas of the business and recruited additional temporary and permanent colleagues to address labour shortages during the pandemic — We have invested in a series of additional recognition activities to acknowledge the efforts being made by our colleagues — We are providing physical and mental wellbeing support including guides, tips and webinars, plus remote working guides — To ensure we are listening to colleague sentiment and adapting our plans appropriately, we are performing additional analysis of Yammer (internal communication tool), an online colleague survey is underway and we have refocused Great Place To Work Groups to focus on colleagues' views
Data security There is an increased risk of cyber threats and security breaches from the ways of working required during the COVID-19 crisis.	— Threat monitoring capabilities are continuously updated to respond to new threats and vulnerabilities. All data handling continues to be managed in line with our Corporate policies — The Information Security team is monitoring any interim changes to our risk landscape, and that of our third parties, as a result of COVID-19 and ensuring relevant mitigations are in place
Financial and treasury © There is an increased risk that we may have to access additional funding during the pandemic.	— We reviewed a range of scenarios to stress test the impact on our financial performance, liquidity and funding requirements. Our revolving credit facility is in place, with material undrawn facilities, and provides adequate headroom in all scenarios modelled — The Treasury Committee convenes weekly, reflecting the increased focus on cash generation and funding requirements across the business
Health and safety – people and product © There is an inherent risk from any personal interaction given the nature of the COVID-19 virus.	— The safety of our colleagues and customers has been at the heart of our response to the pandemic — Additional safety measures for colleagues were implemented, including enhanced cleaning, Perspex screens, social distancing measures, separation of colleagues when delivering large goods, hand sanitiser and closing some in-store services — Our colleague policies provide financial support for vulnerable and self-isolating colleagues to enable them to take time away from work where required — For customers, we are prioritising food online deliveries to vulnerable customers and have opened additional online/Click & Collect facilities to support contactless service

Overview of impact of COVID-19 on principal risks	Current mitigations, which are subject to change as risks evolve
Political and regulatory environment We, along with other retailers, are being actively encouraged to work together and to support the Government in helping ensure food supply. There is a risk that collaborative working and data sharing may transgress regulations such as Competition Law.	— To support current and emerging regulatory requirements, we continue to engage actively with Government, industry and regulatory bodies. This was and continues to be a key area of focus as we respond to COVID-19 to support the Government's initiatives that require us to work with other retailers — The Legal team is actively engaged in these discussions and with the Incident Response team to help ensure regulatory matters are managed appropriately
Sainsbury's Bank (c) Due to changes in the economy, the demand for banking products has reduced while credit risk is rising due to increases in unemployment, reduced household income and a fall in the value of investments. Operational risk is also rising due to process changes that have had to be deployed to support customers.	— The Bank continues to review its capital and liquidity requirements while taking measures to help customers through the crisis. A range of measures have been and will be deployed to mitigate credit risk where possible — Operational risk and all other risks are kept under constant review through the Bank's formal governance
Trading environment and competitive landscape (c) Short-term disruption to the trading environment and supply chains. For example, food stock piling, reduced clothing purchases and the closure of the standalone Argos stores.	— We are actively working with existing and new suppliers to simplify our food ranges to maximise availability — The impact of COVID-19 on the trading environment, particularly on clothing and general merchandising, is actively being monitored to ensure we can respond to customer needs and manage stock levels

For more information on our financial outlook, please go to page 5.

For more information on Board activity and governance during COVID-19, please see pages 15, 54 and 56.

Business model

Our purpose is to help our customers live well for less. We are achieving this by bringing together trusted, well-loved brands offering high quality, affordable products which customers can buy both from our well-located store estate and through our easy to use online channels. The convenience of being able to shop in-store and online is supported by the market- leading service our colleagues deliver, the rewards we offer through our Nectar loyalty programme and our financial services.

Our brands

Connected services

Our channels

In-store

Online

Single infrastructure

How we create value

Bringing Sainsbury's and Argos closer together will enable us to build a future where customers can easily buy everything they need from one single, multi brand, multi channel business. By integrating our infrastructure, systems and operations we can also reduce our operating costs, ensuring that the products and services we offer continue to be competitive.

£6 billion of sales across the business are now digital, and we continue to invest to deliver easy, speedy and seamless shopping. We offer fast, convenient home delivery for food and general merchandise and we have close to 2,400 stores across the UK where customers can collect orders they have made online.

Increasingly customers are interacting with us digitally when they are in stores. Sainsbury's has rolled out SmartShop technology to all supermarkets, delivering easier and convenient ways for customers to shop using in-store handsets or their own smartphone. A growing number of customers are choosing to shop with us in this way and SmartShop sales account for up to 20 per cent of sales. At Argos, we rapidly rolled out Pay@Browse to 386 Argos stores, offering customers a quicker way to pay. And through our Nectar app over four million users can access their Nectar account digitally.

Alongside investment in digital innovation we are making the most of our store space so we can offer customers complementary product ranges and services through carefully selected concession partners, who pay us rent or a share of their turnover.

Living well means living sustainably and the work we are doing to deliver our Net Zero by 2040 commitment is designed to minimise the impact of our operations on the environment. To achieve our ambition we must work closely with our suppliers to find ways to minimise the environmental impact of the entire supply chain. We are also committed to engaging with and giving back to our communities, with a particular focus on helping customers and communities live healthier and more environmentally sustainable lives. The work we do in our local communities is informed by and reinforces our live well for less and Net Zero by 2040 commitments.

We strive to be an inclusive employer and colleagues are encouraged to develop their skills and fulfil their potential and we will continue to build an engaged workforce.

Stakeholder value

Customers

Across 2,400 stores and online we serve our customers whenever and wherever they want to shop with us.

Colleagues

We motivate and reward our colleagues well and enable them to reach their full potential by harnessing their talent, creativity and diversity. We are committed to being a place where people love to work.

Suppliers

In partnership with our suppliers around the world we improve quality, innovation and sustainability throughout our supply chain. We are consistently ranked first or second for supplier relationships in the largest independent supplier survey.

Communities

We contribute to the communities in all parts of the UK. We provide good employment opportunities, supporting local and national charities and initiating community initiatives.

Shareholders

We have the right strategy in place to grow value for our shareholders.

The market

Economic conditions eased slightly for UK consumers over the last 12 months, prior to the start of COVID-19. Unemployment rates remained at historic lows and average weekly earnings continued to outstrip inflation.

Despite this, consumer confidence languished throughout most of the year, impacted by Brexit uncertainty, before improving at the end of 2019. UK GDP growth in the past year has been subdued and near-term outlooks for economic growth, before the impact of COVID-19, were below long-term averages.

Lower levels of inflation and weak consumer confidence have resulted in little to no growth in both the food and non-food retail sectors. This is putting pressure on the underlying economics of retail businesses, the impact of which can be seen in record levels of store closures and traditional retail businesses entering administration.

The global spread of COVID-19 escalated at the end of our financial year. This has had a significant impact on customers, colleagues and communities and the way we operate and will likely have an ongoing impact on customer demand, the availability of colleagues, our operating costs and the financial services business. Please see pages 6 to 9 where we detail scenario planning with regards to COVID-19.

Retail trends

Changing customer shopping habits

We continue to see rapid changes in how customers shop in the UK. With greater access to a variety of shopping channels, the UK consumer has more flexibility and choice than ever in how and when they shop and online and convenience channels are showing strong growth. High streets and retail parks, in particular, continue to experience footfall and sales decline as online participation grows. The growth of food delivery services such as Deliveroo, Just Eat and Uber Eats is impacting grocery spending and consumers are also eating more meals outside the home.

How we are responding

We are a multi brand, multi channel retailer and our customers can shop with us wherever and however they want. In the fast-growing Groceries Online channel, technological advances have improved productivity and helped to drive sales, with greater availability of same-day delivery. Chop Chop, our one-hour delivery service for up to 25 grocery items, continues to see strong growth.

Online penetration in some general merchandise categories, such as consumer electronics, is already very high. Around 60 per cent of Argos sales start online and customers are able to choose between rapid home delivery (within four hours, seven days a week) or collecting items from over 1,100 locations, including 306 Argos stores in Sainsbury's supermarkets. Argos's single item supply chain and hub and spoke delivery network delivers this flexible proposition at a far lower cost than most bricks and mortar retailers.

Our convenience store estate consists of over 800 town centre and neighbourhood stores and is outperforming the market in value and volume as we continue to tailor the ranges we offer customers to ensure they reflect local demographics.

We are adapting our supermarket space to serve a wide variety of shopping missions, ensuring we offer customers a broad range of products and services under one roof. This includes Argos stores and Beauty Halls, as well as popular concessions partners such as Specsavers and Sushi Gourmet. Maximising the productivity of our space in this way is driving strong trading intensity across our supermarket estate, where footfall trends have remained strong, relative to declines across high streets and retail parks.

Digital evolution

Technology is changing the way consumers interact with the world and with brands, including the way they shop. Delivery services have improved in terms of speed and reliability, while Click & Collect is both cost-effective and convenient for customers and accounts for a significant proportion of online general merchandise and clothing sales. Digitisation is impacting the way customers shop in-store too, with the rise of self-scan technology speeding up the check-out process. Personalised shopping experiences are becoming increasingly popular and represent a significant opportunity.

We are focused on technology-led innovation that makes shopping faster, easier and more convenient for our customers. SmartShop self-scan, which enables customers to scan their shopping directly on to their phone or hand-held device and check out quickly, is available in all of our supermarkets. SmartShop mobile pay is available in nine convenience stores, enabling customers to bypass the checkout and pay on their smartphone anywhere in the store. Pay@Browse is currently available in nearly 550 Argos stores, offering customers a convenient payment option without the need to queue at a till. Argos Click & Collect and Fast Track delivery have grown by nearly eight per cent and five per cent respectively.

We have invested heavily in upgraded self-checkout technology, leading to improved customer satisfaction in ease and speed of checkout metrics. We launched Digital Nectar in October 2019, with over 4.5 million app downloads and strong weekly customer engagement.

Rise of the discounters

The amount of new space being added to the market by traditional grocers is limited, but discount and bargain retailers continue to open significant numbers of new stores and gain market share. We do not expect any significant slow-down in discounter store openings in the near future. Traditional grocers continue to experience significant switching losses to the discounters, in core commodity items in particular.

Our value proposition has improved over the year, with the launch of over 200 entry price point, value products across 15 brands and sharper pricing across thousands of products as we implemented our Price Lockdown. The quality of our food continues to be a strong differentiator and we are working in partnership with our suppliers to bring greater numbers of exclusive, innovative and distinctive products to our customers. With our £1 billion *Taste the Difference* range, we have a bigger proportion of premium private label sales than any of our major competitors, and we relaunched nearly 700 products across a number of categories during the year. We have invested more in everyday lower prices at Argos to ensure great value for our customers year-round.

Environmental shift

Consumers are becoming increasingly conscious of the environmental and social impact of their decisions, including the way they shop and eat. Increasing numbers of consumers are reducing their meat and dairy consumption, leading to strong growth in meat and dairy alternative products. Grocery retailers are coming under increasing scrutiny on the use of plastics and the management of food waste, with climate concerns at the heart of public debate. General merchandise and clothing retailers are also coming under pressure as awareness of the environmental impact of plastic toys and clothing manufacturing grows. Sustainable practices can develop greater trust for companies, increasing brand and customer loyalty.

In January 2020, we committed to investing £1 billion over 20 years towards becoming a Net Zero business across our own operations by 2040. We will use this investment to implement a programme of changes, focusing on reducing carbon emissions, food waste, plastic packaging and water usage and increasing recycling, biodiversity and healthy and sustainable eating.

The investment will enable us to fulfil Scope 1 and Scope 2 emissions, putting us on course for Net Zero a decade ahead of the UK Government's deadline. We will work with the Carbon Trust to assess emissions and set science-based targets for reduction, publicly reporting on progress every six months. These targets will align Sainsbury's with the goal to limit global warming to 1.5°C, the highest ambition of the Paris Agreement.

Our stakeholders

Stakeholders are an important part of the Board's discussion and decision-making.

Who? Stakeholder groups	Why? Why is it important for us to engage with our stakeholders?	How? How do the Board and management engage with our stakeholders?
Customers We have 28.1 million customer transactions per week across all our Sainsbury's and Argos channels – in stores, online and on our mobile app. We also have 18.2 million active Nectar card customers who benefit from the UK's leading loyalty programme. In our Financial Services business we have 2.1 million active Sainsbury's Bank customers and 2.2 million Argos Financial Services customers.	Our purpose is to help our customers live well for less and we think loyal, satisfied customers are key to our long-term success.	The Board is regularly updated on consumer trends and the overall metrics from our customer feedback programme so it can understand how we are driving a consistent approach across the business. The CR&S Committee reviews customer insight analysis which reflects views on Sainsbury's and Argos brands and trust in the business on sustainability matters. Further details on how we engage with our customers include: — Customer feedback programme (CSAT) – real-time feedback on a range of service measures — Social media listening — Market research – qualitative customer focus groups, accompanied shopping trips, quantitative surveys — Nectar data which helps us understand how customers are shopping — Brand tracking which assesses the performance of our different brands
Colleagues Our colleagues include everyone who is employed by the business.	Colleagues are at the heart of everything we do and their commitment to our purpose and values is key to the Company's long-term success. One of the key priorities in our strategy is to be a place where we all love to work so we engage with our colleagues in a variety of ways to help create a place where our colleagues love to work. Connected, engaged colleagues, working in safe stores with better technology leads to improved service, greater efficiency, increased availability of products and improved customer service levels.	The Board engages directly with colleagues through the Workforce Advisory Panel and Talking Shop. It receives detailed presentations on culture, colleague engagement surveys, and diversity and inclusion from our Group HR Director, and regular summaries from the Chief Executive Officer on key initiatives that respond to colleagues views. Our colleague engagement activities include the following: — Great Place to Work National Group, our Workforce Advisory Panel, made up of colleagues across the business elected by their peers to represent their views at meetings. Non-Executive Directors attend these meetings — Talking Shop, our question and answer style listening sessions, give store colleagues the opportunity to meet members of the Operating Board and Non-Executive Directors and discuss the issues that affect them — Our annual colleague engagement survey 'We're Listening' invites every colleague to give honest confidential feedback on what it is like to work for the business — Live social media question and answer sessions with the Chief Executive Officer around key topics such as our Net Zero by 2040 plan — Updates on culture and colleague engagement to the Board and CR&S Committee More information on our colleague engagement activities can be found on page 26.
Suppliers We have over 4,000 Goods For Resale (GFR) suppliers that supply products for food, general merchandise and clothing and 2,500 Goods Not For Resale (GNFR) suppliers across the Group supporting all divisions' activities including Logistics, Marketing, Technology and Retail. Our suppliers range from large multi-national companies to small independently-run businesses.	Our GFR suppliers are fundamental to the quality and variety of products we provide for our customers and enable us to meet the high standards that we set ourselves. Our GNFR suppliers provide operational excellence and access to new technology and innovation to ensure we keep pace with the evolving and changing needs of our customers.	The Board receives regular updates on supplier relationships. Operating Board Directors lead our two annual conferences for all our GFR suppliers, one in Asia and one in London. Our suppliers have access to our online supplier portals where we share news about the organisation and develop new ways of working with them which ensures a consistent forum for tendering communication. We take part in annual, independent surveys which benchmark us against other retailers; these include the Advantage survey and Groceries Supply Code of Practice (GSCOP) supplier survey. As part of our initiative to drive greater product differentiation, our Future Brands team has been working with exclusive brands to build stronger relationships. We have engaged with suppliers through the Sainsbury's Fairly Traded Programme and the Fair Development Fund. We engage with our suppliers to prevent modern slavery and human trafficking in our business operations and supply chain and report this through our Modern Slavery Statement.

Engaging with our stakeholders and our Section 172 Statement

The Board has always deeply engaged with the Company's vision, values and goals recognising that they underpin everything we do as a business and help us strengthen relationships with our key stakeholders. We have 172,000 colleagues, over 28 million customer transactions a week, 114,000 shareholders, and we source over 48,000 Sainsbury's branded products from more than 87 countries.

Stakeholder considerations and culture are therefore an important part of the Board's discussions and decision-making, to promote the success of the Company in the long term, consistent with the ethos of the Companies Act 2006 (CA2006) Section 172. For many years, various aspects of culture have been considered by the Board and Committees through the scheduled cycle of meetings, supplemented by other engagement opportunities. This has been strengthened during the last year with an annual review of our purpose, culture and values by the Board; regular reporting by the Non-Executive Directors who attend our Workforce Advisory Panel with members of our existing Great Place to Work colleague group; and reformatting the schedule of our Corporate Responsibility and Sustainability (CR&S) Committee meetings to focus on our sustainability strategy and our engagement with colleagues, customers, suppliers and the community.

Our Board discussions during the COVID-19 pandemic have particularly focussed on the needs of all of our stakeholders as referred to on pages 6 to 9.

The Board believes that it has acted in the way it considers would be most likely to promote success of the Company for the benefit of its members as a whole, having regard to Section 172(1)(a) to (f) and other factors it reviewed, during the year ended 7 March 2020. The approach we take to Section 172 also applies to our subsidiaries in a manner which is relevant to their own individual size and complexity.

The disclosure below provides further detail on how the Board has considered stakeholders when making Board decisions.

What? **What were the key topics of engagement with our stakeholders, and what feedback did the Board obtain?**	**Outcome and actions** **What was the impact of our engagement and the decisions taken?**
Customers provided feedback on the things they most want to see which included: — Value for money — Quality of items — Range of items — Availability of products — Colleague service — Store environment — Ease of using digital channels	The Board approved the strategic priorities to help our customers live well for less which addressed this feedback. See pages 20 to 27 for more detail.
The results of the colleague engagement survey highlighted that colleagues wanted: — To hear more from our Chief Executive Officer — More support around their development and career — To talk openly and honestly about mental health	The following initiatives were launched by the Chief Executive Officer: — The Chief Executive Officer providing colleagues with more regular updates on the progress we are making as a business and the role colleagues play in our success — Encouraging every colleague to discuss their development — Opening more dialogue around mental health. The Chief Executive Officer signed up to the Time to Change pledge which is a commitment to change the way we all think and act about mental health in the workplace — Appointing an Operating Board Director to lead on Wellbeing as part of the Group Diversity and Inclusion Steering Group
Colleagues are concerned about plastics and the environment.	The Board approved the Net Zero by 2040 plan, for more information see page 27.
Colleagues are concerned about security in stores.	The Board was updated regularly on health and safety and was supportive of initiatives to increase safety including the use of body cameras worn by colleagues and security staff in store, deploying security resource more effectively by using reporting data from stores to ensure resources are in the right place at the right time, and investing more in CCTV.
Colleagues want an inclusive workforce that reflects the communities we serve.	The Board is highly supportive of the initiatives in place to promote diversity and inclusion throughout the business. More information can be found on page 63.
We engaged with our suppliers on our Net Zero by 2040 plan. Our management team wrote to suppliers asking them to set their own net zero targets and to reduce their emissions in line with the Paris Climate Change agreement.	The Board will continue to monitor how we can work with our suppliers to reduce our Scope 3 emissions.
The surveys and feedback that we have received via our supplier portal, through our working group and from our Future Brands team, have given us a focus on how to improve the supplier experience and will inform our technology roadmap. We have also actively engaged with suppliers on key risks to business continuity including in relation to Brexit preparation and COVID-19 response, understanding key risks and actions across our supply base.	Management continues to improve the technology and processes to make it easier for our suppliers to do business with us and will report back to the CR&S Committee on progress.
David Keens, Chair of the Audit Committee, meets with the Groceries Code Adjudicator to obtain feedback on how Sainsbury's complies with its obligations to treat suppliers fairly under the Groceries Supply Code of Practice.	For more information see page 69 of the Audit Committee Report.
The Sainsbury's Fairly Traded, Programme has allowed us to develop closer relationships with tea producers and gain visibility of the environmental, social and economic risks they face.	The CR&S Committee continues to be updated on the work being undertaken by Sainsbury's Fairly Traded Programme, including how we distributed funds to farmers and how we provided farmers with data-driven insights on social, environmental, and economic risks to help them strengthen their businesses and communities for the long-term.
The Fair Development Fund, which was set up in 2007 with Comic Relief, has helped us engage with growers, farmers and workers in developing countries to give them a better chance of building a sustainable future for themselves, their families and their communities.	The CR&S Committee discussed the third phase of work through the Fair Development Fund which is focusing on Sainsbury's non-food suppliers with the aim to promote positive and equitable gender relations in the supply chain.

Our stakeholders

continued

Who? Stakeholder groups	Why? Why is it important for us to engage with our stakeholders?	How? How do the Board and management engage with our stakeholders?
Communities Generating positive impact in the communities we serve and source worldwide.	We are embedded in many communities across the UK, so we are committed to supporting social cohesion, economic prosperity and inclusive growth to help us achieve our vision of being the most trusted retailer where people love to work and shop.	The CR&S Committee was provided with regular updates on our community programme including on: — The work by our 'Making a Positive Difference to our Community' Value Management Group, which helps ensure effective delivery of our community programmes across the business — Colleague feedback through our Workforce Advisory Panel — Our customer feedback programme and customer surveys which provide the Board with valuable information on our customers and local communities. These insights help shape our activities
Shareholders We have institutional, large investors and private shareholders. The major interests in our shares are set out on page 97 within our Governance Report and the breakdown is on page 201.	Continued access to capital is of vital importance to the long-term success of our business. Through our engagement activities we explain our financial and operating performance and strategy in order to encourage sustained support for the Company's shares. We seek to encourage shareholders who are interested in a long-term holding in the Company to invest in the business.	The Board receives reports and updates on shareholder relations at each meeting. These summarise key feedback from our principal shareholders derived from the programme that consists of: — One-on-one investor meetings with the Chairman, Chief Executive Officer, Chief Financial Officer and Head of Investor Relations — Real time feedback from investors immediately after meetings and presentations — The Annual General Meeting (AGM) — Attendance at key investor conferences and tours, for example, the Capital Markets Day — Regular email and telephone contact with investors and analysts
Government The UK Government and devolved administrations in Scotland, Wales and Northern Ireland set the regulatory environment in which our business operates.	As a UK-based business and a major employer of 172,000 colleagues it is appropriate and responsible for a business of our scale to engage with Government.	The Board receives updates when regulation is relevant to the business through summaries on the following activities: — Responding to Government consultations — Direct meetings — Trade association meetings — Government organised roundtables — Participation in Government organised forums such as the Food and Drink Sector Council (Defra) or the Retailer Panel for Exiting the EU (BEIS)
Defined benefit pension holders fund	We regularly engage with our Trustee, who has a fiduciary duty to the members and beneficiaries of our defined benefit scheme, to ensure that the Scheme is sufficiently funded.	Our management engage with our Trustees on a day-to-day basis. The Chief Financial Officer regularly meets with the Trustee Chair and attends the Trustee Board meeting on a bi-annual basis to report on annual and interim results.

What? What were the key topics of engagement with our stakeholders, and what feedback did the Board obtain?	Outcome and actions What was the impact of our engagement and the decisions taken?
Through engagement with our colleagues and customers, we have identified ways to support and make a difference to our local communities including: — Volunteering in local communities — Inspiring children to lead healthier lifestyles — Tackling food poverty — Collaborating for greater impact; using our assets to help generate funds for charities — Helping our colleagues to support their local communities	The CR&S Committee was highly supportive of the initiatives in the programme which included: — Our 150th birthday work time volunteering, which gave colleagues time to volunteer in their local community. See pages 19, 26 and 64 for more information — Successful Active Kids programme – Jo Harlow visited an Active Kids Club and learnt more about them — Expanding back-of-store surplus food redistribution and increasing the number of front-of-store donation points — Supporting The Royal British Legion and Comic Relief for over 20 years. Through these and other charity partnerships £359 million has been generated — Our Local Hero programme which has supported thousands of charities and community groups across the country
Shareholders wanted to understand how we intended to improve our grocery market share performance and compete with the discounters.	We held a Capital Markets Day in September 2019, in addition to our usual engagement activities, where we updated our strategy and launched six of our strategic priorities. Our seventh strategic priority Net Zero by 2040 plan was launched in January 2020. We also outlined the results of some of the changes we had made to our customer offer over the course of 2019/20.
Shareholders wanted to understand how we would improve returns in our Financial Services division and reduce the cash outflows from the business to the Financial Services business.	The Board approved a Financial Services five-year plan.
Our shareholders are increasingly interested in environmental, social and governance issues.	The Board approved the Net Zero by 2040 plan, having considered the risks and opportunities, details of which can be found on pages 27, 54 and 65.
Shareholders are keen to understand how prepared we are for Brexit.	The management team responsible for Brexit is developing plans in line with presentations to the Board. Further information can be found on page 39.
Shareholders are keen to understand our new Remuneration Policy and how it aligns with best practice, including the Investment Association guidelines.	The Remuneration Committee approved the new Remuneration Policy which has been proposed for shareholders to vote on at the AGM and is included on pages 90 to 95.
Management has engaged this year with Government and officials on the following topics: — COVID-19 — Brexit — Climate change and net zero — UN Climate Change Conference (COP 26) — Waste and resources legislation such as the Deposit Return Scheme — Disability — Apprenticeship levy — Healthy eating and obesity — Business rates	Supporting the Government with building and adapting regulation and legislation, ensuring sensible policy making rooted in data-led information and putting policy into practice.
We engaged with the Trustees on the triennial valuation, recognising the need to balance our significant pension fund commitments against greater security for our Pension Scheme members.	The Board approved a new longer-term, asset-backed pension plan. We now have an agreed funding plan for the medium term that better secures the pension members' benefits whilst ensuring the Company does not over-fund.

Our 2020 Sustainability Plan

Delivering on our 2020 commitments.

Our purpose is to help our customers live well for less, now and in the future and to help them get the most out of life, no matter how much money or time they have.

Our customers care about wide-ranging, complex issues that impact them and our wider world. And, they expect us to be a responsible, sustainable business, whether that's by supporting the communities we serve and source from, managing our environmental impact or contributing to a healthier and more inclusive society. To this end, in January 2020 we announced our new commitment to invest £1 billion over 20 years to become Net Zero across our own operations by no later than 2040.

When we launched our 2020 Sustainability Plan in 2011, we set out five clear values and gave ourselves 20 deliberately stretching commitments which gave us a clear focus to formalise our activities. Our five values were to help our customers, colleagues and suppliers to live healthier lives; make a positive difference to our communities; source with integrity; have respect for our environment; and create a great place to work for our colleagues. In 2015, approaching the halfway point of our 2020 timescale and following the launch of our 2014 business strategy, we took the opportunity to review our 2020 Sustainability Plan. As a result, we updated our commitments, removing those which were no longer relevant and adding challenging new ones to have the most positive impact. This gave us a refreshed focus as we moved forward to 2020.

"When we launched our 2020 Sustainability Plan in 2011, we set out five clear values and gave ourselves 20 deliberately stretching commitments."

Our 2020 Sustainability Plan has been our guide for building a sustainable future, ensuring we focused our efforts to make the greatest difference and we are proud of what we have achieved over the past decade; we have learnt a lot in the process and taken lessons from where we have hit our targets and where we have not. This helped to inform how we can make a greater impact moving forward and where we need to collaborate with industry and partners to contribute to tackling some of the big challenges such as climate change.

Living Healthier Lives

Offering customers nutritious and healthy food and encouraging active lifestyles

We committed that our customers could always choose nutritious and healthy food when they shop with us and that we would encourage kids to live a healthy, balanced lifestyle.

22%

red traffic light labels on our own-brand products

2020 target: 21%

£187m

total investment in our Active Kids scheme

2020 target: £200m

We are continuing to reduce the percentage of red traffic labels on own-brand products and reformulate to reduce salt, sugar, fat and saturated fat in order to help our customers eat and live well. We are also supporting customers with food allergies and intolerances by creating personalised allergen profiles online via food search platform FoodMaestro. We continue to invest in our Active Kids scheme and launched summer holiday clubs to offer activities to kids of all abilities during the long summer break.

Making a Positive Difference to our Community

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

We committed to support our local communities in relevant and impactful ways and donate over £400 million to charitable causes by 2020.

£359m[1]

cumulative charitable investment generated across our programmes

2020 target: £400m

Through our customers and colleagues, we have generated over £359 million to make a positive difference to the communities we serve. In addition, we supported over 35,000 of our colleagues who pledged to work with charities and community groups across the UK through our 150 Days of Community programme to celebrate our Company's 150th birthday.

Sourcing with Integrity

Building resilient supply chains by sourcing products ethically and sustainably

We committed to sourcing our key raw materials sustainably to an independent standard and that our own-brand fish would be independently certified as sustainable. We committed to selling products that are fairly traded and to invest in the sustainability of the suppliers, farmers, growers and workers within our supply chains internationally, as well as investing in the future of British farming and be the leading retailer.for British produce. We also committed to sourcing our meat, poultry, eggs and dairy products from suppliers who adhere to independently verified animal health and welfare outcomes.

99.1%[2]

palm oil sourced to an independent sustainability standard

2020 target: 100%

100%

farmed seafood independently certified as sustainable

2020 target: 100%

We are proud of our track record on sustainably farmed fish and have made significant progress to ensure we limit the contribution to global deforestation from our own-brand products. We will continue to actively collaborate with suppliers, partners and industry experts to ensure that we source from sustainable sources.

Respect for our Environment

Reducing emissions, water use and waste across our value chain

We committed to reduce our operational food waste and to work with our customers to help them reduce theirs, putting both to positive use. We also said we would reduce our own-brand packaging and our operational carbon emissions. Through robust water stewardship, we committed to address and manage all areas of water vulnerability.

92%[3]

stores with Food Donation Partner(s) for surplus food

2020 target: 100%

42%

absolute greenhouse gas emissions reduction

2020 target: 30%

We continue to support the delivery of Courtauld 2025/Champions 12.3 by reducing operational food waste and are making year-on-year progress to increase the number of stores with Food Donation Partners. We are really proud of our achievements in reducing greenhouse gas emissions and water use in our operations. This year we received a CDP A rating for our climate change disclosure for the sixth year running, the only UK food retailer to achieve this score for this length of time. We will continue to introduce proven technologies to achieve further reductions in these areas in order to reach our goal of being Net Zero in our own operations by 2040.

Great Place to Work

Being an inclusive employer where colleagues love to work

We committed to being an employer where colleagues love to work and to having an inclusive workforce which offers good employment opportunities to all members of the community. We also committed to investing in the training and development of our colleagues.

£9.30 an hour[4]

colleague reward

2020 target: standard colleague reward greater than National Living Wage

6.7%

colleague reward is greater than National Living Wage

2020 target: standard colleague reward greater than National Living Wage

We are recognised as a great place to work, demonstrated by maintaining our Gold accreditation from Investors in People for the fourth year running. We have continued to broaden our training and development offer to our colleagues and our 'Leading@Sainsbury's' development programmes support individuals to develop the skills and leadership capability to transition to a management role.

For more detail on our sustainability initiatives and for our full 2019/20 performance scorecard against our 2020 commitments, please see our Sustainability Update report on our corporate website.

For our Net Zero by 2040 commitments please see page 27, and for our greenhouse gas emission disclosure please see page 97.

1 Includes funds raised for good causes from corporate donations, carrier bags, colleague and customer fundraising and charity partnerships.
2 Based on 2019 calendar year.
3 We have sent zero operational waste to landfill since 2013.
4 Per hour base rate of pay in Sainsbury's stores. National Living Wage rate (25+) effective dates: April 2018, April 2019 and April 2020.

Our strategy

To deliver our purpose and vision we will focus on seven strategic priorities which are designed to ensure we continue to give our customers what they want in a rapidly changing retail marketplace while also delivering value for our shareholders.

Be competitive on price

We are focused on offering customers quality products at affordable prices.

Through the year our food and grocery sales have been on an improving trend and we are outperforming our main supermarket peers. This is driven by strategic investments in our customer offer, reducing our prices and ensuring customers always get great value.

Offer distinctive products and new categories

We can serve more of our customers' needs by selling more distinctive and exclusive ranges.

Because of our distinctive offer, customers visit our stores to buy new and interesting products they cannot find elsewhere. By bringing distinctive and innovative brands to the market we give our customers better choice and our stores benefit from incremental sales as a result.

Personalised and seamless physical and digital

We are investing in our digital offer so that customers can shop easily and efficiently across our multi brand, multi channel business.

Financial Services and Nectar provide our customers with affordable ways to manage their finances and reward them for their loyalty. Our Nectar loyalty programme is the biggest in the UK with over 18 million members and over 4.5 million people have now downloaded the new app.

Fast, friendly and convenient

Great service and availability and faster ways to pay mean customers can save time as well as money by shopping with us.

We are consistently improving our customer service scores, driven by investment in more than 450 supermarkets and 362 convenience stores. We also now have 306 Argos stores in Sainsbury's supermarkets. We further maximise our supermarket space by introducing carefully selected concession partners that give our customers a range of essential services, as well as a broader choice of fantastic quality products, including 61 Specsavers and over 123 Sushi Gourmet counters.

Drive efficiency to reinvest

To invest in our customer offer, we aim to deliver inflation covering cost savings as well as structurally reducing our costs.

This year we have met our objective to make savings to cover the impact of cost inflation and we are making good early progress with our target to structurally reduce our costs by approximately £500 million over five years by bringing Sainsbury's and Argos together.

Be a place where we all love to work

We respect and reward our colleagues for the great work they do helping our customers live well for less.

Being a company that people love to work for means being an inclusive employer where colleagues are encouraged to develop their skills and fulfil their potential. It's about playing an active role in our communities and about having high ethical standards that we and our suppliers adhere to.

Net Zero by 2040

We will create value for future generations by reducing the environmental impact of our business and by working with farmers, growers and suppliers throughout our supply chain to help them reduce theirs.

Living well means living sustainably and we have committed to invest £1 billion over 20 years to become Net Zero across all our operations by 2040. We have seven key areas of focus and we will report progress against each of them at our interim results in November.

Read more about the progress we are making against our priorities on pages 21 to 27.

Priority 1

Be competitive on price

To help customers live well for less we are focused on offering them quality products at affordable prices.

Through the year our food and grocery sales have been on an improving trend and we are outperforming our main supermarket peers. This is driven by strategic investments in our customer offer, reducing our prices and ensuring customers always get great value.

In January we lowered the price of some of our most popular produce lines – including apples, mangos and avocados – to 60 pence and we have now achieved our target to launch 200 entry price point products across 15 owned brand ranges such as Daily's, Farmhouse and J. James. We have moved away from short-term promotions in favour of offering customers great everyday value with regular Price Lockdown events, featuring hundreds of high-volume food lines across meat, fish, poultry, dairy, grocery and household products. This year around 2,300 products have been reduced or held at lower prices. We hold these prices for at least eight weeks, giving customers confidence that they will always get a great deal on food at Sainsbury's. We were named the UK's cheapest supermarket in 2019 for branded groceries by the consumer magazine, Which?.

The general merchandise market remains challenging and this year's performance was impacted by weakness in the toy and gaming markets. We are focusing on offering customers everyday low prices and have made choices to reduce our promotional activity, including our 3 for 2 toy offers.

Tu clothing performed well during the year, growing by 1.2 per cent and gaining share in a highly competitive market. *Tu* clothing online grew by 47 per cent as more people choose to order clothing online for collection or home delivery. *Tu* clothing online, through both Sainsbury's and Argos's websites, has been very successful and we have seen strong and profitable sales growth through this channel. Our strategic decision to reduce the number of promotions and change their timing has led to better markdown management.

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

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

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

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

Priority 2

Offer distinctive products and new categories

Because of our distinctive offer, customers visit our stores to buy new and interesting products they cannot find elsewhere. We can also serve more of our customers' needs by selling distinctive and exclusive ranges.

***Taste the Difference* accounts for over £1 billion of sales and we relaunched our range this year, introducing nearly 700 new, reformulated or repackaged products in the financial year.**

This year *Taste the Difference* volumes grew by 0.3 per cent. We outperform the market in meat alternative, plant-based food ranges, catering for the increasing number of people who choose to limit their meat consumption for health or lifestyle reasons. We launched our Plant Pioneers brand in October, adding 26 new products across fresh, frozen and ambient categories to our existing range of over 200 meat alternative lines. These include banana blossom, a popular alternative to white fish, Smokey Vacon Rashers and meat-free Southern Fried Bites.

By bringing distinctive and innovative brands to the market we give our customers better choice and our stores benefit from incremental sales as a result. Our in-house Future Brands team gives these distinctive brands the opportunity to showcase their products exclusively in our stores and online. Since June 2018, we have introduced over 1,700 lines across 146 Future Brand ranges including Wasabi ready meals, Beavertown beer and Jude's ice cream. Future Brands delivered £146 million in sales this year, an increase of 77 per cent year on year. We also entered into a three-year exclusive partnership with Leon to sell its fast and healthy food to go in over 600 of our stores.

We are creating dedicated hubs and aisles in growing categories where we can gain market share. For example, we now have 134 Beauty Halls which feature 19 new branded ranges. These Beauty Halls have been well received by customers, driving sales and frequency of visits to our stores. We have opened 48 Wellness Hubs in our stores, offering over 1,000 health-focused SKUs, from specialist food and drink to supplements and vitamins. This financial year we also invested in the pet market with new ranges and 20 in-store Pet Hubs.

This year we have made further progress to bring our Sainsbury's and Argos ranges and buying and merchandising teams together which enables us to buy better and offer customers a more integrated product offer in our stores and online.

The iconic Habitat brand is available in five stand-alone stores, 11 stores in Sainsbury's supermarkets and online through habitat.co.uk, which accounts for over 68 per cent of its sales. We launched Habitat's first ever spa fragrance collection, sold exclusively in Sainsbury's stores and online in time for Christmas gifting, as well as a range of Habitat branded floral products. We see opportunities to further grow the Habitat brand and we will integrate Habitat into our home and furniture business and increase the accessibility and appeal of the brand.

Our *Tu* branded clothing continues to grow and gain market share in a highly competitive market. We launched new ranges in our *Tu* premium collection and we invested in building the brand through our branded above line and digital advertising campaigns.

Priority 3

Personalised and seamless physical and digital

Financial Services and Nectar provide our customers with affordable ways to manage their finances and reward them for their loyalty.

Our Nectar loyalty programme is the biggest in the UK with over 18 million members and over 4.5 million people have now downloaded the new app. The app enhances customer engagement by offering personalised offers and access to promotions and rewards. We have 2.1 million active Sainsbury's Bank customers and 2.2 million Argos Financial Services customers. Over 75 per cent of Sainsbury's Bank customers are Nectar card holders and, by combining Sainsbury's and Argos's connected services into one digital eco-system, we can reward customers in a meaningful and personalised way.

This year we extended our Nectar programme to Argos customers, making it possible for them to earn their Nectar points across all Argos channels. We also launched Nectar360, the business-to-business arm of the loyalty programme that enables brands to understand, reach and engage more effectively with their customers by giving them access to leading data, insights, digital and media capability. Over 500 brands have signed up to date.

In September, we unveiled a five-year strategy for Sainsbury's Bank and Argos Financial Services to become an agile, capital and cost efficient provider of simple, mobile-led financial services to loyal Sainsbury's and Argos customers and we have made good progress. We have a leaner structure, greater digital uptake and we have stopped underwriting new mortgages. We will provide an update in November on the impact of COVID-19 on the financial services five-year targets we announced in September 2019.

Sales growth

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

Priority 4

Fast, friendly and convenient

Great service and availability and faster ways to pay mean customers can save time as well as money by shopping with us.

We are consistently improving our customer service scores, driven by investment in more than 450 supermarkets and 362 convenience stores. We now have 306 Argos stores in Sainsbury's supermarkets. We further maximise our supermarket space by introducing carefully selected concession partners that give our customers a range of essential services, as well as a broader choice of fantastic quality products, including 61 Specsavers and over 123 Sushi Gourmet counters.

Our convenience strategy is to deliver a relevant, flexible offer tailored to local customer needs. Over 184 convenience stores have Argos Click & Collect and this year we introduced more innovative new convenience formats. These include neighbourhood hub stores that offer local communities a convenient, one-stop shop for a broad range of groceries and general merchandise and two 'On the Go' city stores tailored to match the needs of busy city workers.

£6 billion of sales across the business are digital and we continue to invest to deliver easy, speedy and seamless shopping. At Argos, Black Friday broke records, with £60 million in online sales on the day. Argos Click & Collect grew by nearly eight per cent and Argos Fast Track delivery grew by nearly five per cent year on year. In Food and Grocery, Groceries Online grew by nearly eight per cent and we have over 141,000 Delivery Pass customers.

Sainsbury's has rolled out SmartShop technology to all supermarkets, delivering easier and convenient ways for customers to shop using in-store handsets or their own smartphone. Customers are increasingly choosing to shop with us in this way and SmartShop sales account for up to 20 per cent of sales in some stores. To further improve our supermarkets, we upgraded 3,639 self-checkouts. Recent customer service scores show that customers value these improvements. Ease of checkout is up three per cent and speed of checkout is up nearly four per cent.

At Argos, we rapidly rolled out Pay@Browse to 386 Argos stores, offering customers a quicker way to pay in 548 Argos stores.

Sales growth

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

Sales growth

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

Priority 5

Drive efficiency to reinvest

Reducing our costs means we can run our business more efficiently and continue to invest in the areas that customers value.

We have met our objective to make savings to cover the impact of cost inflation and we are making good early progress with our target to structurally reduce our costs by approximately £500 million over five years by bringing Sainsbury's and Argos together. Reducing our costs means we can run our business more efficiently and continue to invest in the areas that customers value: choice, quality, low prices, convenience and great service.

We have reviewed our central support functions including logistics, supply and shared services and we are looking at ongoing capital prioritisation and procurement. In January we announced a major head office restructure which saw a reduction of hundreds of management roles.

We are developing an in-house 'Internet of Things' platform which connects multiple store elements including refrigeration, lighting, heating, ventilation and air conditioning and we are currently rolling this out to our supermarket estate. Behind the scenes we have rebuilt our entire data and analytics eco-system and have transformed store connectivity by replacing and updating the WiFi technology in the majority of our stores.

More colleagues have devices and are better connected than ever before. We are creating smarter stores, digitising day-to-day processes through a range of app developments, such as replenishment and stock apps, to drive efficiency and availability and give store colleagues more time to serve customers.

At our Capital Markets Day in September we unveiled our new five-year property strategy, which included a review of our current estate to ensure we have the right stores in the right places for our customers. We announced a plan to open 10 Sainsbury's supermarkets, 95 convenience stores and 18 larger format convenience stores. We also said we would open more than 80 new Argos stores within Sainsbury's supermarkets. The review also means a closure programme of around 125 shops.

We opened two new supermarkets this year and closed two less profitable ones. We also opened 13 convenience stores and closed 27. We currently have 573 standalone Argos stores. Our model of Argos stores in Sainsbury's drives efficiencies and enables us to maximise our supermarket space. There are now 306 Argos stores in Sainsbury's supermarkets.

LFL Transactions Growth

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

Priority 6

Be a place where we all love to work

Sainsbury's is an inclusive employer where colleagues love to work and are encouraged to develop their skills and fulfil their potential.

Being a company that people love to work for means being an inclusive employer where colleagues are encouraged to develop their skills and fulfil their potential. It's about playing an active role in our communities and about having high ethical standards that we and our suppliers adhere to.

It is important for the long-term success of the business that our colleagues remain engaged and we measure this twice a year through our colleague engagement survey. We retained our Gold accreditation from Investors in People (IIP) for the fourth consecutive time over 10 years, despite the level of change in the business.

We have made good progress with our inclusivity agenda. We are a Disability Confident Leader for our work on disability and inclusivity and, looking ahead, we aim to increase our employment of Black, Asian and Minority Ethnic (BAME) representation at senior manager level. We also aim to increase the percentage of colleagues who agree with the statement 'I feel I am able to be myself at work' in our colleague engagement survey.

We continue to work on our gender pay balance across the business and have further reduced our gender pay gap by 1.6 per cent to 10.5 per cent this year, while our median gender pay gap remains at 3.8 per cent. Female representation at Board level is 33 per cent and female representation at senior levels has increased to 35 per cent by the year end. Across the entire business, female representation is 54.6%. There are 94,992 women and 78,983 men and the remaining colleagues did not identify as either women or men. We are committed to achieving our aspirational target of 40 per cent female representation in senior positions by 2021. For more information, see our Gender Pay Report on our corporate website.

In this complex retail environment, excellent leadership of our store teams is crucial. We have an award-winning leadership programme for store colleagues and managers. We are also focused on ensuring that more junior colleagues can develop their skills and progress and measure the number of colleagues enrolled on an apprenticeship programme and the completion rate for those apprenticeships.

We play an active role in local communities and we raised £29 million this year for local and national causes. As part of our 150th birthday, we launched 150 Days of Community and over 35,000 colleagues pledged their time to volunteer during working hours for over 2,400 local community projects. For more information on how our colleagues support the communities we serve, see our Sustainability Update on our corporate website.

We are committed to complying with laws and regulations and set high ethical standards for our colleagues and suppliers. We expect all colleagues to abide by our Ethical Conduct Policy, covering areas including anti-bribery and corruption, conflicts of interest, suppliers, fraud and whistleblowing. Training on these policies is provided to colleagues in the commercial divisions as part of their inductions and then annually. This year we also updated policies and processes for our suppliers to gain a better understanding of risk, and updated our Human Rights policy which can also be found on our corporate website.

Alongside our community investment, we make positive economic contributions through our supply chain, our market-leading pay for colleagues and our responsible approach to tax, contributing £2.1 billion in taxes borne and collected this year.

Priority 7

Net Zero by 2040

Living well means living sustainably and we have committed to invest £1 billion over 20 years to become Net Zero for greenhouse gases across all our operations by 2040.

We have seven key areas of focus and we will report progress against each of them at our interim results in November.

We are the only UK food retailer to receive an A rating in the Climate Disclosure Project for six consecutive years. We are proud to have achieved a 42 per cent reduction in carbon emissions over 15 years, despite a 46 per cent increase in our estate. We have committed to reduce carbon emissions within our own operations to net zero greenhouse gas emissions, increasing the use of renewable energy.

We were also the first retailer to achieve The Carbon Trust Water Standard in 2017 as well as this past year achieving the Climate Disclosure Project A-rating for water disclosure. We achieved our 2020 water reduction targets early, saving one billion litres since 2005. We have committed to minimise the use of water in our own operations, driving towards water neutral by 2040.

In 2005 we were the first retailer to introduce multiple traffic light labelling on the front of our own-brand packaging and we have reduced the number of red traffic lights since 2015. Through reformulation, 97 per cent of our own-brand products meet Public Health England's salt reduction targets and we have reduced the amount of sugar across soft drinks, ice cream, cereals and more by over 20 per cent since 2015. As part of our Net Zero commitment we will continue to develop healthy, tasty nutritious food for our customers and expand our popular meat alternative range.

We have committed to reduce our use of plastic packaging by 50 per cent by 2025 and then go further. We were the first retailer to remove plastic bags from our produce aisles and bakery counters; customers now use their own bags or buy a reusable bag made from a recycled plastic bottle. Among a large number of initiatives, we removed plastic bags from online deliveries and reduced the weight of plastic used in milk and water packaging.

We were the first retailer to achieve zero waste to landfill and we plan to reduce food waste by 50 per cent by 2030. Most of our stores redistribute good quality food safely to local charities and community groups through our food donation partnerships.

We will also increase the use of recycling in our own operations and make it easier for customers and colleagues to recycle. All our plastic hangers are made from 100 per cent recycled materials and last year we recycled 300 tonnes of them. As we move forward we will expand recycling facilities at our stores to help customers recycle metal cans, glass, plastic, paper, clothing and other materials.

Finally, we will ensure that the impact of our operation is net positive for biodiversity. We have planted nearly four million trees in partnership with the Woodland Trust since 2004 and we expect to plant more than 1.5 million trees by 2025. 99.1 per cent of the palm oil used in our products is sustainably sourced as is all our farmed seafood.

Our KPIs

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

Group measures

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

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

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

Retail free cash flow (£m)[1]
Definition: Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure and after investments in joint ventures and associates and Sainsbury's Bank capital injections

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

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

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

Core retail capital expenditure (£m)[1]
Definition: Capital expenditure excluding Financial Services, before proceeds from disposal of property, plant and equipment and before strategic capital expenditure

1 Refer to APMs on page 205.
2 2018/19 restated for IFRS 16. 2015/16 to 2017/18 not restated for IFRS 16.
3 2016/17 restated to include Argos on a post acquisition consolidation basis.

Maintaining balance sheet strength

Pre-tax return on capital employed (%)[1]
Definition: Underlying profit before interest, and tax, divided by average net assets excluding pension deficit/surplus, less net debt, calculated on a 14 point basis

Net Debt/underlying EBITDAR (%)[1]
Definition: Net debt divided by Group underlying EBITDAR

Retail

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

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

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

Non-financial KPIs

Colleague engagement (%)
Definition: Percentage of our colleagues who feel that we are a great place to work[4]

Water reduction (%)
Definition: Absolute water reduction since 2005/06[5]

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

1 Refer to APMs on page 205.
2 2018/19 restated for IFRS 16. 2015/16 to 2017/18 not restated for IFRS 16.
3 The definition of this metric has changed from 2018/19 onwards due to IFRS 16. Please refer to note 3.2 on page 114 for the prior year definition.
4 2018/19 and 2019/20 data is for the Group and prior data is for Sainsbury's.
5 Excludes Argos to be consistent with prior year disclosure. Absolute water reduction including Argos for 2019/20 is 30%.

Financial Review

2019/20 has been another year of progress against our strategic priorities as we have continued to deliver our plan to create one multi brand multi channel business, by bringing together Sainsbury's and Argos. Our statutory profit before tax increased by 26 per cent to £255 million (2018/19: £202 million), largely due to a year-on-year reduction in exceptional items. Excluding the impact of these items, underlying profit before tax ('UPBT') decreased by 2 per cent to £586 million (2018/19: £601 million).

In the year we delivered strong growth in retail free cash flow and net debt reduction was ahead of guidance, thereby improving financial flexibility and resilience. We have become more competitive on price and we continue to offer distinctive products. We remain focused on making shopping even more convenient for our customers supported by great service from our colleagues across the business. By bringing Sainsbury's and Argos together we have a unique opportunity to reduce costs which enables us to continue to invest in the customer offer.

As the nation navigates its way through the COVID-19 pandemic we remain confident that the financial strength of our business, combined with the passion and professionalism of our exceptional colleagues places us in a strong position to deliver on our plans while we continue to feed the nation.

Retail Free Cash Flow increased by £155 million year-on-year to £611 million (2018/19: £456 million). This growth was due to strong underlying cash generation, reduced capital injections into the Bank and distributions from the British Land joint venture following the sale of a number of properties. Interest costs continue to decline as we repay debt and this year we repaid the £450 million Convertible Bond. Whilst maintaining a disciplined approach to our cash flow, we continue to sustainably fund investment into the business to deliver our strategy, as evidenced by our core retail cash capital expenditure of £599 million.

Overall, we reduced non-lease net debt by £343 million in 2019/20. This was the first year in our three year plan to reduce non-lease net debt by at least £750 million, as guided at Capital Markets Day. Our Balance Sheet remains strong and the business has facilities of £2.6 billion in place, with £1.45 billion undrawn at the end of the year.

This is Sainsbury's first full year results prepared under IFRS 16, the new financial reporting standard on lease accounting. As previously indicated, we have adopted the standard fully retrospectively. The new standard results in material changes to the financial statements as set out in note 5.

In a highly competitive market Group sales (including VAT) were down 0.1 per cent to £32,394 million with growth in grocery and clothing sales offset by general merchandise declines. Customers responded positively to lower grocery prices, our new value ranges and to investments in stores, driving improving momentum and market share gains from our mainstream grocery competitors. General merchandise sales declined reflecting weak market conditions, particularly in toys and gaming. Tu clothing performed well relative to a weak clothing market, driven by a strong online performance and full price sales growth.

In 2019/20 underlying profit before tax ('UPBT') decreased by 2 per cent to £586 million (2018/19: £601 million) driven by a decline in retail underlying profit, partly offset by an increase in Financial Services profit and reduced interest costs. Cost savings offset the impact of cost inflation but investment in the customer offer and service resulted in Retail underlying operating margin decreasing 15 basis points to 3.30 per cent. In 2019/20 our statutory profit before tax increased by 26 per cent to £255 million (2018/19: £202 million), largely due to a year-on-year reduction in exceptional items. Exceptional items in 2019/20 predominantly related to the Property Strategy Programme, Retail restructuring and Sainsbury's Bank transition. The Property Strategy Programme, which accounted for about 90 per cent of the exceptional costs, involved a number of store closures and a subsequent impairment charge following the review of our property portfolio, with the majority of these being non-cash charges. Retail restructuring costs comprised of redundancy payments following changes to the Group's store management structure as we respond to changing customer shopping habits and reduce costs throughout the store estate; the closure of one Argos distribution centre and costs incurred following announced head-office restructures during the year. Sainsbury's Bank transition costs were also incurred as we transition to a new banking platform as part of the previously announced New Bank Programme. The total cash impact of these exceptional items in 2019/20 was £56 million.

Profit after tax of £152 million (2018/19: £186 million) was down 18 per cent due to an increase in the effective tax rate in 2019/20 due to the impact of non-tax deductible exceptional costs including the impairment of fixed assets, and by prior year adjustments.

Sainsbury's Bank profits increased to £48 million, as guided in November 2019 (2018/19: £31 million), primarily due to higher interest and commission income offset by increased interest payable, driven in part by selective lending growth impacting income whilst improving capital efficiency and a timing impact from the August 2018 Bank base rate rise. Net commission income increased driven by Travel Money and Banking fees. We have focused on improving returns through simple, mobile-led financial services for customers, stopping mortgages, transforming the cost base and further exploiting our channels to market. We have seen Sainsbury's Bank customer numbers grow by five per cent and customer lending increase by £0.4 billion, driven mainly by growth in mortgages and credit cards. Argos Financial Services customer numbers also grew by five per cent.

As part of the agreement reached with the Trustee to complete the 2018 triennial valuation of the Sainsbury's Pension Scheme (the defined benefit scheme), we established a new asset backed contribution ('ABC') structure on 17 July 2019, replacing the existing property partnership. Under the new ABC, properties with a value of £1.35 billion were transferred into a newly formed property holding company, a wholly owned subsidiary, and leased to other Group entities. Rental receipts facilitate payments of interest and capital on loan notes issued to a Scottish Limited Partnership, in which the Scheme holds an interest. As at 7 March 2020 the Group pension scheme IAS 19 accounting surplus (excluding deferred tax) increased to £1,119 million (2018/19: £959 million surplus), largely as a result of actuarial gains and an amendment to the scheme rules.

Basic earnings per share decreased 23.7 per cent to 5.8 pence (2018/19: 7.6 pence), largely due to an increase in the effective tax rate. Underlying basic earnings per share decreased 4.3 per cent to 19.8 pence (2018/19: 20.7 pence).

The impact of COVID-19 resulted in an increase in sales during the final days of the financial year as a result of customers starting to stockpile. We have seen a material impact across the first few weeks of 2020/21. We continue to review the situation to ensure we are responding in the best way to support our customers and colleagues. We remain confident that the financial strength of our business combined with the passion and professionalism of our exceptional colleagues places us in a strong position to deliver on our plans while we continue to feed the nation.

Kevin O'Byrne
Chief Financial Officer

Financial Review of the year results for the 52 weeks to 7 March 2020

This is Sainsbury's first full year set of results prepared under IFRS 16, the new financial reporting standard on lease accounting. As previously indicated, we have adopted the standard fully retrospectively. The new standard results in material changes to the financial statements. All affected comparative figures included within this announcement have accordingly been restated. Further detail on this can be found in Note 5 on page 118.

Please note a number of Alternative Performance Measures ('APMs') have been adopted by the Directors to provide additional information on the underlying performance of the Group. These measures are intended to supplement, rather than replace the measures provided under IFRS. Please see Note 3 on page 113 for further information.

In the 52 weeks to 7 March 2020 the Group generated profit before tax of £255 million (2018/19: £202 million) and underlying profit before tax of £586 million (2018/19: £601 million).

Summary income statement	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 £m	Change %
Group sales (including VAT)	**32,394**	32,412	(0.1)
Retail sales (including VAT)	**31,825**	31,871	(0.1)
Group sales (excluding VAT)	**28,993**	29,007	(0.0)
Retail sales (excluding VAT)	**28,424**	28,466	(0.1)
Underlying operating profit			
Retail	**938**	981	(4)
Financial Services	**48**	31	55
Total underlying operating profit	**986**	1,012	(3)
Underlying net finance costs[1]	**(400)**	(419)	5
Underlying share of post-tax profit from JVs[2]	**–**	8	(100)
Underlying profit before tax	**586**	601	(2)
Items excluded from underlying results	**(331)**	(399)	17
Profit before tax	**255**	202	26
Income tax expense	**(103)**	(16)	544
Profit for the financial period	**152**	186	(18)
Underlying basic earnings per share	**19.8p**	20.7p	(4.3)
Basic earnings per share	**5.8p**	7.6p	(23.7)
Dividend per share	**3.3p**	11.0p	(70.0)

1 Net finance costs including perpetual securities coupons before non-underlying finance movements.
2 The underlying share of post-tax profit from joint ventures and associates ('JVs') is stated before investment property fair value movements, non-underlying finance movements and profit on disposal of properties.

Group sales

Group and Retail sales (including VAT, including fuel) both decreased by 0.1 per cent year-on-year. Retail sales (including VAT, excluding fuel) decreased by 0.4 per cent driven by General Merchandise sales declines.

Total sales performance by category	52 weeks to 7 March 2020 £bn	52 weeks to 9 March 2019 £bn	Change %
Grocery	19.5	19.5	0.4
General Merchandise	6.4	6.5	(2.9)
Clothing	1.0	1.0	1.2
Retail (exc. fuel)	**26.9**	**27.0**	**(0.4)**
Fuel sales	4.9	4.9	1.1
Retail (inc. fuel)	**31.8**	**31.9**	**(0.1)**

Grocery sales grew by 0.4 per cent year-on-year. A weak start to the year in the first quarter was offset by a strong performance in the second quarter which continued into the second half as customers responded positively to price investment and new entry price ranges and investments in our store estate. Clothing sales grew by 1.2 per cent with a strong performance in the second half as cooler weather helped drive sales in the winter ranges. General Merchandise sales declined by 2.9 per cent driven by the annualisation of last summer's hot weather and challenging market conditions particularly in toys and gaming.

Fuel sales grew 1.1 per cent, driven by both retail price inflation and volumes.

Year-on-year sales performance by channel	52 weeks to 7 March 2020 %	52 weeks to 9 March 2019 %
Supermarkets (inc. Argos stores in Sainsbury's)	**(0.1)**	1.0
Convenience	**1.3**	3.7
Groceries Online	**7.6**	6.9

Supermarket sales declined by 0.1 per cent, impacted by weaker General Merchandise sales. Convenience sales grew by 1.3 per cent despite 27 store closures across the second half. Groceries Online sales grew by 7.6 per cent driven by order growth.

Retail like-for-like sales performance	52 weeks to 7 March 2020 %	52 weeks to 9 March 2019 %
Like-for-like sales (exc. fuel)	**(0.6)%**	(0.2)%
Like-for-like sales (inc. fuel)	**(0.5)%**	1.5%

Retail like-for-like sales, excluding fuel, decreased by 0.6 per cent (2018/19: 0.2 per cent decrease) as a result of General Merchandise declines.

Space

In 2019/20, Sainsbury's opened 2 new supermarkets and closed 2 (2018/19: opened 3 new supermarkets and closed 3). There were 14 new Convenience stores, including 1 replacement, opened in the year and 27 were closed (2018/19: 10 opened and 5 stores closed).

During the period Argos opened 25 new stores in Sainsbury's and 1 new standalone and closed 25 standalone Argos stores and 2 Argos in Homebase stores. The number of Argos collection points in Sainsbury's stores reduced from 317 to 281. As at 7 March 2020, Argos had 882 stores and 281 collection points. Habitat had 16 stores, of which 11 are in Sainsbury's.

Store numbers and retailing space	As at 9 March 2019	New stores	Disposals/ closures	Extensions/ refurbs/ downsizes/ replacements	As at 7 March 2020
Supermarkets	608	2	(2)	–	**608**
Supermarkets area '000 sq ft	21,210	54	(43)	(54)	**21,167**
Convenience	820	13	(27)	1	**807**
Convenience area '000 sq ft	1,934	35	(74)	3	**1,898**
Sainsbury's total store numbers	1,428	15	(29)	1	**1,415**
Argos stores	594	1	(25)	–	**570**
Argos stores in Sainsbury's	281	25	–	–	**306**
Argos in Homebase	8	–	(2)	–	**6**
Argos total store numbers	883	26	(27)	–	**882**
Argos collection points	317	6	(42)	–	**281**
Habitat	16	–	–	–	**16**

Subject to potential disruption from COVID-19, in 2020/21, Sainsbury's expects to open 2 new supermarkets and around 15 new convenience stores. Sainsbury's also expects to close around 8 supermarkets and around 14 convenience stores. Sainsbury's also expects to open 35-40 Argos in Sainsbury's, and close around 50 Argos standalone stores.

Retail underlying operating profit

Retail underlying operating profit decreased by 4.4 per cent to £938 million (2018/19: £981 million), largely driven by tough weather comparatives and higher marketing costs in the first half of the year and a challenging General Merchandise market.

Retail underlying operating margin reduced by 15 basis points year-on-year to 3.30 per cent (2018/19: 3.45 per cent).

Retail underlying operating profit	52 weeks to 7 March 2020	52 weeks to 9 March 2019	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**938**	981	(4.4)%	
Retail underlying operating margin (%)[2]	**3.30**	3.45	(15)bps	(15)bps
Retail underlying EBITDAR (£m)[3]	**2,125**	2,152	(1.3)%	
Retail underlying EBITDAR margin (%)[4]	**7.48**	7.56	(8)bps	(8)bps

1 Retail underlying earnings before interest, tax and Sainsbury's underlying share of post-tax profit from joint ventures. Numbers are restated with the introduction of IFRS 16, this results in a material increase in Retail underlying operating profit, compared to previously reported numbers, due to the interest component being recognised below operating profit as a finance cost. Refer to note 2.3 for a reconciliation of Retail underlying operating profit pre and post IFRS 16.
2 Retail underlying operating profit divided by underlying retail sales excluding VAT.
3 Retail underlying operating profit before net rental income of £10 million and underlying depreciation and amortisation of £1,197 million.
4 Retail underlying EBITDAR divided by underlying retail sales excluding VAT.

In 2020/21, Sainsbury's expects a depreciation and amortisation charge of around £1,200 million, including around £500 million right of use asset depreciation.

Financial Services

Financial Services results 12 months to 28 February 2020	2020	2019	Change
Underlying revenue (£m)	**569**	541	5%
Interest and fees payable (£m)	**(125)**	(102)	23%
Total income (£m)	**444**	439	1%
Underlying operating profit (£m)	**48**	31	55%
Cost:income ratio (%)	**71**	71	0bps
Active customers (m) – Bank	**2.12**	2.01	5%
Active customers (m) – AFS[6]	**2.24**	2.14	5%
Net interest margin (%)[1]	**3.4**	3.8	(40)bps
Bad debt as a percentage of lending (%)[2]	**1.1**	1.6	(50)bps
Tier 1 capital ratio (%)[3]	**14.1**	13.7	40bps
Total capital ratio (%)[4]	**17.0**	16.7	30bps
Customer lending (£bn)[5]	**7.4**	7.0	6%
Customer deposits (£bn)	**(6.3)**	(6.0)	5%

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

Financial Services total income remained broadly flat year-on-year at £444 million, as higher interest and commission income was offset by increased interest payable, driven in part by selective lending growth impacting income whilst improving capital efficiency and a timing impact from the August 2018 Bank base rate rise. Net commission income increased £3 million driven by Travel Money and Banking fees. Financial Services underlying operating profit increased by 55 per cent year-on-year to £48 million, as guided in November 2019 (2018/19: £31 million), primarily due to an increase in contribution from Argos Financial Services as a result of changes to transfer pricing rules, the income factors noted and a reduction in impairment from both the harmonisation of policy and increased debt sales.

The Financial Services cost:income ratio was flat at 71 per cent. The costs of supporting new operating platforms and product growth were offset by a reduction in royalties payments to Argos linked to changes in transfer pricing. Further actions to reduce costs were delivered towards the end of the financial year so did not materially impact this ratio. The number of Bank active customers increased by five per cent year-on-year to 2.12 million, with Argos Financial Services customers also up five per cent to 2.24 million.

Net interest margin decreased by 40 basis points year-on-year to 3.4 per cent (2018/19: 3.8 per cent) driven primarily by the growth of the mortgage book and higher funding costs following the base rate rise. The mortgage book was closed to new business in September 2019. Bad debt expense as a percentage of lending decreased by 50 basis points to 1.1 per cent, primarily driven by the alignment of policy between AFS and Sainsbury's Bank and growth in mortgages.

The CET 1 capital ratio increased by 40 basis points year-on-year to 14.1 per cent, reflecting the effect of the additional £35 million capital injection (2018/19: £110 million). Customer lending increased by six per cent to £7.4 billion, mainly due to growth across credit cards and mortgages. To support this lending, customer deposits also grew a similar five per cent to £6.3 billion.

Due to the negative impact of COVID-19, Financial Services are expected to report an operating loss in 2020/21. However, no further capital injections are expected into Financial Services following the £35 million injection in the first half of 2019/20.

Underlying net finance costs

Underlying net finance costs reduced by five per cent to £400 million (2018/19: £419 million). These costs include £77 million of net non-lease interest (2018/19: £86 million). The reduction of net non-lease interest is driven by the repayment of the £450 million Convertible Bond and reduced interest on inflation-linked loans. The interest costs on lease liabilities have reduced to £323 million (2018/19: £333 million) due to reduced lease liabilities and lower interest rates on new leases.

Sainsbury's expects underlying net finance costs in 2020/21 of between £370 million – £380 million, including around £310 million lease interest in 2020/21, following the introduction of IFRS 16.

Items excluded from underlying results

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

Items excluded from underlying results	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 £m
Store closure write-downs	**(126)**	–
Impairment charges	**(126)**	–
Other closure costs	**(44)**	–
Property strategy programme	**(296)**	–
Retail restructuring programme	**(32)**	(81)
Financial Services transition and other	**(29)**	(70)
Argos integration costs	**–**	(40)
Asda transaction costs	**–**	(46)
IAS 19 pension financing charge and scheme expenses	**19**	(118)
Other	**7**	(44)
Items excluded from underlying results	**(331)**	(399)

— Property strategy programme costs of £296 million (2018/19: nil) within property, plant and equipment, intangible assets and right of use assets, relate to store closures and asset write downs that are part of our broader Property Strategy Programme announced on 25th September 2019 as part of Capital Markets Day.

— Retail restructuring costs of £32 million (2018/19: £81 million) relate to changes to store management structures; the closure of one Argos depot and costs incurred following announced head-office restructures during the year.

— Financial Services transition and other costs of £29 million (2018/19: £70 million) were predominantly the previously announced costs incurred in transitioning to a new banking platform and write-downs of ATMs.

— 2018/19 IAS 19 pension costs of £118 million largely relate to equalising historic pension benefits between men and women following the High Court judgement in October 2018 against the Lloyds Banking Group.

— Other movements of £7 million (2018/19: cost of £44 million) relate to property profits and acquisition adjustments.

The Property Strategy Programme one off costs are expected to be £330 million – £350 million in total (2019/20: £296 million). Since the initial announcement at Capital Markets Day in September 2019 the programme has been revisited and this has resulted in additional planned closures. Total cash costs for the programme are expected to be around £50 million (2019/20: £8 million) versus original guidance of £30m to £40m.

Taxation

The tax charge was £103 million (2018/19: £16 million), with an underlying tax rate of 25.4 per cent (2018/19: 24.5 per cent) and an effective tax rate of 40.4 per cent (2018/19: 7.9 per cent).

The effective tax rate ('ETR') of 40.4 per cent (2018/19: 7.9 per cent) is higher than the prior year (as restated). In 2019/20 the ETR is increased by the impact of non-tax deductible exceptional costs including the impairment of fixed assets, and by prior year adjustments, partially offset by the tax impact of property disposals. In 2018/19 the ETR was reduced by prior year adjustments, including a c.£50 million deferred tax credit which arose on the recognition of a UK capital loss which crystallised as part of transactions undertaken by the group in 2015/16, and the tax impact of property disposals.

The underlying tax rate ('UTR') is higher than the prior year (as restated), largely as a result of a year-on-year reduction in the underlying profit before tax. The adoption of IFRS 16 further increases the UTR as an element of the depreciation of the right-of-use assets is non-tax deductible to the extent it relates to capital items. The UTR is also impacted by prior year tax adjustments. However, the UTR is reduced in respect of the interest expense on the perpetual securities which, further to a recent amendment to IAS 12, is now recognised in the Income Statement rather than Statement of Changes in Equity as it was in prior years.

Sainsbury's expects an underlying tax rate in 2020/21 of around 25 per cent.

Earnings per share

Underlying basic earnings per share decreased to 19.8 pence (2018/19: 20.7 pence) driven by the decrease in underlying earnings and the higher income tax charge in the year. Basic earnings per share decreased to 5.8 pence (2018/19: 7.6 pence).

Dividends

Given the wide range of potential profit and cash flow outcomes, the Board believes it is prudent to defer any dividend payment decisions until later in the financial year, when there will be improved visibility on the potential impact of COVID-19 on the business.

Net debt and retail cash flows

As at 7 March 2020, net debt was £6,947 million (9 March 2019: £7,346 million), a decrease of £399 million (2018/19: £229 million reduction). Excluding the impact of lease liabilities on net debt, Sainsbury's reduced net debt by £343 million in the year. Sainsbury's remains on track to reduce non-lease net debt by £750 million over a three-year period compared to 2018/19 year end net debt excluding lease liabilities of £1,522 million. We will provide further guidance on net debt expectations for 2020/21 with our interim results.

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

Net debt includes lease liabilities under IFRS 16 of £5,768 million (2018/19: £5,824 million) and the perpetual securities of £496 million (2018/19: £496 million restated).

Summary cash flow statement[1,2]	Retail 52 weeks to 7 March 2020 £m	Retail 52 weeks to 9 March 2019 £m
Adjusted retail operating cash flow before changes in working capital[2]	**2,094**	2,022
Increase in working capital	**(71)**	(38)
Net interest paid[3]	**(405)**	(423)
Pension cash contributions	**(52)**	(63)
Corporation tax paid	**(113)**	(61)
Net cash generated from/(used in) operating activities	**1,453**	1,437
Cash capital expenditure before strategic capital[4]	**(599)**	(508)
Repayments of obligations under leases	**(419)**	(430)
Initial direct costs on right-of-use assets	**(13)**	(11)
Proceeds from disposal of property, plant and equipment	**81**	64
Bank capital injections	**(35)**	(110)
JV capital injections	**–**	(5)
Dividends and distributions received	**143**	19
Retail free cash flow	**611**	456
Strategic capital expenditure – Argos integration[3]	**–**	(36)
Dividends paid on ordinary shares	**(247)**	(224)
Repayment of borrowings[3]	**(379)**	(446)
Other	**(3)**	(8)
Net increase/(decrease) in cash and cash equivalents	**(18)**	(258)
Decrease in Debt	**798**	876
Other non-cash and net interest movements[5]	**(381)**	(389)
Movement in net debt	**399**	229
Opening net debt	**(7,346)**	(7,575)
Closing net debt	**(6,947)**	(7,346)
of which:		
Lease Liabilities	**(5,768)**	(5,824)
Net Debt Excluding Lease Liabilities	**(1,179)**	(1,522)

1 See note 5 for a reconciliation between Retail and Group cash flow.
2 Excludes working capital and pension contributions.
3 Refer to the Alternative Performance Measures on pages 205 to 208 for reconciliation.
4 Excludes Argos integration capital expenditure in 2018/19.
5 Other non-cash includes new leases and lease modifications and fair value movements on derivatives used for hedging long term borrowings.

Adjusted retail operating cash flow before changes in working capital increased by £72 million year-on-year to £2,094 million (2018/19: £2,022 million) and working capital increased by £71 million. Cash capital expenditure excluding strategic capital was £599 million (2018/19: £508 million). In the year capital injections into the Bank were £35 million (2018/19: £110 million).

Dividends and distributions received of £143 million (2018/19: £19 million) were predominantly as a result of the sale of properties held in a joint venture with British Land.

Retail free cash flow increased by £155 million year-on-year to £611 million (2018/19: £456 million). Free cash flow was used to fund dividends and reduce borrowings.

Dividends of £247 million were paid in the year, which were covered 2.5 times by free cash flow (2018/19: 2.0 times). Strategic capital expenditure incurred in the prior year of £36 million related to Argos integration capital expenditure.

The Group held undrawn committed credit facilities of £1,450 million and undrawn uncommitted facilities of £195 million as at 7 March 2020.

Capital expenditure

Core retail cash capital expenditure was £599 million (2018/19: £508 million).

Sainsbury's expects core retail cash capital expenditure (excluding Financial Services) to be around £550 million – £600 million per annum over the medium term. Further guidance for 2020/21 will be provided with our interim results.

Financial ratios

Key financial ratios	52 weeks to 7 March 2020	As at 9 March 2019
Return on capital employed (%)[1]	**7.4**	7.4
Net debt to EBITDAR[2]	**3.2 times**	3.3 times
Fixed charge cover[3]	**2.7 times**	2.6 times

1 ROCE: Return is defined as a 52 week rolling underlying profit before interest and tax. Capital employed is defined as group net assets excluding the pension deficit/surplus and excluding net debt. The average is calculated on a 14 point basis.
2 Net debt of £6,947 million includes lease obligations under IFRS 16 and perpetual securities treated as debt, divided by Group underlying EBITDAR of £2,203 million.
3 Group underlying EBITDAR divided by rent (both capital and interest) and underlying net finance costs, where interest on perpetual securities is treated as an underlying finance cost.

Property value

As at 7 March 2020, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, was £9.9 billion (9 March 2019: £10.4 billion), the reduction largely a result of the sale of 15 British Land joint venture properties and the decline in rental values.

Defined benefit pensions

The Pension Scheme is valued on different bases for different purposes. For the corporate annual accounts, the value of the retirement benefit is calculated under IAS19 while the funding of the Scheme is determined by the Trustee's triennial valuation.

At 7 March 2020, the net defined benefit surplus under IAS19 for the Group was £1,119 million (excluding deferred tax). The £160 million movement from 9 March 2019 was primarily driven by asset gains in both sections of the Scheme on matching and hedging assets due to the fall in gilt yields, reflected in the discount rate moving from 2.8 per cent to 1.6 per cent, along with most asset classes having positive returns over the period. In the Argos section, there was a gain from no longer having to make an adjustment for IFRIC 14 as a result of a revision to the Scheme rules as part of the 2018 triennial valuation agreement.

The Scheme was subject to a triennial actuarial valuation, as at 30 September 2018, which was completed during the first half. The actuarial deficit reduced to £538 million, from £1,055 million in 2015.

As part of the agreement reached with the Trustee to complete the 2018 triennial valuation of the Sainsbury's Pension Scheme (the defined benefit scheme), we established a new asset backed contribution ('ABC') structure on 17 July 2019, replacing the existing property partnership.

Under the new ABC, properties with a value of £1.35 billion were transferred into a newly formed property holding company, a wholly owned subsidiary of the Group, and leased to other Group entities. Rental receipts facilitate payments of interest and capital on loan notes issued to a Scottish Limited Partnership, in which the Scheme holds an interest.

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 (approximately £15 million per year)
2) Payments to the Argos section (approximately £20 million per year)
3) Switching payment stream, paid to either the Sainsbury's section or Argos section (initially approximately £23 million per year, increasing to £33 million by 2038)

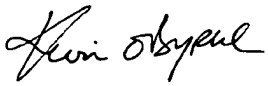
In addition to the above, further cash contributions of £40 million have been agreed for 2020/21, and £10 million in 2021/22. No additional cash contributions have been agreed for subsequent years.

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 switching 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.

The level of property in the Propco reduces as the Scheme reaches the funding targets.

Retirement benefit obligations	Sainsbury's as at 7 March 2020 £m	Argos as at 7 March 2020 £m	Group as at 7 March 2020 £m	Group as at 9 March 2019 £m
Present value of funded obligations	**(8,914)**	**(1,421)**	**(10,335)**	(8,856)
Fair value of plan assets	**10,025**	**1,466**	**11,491**	9,983
Additional liability due to minimum funding requirements (IFRIC 14)	**–**	**–**	**–**	(134)
Pension surplus/(deficit)	**1,111**	**45**	**1,156**	993
Present value of unfunded obligations	**(21)**	**(16)**	**(37)**	(34)
Retirement benefit obligations	**1,090**	**29**	**1,119**	959
Deferred income tax (liability)/asset	**(198)**	**(16)**	**(214)**	(216)
Net retirement benefit obligations	**892**	**13**	**905**	743



Kevin O'Byrne
Chief Financial Officer

Our principal risks and uncertainties

The COVID-19 pandemic has demonstrated that risk and issue management is an inherent part of doing business and has tested Sainsbury's risk and resilience processes. The short-term impact of COVID-19 on our principal risks was assessed by the Board. The results of this assessment are set out on pages 7 to 9. Below and on the following pages, we set out an overview of the risk management framework, the principal risks at year end, ongoing mitigations and how these align to our strategy. The Board will continue to monitor the principal risks and flex mitigations, in particular, to respond to the medium and longer-term impacts of the pandemic as they become clearer.

Risk management framework

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

The following diagram provides an overview of the key risk management activities undertaken by leadership that allow the Board to fulfil its obligations under the 2018 Code. Please refer to page 55 for the role and remit of these.

Our risk management process is designed to identify key risks and to provide assurance that they are fully understood and managed in line with management's risk appetite.

The plc Board has overall responsibility for risk management and internal controls, and for reviewing their effectiveness at least annually. Certain responsibilities have been delegated to the Audit Committee as outlined on page 71.

The risk management process is embedded at the Operating Board level and is supported by the bottom-up risk process within divisions and governance forums. The Operating Board maintains an overall corporate risk map, which is reviewed four times a year by the Audit Committee and is formally discussed with the Board.

To support risk discussions, the corporate risk map captures the principal risks to achieving Sainsbury's objectives and identifies the potential impact and likelihood at both a gross and net level. The Operating Board reviews the risk map twice a year to discuss and agree the level of risk that the business is prepared to accept for each key corporate risk. The target risk position is captured to reflect management's risk appetite where this differs to the current net position. This enables the Operating Board to agree and monitor appropriate actions as required.

Operating Board members certify annually that they are responsible for managing their business objectives and internal controls to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed. This is reported to the plc Board.

Internal Audit and Risk provides the Audit Committee with a risk management update at each meeting, which includes the key risk activities undertaken within functions, governance forums and at divisional and corporate levels.

Developments in our risk management process:

Emerging risks and opportunities were reviewed formally in the year. Whilst emerging risks are regularly discussed and identified as risks "to watch" through our bottom-up risk assessment process, this year a supplementary review was facilitated by Internal Audit and Risk. The review assessed a range of scenarios to identify emerging risks and opportunities that may impact our business, considering their potential timeframe and degree of certainty. The outcomes were reported to the Operating Board and Audit Committee. Going forward, this assessment will be completed annually and aligned to corporate planning.

The business has also continued to monitor and respond to risks and uncertainties relating to the impact on our operations of **Brexit**, which we continue to disclose as a specific principal risk.

Climate change risks were subject to a specific risk review. Risks identified from the bottom-up and emerging risk assessments were reviewed to confirm completeness. Their impact on our overall risk assessment was then considered.

Climate change risks identified are considered in the existing principal risks we are disclosing and have been taken into consideration in assessing impact and likelihood, where appropriate.

As signatories of the Task Force on Climate-related Financial Disclosures (TCFD), we will implement their recommendations in 2020/21. This will include using scenario modelling to further assess the impact of current and emerging climate change on our business model.

The annual risk management process is illustrated in the diagram below. The specific risk management activities undertaken in the financial year to 7 March 2020, and proposed changes for next year, include:

- The Internal Audit and Risk team facilitated risk workshops with divisional leadership teams to identify the key risks which may prevent the achievement of objectives. A risk map is maintained for each division setting out key risks and their gross, net and target positions. A consolidated view of relevant risks was then discussed at each key governance forum – safety, data governance and operational resilience. In 2020, we will move to quarterly check-ins with all divisions and governance forums.
- Divisional management and governance forums reviewed key risks and the effectiveness and robustness of the mitigating controls as part of their normal business activities.
- Emerging risks and opportunities were formally assessed. Emerging risks and opportunities will continue to be monitored, with this assessment aligned to corporate planning in 2020.
- The Operating Board reviewed and challenged the output of the bottom-up risk process including new risks, risk movements and key themes. The corporate risk map was updated as appropriate.
- The plc Board reviewed the risk management process and corporate risks at the year end and approved the Company's principal risks and uncertainties disclosure, including the disclosure relating to the impact of COVID-19 on principal risks (as set out on pages 38 to 45 and on pages 7 to 9).
- Internal Audit provided independent assurance to management and the Audit Committee over specific risk areas as part of their audit plan.
- As set out over the following pages, risk deep dives were undertaken with the Operating Board and/or Audit Committee for seven of our 12 principal risks. Deep dives will continue, with focus on assessing whether we are within our risk appetite.

	Quarter 1 March to June	Quarter 2 July to September	Quarter 3 September to December	Quarter 3 December to March
Divisions/ functions	Divisional risk workshops (bottom-up risk identification)	Divisional risk check-in (quarterly in 2020/21)	Divisional risk check-in (risk validation)	Divisional risk check-ins (quarterly in 2020/21) Management annual certification risks are identified, evaluated and monitored
Governance forums	Governance forum risk workshops (consolidated view of risks reviewed)	Governance forum risk check-in (quarterly in 2020/21)	Governance forum risk check-in (consolidated view of risks validated)	Governance forum risk check-in (quarterly in 2020/21)
Operating Board	Emerging risk assessment move to align with 2020/21 Corporate Planning	Corporate risk map half-year review (review consolidated view of risks/actions)	Emerging risk workshop to review bottom-up and scenario based emerging risks (2019/20)	Corporate risk map year-end review
	Risk deep dives aligned to business priorities			
Audit Committee	Review and approve principal risks and uncertainties	Corporate risk map half-year review (review consolidated view of risks/actions)	Risk management update	Corporate risk map year-end review Approve risk framework
	Risk deep dives as requested by Audit Committee Chair			
plc Board	plc Board review of risk process, corporate risks and principal risks and uncertainties.			
Internal Audit and Risk	Facilitate the risk management process and prepare reporting to all Boards			
	Internal Audit risk-based half-year plan		Internal Audit risk-based half-year plan	Annual review of risk framework

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

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

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

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

Where principal risks have been included in the risk modelling, undertaken as part of the preparation of the viability statement (see page 46), this has been indicated with the following symbol: (v)

Key risk movements

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

Strategic link

- Be competitive on price
- Offer distinctive products and new categories
- Personalised and seamless physical and digital
- Fast, friendly and convenient
- Drive efficiency to reinvest
- Be a place where we all love to work
- Net Zero by 2040

The key risk movement disclosed relates to the net risk impact for data security increasing to reflect the level of fines being imposed in the UK market for data breaches.

Brand perception

Risk	*Mitigations*
We are a multi brand, multi channel business incorporating Sainsbury's, Argos, Habitat, *Tu*, Nectar and Sainsbury's Bank. Our business must continue to evolve to meet customer needs and maintain customer loyalty. Customer lifestyles, behaviours and expectations are changing and we need to continue to differentiate our offer to retain and attract customers. We also need to protect our brand so that customers, suppliers and stakeholders continue to trust us.	— We continually focus on evolving our ways of working to ensure we continue to meet our customers' needs so that our brands continue to remain relevant — We have a wide, differentiated product offer, which gives our customers more reasons to shop with us — We change and evolve to meet the needs of our customers through our digital strategy and technology developments, so that we are there for them whenever and wherever they want to shop with us, with great products and services at fair prices. To deliver this, we will continue to listen to and understand our customers — Nectar supports our strategy of knowing our customers better than anyone else. The acquisition has given us more control over how we reward and recognise our customers and we have since launched digital Nectar to give customers offers which are personalised to them — In terms of brand protection, many of the mitigation activities set out against the risks above also help prevent or reduce the risk of losing the trust and loyalty of customers, suppliers and broader stakeholders — We launched an all-encompassing target to become a Net Zero business by 2040, as we know this is a material concern and motivation for our customers both now and in the future
Direct oversight: Operating Board, Customer Trading Forum and Sainsbury's Bank Management Board	
Link to strategy:	
Movement:	

Brexit (v)

RISK DEEP DIVE

Risk	*Mitigations*
There remains economic and regulatory uncertainty in the UK following leaving the EU in January 2020 and a lack of clarity around future trading arrangements following the transition period. These uncertainties could have an adverse effect on customers, supply chains and colleagues, potentially impacting trading performance across the sector.	— The Brexit Response team has been in place during the last year to actively prepare for a no deal scenario. The Brexit Response team co-ordinates activities across the Trading, Retail, HR, Legal and Finance teams to help ensure that, in the event of no-deal at the end of the transition period, appropriate mitigations are in place to reduce the impact on customers, supply chains and colleagues — These activities continued to focus on three key areas of risk in the event of a no deal: — Delays at borders, reducing fresh product availability and choice — Cost impact associated with tariffs, loss of trade and currency fluctuations — Impact of changes in EU migration throughout our supply chains — We will continue to engage actively with the Government, industry and regulatory bodies to assess the specific impact on our business as and when their focus returns to this matter
Direct oversight: Operating Board	
Link to strategy:	
Movement:	

Business continuity, operational resilience and major incident response

RISK DEEP DIVE

Risk	*Mitigations*
A major incident or catastrophic event could affect the business or its individual brands' ability to trade. Sainsbury's exposure to operational resilience and major incident risks may be greater following the acquisition of Argos and Nectar given the increased size and complexity of the business.	— The Group Operational Resilience Committee (GORC) meets quarterly and is chaired by the Chief Financial Officer, with support from our Company Secretary and Corporate Services Director and Chief Information Officer. The GORC sets the operational resilience strategy for the Group and monitors progress against this — To support this, the Operational Resilience Committee, which includes representatives from operational functions across Sainsbury's, including the Bank, meets regularly to ensure that the operational resilience policy and strategy is implemented — Business-wide resilience exercises are undertaken to imitate real life business continuity scenarios and test our ability to respond effectively — Key strategic locations have secondary backup sites that would be made available within pre-defined timescales and are regularly tested — All key business processes are assessed for operational resilience against a set of minimum standards and contingency measures are regularly tested — In the event of any unplanned or unforeseen events, the Incident Response team is convened to manage the response and any associated risk to the business — The business has plans in place, supported by senior representatives who have the experience and the authority levels to make decisions in the event of a potentially disruptive incident — Key strategic locations have an automated emergency call cascade solution implemented which allows for emergency communications to be made to all colleagues and for responses to be received back when required
Direct oversight: Group Operational Resilience Committee	
Link to strategy:	
Movement:	

Business strategy and change (v)

Risk	*Mitigations*
If the Board adopts the wrong business strategy or does not communicate or implement its strategies effectively, the business may be negatively impacted. Risks to delivering the strategy, change initiatives forming part of the strategy and other significant supporting change activities need to be properly understood and managed to deliver long-term growth for the benefit of all stakeholders alongside management of business as usual.	Our business strategy, as set out in this Strategic Report, is focussed on: • Be competitive on price • Offer distinctive products and new categories • Fast, friendly and convenient • Personalised and seamless physical and digital • Drive efficiency to reinvest • Be a place where we all love to work • Net Zero by 2040
Direct oversight: Operating Board	— The Board regularly reviews progress against strategic programmes and any risks to delivery, such as the ability to implement and deliver change and new business initiatives. The overall strategy is reviewed at the annual two-day Strategy Conference and a Capital Markets Day was held in September 2019 to give investors greater insight into business priorities
Link to strategy:	— The Operating Board has regular sessions to discuss strategy; supported by a dedicated strategy team. The strategy is communicated and the business continually engages with a wide range of stakeholders, including shareholders, colleagues, customers and suppliers
Movement:	— Management performs ongoing reviews of our market, as explained on pages 12 to 13 and monitors business as usual performance to determine indicators of potential negative performance because of change initiatives

Colleague engagement, retention and capability

Risk	*Mitigations*
The business employs over 172,000 colleagues who are critical to the success of our business. Attracting talented colleagues, investing in training and development, maintaining good relations, and rewarding colleagues fairly are essential to the efficiency and sustainability of business operations. An inability to attract, motivate and retain talent, specific skill sets and capability impacts our ability to deliver strategic objectives, including the integration with Argos. In addition, the challenging trading environment requires a focus on efficient operations, which may include change initiatives affecting colleagues, therefore presenting a risk of loss of colleague trust or engagement.	— Employment policies and remuneration and benefits packages are regularly reviewed and are designed to be competitive, with other companies, fair and consistent, as well as providing colleagues with fulfilling career opportunities
Direct oversight: Operating Board	— In addition to strong leadership and nurturing of talent by line managers, formal processes are also in place to identify talent and actively manage succession planning throughout the business
Link to strategy:	— Reviews are performed to help develop the skills colleagues need to deliver objectives and this is supported by embracing new ways of attracting talent
Movement:	— Our business priority 'Be a place where we all love to work' reinforces our commitment to giving people the opportunity to be the best they can be
	— Colleague surveys, performance reviews, listening groups, communications with trade unions, regular communication of business activities and colleague networking forums such as Yammer, the updated colleague portal (Our Sainsbury's) and the colleague learning portal are some of the methods the business uses to understand and respond to colleagues' needs
	— As change initiatives are implemented, the methods described above will continue to be employed to understand and maintain colleague trust and engagement

Data security (v)

RISK DEEP DIVE

Risk

It is essential that the security of customer, colleague and company confidential data be maintained. A major breach of information security could have a significant negative financial and reputational impact on the business. The risk landscape is increasingly challenging with deliberate acts of cybercrime on the rise, targeting all markets and heightening the risk exposure to broader business disruption as well as to data breaches. We continue to invest in improving our data governance and information security defences, however, we recognised the net risk increased during the year. This was primarily driven by the value of fines levied in the UK market for data breaches.

Direct oversight: Data Governance Committee

Link to strategy:

Movement:

Mitigations

- A Group Data Governance Committee is established and is supported by focused working groups looking at the management of colleague data, customer data, information security, commercial data and awareness and training
- We have combined our Data Governance and Information Security functions and the Head of Data Governance and Chief Information Security Officer continues to develop information security strategies and to build the necessary capability to deliver against those strategies alongside focusing on improving how we handle data across the organisation
- Various information security policies and standards are in place, which focus on encryption, network security, access controls, system security, data protection and information handling
- All colleagues are required to complete mandatory training on how to keep our information safe. This is supplemented by regular awareness campaigns, focusing on specific aspects of data and information security
- Reviews of key third parties who hold sensitive customer or colleague data continue to take place and progress is monitored by the Data Governance Committee
- A risk-based security testing approach across IT infrastructure and applications is in place to identify ongoing vulnerabilities
- Reflecting the importance of data security, two deep-dive reviews of this risk have been performed with the Operating Board and Audit Committee in the year. These have covered mitigating controls and activities to manage this risk. These discussions are conveyed to the Board as part of our normal governance processes. We have also conducted a review of risk appetite in this area which has been reported to the plc Board

Environment and sustainability

RISK DEEP DIVE

Risk

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

Direct oversight: Operating Board, Corporate Responsibility and Sustainability Committee

Link to strategy:

Movement:

Mitigations

- The Corporate Responsibility and Sustainability Committee met twice during the year. The Committee assesses the impact of Sainsbury's corporate responsibility and sustainability strategy on how we help customers live well for less and in terms of building customer trust
- In January 2020 we committed to investing £1 billion over 20 years towards becoming Net Zero across our own operations by 2040. This is in line with the highest ambition of the Paris Climate Change Agreement to limit global temperature rise to 1.5 degrees. We have refreshed our sustainability governance structure with the creation of the Net Zero Steering Group, along with specific working groups, who will be responsible for driving and executing this strategy
- We will use the £1 billion investment to support seven commitments focused on reducing carbon emissions, food waste, plastic packaging and water usage and increasing recycling, biodiversity and sustainable diets in order to improve our climate change resilience
- As part of our Net Zero by 2040 strategy, we will provide clear, frequent disclosures on our progress. As signatories of Task Force on Climate-related Financial Disclosures (TCFD), we will use scenario modelling to further assess the impact of current and emerging climate change on our business model and strategy

Financial and treasury (v)

RISK DEEP DIVE

Risk	*Mitigations*
The main financial risks are the availability of short and long-term funding to meet business needs and fluctuations in interest, commodity and foreign currency rates. *Direct oversight:* The Board of J Sainsbury plc *Link to strategy:* *Movement:*	— plc Board approved Treasury policies are in place to address liquidity risk, refinancing risk, financial markets risk and counterparty credit risk — The Treasury function is responsible for managing the liquid resources, funding requirements, commodity, interest rate and currency exposures as set out in line with the Treasury policy and is overseen by the Treasury Committee — The Treasury function has clear operating procedures, which are regularly reviewed and audited — A long-term funding plan is formed as part of the annual corporate plan process, which includes an assessment of short and long-term core funding requirements and contingent funding requirements — A short-term funding plan is formalised as part of the annual budget process, which includes an assessment of the core and contingent funding requirements for the following year and the market conditions for each of the debt markets accessible to the business — The business funding strategy and Treasury policies are approved annually by the plc Board — Annually, the Audit Committee reviews and approves the viability and going concern statements and reports into the plc Board — Finance Commercial review sessions are held each period, chaired by the Chief Financial Officer to review the Company balance sheet, P&L, and net debt in detail with relevant actions and mitigations agreed — There is a long-term funding framework in place for the pension deficit and there is ongoing communication and engagement with the Pension Trustees — Financial and Treasury risk in respect of Sainsbury's Bank are detailed separately

Examples of risk deep dives in the last year

A programme of risk deep dives has continued, with half of the principal risks being reviewed by the Operating Board or Audit Committee in year. We have set out some examples.

We reconfirmed risk appetite for all corporate risks with the plc and Operating Boards in the year. A programme of deep dive reviews, focussed on risk appetite, will continue.

Data security

plc Board and Audit Committee

Biannual risk deep dives are presented by the Head of Data Governance and Chief Information Security Officer to the Operating Board and Audit Committee. The Operating Board also receives reports from the Data Governance Committee.

This year, a risk deep dive with the plc Board was held in March 2020. The plc Board reviewed our risk appetite across data and information security risks.

Health and safety – people and product

Audit Committee

The plc Board receives quarterly updates on safety and a risk deep dive is facilitated annually.

In addition, the Director of Retail and Operations presented a paper to the March 2020 Audit Committee on how relevant safety and legal risks are managed in the retail estate.

Health and safety – people and product (v)

RISK DEEP DIVE

Risk	*Mitigations*
Prevention of injury or loss of life for both colleagues and customers is of utmost importance and is paramount to maintaining the confidence our customers have in our business.	— Clear policies and procedures are in place detailing the controls required to manage health and safety, and product safety risks across the business and to comply with all applicable regulations — These cover the end-to-end operations, including the auditing and vetting of construction contractors, the health and safety processes in place in our depots, stores and offices and the controls in place to ensure people and product safety and integrity — In addition, established product testing programmes are in place to support rigorous monitoring of product traceability and provide assurance over product safety and integrity — Supplier terms, conditions and product specifications set clear standards for product/raw material safety and quality with which suppliers are expected to comply — Process compliance is supported by external accreditation and internal training programmes, which align to both health and safety laws and Sainsbury's internal policies — Resource is dedicated to manage the risk effectively, in the form of the Group Safety Committee and specialist safety teams — The Board receives quarterly reports on safety, including a deep dive facilitated by the Head of Group Safety and the Head of Technical Operations
Direct oversight: Group Safety Committee	
Link to strategy:	
Movement:	

Financial and treasury

plc Board and Audit Committee

An annual funding deep dive covers going concern considerations, our diversified portfolio of secured and unsecured borrowings and core elements of the Group's financing arrangement in place to maintain funding headroom.

In addition, the business funding strategy and Treasury policies are approved annually by the plc Board.

Business continuity

Operating Board

The Operating Board performed a deep dive review of our approach to business continuity, operational resilience and major incident management, presented by the Director of Audit, Risk and Resilience in March 2020.

The Group Operational Resilience Committee also actively reviews this risk during the year. Quarterly updates are also provided to the Audit Committee.

Environment and sustainability

Operating Board

The Net Zero by 2040 strategy was reviewed in detail by the Operating Board, including an evaluation of risks, and was approved by the plc Board and CR&S Committee.

The Sainsbury's Net Zero Steering Group and Value Management Groups actively reviewed this risk during the year and presented reports to the Corporate Responsibility and Sustainability Committee.

Political and regulatory environment (v)

Risk	*Mitigations*
There is an increasing trend of regulation, together with enforcement action, across all areas of our business. This adds additional cost as we respond to the regulations and drives complexity into our business processes. *Direct oversight:* Operating Board *Link to strategy:* *Movement:*	— We complete a bi-annual regulatory risk assessment with key areas of the business to identify current and emerging regulation affecting the business, so that we can respond appropriately — Regulatory updates are regularly presented to our oversight boards and committees, including the Regulatory Pay Forum, which was established in 2019 to oversee National Living Wage/ National Minimum Wage compliance across the business, with flexibility to support other areas of reward compliance if necessary — To influence current and emerging regulatory requirements, we continue to engage actively with Government, industry and regulatory bodies — We publicly communicate matters where we believe industry change is required, with a view to enabling fair competition that is beneficial to our customers — We communicate our views, and those of our customers and colleagues, regarding geopolitical issues with the aim of informing the debate and ensuring our opinions are represented in the policy and decision-making processes

Sainsbury's Bank (v)

Risk	*Mitigations*

Sainsbury's Bank is exposed to a number of risks. These include operational risk, regulatory risk, credit risk, capital risk, funding risk, liquidity risk, and market risk.
Direct oversight: The Boards of J Sainsbury plc and Sainsbury's Bank plc
Link to strategy:
Movement:
	— The Bank is managed through defined governance structures that include the Board of Sainsbury's Bank plc, its Risk Committee and Audit Committee. The Board of Sainsbury's Bank plc is comprised of Executive Directors, Non-Executive Directors and a J Sainsbury plc Operating Board member
	— The Bank has a defined risk appetite aligned to delivery of strategic objectives and has implemented a risk management framework that is overseen by its Risk Committee. This Committee monitors the effectiveness of risk management activities against strategic, operational, compliance and financial risks and is updated on and discusses emerging risk areas. In particular, the Risk Committee reviews the results of stress testing including the internal liquidity and capital adequacy assessments
	— The actual management of risks is through an executive governance structure, which manages the day-to-day operations of the business. This includes the Sainsbury's Bank Management Board, an Executive Risk Committee and an Asset and Liability Committee
	— Oversight by J Sainsbury plc is provided through:
	  — Membership of the Board of Sainsbury's Bank plc – one J Sainsbury plc Operating Board member is on the Board of Sainsbury's Bank plc and provides updates to the Board of J Sainsbury plc on Bank matters
	  — Updates on key matters arising from meetings of the Risk Committee and Audit Committee are reported to the J Sainsbury plc Audit Committee
	  — There are a number of reserved matters where Sainsbury's Bank plc needs to obtain permission from J Sainsbury plc

Trading environment and competitive landscape (v)

RISK DEEP DIVE

Risk	*Mitigations*
Effective management of the trading account is key to the achievement of performance targets. The sector outlook has been and is set to remain very competitive. The trading environment, driven by ongoing competitive retail pricing combined with growing inflationary cost pressures, may adversely affect our performance. There is also an ongoing risk of supplier failure, with possible operational or financial consequences for the business.	— We adopt a differentiated strategy with a continued focus on delivering quality products and services with universal appeal, at fair prices, helping our customers Live Well for Less — This is achieved through the continuous review of our product quality, key customer metrics, monitoring of current market trends and price points across competitors, active management of price positions, development of sales propositions and increased promotional and marketing activity — We continue with our commitment to offer customers even better value with lower regular prices — In delivering our strategic plan, including our price investment, we will maintain the strength of our balance sheet and have identified a series of measures to conserve cash in the business — Concerning supplier continuity, Sainsbury's maintains regular, open dialogue with key suppliers concerning their ability to trade
Direct oversight: Customer Trading Forum, Operating Board	
Link to strategy:	
Movement:	

Statement of Viability

1 How Sainsbury's assesses its prospects

The Group's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 47. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 30 to 35.

The Group manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of standby liquidity via the Revolving Credit Facility. This seeks to minimise liquidity risk by maintaining a suitable level of undrawn additional funding capacity.

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

The most recent corporate plan was signed off in October 2019, and refreshed in March 2020 as part of the normal budgeting process. This is reviewed by the Operating Board and ultimately by the plc Board with involvement throughout from both the CFO and CEO. Part of the Board's role is to consider the appropriateness of any key assumptions, taking into account the external environment, business strategy and model.

2 The assessment period

The Directors have determined that the three years to March 2023 is an appropriate period over which to provide its viability statement. This was considered the appropriate timeframe by the Directors because:

— This period is consistent to that used for the Group's corporate planning process as detailed above, and reflects the Directors' best estimate of the future prospects of the business

— The Group does not earn revenue through long-term contracts. Therefore changes to the Group's corporate plan are predominantly impacted by sales and cost assumptions. These are more difficult to predict beyond a three-year time-horizon. Both have been stress-tested as part of the viability assessment

— The Directors considered whether the assessment period of three years should be revisited in light of COVID-19. However, given the outcomes of the modelling below, combined with the lesser impact to which the food sector is adversely impacted than others, it was concluded that the three-year timeframe remained appropriate

3 Assessment of viability

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

— Scenarios have been modelled over and above those in the corporate plan, based upon a number of the Group's principal risks and uncertainties (as documented on pages 36 to 45). The scenarios were overlaid into the corporate plan to assess the potential impact on net debt of one or more of these crystallising over the assessment period, and have been tested in isolation and in combination with one another. The movements in net debt were then compared to the Group's funding headroom. Where required, available mitigating actions to maintain liquidity were considered as part of the assessment. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses and dividend payments

— Reverse stress-testing was performed to determine the extent to which cash flows would need to deteriorate before fully-utilising the Group's funding headroom, and after taking into account any mitigating actions as detailed above

Whilst each of the risks on pages 36 and 45 and pages 7 to 9 has a potential impact and has been considered as part of the assessment, only those that represent severe but plausible scenarios were selected for modelling through the corporate plan.

COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections across many countries. Lockdown restrictions have been implemented in the UK in an effort to curtail the spread of the virus. The Group is exposed to a number of areas as follows:

— Sales impact from the closure of certain stores, predominantly Argos

— Changing customer behaviours during lockdown

— Twelve-month business rates holiday

— Operational cost increases

— Supply chain disruptions

— Exposure to credit risk within the Financial Services business

As the outbreak continues to progress and evolve it is challenging at this time to predict the full extent and duration of its business and economic impact. The potential impact of the COVID-19-related economic changes on the Group's ability to continue as a going concern, as well as its ability to meet its liabilities as they fall due over the Group's viability assessment period, have been considered through scenarios modelled below.

FY2021

— Assumes lockdown period until end of June

— Food sales growth of three per cent, impacted by high single-digit percentage growth over the lockdown period, followed by low single digit percentage sales growth over the remainder of H1 and a return to normal grocery market conditions in H2. The movements in H1 assume a greater number of meals are being eaten inside the home rather than in schools, workplaces, cafes and restaurants

— A 13 per cent decline in Argos sales, impacted by sales declines whilst in lockdown and thereafter that reflects the closure of standalone Argos stores and anticipated subdued discretionary spending after lockdown

— Decline in General Merchandise and Clothing sales of 16 per cent and 25 per cent respectively, with both being impacted by significant sales declines during lockdown. It is then assumed the sales declines continue throughout the year, however to a lesser extent as the year progresses

— A 19 per cent decline in fuel sales, impacted by fuel volume declines until the end of lockdown, easing through quarter two with a return to normal market conditions in the second half of the year

— Additional cash outflows of over £400 million in respect of unbudgeted costs and working capital impacts including accelerated supplier payments, delays in cost saving targets, supporting concession partners and increased store costs, including payroll

— These are broadly offset by business rates relief of £450 million

In addition to the above, scenarios were modelled that affect the Financial Services business, including the impacts of:

— Closure of travel bureau throughout lockdown and beyond to September
— Reductions to new business volumes in loans and credit cards
— Reductions in Argos Financial Services trading with Argos standalone stores now closed
— Reduced base rate
— The impact of higher unemployment on credit losses

FY2022 – FY2023

— UK GDP movements seen during the recession of FY2008/09 have been applied to forecast sales, however to differing extents per category
— This equates to between three per cent and eight per cent reductions in forecast sales across Grocery, General Merchandise and Clothing, Argos and Fuel in FY2022
— Reductions in forecast sales move to between two per cent and four per cent in FY2023
— Increased cash outflows of £120 million in FY2021/22 against corporate plan, decreasing to £65 million in FY2022/23

Further downsides were also modelled including scenarios in which the rates relief is fully repaid during FY2021, as well as increased declines in forecast sales over the assessment period equating to between five per cent and 14 per cent in FY2022, and three per cent to seven per cent in FY2023.

The principal risks that the above modelling links to are as follows:

— Business continuity, operational resilience and major incident response
— Business strategy and change
— Colleague engagement, retention and capability
— Health and safety – people and product
— Sainsbury's Bank
— Trading environment and competitive landscape

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

Scenario modelled	Link to principal uncertainties
Scenario 1 **COVID-19** As detailed above.	
Scenario 2 **Competitive price cutting/price matching** Given the challenging trading environment, driven by ongoing competitive retail pricing combined with growing inflationary cost pressures, additional price investment of £150 million per year has been modelled in each of the three assessment years.	— Trading environment and competitive landscape
Scenario 3 **Data and legal breaches** The impact of any regulatory fines has been considered. The largest considered are the General Data Protection Regulation ("GDPR") fine for data breaches, and fines levied by the Groceries Supply Code of Practice ("GSCOP"). Fines were considered both in isolation, and in conjunction with a fall in sales volumes as a result of any reputational brand damage in each of the assessment years.	— Data security — Health and safety, people and product — Political and regulatory environment
Scenario 4 **UK's withdrawal from the EU** Uncertainty around the UK's future relationship with the EU restricts the Group's ability to fully mitigate risks for customers, suppliers and colleagues. The impacts of a range of outcomes have been modelled and considered jointly on a reasonable worst case basis. Modelling has taken account of the likely disruption of goods entering the UK, sales reductions, margin pressures resulting from tariff increases, operational and labour cost increases and small supplier working capital considerations.	— Brexit — Financial and treasury risk
Scenario 5 **Sainsbury's Bank capital and liquidity requirements** The impact of COVID-19 on the Financial Services business was considered as above, and the level of capital contributions that could be required.	— Sainsbury's Bank
Scenario 6 **Failure to deliver sustainable cost savings** The Group corporate plan assumes savings of £500 million over the next five years. Through the COVID-19 modelling detailed above, delays in achieving cost savings of circa £140 million over the three-year assessment period were considered.	— Business strategy and change
Scenario 7 **Reverse stress test** In addition to modelling regulatory fines and price investments as above, the level of forecast sales decline required before the Group fully utilises its available funding and mitigations was considered. The required reduction was considered extreme and implausible.	

In performing the above analysis, the Directors have made certain assumptions around the availability of future funding options, including the ability to raise future finance, as well as the availability and effectiveness of the mitigating actions available to the Group.

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

In years one and two, the modelling has shown that the business is able to withstand a combination of all of the scenarios and still maintain headroom. For year three, none of the scenarios modelled individually caused a breach in headroom. However, all of the scenarios modelled together would cause a breach. Management does, however, have controllable mitigating actions available as detailed above with which to respond that ensure the Group remains viable.

Viability statement

Taking into account the Group's current prospects and principal risks and uncertainties, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three years to March 2023.

4 Going concern

As a consequence of the work performed to support the viability statement above, the Directors also considered it appropriate to adopt the going concern basis in preparing the financial statements which are shown on pages 99 to 208.

J Sainsbury plc Board of Directors

Martin Scicluna ♥∗
Chairman

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

Skills and experience: Martin is Chairman of RSA Insurance Group plc and was previously Chairman of Great Portland Estates plc. He brings a wealth of past and current experience from over 25 years' service as an executive and non-executive board director in a wide range of companies.

Career experience: Previous roles include Chairman of Great Portland Estates plc, Senior Independent Director and Chair of the Audit Committee of Worldpay Inc., and Non-Executive Director and Chair of the Audit Committee of Lloyds Banking Group plc. He was a partner at Deloitte LLP for 26 years, serving as Chairman from 1995 to 2007, where his clients included Dixons, WH Smith, Alliance Unichem and Cadbury.

Current directorships/business interests: Chairman of RSA Insurance Group plc.

Specific contributions to the Company: Martin has held board positions for over 25 years, with extensive experience as a Chair. In addition, he brings valuable knowledge and skills in developing strategy and evaluating business opportunities, along with understanding of the financial services sector and how it operates. Martin also led a robust selection process, culminating in the appointment of Simon Roberts as Sainsbury's next Chief Executive Officer.

Key to Committee members

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

Mike Coupe ♥
Chief Executive Officer

Appointment to the Board: 1 August 2007. Mike has served as an Executive Director since 1 August 2007 and as Chief Executive Officer since 9 July 2014. He will retire from the Company on 2 July 2020.

Skills and experience: Mike has vast retail industry experience in trading, strategy, marketing, digital and online functions, as well as multi-site store experience. He has applied this knowledge to manage the business and to implement the strategy and policies approved by the Board.

Career experience: Mike joined Sainsbury's from Big Food Group, where he was a board director of Big Food Group PLC and Managing Director of Iceland Food Stores. He previously worked for both Asda and Tesco PLC, where he served in a variety of senior management roles.

Specific contributions to the Company: As an experienced retail industry leader, Mike's knowledge and understanding of the retail sector and customer behaviour have led to the creation of a multi brand, multi channel business through key strategic investments in convenience, online and digital services, and the acquisitions of Argos and Nectar.

Retirements in 2019/20
John Rogers retired from the Board on 31 October 2019.

Kevin O'Byrne
Chief Financial Officer

Appointment to the Board: 9 January 2017.

Skills and experience: Kevin brings a wealth of retail and finance experience to the Board from his various Chief Executive and Chief Financial Officer roles. His skills and experience in leading Finance and driving performance improvement provide the business with valuable expertise in pursuing its strategy.

Career experience: Kevin was previously Chief Executive Officer of Poundland Group Limited until December 2016 and held executive roles at Kingfisher plc from 2008 to 2015, including Divisional Director UK, China and Turkey, Chief Executive Officer of B&Q UK & Ireland and Group Finance Director. Prior to this, he was Group Finance Director of Dixons Retail plc and European Finance Director of Quaker Oats. He was a Non-Executive Director of Land Securities Group PLC from 2008 to September 2017, where he was Chairman of the Audit Committee and Senior Independent Director.

Current directorships/business interests: Non-Executive Director and Chairman of the Audit Committee of Centrica plc.

Specific contributions to the Company: Kevin is a skilled Chief Financial Officer, with extensive UK and international retail and finance experience gained during previous and current executive and non-executive positions. He has applied this knowledge to the Finance, Internal Audit, Investor Relations, Property, Procurement and Strategy functions, driving the performance of the business.

Matt Brittin ∗◆
Non-Executive Director

Appointment to the Board: 27 January 2011. Matt will retire from the Board on 2 July 2020.

Skills and experience: Matt has extensive experience of running a high profile, fast moving, innovative digital business and is able to provide first hand guidance to the Board on building and driving digital customer journeys across the business. This knowledge enables him to develop and monitor the delivery of the strategy within the risk and control framework set by the Board.

Career experience: Since 2015, Matt has been responsible for Google's business and operations in Europe, the Middle East and Africa, and he has served in leadership roles at Google since 2007. Prior to that, Matt spent much of his career in media and marketing, with particular interest in strategy, commercial development and sales performance. This included commercial and digital leadership roles in UK media.

Current directorships/business interests: Google's President – Europe, Middle East and Africa, and Director of The Media Trust.

Specific contributions to the Company: Matt shares his experience as a senior leader in the digital, online and technology sector, which is key to the Company's strategic priorities.

Brian Cassin ●∗
Non-Executive Director

Appointment to the Board: 1 April 2016.

Skills and experience: Brian brings present day experience of running a FTSE 30 group with knowledge of big data and analytics, both topics of key importance to Sainsbury's. As CEO of Experian plc, Brian brings with him strong leadership experience and a substantial background in operating within a regulated environment.

Career experience: Brian joined Experian plc as Chief Financial Officer in April 2012, a post he held until his appointment as Chief Executive Officer in July 2014. Prior to this, Brian spent his career in investment banking at Greenhill & Co, where he was Managing Director and Partner. Brian has also held various roles at Baring Brothers International and at the London Stock Exchange.

Current directorships/business interests: Chief Executive Officer of Experian plc.

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

Jo Harlow ♥∗◆
Non-Executive Director

Appointment to the Board: 11 September 2017.

Skills and experience: Jo brings a wealth of experience in consumer-facing businesses and in the telecoms and technology industries, both in the UK and internationally.

Career experience: Jo most recently held the position of Corporate Vice President of the Phones Business Unit at Microsoft Corporation. She was previously Executive Vice President of Smart Devices at Nokia Corporation, following a number of senior management roles at Nokia from 2003. Prior to that, she held marketing, sales and management roles at Reebok International Limited from 1992 to 2003 and at Procter & Gamble Company from 1984 to 1992.

Current directorships/business interests: Jo currently serves as Non-Executive Director and Chair of the Remuneration Committee of InterContinental Hotels Group plc, Non-Executive Director and Chair of the Remuneration Committee of Halma plc, and a Member of the Supervisory Board of Ceconomy AG.

Specific contributions to the Company: Jo has broad experience from executive and non-executive roles and, as Chair of the Corporate Responsibility and Sustainability Committee, she has helped the business deliver the business's sustainability strategy. She also brings current external Remuneration Committee experience.

J Sainsbury plc Board of Directors continued

Key to Committee members

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

David Keens ●∗

Non-Executive Director

Appointment to the Board: 29 April 2015.

Skills and experience: David has extensive retail experience and knowledge of consumer-facing businesses, together with core skills in finance.

Career experience: David was formerly Group Finance Director of NEXT plc from 1991 to 2015 and their Group Treasurer from 1986 to 1991. Previous management experience includes nine years in the UK and overseas operations of multinational food manufacturer Nabisco and, prior to that, seven years in the accountancy profession.

Current directorships/business interests: Non-Executive Director, Senior Independent Director and Chair of the Audit Committee of Auto Trader Group plc.

Specific contributions to the Company: David contributes with his expertise in finance and the industry knowledge that he has gained over almost 30 years as a board member, providing continuity and knowledge to our long-term decision-making processes as Chair of the Audit Committee. He plays a key role in monitoring the integrity of financial information provided to shareholders and the systems of internal controls and risk management.

Dame Susan Rice ∗◆

Senior Independent Director

Appointment to the Board: 1 June 2013. Susan has been the Senior Independent Director since 6 July 2016.

Skills and experience: Susan has extensive experience as a Non-Executive Director, as well as in retail banking, financial services, leadership and sustainability. Her career in retail banking is particularly relevant to the ownership of Sainsbury's Bank and Argos Financial Services.

Career experience: Susan has been a member of the Scottish First Minister's Council of Economic Advisors, a Managing Director of Lloyds Banking Group Scotland and Chief Executive, and then Chairman, of Lloyds TSB Scotland plc. She has also held a range of non-executive directorships, including at the Bank of England and SSE plc.

Current directorships/business interests: Chair of Scottish Water and Business Stream, Chair of the Banking Standards Board, Chair of the Scottish Fiscal Commission and Senior Independent Director of the North American Income Trust.

Specific contributions to the Company: Susan provides insight to the Board from her extensive experience gained as Chair, Senior Independent Director and Non-Executive Director of various businesses. As Chair of the Remuneration Committee, she has played a key role in revising the Remuneration Policy and strategy, which will be presented for approval by shareholders at this year's Annual General Meeting. Susan also led the selection process to recruit the current Chairman. She is an expert in financial services, which is invaluable to the Board as part of its oversight of Sainsbury's Bank and Argos Financial Services.

Simon Roberts ♥

Chief Executive Officer from 1 June 2020.

Appointment to the Board: 1 June 2020.

Skills and experience: Simon joined Sainsbury's and the Operating Board in July 2017 as Retail & Operations Director responsible for Stores, Central Operations and Logistics. He brought a wide range of experience and leadership skills to the Board from previous executive and non-executive roles.

Career experience: Simon has over 30 years' experience leading major UK retail brands, having spent 15 years at M&S and 13 years at Boots. Prior to joining Sainsbury's, Simon was Executive Vice President of Walgreens Boots Alliance and President of Boots UK and Ireland. During his tenure, Simon led Boots UK to achieve growth in sales and transactions, increased retail gross margin and doubled sales online. Before Boots, Simon was at Marks and Spencer Group Plc, where he started his career in stores.

Current directorships/business interests: Non-Executive Chairman at the Institute of Customer Service.

Specific contributions to the Company: Simon led Sainsbury's industry leading store operations restructure and digitisation throughout 2018, which is now delivering improved customer satisfaction, market leading productivity and further investment in value for customers. Simon recently took responsibility for Argos's retail operations as part of our continued integration. Simon is a dedicated, determined and enthusiastic champion of the customer and of our colleagues. He is a champion of diversity and inclusion and has enabled a significant transformation in capabilities and leadership across Sainsbury's operations.

Jean Tomlin ●♥*

Non-Executive Director

Appointment to the Board: 1 January 2013.

Skills and experience: Jean has extensive experience and breadth of skills in human resources and corporate responsibility, enabling her to challenge the Executive Directors constructively and monitor the delivery of the strategy within the risk and control framework set by the Board.

Career experience: Jean was formerly Director of HR, Workforce and Accreditation for The London Organising Committee of the Olympic and Paralympic Games, where she set the strategic direction to ensure the mobilisation of the combined 200,000-strong workforce including paid staff, volunteers and contractors. This represented the recruitment and mobilisation of the largest peacetime workforce and set the industry standard for volunteering with the highly acclaimed Games. She was previously Group HR Director at Marks and Spencer Group Plc, HR Director and founder member of Egg plc, and Sales & Operations Director of Prudential Direct. Jean is a Fellow of the Chartered Institute of Personnel and Development (FCIPD).

Current directorships/business interests: Independent Board member of Capri Holdings Limited, Non-Executive Director of Holdingham Group Ltd and Chief Executive Officer of Chanzo Limited.

Specific contributions to the Company: Jean's experience in human resources and understanding of values-led organisations have provided instrumental insight on workforce engagement and helped the Board in progressing Sainsbury's culture and values. She has also helped to evolve and enhance the Company's diversity and inclusion strategies.

J Sainsbury plc Operating Board

Mike Coupe
Chief Executive Officer
See page 48.

Kevin O'Byrne
Chief Financial Officer
See page 48.

Simon Roberts
Chief Executive Officer from 1 June 2020.
See page 51.

Jim Brown
Chief Executive Officer, Sainsbury's Bank

Date of appointment: June 2019.

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

Tim Fallowfield OBE
Company Secretary and Corporate Services Director

Date of appointment: September 2004.

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

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

Phil Jordan
Chief Information Officer

Date of appointment: January 2018.

Skills and experience: Phil joined the Board in January 2018 and has brought a fresh, global perspective on technology to the Operating Board, in addition to a wealth of experience in digital, data and business transformation. Prior to joining Sainsbury's, Phil had a long and successful track record in telecommunications. Most recently, he was Global Chief Information Officer at Telefonica, overseeing Digital Transformation and Information Technology and, prior to that, was Chief Information Officer for Vodafone UK/Ireland. Phil has worked as a Non-Executive Adviser on Technology in the investment and retail banking sector and is currently a Non-Executive Director, member of the Audit Committee and Chair of the Cyber-Security Committee of TalkTalk Telecom Group PLC.

Paul Mills-Hicks
Commercial Director

Date of appointment: May 2014.

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

Clodagh Moriarty
Chief Digital Officer

Date of appointment: June 2018.

Skills and experience: Clodagh was appointed Chief Digital Officer in June 2018, when she also joined the Operating Board. Clodagh is responsible for our e-commerce channels, digital products and digital strategy, ensuring customers experience an integrated and seamless digital experience across Sainsbury's, Argos, *Tu*, Sainsbury's Bank and Nectar. In addition to being the Operating Board sponsor for Wellbeing, she is also a newly appointed member of the Sainsbury's Bank Board and sits on its Nomination and Remuneration Committees. Prior to this, Clodagh has been Director of Online, Head of Online Trading, Merchandising & Content and Category Manager for the Meal Solutions business. She joined Sainsbury's as Head of Strategy, following nine years at Bain & Company. Whilst there, she worked across the London, New York and Johannesburg offices in corporate, private equity and not-for-profit sectors across multiple industries.

Angie Risley
Group HR Director

Date of appointment: January 2013.

Skills and experience: Angie was appointed Group HR Director and member of the Operating Board with responsibility for human resources in January 2013. Before joining Sainsbury's, Angie was the Group HR Director for Lloyds Banking Group and an Executive Director of Whitbread PLC with responsibility for HR and Corporate Social Responsibility. Prior to her current role as Non-Executive Director and Chair of the Remuneration Committee at Smith & Nephew plc, Angie spent six years as Non-Executive Director and Chair of the Remuneration Committee of Serco plc.

Governance Report

Dear Shareholder

My first year as Chairman has been an extremely busy one for the Board and the business, with the focus on our strategic priorities, continued significant operational change, the appointment of Simon Roberts as our new Chief Executive Officer, and our oversight of the Company's response to the COVID-19 crisis.

The Board is convinced that governance of this business is strong, and this was confirmed in our independently led evaluation exercise at the end of the financial year. We were deeply engaged in setting the strategic priorities which responded to the feedback of our major shareholders in mid-2019. These set a clear direction for our value proposition, distinctive food offer and the acceleration of our technology and digital investments, as well as repositioning our Financial Services business under Jim Brown's leadership. Together with our General Merchandise, Clothing and Argos businesses, we believe the business is well positioned as a multi brand, multi channel business that can drive long-term value for shareholders, with a five-year cost transformation programme enabling net debt reduction and strong cash generation.

I have already thanked Mike Coupe for his outstanding stewardship of the Company in my Chairman's letter on pages 2 and 3. His retirement has led to a robust succession process conducted by myself and the Nomination Committee, and we are delighted that we have been able to appoint Simon Roberts as his successor. The Board is looking forward to working with Simon and his leadership team when he takes over the Chief Executive Officer role on 1 June 2020.

We are also conducting succession processes to find replacements for Matt Brittin and Jean Tomlin, both of whom have contributed so much during their years on the Board. Our objective is to find exceptional new Non-Executive Directors who will bring a range and depth of experience to the Board and maintain our broad diversity, continuing our good gender and ethnicity balance.

The Board also played its part in the announcement of our Net Zero by 2040 plan, which followed in-depth discussions with Mike and the Operating Board. We will continue to monitor progress against the key commitments with regular oversight by our Corporate Responsibility and Sustainability Committee and the Board.

Our external Board evaluation exercise also reflected on our culture and values and concluded that the Board has an open and honest culture which reflects the strong values of the business. We have well established ways of engaging with our stakeholders, listening to their views and bearing them in mind when taking our key decisions.

Over recent weeks we have received regular updates on the business's reaction to the COVID-19 crisis with detailed updates on trading, the financial consequences of our virus-related activities, our future funding requirements and on shareholder returns. We are proud of the immense contributions of Mike, Simon, the management team and our colleagues throughout the business who have done so much to ensure that we can play our part in feeding the nation and responding to all our customers' needs fairly and safely.

Martin Scicluna
Chairman

Statement of Compliance

The Board considers that the Company has complied in full with the Principles and Provisions of the UK Corporate Governance Code 2018 (Code) for the financial year ended 7 March 2020. The Code can be found at **www.frc.org.uk**. The way the Company has applied the Code Principles is set out in the following sections of the Annual Report as follows:

— Strategic Report (Stakeholder Engagement, Principal Risks and Uncertainties, Viability and Going Concern Statements)

— Governance Report

Principles and Provisions	Governance report content	Page
Board leadership and Company purpose	Chairman's statement	54
	Stakeholder engagement	54
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	Strategic priorities	57
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Composition, succession and evaluation	Director development	59
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	Diversity and inclusion	63
	Corporate Responsibility and Sustainability Committee Report	64
Audit, risk and internal control	Audit Committee Report	66
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Remuneration	Annual Statement from the Remuneration Committee Chair	72
	Summary of 2019/20 remuneration decisions	74
	Summary of remuneration for 2020/21	75
	Remuneration in context	76
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Stakeholder engagement

Under the Code Provision 5, the Board is required to understand the views of the Company's key stakeholders and describe in the Annual Report how their interests and the matters set out in Section 172 of the Companies Act 2006 have been considered in Board discussions and decision-making. Details of how we engage with our stakeholders and how stakeholders have been considered in Board discussions and decision-making can be found on pages 14 to 17.

For workforce engagement, the Code has listed one or a combination of the following methods for use:

— a director appointed from the workforce

— a formal workforce advisory panel

— a designated non-executive director

In compliance with the Code, the Board has decided to have a formal workforce advisory panel, and to share workforce engagement responsibility amongst the Non-Executive Directors so that each is able to benefit directly from hearing colleague feedback. All Directors are encouraged to attend sessions with our Workforce Advisory Panel, the Great Place to Work National Group, which is made up of colleagues across the business elected by their peers to represent their views. In addition, Board members are invited to Talking Shop listening sessions; these are question and answer style discussions that give colleagues and members of the Board and Operating Board the opportunity to meet each other face to face and discuss any work matters directly. For more details on the topics discussed at our Workforce Advisory Panel see page 57.

Board leadership and Company purpose

How we are governed

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

Role of the Board

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

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

Operating Board

Matters not specifically reserved for the Board have been delegated to the Operating Board which during the year was chaired by Mike Coupe. The Operating Board concentrates on the day-to-day management of the business and the execution of the strategy set out by the Board. Each Operating Board member has a range of responsibilities, which are detailed in their biographies on pages 52 to 53. To support its work the Operating Board has delegated certain powers to the Operating Board Committees, each of which has approved Terms of Reference setting out its areas of responsibility.

Sainsbury's Bank

Sainsbury's Bank plc Board membership includes an independent Chairman, four Independent Non-Executive Directors and a Non-Executive Director from the Operating Board representing J Sainsbury plc together with the Bank's Chief Executive Officer and Chief Financial Officer. The Bank's Chief Executive Officer is supported by the Sainsbury's Bank Executive Committee and is responsible for the day-to-day management of the business and executing its strategy. The Bank's Chief Executive Officer is a member of the Operating Board and brings the Bank's priorities and perspective into the business's overview.

Committees

Audit Committee

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

More details on page 66.

Remuneration Committee

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

More details on page 72.

Nomination Committee

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

More details on page 62.

Corporate Responsibility and Sustainability (CR&S) Committee

The CR&S Committee reviews the sustainability strategy; our Net Zero by 2040 plan. It also monitors the business's engagement with colleagues, customers, suppliers, the community, shareholders and government on sustainability and corporate responsibility matters.

More details on page 64.

Operating Board Committees

Customer and Trading Forum

The Customer and Trading Forum oversees the development and delivery of the commercial and customer strategic priorities and budget.

Investment Board

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

Group Data Governance Committee

The Group Data Governance Committee has oversight of the programmes that deliver compliance with Data Protection, Data Security and Payment Card Industry data security standards across the business. It oversees effective information security throughout the business.

Group Safety Committee

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

Group Diversity and Inclusion Steering Group

The Group Diversity and Inclusion Steering Group is made up of five Operating Board sponsors, each of whom champions a strand of diversity, and is chaired by our Group HR Director, Angie Risley. The Group meets to govern progress and drive our inclusion and wellbeing strategies.

Group Operational Resilience Committee

The Group Operational Resilience Committee sets the operational resilience strategy, including business continuity and disaster recovery arrangements, for the business and monitors implementation.

Net Zero Steering Group

The Net Zero Steering Group leads operational execution of Net Zero by 2040 plan by overseeing the working groups' activities, ensuring delivery of performance.

Key areas of focus for the Board

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

Area of focus	Principal matters considered by the Board	Links to rest of the report see page(s)
Strategy (see further details below)	Agreed the strategy focussing on the strategic priorities and held regular reviews of all business areas	57
	In-depth strategic and performance reviews on the following items: — The five-year strategy for Sainsbury's Bank and Argos Financial Services — The Net Zero by 2040 plan	57
COVID-19	Discussed: — Keeping our customers and colleagues safe — Feeding the nation — Help for communities and suppliers — Safety in our stores — Trading performance and costs incurred — Financial impact	6 to 9
Succession and leadership	Chief Executive Officer and Board appointments. Succession planning for the Board and senior management	62
	Effectiveness of the Board and its Committees	60, 61
Financial and operational performance	Reviewed and discussed business performance including market and trading updates	30 to 35
	Reviewed: — KPIs — The annual budget and five-year corporate plan — Five-year cost transformation plan — The financing strategy — The Company's Preliminary and Interim results, trading statements and the Annual Report — Going Concern and Viability Statements — The Dividend, Treasury and Tax strategies — Customer satisfaction metrics, including service standards and the overall customer offer	 28 – 25 34 – 46, 47 34 5
	Reviewed the funding for the defined benefit pension scheme	35
Colleagues, values and culture	Reviewed and discussed: — The culture, vision and values — The organisational structure throughout the business — Talent management — Inclusion and diversity — Feedback from colleagues — Feedback from the Workforce Advisory Panel and Colleague Listening Groups	 10, 11, 18 5 62 63 14, 15 14, 15
Committee updates	Received detailed summaries from each Committee Chair – Audit, CR&S, Nomination and Remuneration – following the relevant Committee meetings	62, 64, 66, 72
Other stakeholder engagement	Received and discussed: — Updates on supplier relationships and feedback from suppliers — Feedback from investors throughout the year including on the strategic priorities	 14, 15 16, 17
Governance and risk	Reviewed the risk framework and internal controls, and approved the Principal Risks and Uncertainties	36 to 45, 71
	Received regular updates on corporate governance developments and current litigation	–
	Reviewed and considered quarterly reports on safety (health and safety and food)	42
	Brexit updates	39
Cyber security and data governance	Discussed the business's approach to information security and data governance	–
	Reviewed systems, plans and processes to protect the business's key information assets	61, 69

The Board's programme of meetings allows a regular review of these activities. The Board regularly holds meetings in different business locations in order to meet management teams and colleagues, review performance, discuss progress and agree key priorities for the short and medium term. The following paragraphs explain the governance behind agreeing our strategic priorities.

Strategic priorities

The Board was fully involved in agreeing our strategic priorities. Six of the priorities were presented to investors at the Capital Markets Day in September 2019, and our seventh priority – our Net Zero by 2040 plan – was announced in January 2020. Further details on our priorities can be found on pages 20 to 27. In agreeing and reviewing our strategic priorities, the Board had regular presentations on the following:

Strengthen our core food and grocery business
The Board had a number of updates on the overall food strategy and grocery business from Paul Mills-Hicks and Simon Roberts. They covered areas such as product and pricing, customer value, service levels and online performance. The Board also discussed progress on the store investment programme. In June, the Board visited our new store at Selly Oak to discuss these matters in detail and to meet with senior management responsible for executing the agreed priorities and those responsible for General Merchandise, Clothing and Argos.

General Merchandise, Clothing and Argos
The Board was updated on the General Merchandise, Clothing and Argos strategy and discussed bringing Sainsbury's and Argos operations closer together to deliver industry leading service, convenience and efficiency while lowering our cost to serve our customers. The Board also discussed the impact this strategy would have on our stakeholders specifically colleagues and suppliers.

Reposition Financial Services
The Board had a number of in-depth reviews and discussions on the Sainsbury's Bank and Argos Financial Services strategy and agreed the vision to be the provider of simple, easily accessible financial services for loyal Sainsbury's customers. In September 2019, the Board visited Sainsbury's Bank in Edinburgh to meet senior managers and colleagues and discuss strategy and performance.

Sustainability
The Board and CR&S Committee debated the timescale, costs, commitments, vision and values of our Net Zero by 2040 plan. The Net Zero by 2040 plan was approved at the January 2020 Board meeting and further details can be found on page 27.

Digital eco-system
Developing the digital eco-system is a core part of our strategic direction. The Board discussed the investment being made to build a digitally integrated, multi brand, multi channel business at a number of its meetings. For more information see page 23.

Creating a place where we all love to work
Culture and 'creating a place where we all love to work' is a key focus of the Board and is discussed throughout the year. The Board discussed Sainsbury's purpose, vision and values and the results from our annual 'We're Listening' colleague engagement survey. This survey invites every colleague to give honest confidential feedback on what it is like to work for the business. Further details on the feedback from our colleague engagement survey can be found on page 15. Non-Executive Directors also fed back to the Board on the engagement they had with the Workforce Advisory Panel, our Great Place to Work National Group, on matters such as digital Nectar, Brexit, Winning Teams, security and safety, colleague development, pay and recognition, the remuneration process and the Chief Executive Officer's pay. Inclusion and the improvements being made in the gender and ethnicity balance at senior management level were discussed and more information can be found on page 63.

Division of responsibilities

How the Board operates

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

In addition to eight scheduled meetings in 2019/20, there were a number of informal Board meetings to agree the strategic priorities and meetings of the Nomination Committee relating to the appointment of the new Chief Executive Officer. These meetings were often at short notice and very well attended by Board and Committee members.

Our Board comprises the Chairman, two Executive Directors and six independent Non-Executive Directors. Simon Roberts will join the Board as Chief Executive Officer on 1 June 2020. Search processes are in place to replace Jean Tomlin and Matt Brittin. Each of their responsibilities are listed below and more information on their specific contributions can be found in their biographies on pages 48 to 51.

Chairman Martin Scicluna	Responsible for the leadership and effectiveness of the Board and for setting the Board agenda. Ensures effective communication so that the Board is aware of the views of shareholders and other stakeholders, and demonstrates objective judgement. Promotes a culture of openness and debate in the boardroom and constructive relations between Executive and Non-Executive Directors. Led the search for the new Chief Executive Officer and continues to lead the search for the new Non-Executive Directors.
Chief Executive Officer Mike Coupe (Simon Roberts from 1 June 2020)	Responsible for the day-to-day management of the business and for executing the strategy agreed by the Board. Creates a framework of strategy, values, culture and objectives to ensure the successful delivery of results for the business, and allocates management responsibilities accordingly. Responsible for managing risk and creating a framework of internal controls.
Chief Financial Officer Kevin O'Byrne	Supports the Chief Executive Officer in implementing the strategy and in the financial performance of the business. His executive responsibilities are described on page 48.
Senior Independent Director Susan Rice	Acts as a sounding board for the Chairman and a trusted intermediary for other Directors. Available to discuss with shareholders any concerns that cannot be resolved through the normal channels of communication with the Chairman or the Executive Directors. Leads the other Directors in evaluating the performance of the Chairman.
Independent Non-Executive Directors Matt Brittin Brian Cassin Jo Harlow David Keens Jean Tomlin	Responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision-making. Support and constructively challenge the Executive Directors, holding them to account and offering specialist advice using their wide and varied experience. Monitor delivery of the agreed strategy within the risk management framework set by the Board. Independent of management and free from any business or other relationships that could compromise their independence.
Company Secretary and Corporate Services Director Tim Fallowfield	Advises and assists the Board and the Chairman, particularly in relation to governance, Board evaluations, induction, training and formulating the agenda for Board meetings. Ensures that Board procedures are effective and there is good information flow to the Board and its Committees.

The Chairman and Non-Executive Directors also met without the Executive Directors being present and the Non-Executive Directors, led by the Senior Independent Director, met without the Executive Directors or the Chairman being present.

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

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

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

Martin Scicluna	8(8)	David Keens	8(8)
Matt Brittin	8(8)	Kevin O'Byrne	8(8)
Mike Coupe	8(8)	Susan Rice	8(8)
Brian Cassin	8(8)	John Rogers[1]	4(6)
Jo Harlow	8(8)	Jean Tomlin	8(8)

Notes: The number of scheduled meetings held during the year that each Director could attend is shown in brackets.
1 John Rogers did not attend the two Board meetings held in October 2019 following his resignation.

Director independence

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

Time commitment and conflicts of interest

Prior to appointment, each prospective Non-Executive Director confirms that they will have sufficient time available to be able to discharge their responsibilities effectively and that they have no conflicts of interest, and this is discussed by the Board before any appointment is made. In addition, the Board reviews and approves in advance, requests by Directors wishing to undertake new responsibilities or directorships and considers both the time commitments involved and any potential conflicts. The conflicts of interest register is reviewed annually to ensure it is up to date and that there are no new conflicts to consider. No changes were recorded during the year, which would impact the independence of any of the Directors.

The Board supports Executive Directors having a non-executive directorship as part of their continuing development provided they have sufficient time to balance their commitments to the business with any external role. Subject to Board approval, each Executive Director may have one non-executive director position. Whilst recognising the benefits of Non-Executive Directors having varied and broad experiences, the Board keeps in mind investor guidance and reviews the commitments of each Director annually. Throughout the year, all Directors have good attendance records at scheduled meetings, and demonstrated high levels of availability and responsiveness for additional meetings and discussions where these have been required. The Board remains confident that individual members continue to devote sufficient time to undertake their responsibilities effectively.

Composition, succession and evaluation

Director development

Induction

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

Simon Roberts has started his induction programme as an Executive Director in preparation for joining the Board on 1 June 2020. When joining the Board, a new Non-Executive Director typically meets individually with each Board and Operating Board member, and also with senior management from key areas of the business to give them insight into their areas of responsibility. The Company Secretary and Corporate Services Director briefs them on policies, Board and Committee procedures, and core governance practice. They visit a number of business locations and meet key advisers. They also receive induction materials including recent Board and Committee papers and minutes, strategy papers, investor presentations, Matters Reserved for the Board and the Board Committees' Terms of Reference. Directors' inductions are ongoing processes over a number of years during which they will cover the following:

The Directors' induction process

Understanding the business

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

Understanding the sector and environment

- Customer trends
- Consumer and regulatory environment
- Brand perception and reputation
- Analyst and investor perspectives
- Key stakeholders' views

Meet the Sainsbury's internal team and advisers

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

Visit Group operations

- Store visits
- Distribution centres
- Store Support Centres

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

During the year, Jo Harlow in her capacity as Chair of the Corporate Responsibility and Sustainability Committee, joined Chapter Zero, a network of company Chairs, Committee Chairs and Non-Executive Directors, committed to developing their knowledge of the implications of climate change for UK businesses. She visited a Sainsbury's Active Kids Club and attended the Sainsbury's Farmers Conference and Sainsbury's Capital Markets Day where the strategic priorities were outlined to investors. She had regular meetings with the Chair of the Sainsbury's Foundation and participated in a Talking Shop Listening Session at our Nine Elms store with Simon Roberts as well as a Workforce Advisory Panel meeting. More information on these sessions can be found on page 57.

As Audit Committee Chair, David Keens has engaged directly with business operations to gain greater understanding and insight. He has met with teams across Group Finance to discuss aspects of internal controls and risk management, met with the Treasury team to discuss refinancing as well as senior management at Sainsbury's Bank and Nectar. He visited the Bedford distribution centre and Antsy Park Store Support Centre to discuss *Tu* clothing and logistics and he also held meetings with the Groceries Supplier Code Adjudicator. More information on his work can be found on page 66.

Professional development and training
To ensure the Board updates and refreshes its skills and knowledge, we have a programme to support Directors' training and development requirements in relation to governance, investor expectations and regulatory impacts. This includes regular presentations from management on relevant governance matters. Both the Audit and Remuneration Committees received updates on relevant accounting and remuneration developments, trends and changing disclosure requirements from external advisers and management, and the Board and Committees were updated on compliance with the Task Force on Climate-related Financial Disclosures, the 2018 UK Corporate Governance Code and Directors' responsibilities under Section 172 of the Companies Act. The Directors also had access to the advice of the Company Secretary and independent professional advice is available at the Company's expense, if necessary, in fulfilling their duties and responsibilities.

Board evaluation

We review our effectiveness as a Board on an annual basis, including an assessment of the Board and its Committees. An external evaluator conducts the review every third year, and in the two intervening years this is carried out by the Company Secretary, Tim Fallowfield, to ensure continuity over the three-year cycle.

This year's review was conducted from November 2019 to February 2020 by Clare Chalmers, an experienced independent provider of board effectiveness reviews. She has provided evaluation services to a number of FTSE companies, as well as the broader private sector, public sector, Government and not-for-profit sectors. Clare has no association with Sainsbury's or individual Directors other than being involved in a separate review of the Board of Sainsbury's Bank in 2015.

We provided Clare with relevant documents, including details of last year's internal report, Board and Committee minutes and the slides presented to investors on the Capital Markets Day in September 2019. She was appointed following a tender process conducted by the Chairman, Martin Scicluna, and Tim Fallowfield which included other potential suppliers.

Clare met Martin and Tim to agree the scope of the review and the key areas of focus. This resulted in an agreed agenda for the meetings between Clare and each member of the Board, Tim and Angie Risley (Group HR Director). A scoping agenda was sent to each of them before their individual meetings. Their discussions were confidential and no views were attributed to any individual in the final report.

The key areas of focus included: the role and priorities of the Board and Committees; the Board's composition, skills, succession and culture; the alignment of purpose, strategy and values; leadership of the Board and the business; engagement with stakeholders; long-term sustainability; and internal controls and assurance. Each Director was given the opportunity to raise their own additional points.

Following the individual discussions, Clare discussed her key findings with Martin and Tim, and then presented a written report to the Board. A separate meeting with the Board was held to discuss the findings and the Board then agreed the key actions.

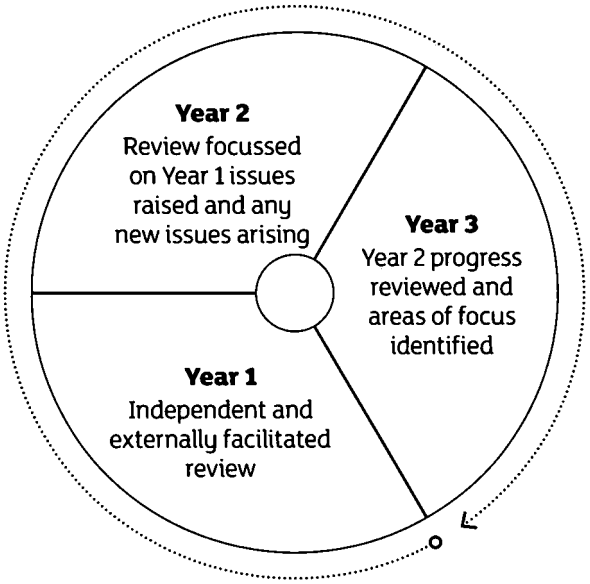
Clare met Martin separately to discuss feedback on individual Directors, and met with Susan Rice to discuss feedback for Martin, which she subsequently shared with him as part of his review meeting.

Findings of the 2019/20 review

The report identified a number of strengths of the Board including:

- A positive dynamic with a constructive tone and an appropriate level of challenge under the Chairman's leadership
- Good access to the executive team
- Experienced Non-Executive Directors with a good mix of relevant skills and diversity with each Non-Executive Director continuing to contribute effectively
- The Chief Executive Officer's succession process (which at that time had not concluded) was progressing well and was thorough and inclusive, with good communication flows and a clearly agreed brief
- The new Chairman is making a positive contribution to the Board and the business and is driving the pace and challenge in the boardroom
- Stakeholder engagement is working well, with strong investor relations, effective workforce engagement and clear customer orientation
- The approach to risk management is strong, with an effective Audit Committee
- The other Committees are working well, with clear priorities and strong management support. The process to find two new Non-Executive Directors to replace Jean Tomlin and Matt Brittin has clear objectives around skills, diversity and board balance

Board evaluation cycle



A combination of Board evaluation and Director appraisal

Progress and actions implemented during 2019/20

Agreed actions for 2020/21

Key areas of focus from 2018/19 review	Progress and actions implemented during 2019/20
Culture and stakeholder engagement Continue to build on current activities and the Board agenda to maintain oversight of the business's culture and to further engage with stakeholders. Determine the preferred method of engaging with colleagues to comply with the Code, by learning more from the range of activities planned for the year.	The Board has developed its engagement with all key stakeholders as set out on pages 14 to 17.
Business performance and strategic priorities The Board agreed to continue to focus on the KPIs of each business unit and the business in the overall market and to hold detailed discussions about the context and drivers of trading performance and value creation.	The management accounts have been updated and the Board regularly receives detailed updates on customer satisfaction, colleague engagement and sector comparative performance. Regular performance updates are built into the Board's programme to review progress against the performance and strategic commitments made in the strategic priorities.
Data security The Board will continue with its oversight of, and assurance over, the business's plans and priorities for information security and data governance through additional review sessions by the Audit Committee.	The Audit Committee has regularly assessed progress against the information security and data governance plans, and the Board received a detailed presentation of the specific information security risks and risk appetite, plans and targets for 2020/21.

Agreed actions and areas for development for 2020/21

- The Board will continue to drive a performance culture whilst maintaining Sainsbury's colleague-focussed ethos
- The Board and Nomination Committee will revise the Board's skills matrix for the future to assist with succession planning
- The Board will continue to build its connectivity with the Sainsbury's Bank Board, whilst observing the independence of the Bank's governance, particularly in light of the recent appointment of the Bank's new Chief Executive Officer and the planned succession of the Bank's Chairman and other changes to the Bank Board of Directors
- The Board will develop its strategic thinking with external thought leadership in a changing retail environment
- The Non-Executive Directors will mentor the new Chief Executive Officer as he takes over leadership of the business

Nomination Committee Report

Dear Shareholder

This has been a busy year for the Committee, with our particular focus on appointing a new Chief Executive Officer to succeed Mike Coupe and seeking two new Non-Executive Directors to replace Jean Tomlin and Matt Brittin, in addition to our usual programme overseeing talent, succession, diversity and inclusion.

The following pages explain the governance around the search process for our new Chief Executive Officer and two new Non-Executive Directors. Our independently led Board evaluation gave us the chance to assess how the search of the Chief Executive Officer was progressing at that point. It concluded that the Committee was working effectively, that the search process was well set up with clear objectives, that all of the members of the Committee were well informed of progress and their role in key decisions, and that there was good support from our external advisers and key members of the executive team. We are delighted that we have appointed Simon Roberts to lead the business from 1 June 2020. Our search for two new Non-Executive Directors continues.

Martin Scicluna
Chairman

Principal role and responsibilities

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

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

The Committee held two scheduled meetings in the year, together with six unscheduled meetings relating to the Chief Executive Officer's search process and appointment.

Attendance at the scheduled Nomination Committee meetings.

Martin Scicluna	2(2)	David Keens	2(2)
Matt Brittin	2(2)	Susan Rice	2(2)
Brian Cassin	2(2)	Jean Tomlin	2(2)
Jo Harlow	2(2)		

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

Committee membership

The Committee consists of all of the current Non-Executive Directors, all of whom are independent. The Chairman of the Board is also the Chair of the Committee, and the Company Secretary acts as the Secretary of the Committee. Mike Coupe and Angie Risley, Group HR Director, attend meetings by invitation. In line with good governance, Mike Coupe played no part in the process to identify his successor.

Succession planning

Chief Executive Officer succession

The Committee, led by the Chairman, oversaw the search and appointment of a new Chief Executive Officer to replace Mike Coupe following notice that he wished to retire. The process was thorough and inclusive. An extensive internal and external search was followed by an interview process which gave the Non-Executive Directors the opportunity to meet the shortlisted candidates. There was good communication throughout and the Chairman received support from the Group HR Director and the Company Secretary. The Non-Executive Directors were kept well informed throughout the process.

The Committee held six unscheduled meetings between October 2019 and January 2020 as part of the appointment process and received a number of informal updates as set out below. The Committee also agreed to tender, to identify an executive search consultancy to help with the search. The Chairman met suppliers and it was agreed that MWM Consulting would be appointed. MWM Consulting had no connection with the Company prior to appointment and had no relevant connections with individual directors. It also received the Hampton-Alexander Enhanced Code of Conduct for FTSE 350s accreditation in 2019, one of 10 executive search firms that met the new performance criteria and best practice standards in gender-balanced selection for FTSE 350 boards.

Identify	The Committee agreed a detailed job specification and preferred attributes of the new appointee. A thorough review of potential external and internal candidates was undertaken including a diverse long list of external candidates presented by MWM Consulting. The Committee shortlisted a number of candidates.
Interview	The Chairman and Non-Executive Directors met with the shortlisted candidates who confirmed their interest in the role. Following the interviews, the Nomination Committee members met to discuss feedback.
Select	The Committee was unanimous in its final selection and recommended to the Board that Simon Roberts be appointed as Chief Executive Officer. Simon has been extremely effective during his three years at Sainsbury's, leading our store teams through great change in that time. Simon is a dedicated, determined and enthusiastic champion of our customers and colleagues and has overseen sustained improvements in our competitiveness during his time with the Company.
Considerations	The Remuneration Committee approved the terms and conditions relating to Simon Roberts's remuneration arrangements.
Appoint	Simon Roberts's appointment as Chief Executive Officer was announced on 22 January 2020 and will take effect on 1 June 2020 when he will also become a member of the CR&S Committee.

Non-Executive Director succession

The Committee is following a similar approach for each of the two Non-Executive Directors' search processes. MWM Consulting is assisting with each, providing a long list of potential candidates from a broad range of backgrounds, matching the terms of the detailed specification for each role. Members of the Committee are involved at each stage of the process and the new Directors will be announced once the Board has confirmed their appointments.

Diversity and inclusion

The aspiration of our business is to be the most inclusive retailer, and the Board is highly supportive of the initiatives in place to promote diversity and inclusion throughout the business. Clear leadership of our inclusion agenda has been established by Mike Coupe and the Operating Board, and senior management have been set annual objectives to drive progress through the business. The Group Diversity and Inclusion Steering Group is chaired by the Group HR Director and is also attended by five other Operating Board Directors who each champion an inclusion stream:

— Gender Balance
— Ethnicity, Religion and Belief
— Lesbian, Gay, Bisexual and Transgender
— Age, Carers and Disability
— Wellbeing

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

Board diversity

We promote diversity on our Board and we believe there is good balance amongst our Non-Executive Directors, with extensive and wide-ranging experience of retail and other consumer-facing businesses and varying length of service. Our Non-Executive Directors also have other highly relevant skills derived from serving in a range of major executive and non-executive positions throughout their careers and an array of cognitive and personal strengths. The Board's approach to its own diversity is as follows:

Aim to maintain a level of at least 33% female Directors and at least one Director who identifies as Black, Asian and Minority Ethnic (BAME) on the Board.
Three of our nine Board Directors are women (33%) and one identifies as BAME. The Committee continues to make recommendations for new appointments to the Board based on merit, with candidates measured against objective criteria and on the skills and experience they offer.

The Board continues to review the development of the pipeline of both BAME and female senior management within the business. Of the nine members of our Operating Board, two are women (22%). 35.7% of our Operating Board and their direct reports (excluding PAs) are women and 7.1% identify as BAME. More information can be found on page 26.

Consider candidates for appointment as Non-Executive Directors from a wide pool.
During the year, the Nomination Committee discussed Non-Executive Director appointments and succession. It is working closely with MWM Consulting in compiling long and short lists of candidates from various backgrounds and sectors. Candidates are being identified, interviewed and measured against a detailed job specification and preferred attributes.

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

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

Corporate Responsibility and Sustainability Committee Report

Dear Shareholder

Our purpose is to help our customers live well for less, now and in the future. In delivering that purpose, we take our responsibility as a sustainable retailer seriously.

The Committee oversees the governance of being a sustainable business. Now in my second year as Chair, I am pleased to see the accomplishments against our agenda: the significant progress that has been made against our 2020 Sustainability Plan since its inception in 2011; the development of our new 'Net Zero by 2040' sustainability plan; and the increased focus on our stakeholders.

This year sees the conclusion of our 2020 Sustainability Plan and I am proud of the progress and achievements we have made against our commitments. Our activities have spanned our five values, governed by our Value Management Groups, to help customers live healthier lives, make a positive difference to our communities, source with integrity, have respect for our environment, and create a great place to work for our colleagues. Highlights include reducing our absolute carbon emissions by 42 per cent against our 2005 baseline, reaching our 30 per cent target a year early, and retaining our Gold standard accreditation from Investors in People for the fourth year running. We also celebrated our 150th birthday by delivering our 150 Days of Community programme which saw over 35,000 of our colleagues pledge their time to good causes in their communities. We were unable to reach every target we set out to achieve in 2011 but we have learned a lot in the process. We are confident we are taking the right approach in areas such as improving animal health and welfare by focussing on data-led health outcomes, whilst on deforestation we understand that despite our high levels of certification and sustainable sourcing of raw materials, such as palm oil and timber, we have been unable to impact the rise of deforestation on our own. You can read more about how we have performed against our 2020 Sustainability Plan on page 18 and see our full 2019/20 performance scorecard in our Sustainability Update on our corporate website.

This year has also seen the Committee increase its focus on stakeholder engagement including our customers, colleagues, suppliers and the community. We have listened to and engaged with our stakeholders and more information about our work can be found on pages 14 to 17.

The Committee was instrumental in the development of our Net Zero by 2040 plan. I was delighted that we launched it in January 2020 and that it is one of our strategic priorities. Our Net Zero by 2040 plan includes key areas of focus across carbon, water, sustainable diets, plastics, food waste, recycling and biodiversity, which will guide our activity over the next 20 years to ensure we become Net Zero in our own operations by 2040. We have also committed to investing £1 billion over 20 years to help us achieve this. You can read more about our new commitments on page 27.

In order to oversee the implementation of our new Net Zero by 2040 plan and to have more time to understand and hear from our stakeholders, we have increased the number of Committee meetings. From 2020/21 we will be holding at least three meetings a year, with additional updates to the Board, and I am pleased to welcome Martin Scicluna and Simon Roberts to the Committee as members, effective from 1st June 2020. We have also refreshed our sustainability governance structure in the business with the creation of a Net Zero Steering Group, as well as specific working groups. This will allow us to be more agile amid changing dynamics and emerging issues and support the delivery of our commitments.

Jo Harlow
Chair, Corporate Responsibility and Sustainability Committee

Principal role and responsibilities

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

Attendance at scheduled Committee meetings. Meetings were also attended by Martin Scicluna.

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

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

Principal activities in the year

The Committee met twice during the year. Prior to each meeting, members received insights on how we engaged with our stakeholders – colleagues, customers, the community and suppliers – as well as progress updates on the 2020 Sustainability Plan. During the meetings, discussions and reviews of stakeholder engagement and development of our Net Zero by 2040 plan took place.

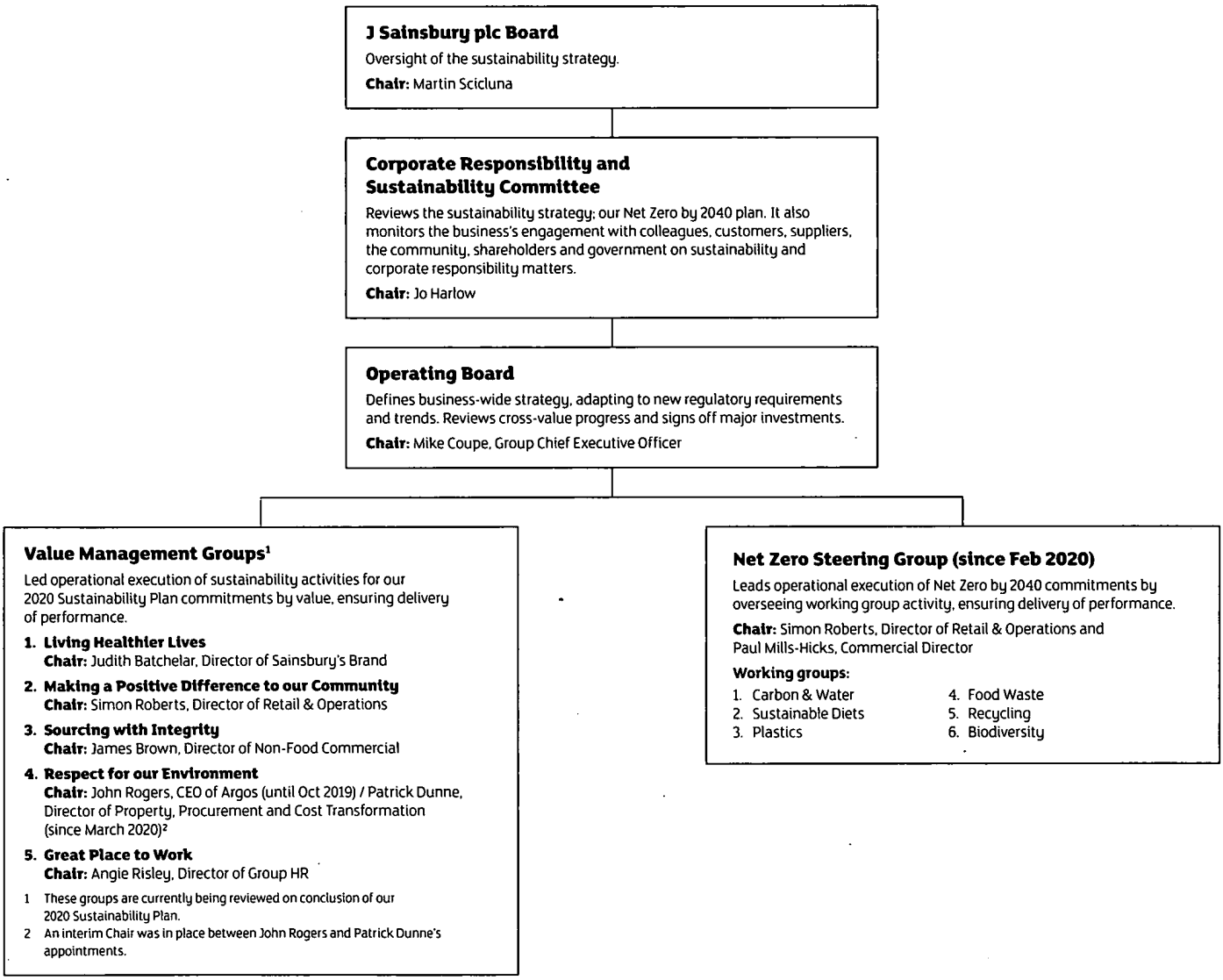
The Committee was engaged in our 150 Days of Community programme which ran from May to October 2019, to celebrate the Company's 150th birthday. The programme offered the opportunity for each colleague to volunteer during working hours. In total, we supported 2,456 projects which saw colleagues volunteer on a wide range of initiatives to support their local communities.

Culture and 'creating a place where we all love to work' was a key part of the Committee's agenda. The Committee was provided with the feedback from colleague engagement surveys and discussed ways to build colleague trust with the management team.

This year the Committee received a comprehensive update on supplier engagement, including the results of the Advantage Suppliers Survey and Groceries Code Adjudicator report. Committee members were keen to understand the actions being taken to build relationships with our suppliers, how our supply chains source products ethically and sustainably and the work undertaken by the Fair Development Fund and Sainsbury's Fairly Traded programme. More information on our suppliers can be found on page 14. The Committee also reviewed the steps we are taking to prevent modern slavery and human trafficking in our business operations and supply chain and recommended that the Board approve our Modern Slavery Statement, which can be found on our corporate website.

As we focused on our new sustainability plan, we listened intently to our customers, noticing a shift in their views on sustainability. While climate change and being 'green' are really important to them, they are not fully aware of the extensive work that Sainsbury's does in this area, an insight that has helped inform the communications plan for our new strategy. The Committee was engaged in upcoming regulatory developments on childhood obesity, resources and waste, clean air, employment reform and the cost of these to the business, which fed into the development of the new Net Zero by 2040 plan. Learnings from the 2020 Sustainability Plan and other stakeholders were also considered. After a broad discussion, at a number of Committee and Board meetings between September 2019 and January 2020, the Net Zero by 2040 plan was approved as our seventh strategic priority.

See page 18 for progress on our 2020 Sustainability Plan commitments and page 27 for our Net Zero by 2040 commitments.



Audit, risk and internal control

Audit Committee Report

Dear Shareholder

Each year brings new challenges and opportunities to our business, as it does to businesses in general. The year just ended has been no different and in this report, my fifth as Audit Chair, you will find details of both continuous and new reviews undertaken by the Audit Committee. I appreciate the open culture within Sainsbury's which facilitates our work.

The Audit Committee membership remained unchanged throughout the year and I again thank Jean Tomlin and Brian Cassin for their invaluable contributions. We each bring different but complementary skills, and this has ensured that discussions with management and the external auditor are both robust and productive. These discussions are not confined to Committee meetings, nor are there any limitations or constraints placed on us. We are well supported by our Director of Internal Audit and her Internal Audit team; they play an important role and their work is respected throughout the business.

My, and the Committee's, style is to be pro-active and engage directly with business operations where we feel this will give us greater understanding and insight. In addition, it enables those in our management team who would not ordinarily be aware of Audit Committee responsibilities to increase their knowledge of our role and purpose in corporate governance. The open nature of Sainsbury's culture facilitates this approach and I thank the Board and all colleagues for making this possible.

Sainsbury's Bank operates its own audit and other committees, which are governed by specific banking industry regulators and regulations. However, we welcome representatives of the Bank to each of our Audit Committee meetings and, where appropriate, we share knowledge and resources for the benefit of the business including the Bank.

This year, in the UK and globally, regulators and stakeholders have increased their attention to the role of the external auditor, with particular reference to the quality and independence of audit. Prime responsibility for these two aspects lies firmly with a company's board and its external auditor. We follow the debate with interest, together with the increasing regulation and reporting that this entails. As Committee members, we have taken practical steps to challenge ourselves and our auditors on the question of independence. We have continued to propose topics which the Committee considers our auditors, both internal and external, should address rather than be passive by simply accepting repeat audit programmes. We have given examples of these processes in the Committee report which follows.

I have not summarised in this introduction specific matters addressed by the Committee during the year, so would urge you to read our full report, in conjunction with our Independent Auditor's Report starting on page 101 and indeed Sainsbury's 2020 Financial Statements in general.

The Audit Committee's effectiveness was considered as part of the annual Board evaluation process (pages 60 and 61). I am pleased to report that the Board has again confirmed the effectiveness of this Committee in supporting the Sainsbury Board in its duties.

David Keens
Chair, Audit Committee

Principal role and responsibilities

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

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

Attendance at scheduled Audit Committee meetings:

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

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

Committee membership

The members of the Committee are independent Non-Executive Directors who, together, have competence relevant to the retail sector. They also have extensive general business and management experience. Their biographies are on pages 48 to 51.

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

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

Committee activities

Area of focus	Activity
Financial Reporting The integrity of the financial statements and formal announcements relating to financial performance	The Committee reviewed the Annual Report, the Preliminary and Interim results, and was provided with supporting information to assist in these reviews.
Items excluded from underlying results	See "Significant financial and reporting matters" on page 70.
Implementation of new accounting standard IFRS 16	
Pensions strategy and accounting	
Treasury funding and liquidity	The Committee assessed the business's secured and unsecured borrowing facilities and their appropriateness in tenor and amount to Group requirements.
Assumptions and qualifications in support of the Viability and Going Concern statements	The Committee assessed the business's financial projections over three years, which continues to be an appropriate timeframe for the Viability Statement as approved by the Board. The key factors underpinning the projections beyond three years were reviewed. The Committee considered all known key risks during the year, including those relating to Brexit developments and latterly the COVID-19 threat. These matters were also discussed by the Board as a whole. The Viability Statement, in full, can be found on page 46.
Assessment of whether the Annual Report is fair, balanced and understandable	The Board is required to confirm that the Annual Report and Financial Statements are fair, balanced and understandable (see page 100). To enable the Board to make this declaration, there is a year-end review process to ensure that the Committee and the Board have access to all relevant information, including management's papers on significant issues. The Committee reviewed the key factors considered in determining whether the Annual Report is fair, balanced and understandable. The Committee and all Board members received a draft of the Annual Report and Financial Statements in sufficient time to review and challenge the disclosures therein. In addition, the Committee took into consideration the external auditor's reviews of the consistency between the reporting narrative of the Annual Report and the Financial Statements.
Risk Management and Internal Controls, and Principal Risks and Uncertainties Risk management reviews of principal risks and uncertainties, and emerging risks and opportunities, compared to corporate plans	See pages 36 to 45 and page 71.
Reports from the Audit and Risk Committees of Sainsbury's Bank, including risk and compliance reporting processes	Sainsbury's Bank plc is a subsidiary of the Company, with an independent Board responsible for setting the Bank's strategy, risk appetite and annual business plan. It has an independent Chairman, a majority of independent Non-Executive Directors and a Non-Executive Director representing J Sainsbury plc. The Bank's Chief Executive Officer and Chief Financial Officer also sit on the Bank's board. The Chief Executive Officer, supported by the Executive Committee, is responsible for day-to-day management of the business. The Chairs of the Bank's Audit and Risk Committees, the Chief Financial Officer and the Chief Executive Officer (as appropriate) attend meetings of the Committee. There is communication between Sainsbury's Internal Audit function and its equivalent within the Bank. See "Significant financial and reporting matters" on page 70.

Area of focus	Activity
External Audit Scope of the external audit plan and fee proposal	The Committee reviewed EY's overall work plan and approved their remuneration and terms of engagement.
Independence, objectivity and effectiveness of external audit	The independence and objectivity of the external audit function is a fundamental safeguard to the interests of the Company's shareholders. The EY Partner responsible for the Company's audit since 2018 will retire in 2020. His proposed replacement is part of the current audit team and will therefore bring continuity. His tenure will be limited to 2021 due to EY partner rotation policies. The Committee has overseen the Company's policy which restricts the engagement of EY in relation to non-audit services. The intention is to ensure that the provision of such services does not impact on the external auditor's independence and objectivity. It identifies certain types of engagement that the external auditor shall not undertake, including internal audit and actuarial services relating to the preparation of accounting estimates for the financial statements. It requires that individual engagements above a certain fee level may only be undertaken with pre-approval from the Committee or, if urgent, from the Chair of the Committee and ratified by the subsequent meeting of the Committee. It recognises that there are some types of work where a detailed understanding of the Company's business is advantageous. The policy is designed to ensure that the auditor is only appointed to provide a non-audit service where it is considered to be the most suitable supplier of that service. The Committee received a report on the non-audit services being provided. The annual aggregate of non-audit fees is capped at 70 per cent of the annual average of the audit fees for the business for the preceding three-year period. Following an effectiveness review, the Committee concluded that EY remained effective, objective and independent in their role as external auditor. The Committee review was supported by feedback from management which was compiled from questionnaires completed by Directors and managers in the business who were directly involved in the audit. The questionnaire covered the audit team, and audit planning, communication and execution. EY maintained good and efficient working relationships, was robust in its questioning, and provided good support whilst challenging management effectively. The Committee has confirmed compliance with the provisions of the Statutory Audit Services Order 2014.
Provision of non-audit fees	The majority of the non-audit work undertaken by EY during 2019/20 related to the interim audit. The total non-audit fees were £0.1 million. The audit fees for the year in respect of the Group and subsidiaries were £3.9 million. For a breakdown of the fees, refer to note 9 of the consolidated financial statements.
Recommendation of the reappointment of EY as auditor	The Committee has recommended to the Board the reappointment of EY as auditor for the 2020/21 financial year. A resolution to this effect will be tabled at the 2020 AGM.
Tender of external auditor	EY was appointed in July 2015 as the Company's external auditor following a tender process. We are next required to undertake a tender in 2024 or we may do so at an earlier time as determined by the Company.
Internal Audit Director of Internal Audit	The Director of Internal Audit reports to the Committee Chair and has direct access to all members of the Committee. The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter, which the Committee reviews annually.
Internal controls framework	See page 71.
Management's responsiveness to Internal Audit's findings and recommendations	The Committee was provided with updates on Internal Audit's findings and agreed actions at each meeting.
Scope of the Internal Audit Plan	The scope of the Internal Audit Plan and subsequent amendments to the Plan were reviewed and approved by the Committee.
Effectiveness of the Internal Audit function	The Committee reviewed Internal Audit resources, budget, work programme, results, and management's implementation of required actions. The Director of Internal Audit provides an annual overview of Internal Audit's performance to the Audit Committee, including key performance indicators and stakeholder feedback. Improvement and actions required are highlighted, and used to assist in reviewing the effectiveness of Internal Audit. The Committee concluded that Internal Audit continued to be effective.
Other Audit Committee's effectiveness	The review of the Committee's effectiveness formed part of the Board evaluation. See pages 60 and 61.

Area of focus	Activity
Other continued Significant issues raised through the whistleblowing process	The Committee received updates at each meeting on any significant whistleblowing matters. The Committee Chair receives earlier notification of matters that may develop into a significant incident. No issues arose that required the Committee to be updated ahead of a scheduled meeting. All issues were escalated to the relevant manager for investigation. The Committee reviewed the consistency of whistleblowing arrangements across the business and its application by the Company's suppliers. The Chairman reported any material matters to the Board. Each of the Business Unit Directors are responsible for rolling out process amendments where appropriate. The availability of the Rightline whistleblowing facility will be communicated across the business in 2020.
Data governance and information security	Updates on the data governance programme were provided during the year covering processes, technology changes, customer data, culture, discipline, Information Commissioner's Office, and the move of some retail and banking security responsibility to Sainsbury's Tech. The Committee also received updates on strategic risks, third party assurance, cyber security, and cookie consent. The data governance and information security functions were merged in 2020 and a separate review of data governance and information security was given at a 2020 Board meeting. See pages 56 and 61.
Store audits	The Retail and Operations Director presented on store audits, covering key drivers, productivity, and increased use of digital tools.
Critical suppliers	The Commercial Director presented on critical food suppliers and the relationship and risk management framework. The business's Net Zero by 2040 priorities will become part of supplier assessment. The Committee also reviewed goods not for resale supplier risk.
Compliance with the Groceries Supply Code of Practice ('GSCOP')	In 2010, GSCOP was implemented following the recommendation of the Competition Commission. Each grocery retailer to which it applies has to appoint a Code Compliance Officer (CCO) whose duties include hearing disputes between suppliers and the retailer. Sainsbury's has appointed the Director of Internal Audit as its CCO. GSCOP requires that the business delivers an annual compliance report to the Groceries Code Adjudicator (GCA), as approved by the Chairman of the Committee, and a summary must be included in the Annual Report and Financial Statements. This is set out below. **Summary Annual Compliance Report** Sainsbury's compliance with the Code is based on clear policies and procedures, mandatory training and regular monitoring of compliance. Sainsbury's has specific internal resource who provide all relevant colleagues with day-to-day advice and guidance. We have an established compliance monitoring programme which is embedded within the business. Compliance results, including performance against KPIs, are reported to the Commercial Leadership Team quarterly. Additional assurance is provided, as required, by Internal Audit. During the year, we reviewed the GSCOP governance risk assurance framework and formalised meetings between the CCO, Legal, Internal Audit and the Commercial team who monitor Code Compliance in key risk areas. This helps ensure emerging Code-related matters are identified promptly. We review our processes to ensure our ways of working take into consideration the GCA's feedback, Code clarifications and internal review processes. Relevant policies and GSCOP training are reviewed and updated on at least an annual basis to ensure they remain current. 17 potential breaches of GSCOP were investigated in the year. Although four allegations were found not to relate to GCSOP, all were resolved either within our Trading Division using standard escalation procedures, or through discussions between the CCO and the supplier. None were pursued as formal disputes with the CCO and none required referral to the GCA for arbitration. Group Legal, the Compliance team, and the CCO review the root causes of alleged breaches to identify areas for improvement and to agree actions with the business. The CCO and the Committee Chair meet with the GCA on a regular basis. Senior employees of the Trading Division also meet the GCA to facilitate collaboration. During the year, we continued to improve our processes and in particular, implemented a new supplier portal to make it easier for suppliers to find the information they need and simplify interactions between us.
Ongoing material litigation	The Committee is appraised on all material litigation and potential impacts on financial reporting disclosures. These are also provided to the Board.
Business continuity management	A number of desktop exercises were run during the year and learnings applied where appropriate. The Committee received updates on operational resilience and crisis management, which this year included the early impacts of COVID-19.

Significant financial and reporting matters

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

Matters considered and how the issues have been addressed

COVID-19-related disclosures

It is important to consider the economic impact of COVID-19 on the annual financial statements, in particular the measurement of assets and liabilities and also the business's ability to continue as a going concern.

The Committee reviewed management's analysis and agreed that the impact of COVID-19 represented a non-adjusting post balance sheet event. Further information is included in notes 4 and 41 of the financial statements.

Going concern and viability

The Committee undertook a detailed review of the business's financial liquidity over the viability assessment period of three years, taking into account cash flows, current levels of debt and the availability of future finance. The viability assessment was discussed by the Committee in March 2020 and scenarios to be stress-tested through the business's corporate plan were agreed. The full analysis was discussed in April, and included specific scenarios in relation to COVID-19. The Viability Statement is included on page 46.

Presentation of financial statements

The Group uses Alternative Performance Measures (APMs) and in line with guidance issued by the European Securities and Markets Authority (ESMA) includes additional disclosures, including reconciliations to statutory measures – see pages 205 to 208. Any changes to APMs are detailed in note 4 of the financial statements.

The Committee considers it important to take account of both the statutory measures and the APMs when reviewing these financial statements.

In particular, items excluded from underlying results were reviewed by the Committee and it is satisfied that the business's presentation of these items is clear, applied consistently across years, and that the level of disclosure is appropriate. The net non-underlying charge against profits this year was £331 million (2019: £399 million). All excluded items are detailed on pages 122 to 124. Some items are of a recurring nature and can be expected to feature in future years. Other items are specific and relate to decisions made or activities undertaken during the year.

Impairment of assets

The Committee discussed reports produced by management that detailed the assumptions and outcome of an impairment review of property and technology assets. A store profitability review was undertaken and a closure programme agreed, which resulted in a non-underlying charge of £253 million. Further information is included in note 6 and note 17 of the financial statements.

Accounting standards implemented during the year

Management implemented one new accounting standard during the year, IFRS 16, using the full retrospective approach and comparative balances have been restated. The Committee received regular updates on IFRS 16, showing the outcome and supporting disclosures. Disclosures relating to IFRS 16 are included in note 5 of the financial statements.

Pensions

The Group's balance sheet shows a pension surplus of £1,119 million, which comprises £11,491 million of assets, and £(10,372) million of liabilities. This compares to a net surplus in the prior year of £959 million. See note 35 of the financial statements. The Committee reviewed a summary of the actuarial assumptions used in arriving at the valuation for the defined benefit pension scheme.

The discount rate methodology used has been amended and is now consistent with the external auditor's methodology.

The year-end valuation of scheme assets has been impacted by market disruption from COVID-19. Those assets which are unquoted are more difficult to value, however our approach to valuing these assets was discussed and agreed with the external auditor.

A new asset backed contribution scheme was introduced during the year and the Committee received papers on the accounting and tax treatment. See note 35 of the financial statements.

Sainsbury's Bank reporting

The Committee receives updates on the key agenda items discussed at the Bank's Audit Committees. These include accounting judgements and estimates, important operating and regulatory matters such as liquidity, cash flows, capital adequacy and risk management processes. The Committee's meetings are attended by the Bank's Audit Committee Chair, Risk Committee Chair, Chief Financial Officer, and the Bank's Chief Executive Officer (as appropriate).

The accounting judgements and estimates reviewed by the Committee included impairment of loans to the Bank's customers and progress on the Bank's transition programme.

Internal controls framework

The internal controls framework encompasses controls relating to financial reporting, preparation of consolidated Group accounts, operations and compliance, risk management and Sainsbury's interests in joint ventures.

The Audit Committee reviews the effectiveness of internal controls on an ongoing basis and monitors any remedial action required. An overview of key elements of the control framework is set out below.

Our control environment

— The Board discusses and approves the Company's strategy, plans, objectives, budget and the risks to achieving them

— Group-wide policies covering delegations of authority, ethical conduct and key compliance requirements such as keeping information safe and HR policies set clear parameters for colleagues

— Management regularly reviews risks to achieving objectives, with mitigating controls identified and actions taken

Controls embedded in the business

— Policies, procedures and controls are embedded within business processes

— Specific teams such as Central Retail and Technical Operations, support the design and implementation of specific controls across the business

— Training programmes are provided to support implementation and compliance with key policies, processes and controls

Monitoring and oversight

— Compliance with policies, standards and controls is monitored and evaluated in finance, accounting, treasury, information security and safety management

— The Investment Board provides oversight and approval of capital spend and monitors benefits realisation

— Quarterly commercial reviews by Executive Directors of financial and operational performance cover all business areas

— Oversight and governance committees have delegated responsibility for monitoring key risk areas; for example, the Data Governance, Group Safety, Operational Resilience and Treasury Committees

Our assurance framework

— Operating Board members certify annually that they are responsible for managing their business objectives and internal controls to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed

— The Board and the Committee review any significant fraudulent activity and whistleblowing by colleagues, suppliers or other parties and actions being taken to remedy any control weaknesses

— Reports from management are presented to the Operating Board and Audit Committee on how we manage material risks

— Management and the Audit Committee review the scope and results of the work of Internal Audit across the Company and of the implementation of their recommendations

— Reviews by the Committee of the scope and results of the work of the external auditor and any significant issues arising

Risk management and internal controls

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

The risk management process and internal controls have been in place for the whole year, up to the date of approval of the Annual Report and Financial Statements and accord with the UK Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial, Business Reporting and the 2018 Code. The annual risk management process is illustrated in the diagram on page 37.

The Board received updates on risk management and internal controls from the Chair of the Audit Committee (see page 67 for further details). All Committee papers and minutes were made available to the whole Board.

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

The Audit Committee assesses the effectiveness of our internal controls on an ongoing basis, enabling a cumulative assessment to be made.

The annual risk management process concludes with the Board's assessment of the Company's Principal Risks and Uncertainties disclosure, including those that would threaten its business model, future performance, solvency or liquidity, and the completion of an annual internal controls certification. More details on all of these key risk management activities are provided on pages 36 and 37.

Annual Statement from the Remuneration Committee Chair

Dear Shareholder

I'm pleased to present the Directors' Remuneration Report for the year ended 7 March 2020. This year we will also be presenting our Remuneration Policy to shareholders for approval – there are no major changes proposed but we are simplifying our arrangements. The Remuneration Committee reviews executive pay in the context of Company results, the broader retail and economic environment, as well as having regard to pay throughout the business. It remains committed to pay for performance.

During the year we continued to make strong progress against the strategy we set out at the Capital Markets Day in September 2019 to create one multi brand, multi channel business. The retail market remained challenging and we invested in price and created new convenient ways for people to shop which generated momentum to help us outperform our main supermarket peers by the year-end, as well as improve our customer satisfaction. General Merchandise sales declined while Clothing sales grew, particularly online sales. While underlying profit before tax (UPBT)[1] declined by two per cent to £586 million, we delivered strong free cash flow[1] and reduced non-lease net debt[1] by £343 million, in line with guidance.

We are now faced with unique circumstances as a result of COVID-19 that are impacting our colleagues, customers and communities. During the last few days of our financial year, we saw an uplift in grocery sales as a result of COVID-19, as well as the beginning of a decline in non-food sales. As I write this statement, we do not yet know the full longer-term impact on the business or the broader economy but our colleagues are continuing to work tirelessly to help feed the nation. I'm full of admiration not just for the work they're doing but for their willingness to do it and the spirit they've shown.

When considering executive pay, the Remuneration Committee has focused on both the short-term and longer-term implications on the business, alongside the impact on our stakeholders including colleagues, customers, suppliers, pensioners and shareholders. We have made our decisions reflecting a number of guiding principles. We have taken into account the actual performance for 2019/20, against the backdrop of the current and continuing uncertainty in the retail market and the UK economy. We have considered payout levels relating to short-term 2019/20 performance versus longer-term three-year performance. The delivery mechanism and timeframe of any reward has been considered, preferring that there is future alignment with shareholders, i.e. in deferred shares rather than cash. Underpinning all of this is our commitment to pay for performance, ensuring executives do the right thing no matter what reflecting the interests of all our stakeholders.

Pay across Sainsbury's

The Remuneration Committee continues to consider wider colleague reward when determining pay arrangements for the Executive Directors, and this remains a fundamental part of our approach to pay.

For a number of years, Sainsbury's has emphasised how our values make us different and we seek to adopt a responsible approach to pay that reflects our culture and values at all levels throughout the organisation. It continues to be important to us that the pay for all our colleagues remains consistent with the principles of simplicity and fairness.

During the year, the Committee reviewed the Group's Gender Pay Report on behalf of the Board. We pay colleagues according to their role, not their gender, and the Board is committed to improving the representation of women at senior levels. In 2019, our mean gender pay gap reduced by 1.6 percentage points to 10.5 per cent and our median gender pay gap remained at 3.8 per cent.

The Committee was pleased to hear about the decisions the Company has made to support our colleagues during this difficult time. Safety has been the main priority, ensuring colleagues are protected when working in stores and depots. The Company is providing support on mental and physical wellbeing as well as financially supporting colleagues who are unable to work. We are offering full pay to all colleagues who are classed by the government as 'extremely vulnerable', vulnerable or living with people who are 'extremely vulnerable' for up to 12 weeks. We are also offering full pay for those that need to self-isolate for up to 14 days. In addition, to recognise the hard work and dedication of our front line colleagues and managers who have been working to help feed the nation, we made an additional Thank You payment. Around 140,000 hourly-paid colleagues and 12,000 managers benefited from a payment equivalent to 10 per cent of pay for the four-week period from 8 March 2020.

Remuneration in 2019/20

Market conditions over the last financial year have been challenging, and despite the progress made by the business against its strategic priorities, overall remuneration levels for the Executive Directors are c. 13 per cent lower for 2019/20 than the previous year. The Remuneration Committee has decided that no cash annual bonuses will be paid to Executive Directors and the wider senior executive population in respect of 2019/20 – the year to which the deferral of the dividend decision relates. All variable remuneration earned in the year will be deferred into shares for two years to ensure alignment with our shareholders.

The below summarises the outturns under each incentive plan:

- *Annual bonus* – The Remuneration Committee determined it was appropriate to use an adjusted UPBT figure of £576 million for the bonus which is £10 million lower than the reported UPBT[1]. Using the adjusted UPBT figure, the outcome was at the threshold performance level resulting in no payout under the profit element of the bonus. While the Executive Directors have both individually performed strongly through the year, the Committee determined that no annual bonus should be paid to the Executive Directors in respect of the year.
- *Deferred Share Award (DSA)* – The Committee determined that awards under the DSA should be granted at 44 per cent of the maximum. This recognises the performance of the business against our internal targets, market expectations and our competitors in a highly challenging and competitive retail market and the achievements made on our strategic priorities setting the business up for future success. This award is deferred into shares which are released after two years, aligning the Executive Directors' experience to that of shareholders. Full details of the metrics, targets and achievements are set out on pages 79 and 80.
- *Overall annual incentive outcome* – The net outcome of the above is that Executive Directors will receive 22 per cent of the maximum annual incentive opportunity, all of which will be deferred into shares.
- *2017 Future Builder* – Reflecting our three-year performance against the performance metrics, a performance multiplier of 2.6 (out of a maximum of 4.0) was applied to the core award for all participants resulting in vesting of 65 per cent of the maximum. These share awards are subject to an additional two-year retention period, again aligning the Executive Directors' experience to that of shareholders.

In line with the 2018 Corporate Governance Code (Code), the Committee reviewed the outcomes of the individual incentive plans as well as the overall levels of remuneration to ensure that they remained consistent with the underlying performance of the business. The Committee is satisfied that the total remuneration received by Executive Directors in respect of 2019/20 is a fair reflection of performance over the period as well as taking into account the current circumstances.

1 These measures and other measures in this section are defined in the Alternative Performance Measures section of the Annual Report on pages 205 to 208.

Leadership changes

After almost six years as Chief Executive and 15 years working for the business, Mike Coupe has confirmed his intention to retire this year. Mike will continue as Chief Executive until 31 May 2020 and will remain a Director until the AGM on 2 July 2020 at which point he will retire from the Company. In line with the shareholder approved Remuneration Policy, the Remuneration Committee has approved good leaver status for Mike in relation to bonus and share awards that will be outstanding when he retires. Mike has waived any entitlement to bonus and share awards in relation to his period of employment during the 2020/21 financial year.

Simon Roberts will be promoted to the position of Chief Executive on 1 June 2020, and his remuneration is consistent with our Remuneration Policy. Simon's salary will be £875,000 (which is over 10 per cent lower than Mike Coupe's current salary) and he will receive a pension salary supplement of 7.5 per cent of salary, in line with the pension available to the majority of the workforce. This results in Simon's fixed pay (salary, benefits and pension) being 25% lower than Mike's.

John Rogers resigned from his Board position as Chief Executive Officer of Sainsbury's Argos on 31 October 2019. John was not entitled to any bonus for the financial year ending 7 March 2020, and his outstanding executive share awards lapsed upon resignation.

2020 Remuneration Policy renewal

Our previous Remuneration Policy, which governs executive pay at Sainsbury's, was approved by 96 per cent of our shareholders at the 2017 AGM and the Committee considers that it continues to work well. Under the normal three-year renewal cycle, an updated policy will be presented to shareholders for approval at the 2020 AGM.

When reviewing our Remuneration Policy for Executive Directors, we gave careful consideration to the views of our shareholders, the internal and external context and the updated Code, with a particular focus on ensuring our approach to remuneration is fully aligned with our Company values and culture. Taking a responsible and sustainable approach to business is a defining characteristic of Sainsbury's culture and this extends to the approach to executive remuneration.

The over-arching objectives of the Remuneration Policy are to ensure rewards are fair, performance-based and encourage long-term shareholder value creation. The Committee also believes it is important that a significant portion of the Executive Directors' package is performance-related and that the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and the long-term sustainable success of the Company.

While we are not proposing any major changes to our Remuneration Policy for 2020, we have taken the opportunity to simplify our incentive structure for Executive Directors in direct response to shareholder feedback. We have also kept overall incentive levels unchanged. In early 2020, we consulted with our major shareholders regarding our updated policy and as a result the following changes have been made to our approach:

- *Annual bonus* – The current cash bonus and DSA will be replaced with a conventional single bonus structure. As a result, the maximum annual bonus award in 2020/21 will be 220 per cent of salary for Simon Roberts and 180 per cent of salary for Kevin O'Byrne, of which 50 per cent will be paid in cash and 50 per cent in shares deferred for two years.
- *Future Builder* – We are simplifying the operation of the Future Builder arrangement (our long-term incentive plan) by reducing the number of metrics used. Awards for 2020 will be based on: free cash flow (50 per cent), return on capital employed (25 per cent) and earnings per share (25 per cent).
- *Retirement benefits* – For any new appointments, including Simon Roberts, the maximum retirement benefits will be capped in line with that available to the wider workforce – 7.5 per cent. We will also be reducing the existing pension of our Chief Financial Officer, Kevin O'Byrne, to this level over time.
- *Shareholding guidelines* – We have increased the shareholding guideline for the incoming Chief Executive to three times salary. We have also introduced a requirement for Executive Directors to maintain their shareholding guideline for two years after they leave the business.

As part of the review, the Committee also considered whether 'ESG' targets should be included in the bonus or Future Builder, following the launch of our new sustainability plan Net Zero by 2040. At this stage we have concluded that it would be prudent to allow the new metrics to fully embed before we set incentive targets against them. The Committee will keep this under review in future years.

Once the Board is in a position to make a decision regarding dividend payments, the Committee will consider the impact on shareholders and if there should be any implications on executive pay for 2020/21. When determining executive pay outcomes for the year, the Committee has discretion to apply judgement and to adjust incentive payouts and award levels.

At the time of writing, the COVID-19 pandemic is still unfolding and, given the uncertainty, we cannot be as prescriptive as we would usually be about the targets for the 2020/21 incentive plans. Therefore, we have delayed setting the bonus and Future Builder targets while we understand the impacts of the pandemic on the business and the broader economy. We will ensure that management are focused on the key financial and non-financial metrics to ensure the financial wellbeing and sustainability of the business in both the short and longer term. Once finalised, targets for 2020 Future Builder awards will be published on our website.

Given the highly exceptional circumstances the Committee recognises that, any targets ultimately set may need to be adjusted to take account of the circumstances which unfold during the course of the year in light of COVID-19. The Committee will monitor business conditions and exercise judgement in applying discretion in relation to the 2020/21 incentive plans. At year-end, when we assess performance, we will consider results in light of the context during the year and the shareholder experience. Full disclosure will be provided in next year's Remuneration Report.

AGM

In line with the UK reporting regulations, the Directors' Remuneration Policy will be put to a binding vote and the Annual Report on Remuneration will be put to an advisory vote at the AGM on 2 July 2020. In addition, shareholder approval for the renewal of the Company's Share Incentive Plan (SIP) is being sought at the 2020 AGM, and a summary of the SIP is contained in the Notice of AGM.

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

Dame Susan Rice
Chair, Remuneration Committee

Attendance of Directors at scheduled Remuneration Committee meetings:

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

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

Principal role and responsibilities

The specific responsibilities of the Committee include:

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

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

Summary of 2019/20 remuneration decisions

Pay element	2019/20 decisions
Salary Increases in line with colleagues	— Annual salary: Mike Coupe – £981,543, Kevin O'Byrne – £650,250 and John Rogers – £723,496. — Salary increase of two per cent for Executive Directors in March 2019, in line with other management and central colleagues.
Annual bonus No payout	— For 2019/20 the adjusted underlying profit before tax was equal to the threshold performance level, resulting in no payout under the profit element of the bonus. — The Executive Directors performed strongly against individual annual operational objectives, however the Committee determined that no annual bonus should be paid to the Executive Directors in respect of the year. — Further details of the bonus measures and outturn can be found on pages 78 and 79.
Deferred Share Award Awards of 44 per cent of maximum	— Performance assessed taking into account financial performance, returns to shareholders, relative performance against peers and strategic priorities. — Overall the financial targets were partially met, with outperformance on free cash flow and non-lease net debt reduction; under-performance on Group sales, UPBT and EPS. — The prudent approach taken to defer the dividend decision is reflected in the returns to shareholders metric, resulting in the target being partially met. — Strong relative Sainsbury's sales performance, while the General Merchandise markets remain challenging; with progress on service, price and quality measures across the business. — Strong performance against strategic priorities, setting the business up for future success. — Further details of targets and achievements can be found on pages 79 and 80.
LTIP/Future Builder Vesting at 65 per cent of maximum	— Future Builder, based on performance to March 2020, will vest at 65 per cent of the maximum. — Partial vesting was achieved under the ROCE and cash flow elements, full vesting was achieved under the cost savings and synergies elements and no vesting under the EPS element.

Total remuneration for 2019/20

		Mike Coupe[1] £000		Kevin O'Byrne £000		John Rogers[2] £000	
		2019/20	2018/19	**2019/20**	2018/19	**2019/20**	2018/19
Fixed pay	Salary	**982**	962	**650**	638	**469**	709
	Benefits	**17**	17	**17**	17	**28**	85
	Pension	**294**	289	**163**	159	**117**	177
Performance-related pay	Annual bonus	**0**	593	**0**	316	**0**	357
	Deferred Share Award	**475**	582	**257**	316	**0**	351
	LTIP/Future Builder	**1,349**	1,126	**715**	616	**0**	664
Total pay		**3,117**	3,569	**1,802**	2,062	**614**	2,343

1. On leaving, Mike Coupe's Deferred Share Awards and Future Builder awards will be pro-rated to reflect his period of employment during the deferral/performance period.
2. The 2019/20 figures for John Rogers relate to the period to 31 October 2019 when he stepped down from the Board. Of the values shown in the table, the 2018/19 Deferred Share Award and half of the unvested Future Builder award lapsed on his resignation.

Summary of remuneration for 2020/21

Pay element	Summary of policy	Approach for 2020/21
Salary	Increase for Chief Financial Officer in line with management	The 2020/21 annual salaries are: — Mike Coupe – £981,543, no increase in March 2020 (to 2 July 2020) — Simon Roberts – £875,000, from appointment as Chief Executive on 1 June 2020 — Kevin O'Byrne – £657,403, increase of 1.1 per cent effective from March 2020 in line with other management and central colleagues
Benefits	No changes	— No changes to current arrangements.
Retirement benefits	Rate for new hires aligned with workforce; Chief Financial Officer's rate to be aligned over time	— Salary supplement in lieu of pension for new hires, including Simon Roberts, will be aligned with the rate available to the majority of colleagues. This is currently 7.5 per cent of salary. — The rate for Kevin O'Byrne will be gradually reduced to 7.5 per cent of salary. For 2020/21 it will be reduced from 25 per cent to 22.5 per cent of salary. Over the course of the 2020 Remuneration Policy, his pension will be initially reduced to 12.5 per cent by March 2023, which aligns with the rate offered to c. 1,200 senior management roles. The pension will be then reduced further to 7.5 per cent from March 2024.

Annual bonus	New bonus structure	— Based on key financial, operational and individual annual objectives assessed over the financial year. The metrics and targets will be disclosed next year. In line with our Remuneration Policy, at least 50 per cent will be subject to financial measures.
		— Bonus paid 50 per cent in cash after the year-end and 50 per cent deferred into shares for two years.
		— Maximum opportunity of up to 250 per cent of salary per annum.
		— The maximum award for 2020/21 is:
		  — Simon Roberts – 220 per cent of salary
		  — Kevin O'Byrne – 180 per cent of salary

LTIP/Future Builder	No change to quantum; performance measures simplified	— Awards are subject to a three-year performance period followed by a two-year retention period.
		— Maximum award of up to 250 per cent of salary per annum.
		— Awards are structured as core awards, with a performance multiplier of up to four times. The 2020 awards are:
		  — Simon Roberts – core award of 62.5 per cent of average 2020/21 salary (max 250 per cent)
		  — Kevin O'Byrne – core award of 50 per cent of salary (max 200 per cent)
		— The Committee reviewed the plan for the 2020 awards and simplified the performance measures by removing cost savings as a measure and increasing the weighting on free cash flow (now 50 per cent). Return on capital employed and underlying basic earnings per share retain a 25 per cent weighting.
		— Due to the current uncertainty due to COVID-19, we have delayed setting the targets but once set the performance targets will be published on the Company's website.

Shareholding guidelines	Post-employment guidelines introduced	— The Executive Directors are required to build a significant shareholding in the Company. For the incoming Chief Executive this is increased to three times salary, and for the Chief Financial Officer this is two times salary. — Post-employment shareholding guidelines introduced following the AGM: Executives will be required to hold shares equivalent to their in-employment shareholding guideline for two years post departure. This requirement will apply only to shares acquired from Company incentive plans.
Recovery provisions	No changes	— The Executive Directors' incentive arrangements are subject to malus and clawback.

Remuneration in context

Our reward objectives

Our objective is to have a fair, equitable and competitive total reward package that supports our vision of being the most trusted retailer where people love to work and shop, encourages colleagues to perform in ways that deliver great service for customers, drives profitable sales and provides opportunities for colleagues to share in Sainsbury's success.

Executive remuneration principles

The above reward objectives apply to our senior executive population as well. In addition, the Committee believes it is important that a significant portion of the Executive Directors' package is performance-related, delivered in shares and that the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and long-term shareholder value.

The Remuneration Policy for our senior executives is, therefore, based on the following principles:

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

Linking Executive pay to our business strategy

The Committee carefully considers the performance metrics incorporated into the annual bonus and Future Builder to ensure they support our strategic priorities. The annual bonus is linked to key financial and individual strategic objectives, while the Future Builder rewards for the delivery of long-term free cash flow, return on capital employed and earnings per share targets. The achievement of these metrics supports long-term sustainable performance and value creation for our shareholders.

Key considerations

When reviewing the Remuneration Policy for Executive Directors and determining the approach to pay, in line with the Code, the Committee gives consideration to the following:

— **Simplicity and transparency:** The Remuneration Policy has been designed to incentivise senior executives to achieve clearly defined financial, operational and individual objectives. The Committee reviews performance metrics and targets each year to ensure that they continue to be clear and aligned to the delivery of the strategy. The changes made in 2020 support this.

— **Alignment to our purpose, values and culture:** Sainsbury's has a clear purpose and strong value set resulting in a unique culture which plays an essential role in achieving our strategy. Our culture is underpinned by our Vision (what we want to achieve); our colleague values (how we want to behave); and being a Great Place to Work (encouraging colleagues to want to be their best). The Committee ensures our pay practices drive the right behaviours in line with our values and culture.

— **Risk mitigation:** The Committee reviews and sets performance targets each year to ensure that they drive the right behaviours and are appropriately stretching without encouraging unnecessary risks. Under the annual bonus and Future Builder the Committee has the ability to adjust incentive outcomes to ensure that they are reflective of the underlying financial and non-financial performance of the participants and the Company. The Committee believes that this discretion is an important feature of the incentive plans and mitigates the risk of unwarranted vesting outcomes. In addition, in the event that certain risk events come to light the Committee may operate recovery provisions on all incentive awards.

— **Potential outcomes:** When setting, and subsequently implementing, the policy for senior executives, the Committee considers our business goals, the retail market and competitors, the potential and actual outcome and cost to the Company, stakeholder views and best practice. The Committee believes it is important to exercise sound judgement at all stages during the process to ensure that executive pay levels appropriately reflect performance and are aligned with the interests of shareholders.

Fair pay for colleagues

When considering remuneration arrangements for Executive Directors, the Committee takes into account, as a matter of course, the pay and conditions of colleagues throughout the Company. In particular, the Committee receives regular updates of any major changes to the pay and benefits of colleagues generally. The Committee also reviews information on internal measures, including details of our gender pay gap and the ratio of Chief Executive remuneration to the remuneration of our colleagues and how these compare externally.

Sainsbury's employs over 172,000 colleagues who work hard to deliver for our customers. The Committee recognises that our colleagues are the foundation of our business and critical to the overall success of our strategy. The remuneration objectives for our colleagues follow the same principles as the policy for the Executive Directors. Pay and benefits reflect the nature and contribution of the role and take into account levels of pay in comparable roles in the market.

Reward and benefits

- All colleagues are entitled to base salary, pension and a range of benefits.
- Managers participate in annual bonus plans which are aligned under a common set of principles, with senior executives also participating in long-term incentive plans.
- We offer colleague discount in Sainsbury's, Argos and Habitat and access to other retail discounts. During 2019/20 colleagues saved over £60 million in Sainsbury's and Argos, and have saved nearly £1 million from our partner offers.

Recognition, development and wellbeing

- Being a place where colleagues love to work is really important to us and we recognise colleagues that go the extra mile and bring our values to life through LOVE, our colleague recognition scheme. During 2019/20 over £6 million of financial recognition has been awarded to colleagues.
- We want to support colleagues in their career goals and operate a number of development programmes including one designed to support retail colleagues looking to move into front line management and leadership roles.
- Physical and mental wellbeing is important to us and we offer a range of support mechanisms. We have an Employee Assistance Programme and offer Cycle to Work, season ticket loans and health and dental cash plans.

Pensions and life assurance

- Participation in a pension plan is offered to all colleagues on a contributory basis, with the Company contribution varying by grade. Hourly-paid store colleagues are offered a matching scheme up to 7.5 per cent of salary.
- We have over 110,000 colleagues in our pension plans.
- Colleagues in our pension plan also receive six times life assurance (one times if not in a pension or in an auto-enrolled scheme).

Share ownership

- All colleagues have the opportunity to become shareholders in the Company through our all-employee share plans.
- Around 25,000 colleagues participate in our Sharesave plans, representing an uptake rate of 15 per cent.
- Colleagues can also participate in Sainsbury's Share Purchase Plan (SSPP), which is our name for the partnership element of the Share Incentive Plan.

Gender pay

- We want to be the most inclusive retailer where people to love to work and shop.
- In 2019, our mean gender pay gap reduced by 1.6 percentage points to 10.5 per cent and our median gender pay gap remained at 3.8 per cent.
- Colleagues are paid according to their role not their gender; men and women doing the same job are paid the same. Like a lot of companies our gender pay gap is caused by the fact that we have more men than women in our most senior roles, more women than men in our hourly paid roles, and more men in hourly paid specialist roles that attract premiums, such as online delivery drivers.
- The Board is committed to improving gender and BAME representation and we have aspirational targets of 40 per cent female and 10 per cent BAME in senior management roles and above by 2021.

CEO pay ratios

- This year we have disclosed CEO pay ratio data for the first time. The ratio of 173:1 reflects the size and make up of our colleague base.
- The 25th, 50th and 75th percentiles ranked by total remuneration are all store-based hourly paid colleagues.

Colleague engagement

- The Board recognises the important role our colleagues play in the success of Sainsbury's. It takes colleague engagement and the views of colleagues seriously.
- We communicate regularly with colleagues to provide information about their pay and benefits, development opportunities as well as business matters. This helps to build trust in our corporate strategy, vision and values and enables our colleagues to do a good job.
- We also operate a range of initiatives to help understand and adapt to colleague views.
  - An annual colleague engagement survey called We're Listening, where every colleague from across Sainsbury's is invited to give honest feedback.
  - Talking Shop listening sessions, where store colleagues have the opportunity to meet members of the plc and Operating Board.
  - Our Great Place to Work groups operate at store level rolling up to a national group (which is our Workforce Advisory Panel), which meets with Board members on a regular basis to discuss current issues. Whilst we do not formally consult with colleagues on the setting of the Executive Director Remuneration Policy, we have used these discussion groups for Non-Executive Directors to engage with colleagues directly on executive remuneration to give them the opportunity to share their views and opinions.
- Colleagues are able to become shareholders in the Company and can comment on the policy in the same way as other shareholders.

Annual Report on Remuneration

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

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 7 March 2020, together with comparative figures for the 52 weeks to 9 March 2019.

		Mike Coupe[5] £000		Kevin O'Byrne £000		John Rogers[6] £000	
	Notes	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Base salary		**982**	962	**650**	638	**469**	709
Benefits	1	**17**	17	**17**	17	**28**	85
Pension		**294**	289	**163**	159	**117**	177
Total fixed pay		**1,293**	1,268	**830**	814	**614**	971
Annual bonus	2	**0**	593	**0**	316	**0**	357
Deferred Share Award	3	**475**	582	**257**	316	**0**	351
LTIP/Future Builder	4	**1,349**	1,126	**715**	616	**0**	664
Total variable pay		**1,824**	2,301	**972**	1,248	**0**	1,372
Total		**3,117**	3,569	**1,802**	2,062	**614**	2,343

1 Benefits include a combination of cash and non-cash benefits, valued at the taxable value. For all Executive Directors, this includes a cash car allowance (£15,250) and private medical cover. For John Rogers this also includes a travel allowance and accommodation costs payable until he left the business (in relation to a change of location to Milton Keynes following his appointment as Chief Executive of Sainsbury's Argos) and accrued holiday.
2 Annual bonus relates to performance during the financial year, paid in May following the relevant year-end.
3 The Deferred Share Award relates to performance during the financial year, shares are granted in May following the relevant year-end and vest after a two-year deferral period.
4 The Long-Term Incentive Plan value relates to the Future Builder award vesting in May following the end of the relevant financial year, which is the third year of the performance period. For the 2016 awards, 50 per cent of the shares are released in May after the end of the relevant performance period and the balance one year later. For the 2017 awards, they are subject to an additional two-year retention period. The figures include accrued dividend equivalent shares over the performance period. The 2018/19 values are based on the actual share price on the first date of vesting, £2.090. Awards were granted on 12 May 2016 at a share price of £2.650. The award for Kevin O'Byrne was made on 26 January 2017 at a share price of £2.606. The values shown above reflect the decline in the share price since grant of: -£270k for Mike Coupe, -£136k for Kevin O'Byrne and -£159k for John Rogers. The 2019/20 values are based on the average share price over the fourth quarter for 2019/20 of £2.091. Awards for Mike Coupe, Kevin O'Byrne and John Rogers were granted on 11 May 2017 at a share price of £2.671. The values shown above reflect the share price decline since grant of: -£333k for Mike Coupe and -£176k for Kevin O'Byrne.
5 On leaving, Mike Coupe's Deferred Share Awards and Future Builder awards will be pro-rated to reflect his period of employment during the deferral/performance periods.
6 The 2019/20 figures for John Rogers relate to the period to 31 October 2019 when he stepped down from the Board. Of the values shown in the table, the Deferred Share Award and half of the unvested Future Builder award lapsed on his resignation.

Base salary (audited information)

	Salary effective from 10 March 2019
Mike Coupe	£981,543
Kevin O'Byrne	£650,250
John Rogers	£723,496

Pension

During 2019/20, in lieu of pension plan participation, Mike Coupe received a cash pension supplement of 30 per cent of salary and Kevin O'Byrne and John Rogers received 25 per cent of salary. No Director has any entitlement to a Sainsbury's defined benefit pension.

Benefits

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

Annual bonus for 2019/20 (audited information)

For 2019/20 the maximum annual bonus award opportunity for the Chief Executive was 110 per cent of base salary and for the Chief Financial Officer was 90 per cent of base salary. John Rogers left the business during the year so was not eligible for a 2019/20 annual bonus.

The performance measures for 2019/20 were Group profit (70 per cent) and annual operational objectives (30 per cent).

Profit performance for the year was equal to the threshold target and therefore no bonus is payable under this element. Although the Executive Directors performed strongly against their annual operational objectives, the Remuneration Committee determined that no cash annual bonus would be payable to the Executive Directors.

Profit performance

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

The Remuneration Committee determined it was appropriate to use an adjusted profit definition in relation to the annual bonus to remove the impact of a number of non-repeatable, one-off items that fall outside of normal activity (largely driven by a refinement of accounting policy as we aligned Sainsbury's Bank and AFS policies) that net to minus £10 million. Therefore, the UPBT[1] figure of £586 million has been adjusted downwards to £576 million for bonus purposes. Using the adjusted profit figure, the outcome was at threshold performance level resulting in no payout under the profit element of the bonus.

The table below sets out the threshold and stretch profit targets and the actual adjusted outturn for 2019/20.

	Threshold[2]	Stretch[2]	Outcome
Profit[1]	£576m	£656m	£576m

1 Underlying profit before tax. This measure is defined in the Alternative Performance Measures section of the Annual Report on pages 205 to 208.
2 Targets were adjusted on a like-for-like basis to reflect the adoption of IFRS 16 for lease accounting.

Annual operational performance

The annual operational objectives are split into two equally weighted elements, (i) individual strategic and (ii) customer and colleague. During 2019/20 the Executive Directors performed strongly against their objectives, however, the Committee determined that there should be no payout under this element. The table below sets out a summary of the achievements of the Executive Directors in relation to these objectives as assessed by the Remuneration Committee.

Director	Individual strategic (weighting 15% of max)			Customer and colleague (weighting 15% of max)	Outcome
Mike Coupe	*Driving strategy* Continued focus on core retail business and progress against creating multi brand, multi channel business	*Deliver for our shareholders* Built on financial strength of the organisation including increase in retail free cash flow[1] to £611m and maintained ROCE[1] at 7.4%	*Managing our cost base* Cost savings exceeded cost inflation, and progress towards target of £500m	*Customer* Improved customer satisfaction ranking *Colleague* Significant transformation activity in stores and centrally, resulted in a small decline in colleague engagement scores *Inclusion* Significant progress towards aspirational targets of 40% female and 10% BAME senior managers and Directors by 2021 – currently 35% and 8% respectively	The Executive Directors performed strongly against their objectives but the Committee determined that there should be no payout under the annual operational element
Kevin O'Byrne	*Future finance* Formulated a detailed business wide systems platform resulting in lower costs and increased efficiencies going forward	*Deliver for our shareholders* Improved cultural focus on free cash flow throughout the business resulting in a reduction to non-lease net debt of £343m	*Performance-led culture* Cascaded a refreshed finance agenda to raise the performance culture for the business		

1. These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 205 to 208.

Deferred Share Award for 2019/20 (audited information)

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

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

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

During the year, overall financial targets were partially met, with outperformance on free cash flow and non-lease net debt reduction. The prudent approach taken to defer the dividend decision is reflected in the returns to shareholders metric, alongside TSR growth over the longer term. While Sainsbury's sales outperformed the IGD index, Argos under-performed the BRC index, while showing progress on service, price and quality measures. In addition, the Company performed strongly against its strategic priorities, setting the business up for future success. The performance gateway for the award was achieved.

The Committee, therefore, agreed that for 2019/20 awards would be made at 44 per cent of the maximum level, compared with 55 per cent last year. Although some of the specific measures and targets are commercially sensitive, the table on the following page presents a selection of performance highlights which the Committee took into account within each of the four categories.

The table below sets out details of the awards and these are the figures set out in the DSA row of the single total figure table. The share award is made after the end of the 2019/20 financial year and the shares vest in March 2022 subject to continued employment. As he stepped down during the year, John Rogers was not eligible for a DSA for the financial year ending 7 March 2020.

	Maximum opportunity	Outcome	
	Per cent of salary	Per cent of salary	Value £000
Mike Coupe	110%	48.4%	£475
Kevin O'Byrne	90%	39.6%	£257

Category (weighting)	Metric	Expectation/target	Result	Achievement
Financial (30%)	Group sales / UPBT	In line with expectations	Flat Group sales[1], UPBT down 2% and decline in EPS[1]	**10%** (out of 30%)
	Balance sheet measures	Hit budget for other financial metrics	Outperformance – strong free cash flow[1] and reduced non-lease net debt[1] by £343m in line with guidance	
Return to shareholders (20%)	TSR/Dividend	TSR growth and above median of peers and maintain dividend cover policy of 1.9x and competitive dividend payment	Target partially met; TSR growth and above peers over 5 years Interim dividend of 3.3p, but full year dividend decision deferred	**5%** (out of 20%)
Relative performance (20%)	Sales/profit vs. peers	Sainsbury's flat against IGD; Argos flat against BRC % of profit pool flat vs. 2019/20	Targets partially met; Sainsbury's like-for-like sales outperformed the IGD but Argos sales under-performed the BRC index Profit pool % decline due to recovery in performance of peers	**7%** (out of 20%)
	Quality, price and service vs. peers	Quality, price and service perception above peers Win Grocer 33	Improved customer satisfaction ranking although ranked second in Grocer 33 (second year in a row). Improvement in price perceptions against peers. Quality and service measures partially met	
Strategic priorities (30%)	Be competitive on price	Remuneration Committee assessment in the round – key achievements summarised below	Outperformance	**22%** (out of 30%)
	Distinctive products and new categories		Outperformance	
	Personalised and seamless physical and digital		On track	
	Fast, friendly and convenient		Outperformance	
	Drive efficiency to reinvest		On track	
Overall outcome (% of max)				**44%**

1 These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 205 to 208.

Strategic priorities

Be competitive on price

- Cheapest supermarket for branded groceries (Which? 2019)
- 390 basis point improvement in value index versus Aldi for commodity lines[1]
- Investment in price during year – Price Lockdown campaign (prices on 2,300 products reduced or held at lower price)
- In General Merchandise and Clothing focus on everyday low prices

Distinctive products and new categories

- *Taste the Difference* has one of the biggest premium market shares by volume, and grew by 0.3%
- Outperformed market on meat alternatives and plant-based food ranges
- Rollout of new beauty offering to 134 stores increasing sales
- *Tu* clothing range increased market share

Personalised and seamless physical and digital

- Increased digital sales to £6bn
- SmartShop roll out; accounts for up to 20% in handset stores
- Nectar extended to Argos customers and growth in customer digital participation
- Over 75 per cent of Sainsbury's Bank customers are Nectar card holders

Fast, friendly and convenient

- Improved customer satisfaction ranking
- Argos Click & Collect grew by nearly 8% (now in 184 convenience stores) and Fast Track delivery grew by nearly 5%
- £164m invested in 12,500 store projects
- Maximising space with carefully chosen concession partners

Drive efficiency to reinvest

- Savings covering cost inflation, making progress towards £500m target
- Creating smarter stores, and utilising replenishment and stock apps to drive efficiency and availability
- Strategic cost transformation programmes, including review of central support functions, are all largely in execution phase
- Good progress on property strategy – new stores, closures and mixed use developments

1 Sainsbury's value index, based on Edge by Ascential SKU matching data, to March 2020.

2017 Future Builder (2017/18 to 2019/20 performance period) (audited information)

The Long-Term Incentive Plan operated at Sainsbury's is known as Future Builder. Around 250 senior managers across the business participate in this arrangement. Awards are granted under the Long-Term Incentive Plan approved by shareholders in 2016. A core award of shares is granted, calculated as a percentage of salary and scaled according to level of seniority. Vesting of the core award is dependent on performance against specific targets tested at the end of a three-year performance period. The core awards can grow up to four times at stretch levels of performance. Any vested award is subject to a two-year retention period.

The 2017 Future Builder award was subject to ROCE, EPS, cash flow, cost savings and Home Retail Group (HRG) synergy targets. In addition, a performance gateway had to be achieved before any element could vest. The ROCE and EPS targets have been re-stated on a like-for-like basis to reflect the adoption of the new accounting standard, IFRS 16. The Committee is comfortable that the re-stated target ranges are comparable to the original target ranges set on the basis of the previous accounting rules. Consistent with the approach taken for the 2016 award, the Committee determined that it was appropriate to make an adjustment to the calculation of underlying cash flow so that the costs associated with the structural changes made in stores were included as they were incurred as a result of management actions.

A performance multiplier of 2.6x will be applied to the core award, i.e. 65 per cent of the maximum available award vested. The table below sets out the extent to which each performance measure was achieved. The Committee reviewed the outcome of the awards in the context of award performance and determined that it was appropriate.

	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)	Achieved	Multiplier achieved (out of a maximum 4.0x)
ROCE[1,2]	20%	7.1%	10.1%	7.37%	0.3x
Underlying basic EPS[1]	20%	21.5p	28.5p	19.8p	0.0x
Cumulative underlying cash flow from retail operations after capex[1,3]	20%	£3,500m	£5,150m	£4,934m	0.7x
Cumulative strategic cost savings	20%	£450m	£550m	£590m	0.8x
HRG acquisition synergies	20%	£160m	£200m	£212m	0.8x
Performance gateway	The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting.			Achieved	
			Total	**2.6x out of a maximum of 4.0x**	

1 These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 205 to 208.
2 Figure relates to ROCE excluding pension fund/surplus.
3 Cumulative underlying cash flow from retail operations based on the reported cash flow generated from core retail operations over the performance period after adding back net rent and cash pension costs and adjusted for the cash impact of non-underlying items. Only core retail operations are included in recognition of the differences in cash generation between the retail business and Sainsbury's Bank.

Departure terms for John Rogers

As announced on 1 October 2019, John Rogers (Chief Executive of Sainsbury's Argos) left the business on 31 October 2019. John continued to receive salary, pension and benefit payments until his departure on 31 October 2019. He was not eligible for any bonus for the financial year ending 7 March 2020. In line with the plan rules, all unvested Future Builder and Deferred Share awards lapsed in full with effect from 31 October 2019.

John participated in the HMRC-approved all-employee Share Incentive Plan, known as the Sainsbury's Share Purchase Plan. In accordance with the relevant legislation, he was able to withdraw relevant Partnership Shares following departure.

There were no payments in lieu of notice.

Departure terms for Mike Coupe

After almost six years as Chief Executive and 15 years working for the business, Mike Coupe has confirmed his intention to retire this year. Mike will continue as Chief Executive until 31 May 2020. Thereafter he will remain a Director until the AGM on 2 July 2020 at which point he will retire from the Company.

In line with the shareholder approved Remuneration Policy, the Remuneration Committee has approved good leaver status for Mike in relation to bonus and share awards that will be outstanding when he retires. All awards will be treated in accordance with the plan rules and will remain subject to performance (as applicable) and pro-rated for the period of employment. Share awards will be released on the normal dates.

Mike's salary and benefits will continue until he retires from the Company on 2 July 2020, but Mike has agreed to waive any entitlement to bonus and share awards in relation to his period of employment during the 2020/21 financial year.

There are no payments in lieu of notice.

Shareholding guidelines (audited information)

The Executive Directors are required to build up a specified level of shareholding in the Company. This is to create greater alignment of the Directors' interests with those of shareholders, in line with the objectives of the Remuneration Policy.

The guidelines in the 2017 Directors' Remuneration Policy require the Chief Executive to have a holding of 2.5 times salary and other Executive Directors to hold shares with a value of two times salary. In the 2020 policy the guideline for the new Chief Executive, Simon Roberts, is three times salary. Mike Coupe, and John Rogers while he was a Director, exceeded the shareholding guideline. Kevin O'Byrne was appointed to the Board in January 2017 and is expected to build his shareholding during the course of his tenure.

Historically Directors are required to build this shareholding within five years of appointment to the relevant role. From 2020, Executive Directors are required to hold all vested share awards (net of tax) until the guideline has been met. In addition to shares held, share awards under the DSA and Future Builder awards where the performance period has ended count towards the guideline (on a net of tax basis).

Post-departure, Executive Directors will be expected to maintain a shareholding equal to their guideline (or actual shareholding if lower) for two years post-employment irrespective of the reason for leaving. This requirement will apply to shares acquired from Company incentive plans.

Remuneration in 2020/21

Base salary

When considering salaries the Committee takes account of a number of factors, with particular focus on the general level of salary increases awarded throughout the Company. Where relevant, the Committee also considers external market data on salary and total remuneration but the Committee applies judgement when considering such data. The salary review for management and central colleagues in March 2020 was generally 1.1 per cent.

For 2020/21 Kevin O'Byrne will receive a salary increase of 1.1 per cent effective March 2020, in line with other management colleagues. In recognition of his forthcoming retirement Mike Coupe received no salary increase for 2020/21.

	Salary effective from 8 March 2020
Mike Coupe (to 2 July 2020)	£981,543
Simon Roberts (Chief Executive from 1 June 2020)	£875,000
Kevin O'Byrne	£657,403

Pension

Under the revised Remuneration Policy, the pension supplement for any future appointments is capped at 7.5 per cent of salary, in line with the opportunity offered to the majority of the workforce. This is the rate that Simon Roberts will receive on appointment as Chief Executive.

In 2019/20 Kevin O'Byrne received a contractual cash supplement of 25 per cent of salary. Kevin has agreed to a reduction in his pension supplement over a period of time to the rate offered to the majority of the workforce (7.5 per cent of salary). His supplement will reduce to 22.5 per cent in March 2020, 20 per cent in March 2021, 17.5 per cent in March 2022 and 12.5 per cent in March 2023 which is aligned with the rate offered to the c. 1,200 management roles. The rate will reduce further to 7.5 per cent in March 2024.

Benefits

Benefits for Executive Directors in 2020/21 are unchanged and will include the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount.

Annual bonus

For 2020/21 we will operate a revised approach to the annual bonus, following the removal of the Deferred Share Award.

The maximum annual bonus award opportunity for the Chief Executive is 220 per cent of base salary and for the Chief Financial Officer is 180 per cent of base salary. 50 per cent will be paid in cash and 50 per cent in shares deferred for two years.

The Board is of the opinion that any performance targets for the current year annual bonus are commercially sensitive as the Company operates in a highly competitive, consumer-facing sector. The disclosure of targets would provide competitors with insights into the Company's strategic aims, budgeting and growth projections. However, in line with previous years, the Company will retrospectively disclose the targets in next year's Annual Report.

In light of the uncertainty due to COVID-19, the Committee has decided to delay setting the bonus targets for 2020/21 while we understand the impact on the business and the broader economy. In line with our policy, the bonus will be based on key financial, operational and individual annual objectives assessed over the financial year and at least 50 per cent will be subject to financial measures.

The Committee will monitor business conditions and exercise judgement in applying discretion in relation to the 2020/21 annual bonus. At year-end, when the Committee assesses performance, we will consider results in light of the context during the year and the shareholder experience. Full disclosure will be provided in next year's Remuneration Report.

2020 Future Builder awards

Award levels will remain unchanged for the coming year. In 2020 Simon Roberts will receive a core award of 62.5 per cent of salary based on his average salary for 2020/21 (maximum 250 per cent of salary) and Kevin O'Byrne will receive a core award of 50 per cent of salary (maximum 200 per cent of salary). Due to his retirement Mike Coupe will not receive a 2020 Future Builder award.

Future Builder awards are subject to a two-year retention period following the end of the three-year performance period. This will result in awards to Executive Directors being released after a five-year period.

The awards granted in 2019 were based on four equally weighted metrics: EPS, cash flow, ROCE and cost savings. For awards made in 2020, the Committee intends to simplify the assessment framework by removing the measure based on cost savings, and increasing the focus on cash. The business has achieved significant cost savings since the measure was added to the Future Builder in 2015. Although cost savings remains a key area of focus for the business, the Committee has concluded that there is now scope to simplify the assessment framework for the Future Builder, as future cost savings will ultimately be reflected in the outcomes for the remaining financial metrics.

The 2020 awards will therefore be subject to three metrics: free cash flow (50 per cent weighting), ROCE (25 per cent) and EPS (25 per cent).

Due to COVID-19, the Committee has decided to delay setting the 2020 Future Builder targets. Once set they will be published on the Company's website.

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

2020 Future Builder performance measures (definitions for other awards can be found in the relevant Annual Report)

Free cash flow

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

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

ROCE

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

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

EPS

— EPS directly reflects returns generated for shareholders.

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

Non-Executive Director remuneration

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

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 7 March 2020 for each Non-Executive Director, together with comparative figures for the 52 weeks to 9 March 2019.

	2019/20			2018/19		
	Fees[1] £000	Benefits[2] £000	Total £000	Fees[1] £000	Benefits[2] £000	Total £000
Martin Scicluna[3]	475	0	475	84	0	84
Matt Brittin	68	0	68	68	0	68
Brian Cassin	68	0	68	68	0	68
David Keens	87	17	104	87	5	92
Susan Rice	107	11	118	107	15	122
Jean Tomlin	68	0	68	69	2	71
Jo Harlow	81	2	83	79	2	81

1 Paid in relation to the year.
2 The benefits for the other Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office.
3 Martin Scicluna was appointed to the Board on 1 November 2018.

Martin Scicluna was appointed to the Board as Chairman-Designate on 1 November 2018. His fee as Chairman-Designate was £237,500. Following his appointment as Chairman on 10 March 2019, Martin's fee was set at £475,000. Martin's fee increased by 1.1 per cent to £480,225 from March 2020, as a result of a regular review. Martin receives no benefits other than a colleague discount card.

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

Non-Executive Director fees for 2020/21

In March 2020, the Non-Executive Director fees were reviewed against the market and as a result the basic fee was increased by 1.1 per cent to £68,250. The fee for the Chair of the Corporate Responsibility and Sustainability Committee was also increased from £13,500 to £15,000, in recognition of the increasing focus on this area both externally and internally in light of our Net Zero by 2040 commitment. The following table sets out the fees effective from 8 March 2020:

	Fees effective from 8 March 2020
Base fee	£68,250
Senior Independent Director fee (additional)	£19,500
Chair of Remuneration Committee fee (additional)	£19,500
Chair of Audit Committee fee (additional)	£19,500
Chair of Corporate Responsibility and Sustainability Committee fee (additional)	£15,000

Non-Executive Directors' shareholdings and share interests

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

	Ordinary shares[1]		
	9 March 2019	7 March 2020	29 April 2020
Martin Scicluna	15,000	15,000	15,000
Matt Brittin	14,090	14,090	14,090
Brian Cassin	25,000	25,000	25,000
David Keens	100,000	100,000	100,000
Susan Rice	4,000	4,000	4,000
Jean Tomlin	4,415	4,415	4,415
Jo Harlow	8,000	8,000	8,000

1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.

Pay in the wider organisation

Relative importance of spend on pay

The table below illustrates the year-on-year change in total colleague pay (being the aggregate staff costs as set out in note 34 to the financial statements) and distributions to shareholders (being declared dividends).

Colleague pay			Distribution to shareholders		
2018/19 £m	2019/20 £m	% change	2018/19 £m	2019/20 £m	% change
3,170	3,227	2%	224	247	10.4%

Percentage change in Chief Executive's remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2018/19 and 2019/20 compares with the percentage change in the average of each of those components of pay for all our colleagues.

	Salary % change	Benefits % change	Bonus % change
Chief Executive[1]	2.0%	0.0%	-100%
All colleagues[2]	11.2%	1.9%	-70%

1 The bonus percentage change relates to the cash annual bonus and there was no payment in 2019/20.
2 Figures relate to average based on number of full-time equivalent colleagues. In September 2018, the base rate for Sainsbury's store colleagues increased and the bonus ceased; a partial bonus was paid to this population in relation to 2018/19. Therefore, the change in bonus for all colleagues is not on a like-for-like basis.

Chief Executive pay ratio

The following table provides pay ratio data in respect of the Chief Executive's total remuneration (as shown in the single figure table on page 78 compared to the remuneration of the 25th, 50th and 75th percentile of UK colleagues. All three of these colleagues are store-based hourly paid colleagues, with the 25th and 50th percentile colleagues earning the same pay and the 75th percentile colleague earning additional premiums such as out of hours premium.

Financial year	Method	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
2019/20	Option B	173:1	173:1	153:1

The colleagues used to calculate the pay ratios were identified using our 2019 gender pay gap data. In line with the regulations, our 2019 gender pay gap data identifies employees using a snapshot date of 5 April 2019. This method has been chosen as it makes use of our gender pay data which provided a readily available and robust dataset, and did not require a further analysis into the more than 172,000 colleagues employed by the business.

A full-time equivalent total pay figure was calculated for each of these colleagues using the single figure methodology. The approach includes base salaries, pension contributions and any relevant pay premiums. As the gender pay gap data does not include amounts in respect of overtime and bank holiday pay these amounts have been excluded from the calculations. To ensure these three colleagues were a suitable representative of their quartile, the total pay figures calculated were compared against a sample of colleagues either side of the three identified colleagues.

The following table provides base salary and total remuneration information in respect of the 25th, 50th and 75th percentile colleagues, on a full-time equivalent basis.

Financial year	Remuneration	Chief Executive	25th percentile pay ratio (lower quartile)	50th percentile pay ratio (median)	75th percentile pay ratio (upper quartile)
2019/20	Base salary	£982,000	£17,581	£17,581	£19,822
	Total remuneration	£3,117,000	£18,039	£18,039	£20,370

The Remuneration Committee considers pay ratios as one of many reference points when reviewing executive remuneration and considers that the median pay ratio for 2019/20 is consistent with the pay, reward and progression policies for the Company. Due to the nature of the role of the Chief Executive, the Committee believes that it is important for a significant portion of the Chief Executive's remuneration package to be performance-related and aligned to the long-term, sustainable success of the Company. As a result, the Chief Executive's single figure fluctuates each year depending on the Company's performance and the outturns of the incentive plans and this will impact the pay ratio reported in any single year.

Performance and Chief Executive remuneration

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

	CEO	2010/11	2011/12	2012/13	2013/14	2014/15[1]	2015/16	2016/17	2017/18	2018/19	2019/20
Single figure remuneration (£000)	M Coupe:	–	–	–	–	1,507	2,802	2,354	3,630	3,569	3,117
	J King:	4,380	3,471	4,366	3,906	405	–	–	–	–	–
Bonus/DSA award as a percentage of maximum	M Coupe:	–	–	–	–	26%	78%	35%	57%	56%	22%
	J King:	65%	61%	84%	73%	0%	–	–	–	–	–
LTIP vesting percentage of maximum	M Coupe:	–	–	–	–	0%	0%	22.5%	42.5%	55%	65%
	J King:	48%	43%	44%	40%	0%	–	–	–	–	–

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

Governance – The Remuneration Committee

Committee membership

The Remuneration Committee during the year comprised Susan Rice (Chair), Matt Brittin and Jo Harlow. All members of the Committee are independent Non-Executive Directors.

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. Martin Scicluna, Mike Coupe, Angie Risley (Group HR Director), the Group Head of Reward and the Director of Group Finance are invited to attend Committee meetings either fully or partially. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. Individuals who attend Remuneration Committee meetings are not present when their own remuneration is being determined.

The Committee typically meets four times each year, or more often as required. The Committee has a calendar of standard items within its remit and in addition it held in-depth discussions on specific topics during the year. In 2019/20 there were a number of unscheduled meetings regarding the remuneration arrangements in relation to changes to the Executive Directors, the review of the Remuneration Policy and responding to the Code changes. The Committee complies with relevant regulations and considers the Code and best practice when determining pay and policy.

Advisers to the Remuneration Committee

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was supported by its appointed advisers, Deloitte LLP (Deloitte). Deloitte were reappointed by the Committee as advisers in 2013 following a competitive tender.

Deloitte are members of the Remuneration Consulting Group and, as such, operate under the Code of Conduct in relation to executive remuneration consulting in the UK. During the year, the Committee reviewed the advice provided by Deloitte and has confirmed that it has been objective and independent. The Committee has also determined that the Deloitte partner who provides remuneration advice to the Committee does not have any connections with the Company that may impact their independence. The Committee has reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

During the year they provided advice to the Committee on a range of topics including remuneration trends, corporate governance, incentive plan design, incentive plan rules and the Remuneration Policy. Their consultants attended all of the Committee meetings. In relation to their advice, Deloitte received fees of circa £131,000 (fees are based on hours spent). During the year, Deloitte provided the Company with unrelated advice and consultancy in respect of information technology, operating models, data analytics and taxation.

Statement of voting at general meeting

The table below sets out the votes on the Annual Report on Remuneration at the 2019 AGM and on the Directors' Remuneration Policy at the 2017 AGM. The Committee is keen to hear the views of all shareholders and continually reviews the Remuneration Policy and its implementation.

	Votes for	Votes against	Votes abstained
Remuneration Report (2019 vote)	90.44% 1,507 million	9.56% 159 million	– 0.2 million
Remuneration Policy (2017 vote)	95.60% 1,519 million	4.40% 70 million	– 57 million

Directors' appointment dates

Mike Coupe	1 August 2007 (appointment as Chief Executive 9 July 2014)
Simon Roberts	1 June 2020
Kevin O'Byrne	9 January 2017
John Rogers	19 July 2010
Martin Scicluna	1 November 2018 (Chairman from 10 March 2019)
Matt Brittin	27 January 2011
Brian Cassin	1 April 2016
David Keens	29 April 2015
Susan Rice	1 June 2013
Jean Tomlin	1 January 2013
Jo Harlow	11 September 2017

Executive Directors' shareholdings and share interests (audited information)

The table below sets out details of the Executive Directors' shareholdings and a summary of their outstanding share awards at the end of the 2019/20 financial year. Further details of the movements of the Executive Directors' share awards during the year are set out on page 88.

	Ordinary shares[3]			Scheme interests[4]			
	9 March 2019	7 March 2020	29 April 2020	Deferred Share Awards[5]	Future Builder awards with performance period completed[6]	Future Builder awards with performance period outstanding[7]	SAYE
Mike Coupe[1]	1,602,727	2,105,567	2,105,567	517,382	241,157	2,801,892	0
Kevin O'Byrne	180,000	329,116	329,116	280,435	131,907	1,484,948	3,461
Former Director:							
John Rogers[2]	938,059	1,171,119	N/A	0	0	0	0

1 As noted above, a portion of the shares shown will lapse following retirement.
2 As at date of cessation of employment.
3 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children. They also include the beneficial interests in shares which are held in trust under the Sainsbury's Share Purchase Plan.
4 Deferred Share Awards and Future Builder awards are structured as nil-cost options.
5 Relates to 2017/18 and 2018/19 Deferred Share Awards.
6 Relates to 2016 Future Builder awards.
7 Relates to 2017, 2018 and 2019 Future Builder awards (maximum) where the performance period has not ended. As noted above, following the year-end, the 2017 award will vest at 65 per cent of maximum.
Note: The Executive Directors are potential beneficiaries of the Company's Employee Benefit Trust, which is used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 6.2 million shares (2019: 6.1 million) held by the Trustees.

Share awards made during the financial year (audited information)

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

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Number of shares	Performance period end date
Mike Coupe[3]	Future Builder[1]	250% of salary	£2,453,853	25% of each element	1,118,540	6 March 2021
	DSA[2]	61% of salary	£582,188	N/A	265,379	N/A
Kevin O'Byrne	Future Builder[1]	200% of salary	£1,300,493	25% of each element	592,804	6 March 2021
	DSA[2]	50% of salary	£315,563	N/A	143,843	N/A
John Rogers[4]	Future Builder[1]	200% of salary	£1,446,987	25% of each element	659,580	6 March 2021
	DSA[2]	50% of salary	£351,107	N/A	160,045	N/A

1 The performance conditions applying to 2019 Future Builder awards are set out later in this section. The basis of award shows the maximum value being four times the core award. The award was made on 9 May 2019 and the number of shares has been calculated using the five-day average share price prior to grant (1 to 8 May 2019) of £2.1938. Subject to performance, the award will vest in May 2022 and will be released after a two-year retention period. The award is structured as a nil-cost option with an exercise period of up to six years from grant.
2 The DSA was made on 9 May 2019 based on performance over the 2018/19 financial year. The award was made at 55 per cent of the maximum level (maximum of 110 per cent of salary for Mike Coupe and 90 per cent of salary for the other Executive Directors). The number of shares has been calculated using the five-day average share price prior to grant (1 to 8 May 2019) of £2.1938. No further performance conditions apply. Awards become exercisable in March 2021. The award is structured as a nil-cost option with an exercise period of up to ten years from grant.
3 As noted above, a portion of the shares shown will lapse following retirement.
4 All of John Roger's share awards lapsed on resignation.

Details of the Executive Directors' share awards and movements during the year (audited information)

The table below shows the conditional awards granted and exercised under each of the Company's share plans.

Name	Award	Date of award	Share price at date of award (pence)	Option price (pence)	Number of options held at 9 March 2019	Number of options granted/ dividend shares allocated during the year	Number of options exercised during the year	Number of options lapsed during the year	Share price on exercise (pence)	Date of exercise	Notional gain on exercise (£000)[4]	Number of options held at 7 March 2020
Mike Coupe	Long-Term Incentive Plan[1]	14/05/2015	269	Nil	176,137	28,743	204,880	–	209	08/05/2019	428	0
		12/05/2016	253	Nil	876,936	28,271	269,428	394,622	209	08/05/2019	563	241,157
		11/05/2017	265	Nil	883,092	–	–	–	–	–	–	883,092
		11/05/2018	307	Nil	800,260	–	–	–	–	–	–	800,260
		09/05/2019	211	Nil	0	1,118,540	–	–	–	–	–	1,118,540
	Deferred Share Award[2]	11/05/2017	265	Nil	267,973	19,150	287,123	–	209	08/05/2019	600	0
		11/05/2018	307	Nil	252,003	–	–	–	–	–	–	252,003
		09/05/2019	211	Nil	0	265,379	–	–	–	–	–	265,379
	Sharesave[3]	11/12/2013	388	332	4,518	–	–	4,518	–	–	–	0
	Total				**3,260,919**	**1,460,083**	**761,431**	**399,140**	**–**	**–**	**1,591**	**3,560,431**
Kevin O'Byrne	Long-Term Incentive Plan[1]	26/01/2017	258	Nil	479,660	15,463	147,368	215,848	209	08/05/2019	308	131,907
		11/05/2017	265	Nil	468,024	–	–	–	–	–	–	468,024
		11/05/2018	307	Nil	424,120	–	–	–	–	–	–	424,120
		09/05/2019	211	Nil	0	592,804	–	–	–	–	–	592,804
	Deferred Share Award[2]	11/05/2018	307	Nil	136,592	–	–	–	–	–	–	136,592
		09/05/2019	211	Nil	0	143,843	–	–	–	–	–	143,843
	Sharesave[3]	07/12/2018	300	260	3,461	–	–	–	–	–	–	3,461
	Total				**1,511,857**	**752,110**	**147,368**	**215,848**	**–**	**–**	**308**	**1,900,751**
John Rogers	Long-Term Incentive Plan[1]	14/05/2015	269	Nil	93,940	15,327	109,267	–	209	08/05/2019	228	0
		12/05/2016	253	Nil	517,112	16,670	158,875	374,907	209	08/05/2019	332	0
		11/05/2017	265	Nil	520,744	–	–	520,744	–	–	–	0
		11/05/2018	307	Nil	471,896	–	–	471,896	–	–	–	0
		09/05/2019	211	Nil	0	659,580	–	659,580	–	–	–	0
	Deferred Share Award[2]	11/05/2017	265	Nil	161,610	11,547	173,157	–	209	08/05/2019	362	0
		11/05/2018	307	Nil	151,978	–	–	151,978	–	–	–	0
		09/05/2019	211	Nil	0	160,045	–	160,045	–	–	–	0
	Total				**1,917,280**	**863,169**	**441,229**	**2,339,150**	**–**	**–**	**922**	**0**

1 The LTIP share figures relate to the maximum that could be achieved.
2 The Deferred Share Award figures are after the application of performance conditions.
3 Sharesave is an all-employee share option plan and has no performance conditions as per HMRC Regulations.
4 This is the notional gain on the date of exercise had all shares been sold.

Unvested Future Builder awards

The targets for Future Builder awards granted in 2018 and 2019 are set out in the tables below. The ROCE and EPS targets have been re-stated on a like-for-like basis to reflect the adoption of the new accounting standard, IFRS 16. The Committee is comfortable that the re-stated target ranges are comparable to the original target ranges set on the basis of the previous accounting rules.

2018 Future Builder (2018/19 to 2020/21 performance period)	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE[1]	25%	6.75%	9.75%
Underlying basic EPS[1]	25%	21.5p	28.5p
Cumulative free cash flow[1]	25%	£800m	£1,300m
Cumulative strategic cost savings	25%	£450m	£550m

2019 Future Builder (2019/20 to 2021/22 performance period)	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE[1]	25%	6.75%	9.75%
Underlying basic EPS[1]	25%	21.5p	28.5p
Cumulative free cash flow[1]	25%	£900m	£1,400m
Cumulative strategic cost savings	25%	£600m	£750m

1 These measures are defined in the Alternative Performance Measures section of the Annual Report on pages 205 to 208.

Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remain within best practice guidelines so that dilution from employee share awards does not exceed ten per cent of the Company's issued share capital for all-employee share plans and five per cent in respect of executive share plans in any ten-year rolling period. The Company monitors dilution levels on a regular basis and the Committee reviews these at least once a year. Up to 7 March 2020, an estimated 6.8 per cent of the Company's issued share capital has been allocated for the purposes of its all-employee share plans over a ten-year period, including an estimated 2.5 per cent over ten years in respect of its executive plans. This is on the basis that all outstanding awards vest in full.

Remuneration Policy

Directors' Remuneration Policy

The following section sets out our Directors' Remuneration Policy. This policy is subject to a binding shareholder vote at the AGM on 2 July 2020 and, if approved, will be effective from this date.

In determining the new Remuneration Policy the Committee followed a robust process which included discussions on the content of the policy at each of the Remuneration Committee meetings during the year. The Committee considered input from management and our independent advisers while ensuring that conflicts of interest were suitably mitigated. The Committee also took into account best practice and guidance from major shareholders.

Changes to the Remuneration Policy

The Remuneration Policy was last approved at the 2017 AGM, and an updated policy will be presented at the 2020 AGM. The overall structure is not materially different to the previous policy, but in direct response to shareholder feedback, steps have been taken to simplify the arrangements.

As part of the review minor amends have been made to simplify arrangements and to respond to emerging market and best practice. The key changes include:

- Simplification of the annual incentives – the legacy annual cash bonus and the Deferred Share Award have been combined into a single plan. There will be no change in the combined maximum opportunity and the same proportion, 50 per cent, will be deferred into shares.
- Retirement benefits for any future appointment, including for Simon Roberts, are reduced to 7.5 per cent of salary, in line with the rate currently available to the majority of the workforce. The rate for Kevin O'Byrne will reduce to this level over time.
- Shareholding guidelines for the Chief Executive are increased from 2.5 times to three times salary.
- Introduction of a new post-employment shareholding guideline.

Policy Table for Executive Directors

The table below summarises each element of the policy for Executive Directors, with further details set out after the table.

Base salary	
Purpose and link to strategy	Core element of remuneration used to attract and retain executives who can deliver our strategic objectives.
Operation	Typically reviewed annually in March. Consideration is given to a number of internal and external factors including business and individual performance, role, responsibilities, scope, market positioning, inflation and colleague pay increases.
Opportunity	Salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for the wider workforce. There is no maximum salary opportunity. Where the Committee considers it necessary and appropriate, larger increases may be awarded in individual circumstances such as: — A change in scope or responsibility; — If a new Executive Director is appointed at a lower rate and the salary is realigned over time as the individual gains experience in the role; or — Alignment to market level. Salary levels effective for 2020/2021: — Simon Roberts – £875,000 (on appointment as Chief Executive on 1 June 2020) — Kevin O'Byrne – £657,403
Performance details	None

Benefits	
Purpose and link to strategy	Competitive benefits to assist in attracting and retaining executives.
Operation	A range of benefits may be provided including, but not limited to, the provision of company car benefits (or cash equivalent), private medical cover, life assurance, long-term disability insurance, all-employee share plan participation and colleague discount. The Committee keeps the benefits offered, the policies and the levels provided under regular review.
Opportunity	The value of benefits provided will be reasonable in the context of relevant market practice for comparable roles and taking into account any individual circumstances (e.g. relocation). There is no maximum monetary value. Participation in any HMRC-approved all-employee share plan is limited to the maximum award levels permitted by the relevant legislation.
Performance details	None

Retirement benefits	
Purpose and link to strategy	Provides an income following retirement and assists colleagues in building funds for their future.
Operation	JS Self Invested Pension Plan (SIPP, a defined contribution plan) and/or a cash salary supplement.
Opportunity	For the Chief Executive and for future appointments, the value of any pension provided will be in line with the rate available to the majority of the workforce (currently 7.5 per cent of salary per annum). For the Chief Financial Officer the maximum pension under the previous policy was 25 per cent of salary. The pension for 2020/21 will be 22.5 per cent of salary, with further reductions to be made over time.
Performance details	None

Annual bonus	
Purpose and link to strategy	Rewards performance on an annual basis against key financial, operational and individual objectives, as well as strategic priorities. Awards partially delivered in shares to provide further alignment with shareholders.
Operation	Performance measured over the financial year. Bonus level determined by the Committee after the year-end based on performance against targets. Normally 50 per cent of the total bonus is paid in cash, with the balance deferred into shares for a period of two years. Dividend equivalent shares may accrue until the award vests. Measures and targets are reviewed annually. Recovery provisions (i.e. malus and clawback) apply.
Opportunity	Maximum opportunity of up to 250 per cent of salary per annum. The level of threshold payment for performance varies depending on the performance measure, with payouts from zero per cent. Full payout requires outperformance of stretch objectives. Maximum opportunity for 2020/21: — Simon Roberts – 220 per cent of salary — Kevin O'Byrne – 180 per cent of salary
Performance details	Based on a combination of financial (e.g. profit), operational and individual metrics. The detail of the measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic goals. At least half of any award will be subject to financial measures.

Long-Term Incentive Plan ('LTIP') – Future Builder	
Purpose and link to strategy	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Share-based to provide greater alignment with shareholder interests.
Operation	Awards of conditional share awards (or equivalent) with vesting dependent on performance measured over a period of at least three financial years. Awards will normally be subject to a retention period following the end of the performance period which means awards will be released after five years. The Committee reviews the metrics, targets and weightings prior to each grant to ensure that they remain appropriate. Recovery provisions (i.e. malus and clawback) apply. Dividend equivalent shares may accrue until the awards are released, to the extent awards vest.
Opportunity	Maximum award of up to 250 per cent of salary per annum in respect of any financial year. Awards structured as core award (up to 62.5 per cent per annum) with a performance multiplier of up to four times. For achievements at threshold levels of performance, up to 25 per cent of maximum under each element may vest. Based on the current structure this is equivalent to a multiplier of one times the core award. Award levels for 2020/21: — Simon Roberts – core award of 62.5 per cent of salary — Kevin O'Byrne – core award of 50 per cent of salary
Performance details	Based on a combination of financial and strategic measures appropriate within the context of the Company strategy and external environment over the relevant performance period. Prior to granting awards, the Committee will review the performance conditions and may opt to vary the metrics and weightings to ensure measures and targets remain aligned with its objectives. The Committee would seek to consult as appropriate with its major shareholders regarding any material changes. Metrics and weightings for 2020/21 awards: — Free cash flow –50 per cent — ROCE – 25 per cent — EPS – 25 per cent

Shareholding guidelines	
Purpose and link to strategy	Alignment of Executive Directors with shareholders.
Operation	Guidelines are Chief Executive three times salary, other Executive Directors two times salary. Executive Directors are normally expected to hold all vested share awards (net of tax) until the guideline has been met. Executive Directors normally will be expected to maintain a shareholding for two years following stepping down from the Board. Further detail on the operation of the shareholding guidelines are set out in the Annual Report on Remuneration.

Legacy arrangement

Executive Directors retain interests in the legacy Deferred Share Award which formed part of the 2017 Remuneration Policy. The final awards under this plan will be made in 2020, relating to performance in 2019/20. It is not intended that this plan will be operated in future years.

Deferred Share Award ('DSA')	
Purpose and link to strategy	Rewards for delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth. Awards delivered in shares to provide further alignment with shareholders.
Operation	Performance measured over one year, after which award made as conditional shares (or equivalent) deferred for two financial years. Dividend equivalent shares may accrue until the award vests. Recovery provisions apply.
Opportunity	The final awards were granted under this plan in 2020 and current Executive Directors retain an interest in awards relating to previous years.

Setting performance measures and targets

The Committee believes it is important that the performance conditions applying to incentive arrangements are aligned with the short and long-term objectives of the Company, while supporting the Company's purpose, culture, values and risk profile. We operate in a dynamic market with evolving challenges and the Committee reviews the performance measures and targets each year to ensure that they remain relevant and stretching. Further details of the performance measures are set out in the Annual Report on Remuneration.

The performance measures in the annual bonus are selected as they are the key drivers of business performance. The targets for the annual bonus are set with reference to the corporate strategy and internal budgets as well as the external context (e.g. market forecasts). This approach seeks to ensure that the threshold and stretch targets are appropriately challenging.

The Future Builder performance measures focus on longer-term growth and returns to shareholders, and a similar target-setting approach is used.

The Committee may vary or rebalance the weighting of the performance metrics for future annual bonus and Future Builder awards, in order to ensure that they remain aligned with the Company's strategic objectives. In line with the 2018 UK Corporate Governance Code, the Committee retains the ability to adjust incentive outcomes to ensure that they remain reflective of underlying financial and non-financial performance of participants or the Group or where the formulaic outcome is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. The Committee may also adjust the targets for awards or the calculation of performance measures and vesting outcomes for events not foreseen at the time the targets were set to ensure they remain a fair reflection of performance over the relevant period. When making such judgements, the Committee may take into account all such factors deemed relevant.

Recovery provisions (malus and clawback) – preventing rewards for failure

The Remuneration Committee may operate recovery provisions (malus and clawback) on all incentive awards. The Committee may reduce or cancel an unvested award, or impose further conditions on an unvested award in the event of material mis-statement of financial results, serious reputational damage, serious misconduct, fraud, or other cases of extreme failure where the Committee considers such adjustment to be warranted.

In addition, in the circumstances outlined above, the Committee may clawback incentives, by requiring an Executive Director to make a repayment in relation to bonus payments and share awards. This provision would apply for up to two years following the end of the relevant performance period.

Consideration of colleague pay and conditions

When considering remuneration arrangements for Executive Directors, the Committee takes into account, as a matter of course, the pay and conditions of colleagues throughout the Company.

In particular, the Committee receives an annual update on pay, incentives and benefits across the business as well as ad hoc updates on any major changes to the pay of colleagues generally. The Committee takes into account the wider pay context, including the overall salary increase budget for management, the increase in rate of pay for hourly-paid colleagues and the Chief Executive pay ratio.

The Board receives regular updates on the views of colleagues via our annual engagement survey, 'Talking Shop' listening sessions and national Great Place to Work Group (our Workforce Advisory Panel). In addition, the Non-Executive Directors have engaged with the Great Place to Work Group on executive pay giving them the opportunity to share their views and opinions.

The Company operates all-employee share plans which support colleagues to become shareholders in the Company, who can then comment on the policy in the same way as other shareholders.

Differences in Remuneration Policy for all colleagues

Many aspects of the Remuneration Policy for Executive Directors are consistent with the reward strategy for other colleagues across the Company. Below executive level, pay and benefits are scaled to reflect the nature of the role and based on the levels of pay in comparable roles in the market.

All colleagues are entitled to base salary, benefits including pension and colleague discount. Eligible colleagues participate in our annual bonus plans which are aligned under a common set of principles with performance metrics tailored to different populations.

Senior executives expected to have the greatest influence on Company performance over time are eligible for participation in long-term incentive plans. All colleagues have the opportunity to become shareholders in the Company through our all-employee share plans.

Participation in a pension plan is offered to all colleagues on a contributory basis, with the Company contribution varying by grade. Following auto-enrolment, we now have over 110,000 colleagues in our pension plans.

Potential total remuneration opportunity under our pay policy

The Committee believes it is important that a significant portion of the package for Executive Directors is performance-related and delivered in shares to align their interests with shareholders. The balance between fixed pay (base salary, pension and benefits) and variable pay (annual bonus and Future Builder) changes with performance. The variable proportion of total remuneration increases significantly for increased levels of performance. At least 60 per cent of the package is delivered through variable pay at mid-point performance and this proportion increases to at least three-quarters of the package at maximum levels of performance.

The charts below show the total remuneration potential of the Executive Directors, in accordance with the Remuneration Policy, under three performance scenarios.

	Opportunity	Minimum	Mid-point	Maximum
Fixed pay		Salary – Simon Roberts £875,000 Kevin O'Byrne £657,403 Benefits – value in line with 2019/20 actuals for the Chief Executive and Chief Financial Officer Pension – Simon Roberts 7.5% of salary; Kevin O'Byrne 22.5% of salary		
Annual bonus	Simon Roberts – 220% of salary Kevin O'Byrne – 180% of salary	Nil	50% of maximum	100% of maximum
Future Builder	Simon Roberts – core award of 62.5% of salary Kevin O'Byrne – core award 50% of salary	Nil	Multiplier of 2x	Multiplier of 4x

Impact of share price

As Future Builder awards are granted in shares, the value can vary significantly depending on the movement of the share price over the relevant vesting and retention period. For example, if the share price increased by 50 per cent over the relevant vesting and retention period, the maximum values shown in the charts above would increase to £6.2 million for Simon Roberts and £4.0 million for Kevin O'Byrne. Similarly, if the share price was to fall by 50 per cent, the maximum values shown in the charts above would reduce to £4.0 million for Simon Roberts and £2.7 million for Kevin O'Byrne.

Our approach to recruitment

The Committee believes it is vital to be able to attract and recruit leaders of the calibre required to deliver our strategic objectives, while remaining mindful of the cost to the Company. When determining remuneration arrangements for new appointments, the Committee intends to pay no more than it believes is necessary to secure the required talent. The Committee will seek to align the remuneration package with the approved Remuneration Policy.

Fixed Pay	Salary and benefits (including retirement benefits) would be determined in accordance with the Policy Table above. An alternative package may also be necessary where an individual fulfils an executive role on an interim basis. In certain cases, the initial salary for a new appointment may be set at a lower level, with the intention of increasing the salary over time as the executive gains experience in the role. Benefits may need to be tailored based on the individual circumstances (e.g. relocation, housing or travel allowances may be required).
Variable pay	The maximum variable remuneration which may be offered to an executive will be no more than 500 per cent of salary (excluding any buy-out arrangements). This limit is consistent with the overall maximum set out in the Policy Table. Within these limits and where appropriate the Committee may tailor the award (e.g. timeframe, form, performance criteria) based on the commercial circumstances. Shareholders will be informed of the terms for any such arrangements.
Buy outs	The Committee may need to buy out remuneration terms forfeited on joining the Company. In such circumstances, the Committee will seek to ensure any buy out is of comparable commercial value and capped as appropriate. The quantum, form and structure of any buy out arrangement will be determined by the Committee taking into account the terms of the previous arrangement being forfeited (e.g. form and structure of award, timeframe, performance criteria, likelihood of vesting, etc.). The buy out may be structured as an award of cash or shares. However, the Committee will normally have a preference for replacement awards to be made in the form of shares and to be within the Company's existing incentive plans. Where an executive is appointed from either within the Company or following corporate activity/reorganisation (e.g. acquisition of another company), the normal policy would be to honour any legacy arrangements in line with the original terms and conditions.

Service contracts and policy for departing Executive Directors
The Company's policy is for Executive Directors' service contracts to be terminable on 12 months' notice by either party.

Contracts contain non-compete and non-solicit clauses with key suppliers and colleagues. The Company's normal practice is that Executive Directors may take up one non-executive role outside the Company, with approval from the Board, subject to the role being in a business that does not compete with the Company and with consideration of the time commitment. Directors are normally entitled to retain the fees earned from such appointments.

In the event of early termination without notice, any severance payment would be limited to one-year's salary and benefits (including pension), normally payable on a phased basis and subject to mitigation. Benefits payable may include certain one-off benefits in connection with termination such as legal costs and the costs of meeting any settlement agreement. There are no specific terms relating to a change of control.

The Executive Directors' service contracts are available for shareholders to view at the Company's registered office.

The Committee retains discretion to determine the exact termination terms of any Executive Director, having regard to all the relevant facts and circumstances available to them at the time. The table below sets out the general position and range of approaches in respect of incentive arrangements. In accordance with the terms of the relevant incentive plan rules, based on the circumstances of any departure the Committee has discretion to determine how an Executive Director should be categorised for each element and determine vesting levels accordingly based on the range shown below.

	'Bad leaver' (e.g. termination for cause, etc.)	**'Good leaver'** (e.g. cessation due to ill-health, injury, etc.
Annual bonus	No entitlement following date notice served. Any unvested deferred bonus shares lapse on cessation.	Bonus may be payable subject to performance. Awards normally pro-rated based on the period worked during the financial year, with payments usually occurring following the year-end. Any unvested deferred bonus shares will normally will be pro-rated for the proportion of the deferral period elapsed on cessation, unless the Committee determines otherwise. Awards normally vest at the standard time, unless the Committee determines that awards should vest on cessation of employment. On death, unvested awards will be released and vest in full.
Long-Term Incentive Plan (i.e. Future Builder)	Unvested awards will lapse on notice.	Unvested awards normally vest at the normal time subject to performance. Awards normally will be pro-rated by reference to the proportion of the performance period that has elapsed since cessation, unless the Committee determines otherwise. Awards normally will remain subject to any applicable retention period. On death, awards vest early on cessation with performance measured at this time. Awards are pro-rated by reference to the proportion of the performance period that has elapsed at cessation. If the Director leaves in the first six months after the start of the performance period, the award normally lapses in full.
All-employee share plans	In line with HMRC rules.	
Deferred Share Award (Legacy arrangement)	Unvested awards will lapse on notice.	Outstanding unvested awards normally do not lapse. Awards may be pro-rated for the proportion of the deferral period elapsed on cessation, unless the Committee determines otherwise. Awards may vest following cessation or at another date. On death, unvested awards will be released and vest in full.

Detailed provisions
All share awards are subject to the terms of the relevant plan rules under which the award has been granted. Since 2017 share awards are normally granted under the LTIP rules approved by shareholders at the 2016 AGM. The Committee may adjust or amend awards only in accordance with the provisions of the relevant plan rules. This includes making adjustments to awards to reflect one-off corporate events, such as a change in the Company's capital structure. In accordance with the plan rules, awards may be settled in cash rather than shares, where the Committee considers this appropriate.

On a change of control, deferred bonus awards would be released or vest in full. Future Builder awards may vest taking account of relevant factors including progress against relevant performance conditions and may be pro-rated based on time.

In the event of a demerger or other significant distribution, share awards may be allowed to vest wholly or in part. A winding up, administration or a voluntary arrangement event would result in deferred bonus awards being released or vesting in full and Future Builder awards would normally vest subject to achievement of the relevant performance conditions on the same time pro-rated basis as above.

In similar corporate events, awards under HMRC approved all-employee plans would vest in accordance with the standard approved terms.

The Committee may approve payments to satisfy commitments agreed prior to the implementation of this Policy where such commitment was either: (i) made prior to the implementation of the 2014 Remuneration Policy; or (ii) agreed during the term of, and was consistent with, the Remuneration Policy in force at the time. This includes previous incentive awards that are currently outstanding and unvested (e.g. prior year Deferred Share Awards). The structure of these legacy awards is generally consistent with the Policy Table but the performance conditions applying may be different. Further details of outstanding awards are set out in the Annual Report on Remuneration.

The Committee may also approve payments outside of this policy, in order to satisfy any legacy arrangements made to a colleague prior to (and not in contemplation of) promotion to the Board of Directors. This policy applies equally to any individual who is required to be treated as a Director under the applicable regulations.

The Committee may make minor amendments to the Remuneration Policy to aid its operation or implementation without seeking shareholder approvals (e.g. for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) provided that any such change is not to the material advantage of colleagues.

Remuneration Policy for the Non-Executive Chairman and Non-Executive Directors

The remuneration of the Non-Executive Chairman is determined by the Remuneration Committee and the remuneration of the Non-Executive Directors by the Non-Executive Chairman and Executive Directors. The Non-Executive Chairman and Non-Executive Directors receive fees and may be eligible for certain benefits. Non-Executive roles are not entitled to any performance-related pay or pension.

The Non-Executive Chairman and Non-Executive Directors do not have service contracts. The Company's policy is to appoint the Non-Executive Chairman and Non-Executive Directors for an initial three-year period, which may be extended for a further term by mutual consent. The initial appointments and any subsequent reappointments are subject to annual election or re-election by shareholders.

Non-Executive Directors' appointments may be terminated at any time by serving three months' written notice by either party; six months' in the case of the Non-Executive Chairman. The Non-Executive Directors' letters of appointment are available for shareholders to view at the Company's registered office.

Non-Executive Director Remuneration Policy	
Approach to setting remuneration	The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. Fees may be paid in cash or shares. Typically reviewed annually in March. Judgement is used but consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and colleague pay increases. Where appropriate benefits may be provided such as private medical cover, annual medical assessment and colleague discount. Travel and other reasonable expenses (including any associated taxes) incurred in the course of performing their duties are reimbursed to Non-Executive Directors.
Opportunity	Fee opportunity reflects responsibility and time commitment. Additional fees are paid for further responsibilities such as chairing committees. The value of benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided in comparable roles. Fee levels for 2020/21: — Non-Executive Chairman – £480,225 per annum — Basic fee – £68,250 per annum — Senior Independent Director, Chair of Remuneration and Audit Committees additional fee – £19,500 per annum — Chair of Corporate Responsibility and Sustainability Committee additional fee – £15,000 per annum

Consideration of shareholder views

The Remuneration Committee values the views of the Company's shareholders and guidance from shareholder representative bodies. The Committee proactively consults extensively with our major shareholders to ensure that their views are represented in discussions on remuneration matters. As part of the process for approaching the renewal of the Remuneration Policy, the Committee consulted with major shareholders on a range of topics. The renewed policy reflects guidance received from major investors during the course of the engagement process.

Approved by the Board on 29 April 2020.

Dame Susan Rice
Chair, Remuneration Committee

Additional statutory information

Additional statutory information required by the Accounts Regulations can be found below:

Directors' interests	The beneficial interests of the Directors and their connected persons in the shares of the Company are shown on pages 84 and 87. During the year, no Director had any material interest in any contract of significance to the Group's business.
Directors' indemnities	The Directors are entitled to be indemnified by the Company, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company has executed deeds of indemnity for the benefit of each Director in respect of liabilities which may attach to them in their capacity as Directors of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2019/20, which has been renewed for 2020/21. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.
Research and development	In the ordinary course of business, the Company regularly develops new products and services. See page 22 for more information.
Employment policies	The Company values the different perspectives, experiences and abilities of all our colleagues. We ensure that those living with a disability or long-term health condition are fully and fairly considered for employment with the Company through well-developed policies for the equal treatment of all. We have a workplace adjustments process in place for our colleagues who find themselves with a disability or long-term health condition; workplace adjustments can be made at any point during a colleague's employment with us. We are committed to providing equal opportunities for all colleagues and applicants through training, development and promotion. Further information can be found on page 26.
Colleague engagement	Details on how we engage with our colleagues can be found on pages 14 and 15.
Political donations	The Company made no political donations in 2019/20 (2018/19: £nil).
Essential contracts	Sainsbury's has contractual and other arrangements with numerous third parties in support of its business activities. None of the arrangements are individually considered to be essential to the business of Sainsbury's.
Post balance sheet events	Details of the post balance sheet events are outlined in note 41 on page 189.
Financial risk management and financial instruments	Notes 29 and 30 on pages 153 to 173 disclose details relating to financial risk management and financial instruments.
Disclosure of information to the auditor	Each Director has confirmed that, so far as he/she is aware, there is no relevant audit information of which the auditor is unaware. Each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information. For further information, please see the Statement of Directors' responsibilities on page 100.
Dividends	The Board believes it is prudent to defer any dividend payment decisions until later in the financial year. Further details can be found on pages 34 and 136.
Ordinary shares	Details of the changes to the ordinary issued share capital during the year are shown on page 149. As at 27 April 2020, 2,218,612,765 ordinary shares of 28$^{4}/_{7}$ pence have been issued, are fully paid up and are listed on the London Stock Exchange.
Share capital	Except as described below in relation to the Company's employee share plans, there are no restrictions on the voting rights attaching to the Company's ordinary shares or the transfer of securities in the Company; no person holds securities in the Company carrying special rights with regard to control of the Company; and the Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights. Further details of the rights, restrictions and obligations attaching to the share capital of the Company, including voting rights, are contained in the Company's Articles of Association. The Articles of Association may only be changed with the agreement of shareholders. Shares acquired for the Company's employee share plans by the Trustee rank pari passu with shares in issue and have no special rights. Where, under the Company's All Employee Share Ownership Plan, participants are beneficial owners of the shares but the Trustee is the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participants. All shares held by the J Sainsbury Employee Benefit Trusts are held on an unallocated basis. As such, the Trustees waive their rights to vote and to receive dividends on these shares. Total dividends waived by the Trustees during the financial year amounted to £233,772.37. Some of the Company's employee share plans include restrictions on transfer of shares while the shares are held within the plan. At the Annual General Meeting held in July 2019, the Company was authorised by shareholders to purchase its own shares, within certain limits and as permitted by the Articles of Association. The Company made no purchases of its own shares during the year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge.
Change of control	All of the Company's employee share plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Company's share plans may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time. A number of the Company's credit facilities and banking arrangements contain change of control clauses under which lenders may cancel their commitments and declare all outstanding amounts immediately due and payable. There are no other significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

Major interests in shares

As at 7 March 2020, the Company had been notified by the following investors of their interests in three per cent or more of the Company's shares. These interests were notified to the Company pursuant to DTR5 of the Disclosure Guidance and Transparency Rules:

	Date notified	Number of ordinary shares	% of voting rights[1]
Qatar Holdings LLC	5 July 2017	481,746,132	21.99
BlackRock, Inc.	17 May 2017	109,699,242	5.01

1 Percentages shown are as a percentage of the Company's issued share capital when the Company was notified of the change in holding.

As at 27 April 2020, no further changes had been notified.

Directors' Report

The Directors' Report comprises pages 1 to 98 of this Annual Report and Financial Statements. The following information required by Rule 9.8.4R of the UK Listing Rules (LR) is also incorporated into the Directors' Report:

Information requirement	Location within Annual Report
Interest capitalised	See note 14 of the consolidated financial statements
Publication of unaudited financial information	See note 29
Details of any long-term incentive plans	See Remuneration Report, Remuneration Policy and note 36
Shareholder waiver of dividends	See note 28
Shareholder waiver of future dividends	See note 28

Other information requirements set out in LR 9.8.4R are not applicable to the Company.

Greenhouse gas emissions

In line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition), we will be reflecting the performance of Sainsbury's, Argos and Habitat emissions separately, as well as a combined J Sainsbury plc Group performance.

Sainsbury's has measured our GHG footprint since 2005/06 (baseline). We have set ourselves a challenging target to reduce our absolute emissions by 30 per cent by 2020, compared to our baseline (and 65 per cent relative to sales floor area).

Argos and Habitat have also set a target to reduce emissions by 40 per cent relative to sales floor area by 2020.

Location-based emissions

Versus our 2005/06 baseline, in 2019/20, our location-based:

— Group emissions reduced by 42 per cent absolute and 60 per cent relative

— Sainsbury's emissions reduced by 42 per cent absolute and 62 per cent relative

— Argos and Habitat emissions reduced by 42 per cent absolute and 42 per cent relative

Group (J Sainsbury plc)

	GHG emissions (tCO_2e)		
Emission source	2005/06	2018/19	2019/20
Total (tCO_2e)	**1,554,492**	**1,006,333**	**907,832**
Intensity measurement (tCO_2e/'000 sq ft)	89.77	39.71	36.02

Sainsbury's

	GHG emissions (tCO_2e)		
Emission source	2005/06	2018/19	2019/20
Combustion of fuel and operation of facilities (Scope 1)	536,694	481,230	448,189
Electricity, heat, steam and cooling purchased for own use (Scope 2)	833,787	412,389	352,644
Total	**1,370,481**	**893,619**	**800,833**
Intensity measurement (tCO_2e/'000 sq ft)	90.37	38.49	34.72

Argos and Habitat

	GHG emissions (tCO_2e)		
Emission source	2005/06	2018/19	2019/20
Combustion of fuel and operation of facilities (Scope 1)	101,563	73,706	74,244
Electricity, heat, steam and cooling purchased for own use (Scope 2)	82,448	39,008	32,755
Total	**184,011**	**112,714**	**106,999**
Intensity measurement (tCO_2e/'000 sq ft)	85.55	51.29	50.04

Market-based emissions

The market-based emissions method reflects the emissions from the electricity that a company is using, which may be different from emissions for the electricity that is generated as a UK average. For example, different electricity suppliers emit more or less greenhouse gases depending on the energy source or technology, and companies who have invested in their own renewable or low carbon energy generation by this method can show the actual emissions level for the energy used.

Versus 2005/06, in 2019/20, our market-based:

— Group emissions reduced by 46 per cent absolute and 63 per cent relative

— Sainsbury's emissions reduced by 46 per cent absolute and 65 per cent relative

— Argos and Habitat emissions decreased by 43 per cent absolute and 43 per cent relative

Group (J Sainsbury plc)

	GHG emissions (tCO_2e)		
Emission source	2005/06	2018/19	2019/20
Total (tCO_2e)	**1,554,492**	**942,950**	**843,741**
Intensity measurement (tCO_2e/'000 sq ft)	89.77	37.21	33.48

Sainsbury's

Emission source	GHG emissions (tCO_2e) 2005/06	2018/19	2019/20
Combustion of fuel and operation of facilities (Scope 1)	536,694	474,435	448,189
Electricity, heat, steam and cooling purchased for own use (Scope 2)	833,787	356,897	290,843
Total	**1,370,481**	**831,332**	**739,032**
Intensity measurement (tCO_2e/'000 sq ft)	90.37	35.92	32.04

Argos and Habitat

Emission source	GHG emissions (tCO_2e) 2005/06	2018/19	2019/20
Combustion of fuel and operation of facilities (Scope 1)	101,563	73,706	74,244
Electricity, heat, steam and cooling purchased for own use (Scope 2)	82,448	37,911	30,464
Total	**184,011**	**111,617**	**104,708**
Intensity measurement (tCO_2e/'000 sq ft)	85.55	50.79	48.97

Dual emissions reporting
Overall emissions have been presented to reflect both location-based and market-based methodologies, affecting both Scope 1 and Scope 2 emissions.

Scope 1: All Scope 1 market-based emissions have been calculated using the UK Government's GHG Conversion Factors for Company Reporting 2019 for all sources.

Scope 2: 17 per cent of electricity usage is covered by a Power Purchase Agreement, which meets all of the required quality criteria; therefore 17 per cent of electricity emissions have been reported at zero emissions. The remaining UK electricity has been reported at supplier-specific emissions rate, and non-UK electricity has been reported at local grid average, unless supplied by a certified green tariff.

Electricity use
As a result of our ongoing investment in energy reduction initiatives:

— Sainsbury's Group absolute UK electricity consumption decreased year-on-year by six per cent and 22 per cent versus 2005/06 whilst adding 46 per cent more sales area

— Sainsbury's absolute UK electricity consumption has decreased year-on-year by five per cent and 21 per cent versus 2005/06 whilst adding 52 per cent more sales area

— Argos and Habitat absolute UK electricity consumption decreased year-on-year by eight percent and 31 per cent versus 2005/06 whilst decreasing by one per cent in space area.

Methodology
We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019, and IEA 2017 for those overseas. The reporting period is the financial year 2019/20, the same as that covered by the Annual Report and Financial Statements. The boundaries of the GHG inventory are defined using the operational control approach. In general, the emissions reported are the same as those which would be reported based on a financial control boundary. Emissions for previous years are retrospectively adjusted as and when more accurate data is provided.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
29 April 2020

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Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

— select suitable accounting policies and then apply them consistently;

— make judgements and accounting estimates that are reasonable and prudent;

— state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; and

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable.

The Board believes that the disclosures set out in this Annual Report provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

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

Each of the Directors, whose names and functions are listed on pages 48 to 51, confirms that, to the best of their knowledge:

— the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

— the Strategic Report and Directors' Report contained in the Annual Report and Financial Statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the emerging and principal risks and uncertainties that it faces.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
29 April 2020

Independent auditor's report to the members of J Sainsbury plc

Opinion

In our opinion:

— J Sainsbury plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 7 March 2020 and of the Group's profit for the year then ended;

— the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

— the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of J Sainsbury plc for the year ended 7 March 2020 which comprise:

Group	Parent company
Consolidated income statement for the year then ended	Balance sheet as at 7 March 2020
Consolidated statement of comprehensive income for the year then ended	Statement of changes in equity for the year then ended
Consolidated balance sheet as at 7 March 2020	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies
Consolidated cash flow statement for the year then ended	
Consolidated statement of changes in equity for the year then ended	
Related notes 1 to 42 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

— the disclosures in the Annual Report set out on page 36 that describe the principal risks and explain how they are being managed or mitigated;

— the Directors' confirmation set out on page 71 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;

— the Directors' statement set out on page 46 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

— whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or

— the Directors' explanation set out on page 46 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters

— Impact of COVID-19

— Transition impact on adoption of IFRS 16

— Supplier arrangements

— Aspects of revenue recognition

— Financial services customer receivables impairment

— IT environment

Audit scope

— We performed a full scope audit of the complete financial information of the following components: J Sainsbury plc, Sainsbury's Supermarkets Ltd, Argos Limited and Sainsbury's Bank plc. We performed audit procedures on specific balances of Argos Financial Services, Nectar, Habitat, material property companies, the information systems company, material joint ventures and the insurance company due to the size and risk of certain individual balances within these components.

— The components where we performed full or specific audit procedures accounted for 100% of Profit before tax before one-off items, 100% of Revenue and 100% of Total assets.

Materiality

— Overall Group materiality is £31.8 million which represents 5 per cent of profit before tax and before non-recurring Property strategy costs. Sainsbury's Bank transition costs, and other one-off related costs (mainly integration and restructuring costs). A reconciliation has been provided below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk

The impact of COVID-19

Refer to the Audit Committee Report (page 66); Accounting policies (page 112); and Notes 2.1 and 41 of the Consolidated Financial Statements (page 112 and 189)

The COVID-19 pandemic has had a significant impact on the Sainsbury's business. We have considered the following matters as part of our 2019-20 audit;

— Going concern

— Post-balance sheet event considerations

— Other disclosures in the Annual Report and Accounts

Our response to the risk

Going concern

— We reviewed management's going concern cash flow projections, vouching them to the latest Board-reviewed forecasts that factored in a revised COVID-19 case.

— We vouched the available facilities to our year end audit work.

— We reviewed the potential downside sensitivities that management had applied and considered their likelihood and whether other scenarios, or more severe scenarios could apply and the associated impact on liquidity headroom.

— We reviewed management's reverse stress testing and assessed the likelihood of the various scenarios that could erode liquidity headroom.

— We reviewed the performance of the business since year end and compared it to cash flow forecasts.

— We reviewed management's basis of preparation note and validated that it accurately described management's going concern considerations.

Post balance sheet event considerations

— We challenged management's judgement that COVID-19 is a non-adjusting post balance sheet event, rather than an adjusting event, by reviewing the events and evidence that they had considered in arriving at their conclusion against the requirements of IAS 10.

— We considered which areas of the financial statements could be materially impacted.

— We reviewed the post balance sheet event note disclosure of the impact on the financial statements, as well as confirming that the non-adjusting conclusion had been disclosed as a significant judgement.

Other disclosures in the Annual Report

— We reviewed the relevant disclosures in the Annual Report and Accounts, including: the Directors' Report, Principal Risks and uncertainties, Corporate Governance and the Audit Committee's Report against the relevant reporting requirements and compared them to our knowledge obtained from our audit.

Key observations communicated to the Audit Committee

— We are satisfied that we do not include a material uncertainty in respect of going concern within our auditor's report.

— We concurred with the Directors' judgement that COVID-19 related events were a non-adjusting post balance sheet event for the Group and we agree with its disclosure as a significant judgement in the financial statements.

— We are satisfied that the additional disclosures in the financial statements are consistent with our knowledge from the audit.

Risk

Transition impact on adoption of IFRS16 Leases (lease liability of £5.8bn)

Refer to the Audit Committee Report (page 66); Accounting policies (page 118); and Note 5 of the Consolidated Financial Statements (page 118)

The accounting of the transition impact of IFRS 16 is complex and requires a number of estimates, the most significant of which is the discount rate to apply for each lease. Further, the Group has a high volume of leases, some of which have been in place for a number of years and there is a risk that the lease data which underpins the IFRS 16 transition calculation is incomplete or inaccurate.

Our response to the risk

— Our audit procedures included assessing the design and implementation of the key controls relating to the determination of the IFRS 16 transition impact.

— We assessed the completeness of the population of leases and validated that leases had been appropriately uploaded onto the lease accounting IT application. On a sample basis, we performed testing of lease data input into the lease accounting IT application.

— We assessed the appropriateness of the incremental borrowing rates by reviewing management's methodology with the support of our Corporate Treasury specialists and reperforming the calculations and validating with reference to observable market rates.

— We challenged the key judgements and assumptions used by management, including those in respect of options and rent uplifts.

— For a sample of leases, we independently modelled the impact of IFRS 16 using our own internally designed tool and compared the results to the Group's accounting IT application.

— We audited management's impairment assessment in relation to the right-of-use asset. We validated that the assets had been appropriately allocated to the correct cash generating unit and an appropriate value in use calculation had been performed. We assessed the discount rate that had been used with assistance from EY valuation specialists.

— We compared the disclosures provided in the financial statements on the impact of IFRS 16 to the disclosure requirements of IFRS 16.

Key observations communicated to the Audit Committee

The key estimates and judgements underpinning the transition impact on adoption of IFRS 16 are appropriate.

Risk

Supplier arrangements

Refer to Accounting policies (page 129); and Note 8 of the Consolidated Financial Statements (page 129)

The Group receives material discounts from suppliers, referred to as supplier arrangements. The accounting for some of these supplier arrangements is complex since management applies judgement, processing is either manual or more complex and the quantum of agreements is high. We focused our audit procedures on these complex supplier arrangements.

Complex supplier arrangements recognised in the income statement for the financial year are £451 million (2018/19: £457 million).

Our response to the risk

— We performed procedures over supplier arrangements at both the Sainsbury's Supermarkets Limited and Argos Limited components.

— We walked through the controls in place within the supplier arrangements process. We were able to take a controls-reliance approach over certain aspects of the process, testing the key controls, although there were areas where we could not, as the process for recording deals is manual.

— We selected a sample of suppliers to whom we sent confirmations across all "deal" types to confirm key deal input terms. Where we did not receive a response from the supplier, we performed alternative procedures, including obtaining evidence of initiation and if settled, settlement of the arrangement.

— We tested the existence and valuation of balance sheet amounts recognised in accounts receivable and as a contra-asset in accounts payable by reviewing post-period end settlement. We also performed a 'look-back' analysis of prior period balance sheet amounts to check that these amounts were appropriately recovered.
— We tested the settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by off-set to accounts payable.
— Using data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier arrangements to corroborating evidence.
— We tested deals recorded post period end and obtained the supplier agreement to validate that the deal was correctly recorded post period end.
— We read management's disclosure in respect of supplier arrangement amounts recorded in the income statement and balance sheet to confirm completeness and accuracy of amounts disclosed.

Key observations communicated to the Audit Committee
Supplier arrangement amounts are appropriately recognised in the income statement and balance sheet and the disclosure in the financial statements is appropriate.

Risk

Aspects of revenue recognition
Refer to Accounting policies (page 125); and Note 7 of the Consolidated Financial Statements (page 125)

Our assessment is that the vast majority of the Group's revenue transactions are non-complex, with no judgement applied over the amount recorded. We focused our work on the manual adjustments that are made to revenue where the amount of the revenue recorded can be different than the amount of cash received.

Our procedures were designed to address the risk of manipulation of accounting records and the ability to override controls.

Our response to the risk
— We performed procedures over adjustments to revenue at both the Sainsbury's Supermarkets Limited and Argos Limited components.
— We obtained a detailed understanding of these manual adjustments. Due to the manual nature of these adjustments, we performed substantive audit procedures.
— We used data analytics tools to identify those revenue journals for which the corresponding entry was not cash. These entries include Nectar points, coupons, vouchers and commission arrangements.
— We obtained corroborating evidence for such corresponding entries. For the Nectar points adjustment we obtained evidence that revenue is deferred appropriately based on the number of points issued and redeemed and the breakage assumption. For third party coupons and vouchers we obtained evidence of collection and settlement.
— Using data extracted from the accounting system, we tested the appropriateness of journal entries impacting revenue, as well as other adjustments made in the preparation of the financial statements. We considered unusual journals such as those posted outside of expected hours, or by unexpected individuals and for large or unusual amounts.

Key observations communicated to the Audit Committee
Adjustments to revenue have been appropriately recognised.

Risk

Financial Services customer receivables impairment
Refer to the Audit Committee Report (page 66); Accounting policies (page 163); and Note 29 of the Consolidated Financial Statements (page 153)

Financial Services customer receivables relate to Sainsbury's Bank credit cards, loans and mortgages; and Argos store cards. Total amounts recognised at year-end are £7,671 million (2018/2019: £7,234 million). The provision for impairment is £267 million (2018/2019: £247 million).

The risk of collectability of Financial Services customer receivables, through either credit cards, loans, mortgages or Argos store cards, is significant. There is judgement in the assumptions applied to calculate the loan provisions against outstanding balances.

Our response to the risk
— The loan impairment methodology was reviewed, to confirm it was consistent with IFRS 9.
— We verified the completeness and accuracy of the data utilised from underlying systems that were used in the impairment models.
— We challenged the key assumptions used by management, including the probability of default and the loss given default, with reference to industry/peer benchmarks and our financial services risk management specialists.
— We tested that the key assumptions had been accurately reflected in the impairment models.
— We independently calculated a reasonable range of outcomes to assess the provision for high risk segments.
— We challenged the macro-economic scenarios, including Brexit and COVID-19 scenarios, to the extent that they existed at year end, with the support of our economic modelling experts.

Key observations communicated to the Audit Committee
We conclude that the impairment of Financial Services receivables due from customers is appropriately recognised.

Risk

The IT environment
The IT systems across the Group are complex and there are varying levels of integration between them. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process.

Our response to the risk
— We held discussions with management to understand the IT environment and walked through the key financial processes to understand where IT systems were integral to the Group's controls over financial reporting. From this we identified which IT systems to include in the scope for our detailed IT testing.
— We assessed the IT general controls environment for the key systems impacting the accurate recording of transactions and the presentation of the financial statements.
— We designed our IT audit procedures to assess the IT environment, including an assessment of controls over changes made to the system and controls over appropriate access to the systems.
— Where we found that adequate IT general controls were not in place, we performed additional substantive testing to mitigate the risk of material misstatement.

Key observations communicated to the Audit Committee
We have not identified misstatements in the financial statements due to the limitations of the IT environment.

The key audit matters in our auditor's report are consistent with those included in our auditor's report last year, with the exception of the matter in respect of the impact of COVID-19. This matter is in respect of a specific set of circumstances relevant to the current year audit.

An overview of the scope of our audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 113 reporting components of the Group, we selected 30 components, which represent the principal business units within the Group.

Of the 30 components selected, we performed an audit of the complete financial information of 15 components ("full scope components") which were selected based on their size or risk characteristics. For the remaining 83 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Of the remaining balances, none are individually greater than five per cent of the Group's profit before tax excluding one-off items. For these accounts, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The table below illustrates the coverage obtained from the work performed by our audit teams.

		% Group Profit before tax	% Group Profit before tax	% Group Revenue		% Total assets	
	Number	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Full scope	15	69%	42%	98%	99%	81%	75%
Specific scope	15	31%	56%	2%	0%	19%	25%
Full and specific scope coverage	30	100%	98%	100%	99%	100%	100%
Remaining components	83	0%	2%	0%	1%	0%	0%
Total reporting components	113	100%	100%	100%	100%	100%	100%

Involvement with component teams
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 15 full scope components, audit procedures were performed on the head office company, J Sainsbury plc, Sainsbury's Supermarkets Ltd, Sainsbury's Bank plc, Argos Limited and consolidation of the Group by the primary audit team and EY teams in Edinburgh and Milton Keynes. The work at the specific scope components was performed by EY teams in Edinburgh, Milton Keynes, the Isle of Man and the primary team. For the full and specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Senior Statutory Auditor is also responsible for the audit of Sainsbury's Supermarkets Ltd and Argos Limited. For Sainsbury's Bank plc and Argos Financial Services, the Senior Statutory Auditor met and held discussions with management. The team discussed the audit approach with the component team and significant issues arising from their work, reviewing key audit working papers on risk areas. The closing meeting was attended by the primary audit team. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements. For the insurance company, the team discussed the audit approach with the component team and interacted regularly with the component team where appropriate during various stages of the audit in order to understand the key audit findings.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £31.8 million (2018/19: £30.5 million), which is five per cent (2018/19: five per cent) of profit before tax excluding the items described below. We believe that this materiality basis provides us with the best assessment of the requirements of the users of the financial statements. This is consistent with the approach taken in the prior year.

Starting basis	Profit before tax	£255m
Adjustments	Property strategy costs	£296m
	Other one-off costs (mainly restructuring and acquisition integration costs)	£63m
	Sainsbury's Bank transition costs	£23m
	Total	£382m
	Profit before tax and adjustments	**£637m**
Materiality	5% of adjusted profit before tax	£31.8m

We determined materiality for the parent company to be £150 million (2018/19: £150 million), which is two per cent (2018/19: two per cent) of net assets. The materiality of the parent company is greater than the Group because the parent company is a holding company with significant net assets. For any parent company balances that are consolidated into the Group financial statements, an allocation of Group performance materiality was used.

During the course of our audit, we reassessed initial materiality of £33 million, which was based on forecast profit before tax and adjustments. However, this did not result in a significant change to our audit strategy.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75 per cent (2018/19: 75 per cent) of our planning materiality, namely £23.8 million (2018/19: £23.8 million). We have set performance materiality at this percentage due to our assessment that the risk of material misstatement is not high.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £5 million to £23 million (2018/19: £5 million to £23 million).

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to it all uncorrected audit differences in excess of £1.5 million (2018/19: £1.5 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 98 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially

misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

— **Fair, balanced and understandable** set out on page 100 – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

— **Audit Committee reporting** set out on page 66 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

— **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 54 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

— the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

— the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 100, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

— those that relate to the form and content of the financial statements, such as the Group accounting policy, International Financial Reporting Standards (IFRS), the UK Companies Act 2006 and the UK Corporate Governance Code;

— those that relate to the Bank, such as capital maintenance requirements; and

— industry related such as compliance with the requirements of the Grocery Supply Code of Practice and payment of employees.

We understood how J Sainsbury plc is complying with those frameworks by observing the oversight of those charged with governance, the culture of honesty and ethical behaviour and a strong emphasis placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by making an assessment of the key fraud risks to the Group and the manner in which such risks may manifest themselves in practice, based on our previous knowledge of the Group as well as an assessment of the current business environment.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error. We evaluated the design and operational effectiveness of controls put in place to address the risks identified, or that otherwise prevent, deter and detect fraud. We also considered performance targets and their influence on efforts made by management to manage earnings.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation of the Audit Committee we were appointed by the Company at its Annual General Meeting on 8 July 2015. We have been the statutory auditor since that date. The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the years 2015/16 to 2019/20.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.

The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Ben Marles
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 April 2020

Ernst & Young LLP
Ernst & Young LLP (Sep 11, 2020 16:31 GMT+1)

Notes:

1. The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement
for the 52 weeks to 7 March 2020

		2020			2019 (restated)		
	Note	Before non-underlying items £m	Non-underlying items £m	Total £m	Before non-underlying items £m	Non-underlying items £m	Total £m
Revenue	7	**28,993**	**–**	**28,993**	29,007	–	29,007
Cost of sales		**(26,699)**	**(278)**	**(26,977)**	(26,708)	(11)	(26,719)
Gross profit		**2,294**	**(278)**	**2,016**	2,299	(11)	2,288
Administrative expenses	9	**(1,345)**	**(114)**	**(1,459)**	(1,342)	(383)	(1,725)
Other income	9	**37**	**56**	**93**	55	(17)	38
Operating profit		**986**	**(336)**	**650**	1,012	(411)	601
Finance income	10	**4**	**28**	**32**	5	19	24
Finance costs	10	**(404)**	**6**	**(398)**	(424)	(3)	(427)
Share of post-tax (loss)/profit from joint ventures and associates	18	**–**	**(29)**	**(29)**	8	(4)	4
Profit before tax		**586**	**(331)**	**255**	601	(399)	202
Income tax (expense)/credit	11	**(149)**	**46**	**(103)**	(147)	131	(16)
Profit for the financial year		**437**	**(285)**	**152**	454	(268)	186

	Note	Pence	Pence
Earnings per share	12		
Basic earnings		**5.8**	7.6
Diluted earnings		**5.8**	7.5

The notes on pages 112 to 193 form an integral part of these financial statements.

The restatements relate to the adoption of IFRS 16 as explained in note 5.

Consolidated statement of comprehensive income

for the 52 weeks to 7 March 2020

	Note	2020 £m	2019 (restated) £m
Profit for the financial year		**152**	186
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	35	**89**	1,269
Movements on financial assets at fair value through other comprehensive income		**17**	–
Deferred tax relating to items not reclassified	11	**(18)**	(216)
		88	1,053
Items that may be reclassified subsequently to the income statement			
Currency translation differences		**–**	1
Movements on financial assets at fair value through other comprehensive income		**4**	55
Items reclassified from financial assets at fair value through other comprehensive income reserve		**–**	(10)
Cash flow hedges effective portion of fair value movements		**(1)**	71
Items reclassified from cash flow hedge reserve		**(19)**	(45)
Current tax on items that may be reclassified	11	**–**	2
Deferred tax on items that may be reclassified	11	**3**	(15)
		(13)	59
Total other comprehensive income for the year (net of tax)		**75**	1,112
Total comprehensive income for the year		**227**	1,298

The notes on pages 112 to 193 form an integral part of these financial statements.

The restatements relate to the adoption of IFRS 16 as explained in note 5.

Consolidated balance sheet

At 7 March 2020 and 9 March 2019

	Note	2020 £m	2019 (restated) £m
Non-current assets			
Property, plant and equipment	14	**8,911**	9,193
Right-of-use assets	15	**4,826**	4,993
Intangible assets	16	**1,012**	1,043
Investments in joint ventures and associates	18	**9**	205
Financial assets at fair value through other comprehensive income	19	**972**	645
Trade and other receivables	21a	**43**	57
Amounts due from Financial Services customers	21b	**3,453**	3,349
Derivative financial assets	30	**6**	9
Net retirement benefit surplus	35	**1,119**	959
		20,351	20,453
Current assets			
Inventories	20	**1,732**	1,929
Trade and other receivables	21a	**811**	630
Amounts due from Financial Services customers	21b	**3,951**	3,638
Financial assets at fair value through other comprehensive income	19	**82**	211
Derivative financial assets	30	**12**	21
Cash and cash equivalents	31	**994**	1,121
		7,582	7,550
Assets held for sale	22	**4**	8
		7,586	7,558
Total assets		**27,937**	28,011
Current liabilities			
Trade and other payables	23a	**(4,275)**	(4,373)
Amounts due to Financial Services customers and other deposits	23b	**(6,890)**	(5,797)
Borrowings	33	**(48)**	(816)
Lease liabilities	15	**(510)**	(533)
Derivative financial liabilities	30	**(53)**	(17)
Taxes payable		**(163)**	(204)
Provisions	24	**(108)**	(109)
		(12,047)	(11,849)
Net current liabilities		**(4,461)**	(4,291)
Non-current liabilities			
Other payables	23a	**(11)**	(87)
Amounts due to Financial Services customers and other deposits	23b	**(1,204)**	(1,804)
Borrowings	33	**(1,248)**	(844)
Lease liabilities	15	**(5,264)**	(5,298)
Derivative financial liabilities	30	**(36)**	(17)
Deferred income tax liability	11	**(265)**	(235)
Provisions	24	**(89)**	(95)
		(8,117)	(8,380)
Total liabilities		**(20,164)**	(20,229)
Net assets		**7,773**	7,782
Equity			
Called up share capital	25	**634**	630
Share premium	25	**1,159**	1,147
Merger reserve	25	**568**	568
Capital redemption reserve	26	**680**	680
Other reserves	26	**168**	172
Retained earnings	28	**4,068**	4,089
Total equity before perpetual securities		**7,277**	7,286
Perpetual capital securities	27	**248**	248
Perpetual convertible bonds	27	**248**	248
Total equity		**7,773**	7,782

The notes on pages 112 to 193 form an integral part of these financial statements. Restatements relate to the adoption of IFRS 16 as explained in note 5.

The financial statements on pages 107 to 193 were approved by the Board of Directors on 29 April 2020, and are signed on its behalf by:

Mike Coupe
Chief Executive

Mike Coupe (Sep 9, 2020 10:09 GMT+1)

Kevin O'Byrne
Chief Financial Officer

Consolidated cash flow statement
for the 52 weeks to 7 March 2020

	Note	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Cash flows from operating activities			
Profit before tax		**255**	202
Net finance costs		**366**	403
Share of post-tax loss/(profit) from joint ventures and associates		**29**	(4)
Operating profit		**650**	601
Adjustments for:			
Depreciation expense	14, 15	**1,127**	1,119
Amortisation expense	16	**129**	143
Net impairment loss on property, plant and equipment, right-of-use assets, intangible assets	14, 15, 16	**263**	3
Non-cash adjustments arising from acquisitions		**(2)**	(2)
Financial Services impairment losses on loans and advances		**80**	98
(Profit)/loss on sale of properties and early termination of leases	6	**(56)**	17
Share-based payments expense	36	**37**	39
Defined benefit scheme expenses	35	**9**	108
Cash contributions to benefit schemes	35	**(52)**	(63)
Operating cash flows before changes in working capital		**2,185**	2,063
Changes in working capital			
Decrease/(increase) in inventories		**197**	(118)
Increase in financial assets at fair value through other comprehensive income		**(177)**	(97)
(Increase)/decrease in trade and other receivables		**(129)**	92
Increase in amounts due from Financial Services customers and other deposits		**(499)**	(1,480)
(Decrease)/increase in trade and other payables		**(195)**	71
Increase in amounts due to Financial Services customers and other deposits		**492**	1,077
Decrease in provisions and other liabilities		**(8)**	(93)
Cash generated from operations		**1,866**	1,515
Interest paid		**(384)**	(404)
Corporation tax paid		**(110)**	(68)
Net cash generated from operating activities		**1,372**	1,043
Cash flows from investing activities			
Purchase of property, plant and equipment		**(519)**	(474)
Initial direct costs on new leases		**(13)**	(11)
Purchase of intangible assets		**(120)**	(116)
Proceeds from disposal of property, plant and equipment		**81**	64
Proceeds from financial assets at fair value through other comprehensive income		**–**	39
Investment in joint ventures	18	**–**	(5)
Interest received		**2**	4
Dividends and distributions received	18	**143**	18
Net cash used in investing activities		**(426)**	(481)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	25, 28	**15**	22
Proceeds from borrowings		**250**	135
Repayment of borrowings		**(169)**	(593)
Repayment upon maturity of convertible bonds		**(450)**	–
Purchase of own shares	28	**(18)**	(30)
Repayment of capital element of lease obligations		**(420)**	(430)
Repayment of capital element of obligations under hire purchase arrangements		**(10)**	(27)
Dividends paid on ordinary shares	13	**(247)**	(224)
Dividends paid on perpetual securities	27	**(23)**	(23)
Net cash used in financing activities		**(1,072)**	(1,170)
Net decrease in cash and cash equivalents		**(126)**	(608)
Opening cash and cash equivalents		**1,120**	1,728
Closing cash and cash equivalents	31	**994**	1,120

The notes on pages 112 to 193 form an integral part of these financial statements. Restatements relate to the adoption of IFRS 16 as explained in note 5.

Consolidated statement of changes in equity
for the 52 weeks to 7 March 2020

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 10 March 2019 (as previously reported)		**630**	**1,147**	**568**	**852**	**4,763**	**7,960**	**248**	**248**	**8,456**
Cumulative adjustment to opening balance on adoption of IFRS 16		–	–	–	–	**(674)**	**(674)**	–	–	**(674)**
At 10 March 2019 (restated)		**630**	**1,147**	**568**	**852**	**4,089**	**7,286**	**248**	**248**	**7,782**
Profit for the year	27, 28	–	–	–	–	**129**	**129**	**16**	**7**	**152**
Other comprehensive income	26, 28	–	–	–	**1**	**89**	**90**	–	–	**90**
Tax relating to other comprehensive income	28	–	–	–	–	**(15)**	**(15)**	–	–	**(15)**
Total comprehensive income for the year ended 7 March 2020		–	–	–	**1**	**203**	**204**	**16**	**7**	**227**
Transactions with owners:										
Dividends	13, 28	–	–	–	–	**(247)**	**(247)**	–	–	**(247)**
Distribution to holders of perpetual securities	27	–	–	–	–	–	–	**(16)**	**(7)**	**(23)**
Amortisation of convertible bond equity component	26, 28	–	–	–	**(5)**	**5**	–	–	–	–
Share-based payment	36	–	–	–	–	**37**	**37**	–	–	**37**
Purchase of own shares	28	–	–	–	–	**(18)**	**(18)**	–	–	**(18)**
Allotted in respect of share option schemes	25, 28	**4**	**12**	–	–	**(1)**	**15**	–	–	**15**
Tax on items charged to equity		–	–	–	–	–	–	–	–	–
At 7 March 2020		**634**	**1,159**	**568**	**848**	**4,068**	**7,277**	**248**	**248**	**7,773**
At 11 March 2018 (as previously reported)		627	1,130	568	801	3,789	6,915	248	248	7,411
Cumulative adjustment to opening balance on adoption of IFRS 16		–	–	–	–	(641)	(641)	–	–	(641)
At 11 March 2018 (restated)		627	1,130	568	801	3,148	6,274	248	248	6,770
Day 1 accounting adjustments[1]		–	–	–	–	(74)	(74)	–	–	(74)
Profit for the period (restated)		–	–	–	–	168	168	12	6	186
Other comprehensive income/(expense)		–	–	–	72	1,269	1,341	–	–	1,341
Tax relating to other comprehensive income		–	–	–	(13)	(216)	(229)	–	–	(229)
Total comprehensive (expense)/income for the period ended 9 March 2019 (restated)		–	–	–	59	1,147	1,206	12	6	1,224
Transactions with owners:										
Dividends		–	–	–	–	(224)	(224)	–	–	(224)
Distributions to holders of perpetual securities		–	–	–	–	–	–	(16)	(7)	(23)
Amortisation of convertible bond equity component		–	–	–	(8)	8	–	–	–	–
Share-based payment		–	–	–	–	37	37	–	–	37
Purchase of own shares		–	–	–	–	(30)	(30)	–	–	(30)
Allotted in respect of share option schemes		3	17	–	–	2	22	–	–	22
Tax on items charged to equity		–	–	–	–	1	1	4	1	6
At 9 March 2019 (restated)		630	1,147	568	852	4,089	7,286	248	248	7,782

1 This is comprised of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' day 1 adjustments.

The notes on pages 112 to 193 form an integral part of these financial statements.

Restatements relate to the adoption of IFRS 16 as explained in note 5.

Notes to the consolidated financial statements

1 General information

J Sainsbury plc is a public limited company (the 'Company') incorporated in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 33 Holborn, London EC1N 2HT, United Kingdom.

The financial year represents the 52 weeks to 7 March 2020 (prior financial year: 52 weeks to 9 March 2019). The consolidated financial statements for the 52 weeks to 7 March 2020 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

The Group's principal activities are Food, General Merchandise and Clothing retailing and Financial Services.

2 Significant accounting policies

2.1 Basis of preparation

Sainsbury's Bank Plc and its subsidiaries have been consolidated for the twelve months to 29 February 2020 being the Bank's year-end date (prior financial year: 28 February 2019). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared under the historical cost convention, except for derivative financial instruments, defined benefit pension scheme assets and financial assets at fair value through other comprehensive income that have been measured at fair value. The financial statements have been prepared on a going concern basis. In reaching this conclusion, the Directors have reviewed liquidity forecasts for the Group, which have been updated for the expected impact of COVID-19 trading. The Directors also considered sensitivities in respect of potential downside scenarios and the mitigating actions available in concluding that the Group is able to continue in operation for a period of at least twelve months from the date of approving the financial statements.

The Group has adopted IFRS 16 'Leases' effective for the 52 weeks ending 7 March 2020. IFRS 16 has been applied fully retrospectively and therefore comparatives for prior periods have been restated. Further details regarding the impact of IFRS 16 are included in note 5.

Significant accounting policies have been included in the relevant notes to which the policies relate, and those relating to the financial statements as a whole can be read further below. Significant accounting policies have been applied consistently to all periods presented in the financial statements with the exception of the item noted below. Further details on the updated accounting policies following the adoption of IFRS 16 'Leases' are included in note 15.

Tax treatment for dividends on perpetual securities

In December 2017, the International Accounting Standards Board issued its annual cycle of improvements to IFRS, 'Annual Improvements to IFRS Standards 2015-2017 Cycle'. This included amendments to IAS 12 'Income Taxes' which became effective for reporting periods beginning on or after 1 January 2019, and was therefore adopted by the Group in the current financial year.

The amendments clarified that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Previously the tax on dividends paid on the perpetual securities was recognised in equity, however under the amended standard, this is now recognised in the income statement.

2.2 Basis of consolidation

a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. This is when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the income statement from the date of acquisition or, in the case of disposals, up to the effective date of disposal. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

Sainsbury's Property Scottish Partnership, Sainsbury's Property Scottish Limited Partnership, Sainsbury's Thistle Scottish Limited Partnership and Nectar 360 Services LLP, are partnerships which are fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships ('Accounts') Regulations 2008 and has therefore not appended the accounts of these qualifying partnerships to these accounts.

b) Joint ventures and associates

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

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

Associates are entities over which the Group has significant influence but not control.

Investment properties held by the Group are those contained within its joint ventures with Land Securities Group PLC and The British Land Company PLC. These are properties held for capital appreciation and/or to earn rental income. They are initially measured at cost, including related transaction costs. After initial recognition at cost, they are carried at their fair values based on market value determined by professional valuers at each reporting date. The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included within the income statement (within the profit from joint ventures line item) but is excluded from underlying profit in order to provide a clear and consistent presentation of the underlying performance of the Group's ongoing business for shareholders.

c) Foreign currencies

The consolidated financial statements are presented in sterling, which is the ultimate parent company's functional currency.

Foreign operations

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

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.

2.3 Amendments to published standards

Effective for the Group and Company in these financial statements:

The Group considered the following amendments to published standards that are effective for the Group for the financial year beginning 10 March 2019 and concluded that, with the exception of IFRS 16 'Leases', they are either not relevant to the Group or they do not have a significant impact on the Group's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- 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 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)

Further information on the impact of IFRS 16 is included in note 5.

Standards and revisions effective for future periods:

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 'Business Combinations' on the definition of a business
- 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 IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures' on interest rate benchmark reform
- IFRS 17 'Insurance Contracts'

The Group has considered the impact of the remaining above standards and revisions and has concluded that they will not have a significant impact on the Group's financial statements.

3 Alternative Performance Measures (APMs)

In the reporting of financial information, the Directors use various APMs. These APMs should be considered in addition to, and are not intended to be a substitute for, IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies' APMs.

3.1 Purpose of APMs

The Directors believe that these APMs provide additional useful information for understanding the financial performance and health of the Group. They are also used to enhance the comparability of information between reporting periods (such as like-for-like sales and underlying profit) by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid users in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes.

The APMs that the Group has focused on in the period are detailed on page 205. All of the APMs relate to the current period's results and comparative periods.

3.2 Changes to APMs

The following APMs have been updated during the period:

APM	Prior definition	Updated definition	Explanation
Retail free cash flow	Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure, and after investments in joint ventures and associates and Sainsbury's Bank capital injections.	Net cash generated from retail operations, after perpetual security coupons and cash capital expenditure but before strategic capital expenditure, and including payments of lease obligations, cash flows from joint ventures and associates and Sainsbury's Bank capital injections.	IFRS 16 replaces rental payments presented within operating profit with interest payments and capital repayments of the lease liability, with no overall change in total cash flow for the Group. Redefining Retail free cash flow to include payments of lease obligations ensures that the Group's reported free cash flow measures are consistent with those previously reported.
Net debt	Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. It is calculated as: financial assets at fair value through other comprehensive income (excluding equity investments) + net derivatives + net cash and cash equivalents + loans + finance lease obligations.	Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. It is calculated as: financial assets at fair value through other comprehensive income (excluding equity investments) + net derivatives to hedge borrowings + net cash and cash equivalents + loans + lease obligations + perpetual securities.	Following the adoption of IFRS 16, the definition of net debt has been updated to include lease obligations. Whilst not impacted by IFRS 16, perpetual securities are now included within net debt. Although accounted for as equity in the financial statements, they have similarities to debt instruments due to the coupons, and are included by management when assessing Group borrowing. As net debt is a measure of Group indebtedness, the derivatives included have been amended to only include derivatives used to hedge borrowings. All other derivatives are used as part of operating activities rather than financing activities, and have therefore now been excluded from net debt. A reconciliation of net debt as previously reported to restated net debt for all comparative periods is shown below:

	11 March 2018 £m	9 March 2019 £m
Net debt as previously reported	(1,364)	(1,142)
Remove previously reported finance leases (including hire purchase arrangements)	127	122
Add perpetual securities	(496)	(496)
Remove derivatives not linked to borrowings	55	(6)
Lease liabilities and hire purchase arrangements (Retail)	(5,897)	(5,824)
Restated net debt	(7,575)	(7,346)

Hire purchase arrangements included in the above lease liabilities are as follows:

	11 March 2018 £m	9 March 2019 £m
Hire purchase arrangements	(37)	(10)

These are £nil at 7 March 2020.

Adjusted net debt to EBITDAR	Net debt plus capitalised lease obligations divided by Group underlying EBITDAR.	Net debt divided by Group underlying EBITDAR.	Due to updates to net debt (see above), lease liabilities are now already included within net debt.
Return on capital employed (ROCE)	Return on capital employed is calculated as return divided by average capital employed. Return is defined as underlying profit before interest and tax. Capital employed is defined as net assets excluding net debt. The average is calculated on a 14 point basis.	Return on capital employed is calculated as return divided by average capital employed. Return is defined as 52 week rolling underlying profit before interest and tax. Capital employed is defined as Group net assets excluding pension deficit/surplus, less net debt (excluding perpetual securities). The average is calculated on a 14 point basis.	Perpetual securities are now included within net debt (see above). They are excluded for ROCE as they are accounted for as equity in the financial statements and therefore not included within net assets.

3.2 Changes to APMs continued

APM	Prior definition	Updated definition	Explanation
Interest cover	Underlying operating profit, plus underlying share of post-tax profit from joint ventures and associates, divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.	N/A	Interest cover is no longer included as an APM used by management.
Gearing	Retail net debt divided by Group net assets.	N/A	Gearing is no longer included as an APM used by management.
Retail underlying operating profit	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	Whilst the definition of Retail underlying operating profit has not changed, the prior period comparatives have been restated as a result of adopting IFRS 16. A reconciliation between the previously disclosed amounts and restated balances is included below:	
Fixed charge cover	Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.	Group underlying EBITDAR divided by rent (representing capital and underlying interest repayments on leases) and net underlying finance costs, where interest on perpetual securities is treated as an underlying finance cost. All items are calculated on a 52 week rolling basis.	Redefining fixed charge cover to include payments of lease obligations ensures that the Group's reported fixed charge cover measures are consistent with those previously reported.

	52 weeks to 9 March 2019 £m
Underlying operating profit pre IFRS 16	692
Add back rent	747
Depreciation on right-of-use assets	(470)
Other	12
Underlying operating profit post IFRS 16	981

4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those which are significant to the Group are discussed separately below:

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

a) Lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option under some of its leases to either lease the assets for additional terms, or terminate the lease early (a break option). The Group applies judgement in evaluating whether it is reasonably certain to exercise these options. That is, it considers all relevant factors that create an economic incentive for it to exercise them. For leased properties, this includes the current and expected profitability of the respective site, as well as the length of time until the option can be exercised. The judgement currently applied is that the Group assumes contractual terms unless it is reasonably certain that an extension or break option will be applied.

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the options to renew (e.g. a change in business strategy). Any reassessment of the lease term will be reflected in a recalculation of the lease liability and respective right-of-use asset.

b) Consolidation of structured entities

A structured entity is one in which the Group does not hold the majority interest but for which management has concluded that voting rights are not the dominant factor in deciding who controls the entity. In making such an assessment, management considers the terms of the arrangement to assess who has responsibility for the management of the entity and its assets. Where the Group has this responsibility, it is deemed that the Group controls the entity and it is fully consolidated into the Group accounts. The structured entity applicable to the Group is Sainsbury's Thistle Scottish Limited Partnership.

c) Aggregation of operating segments

Management has determined the operating segments based on the information provided to the Operating Board (the Chief Operating Decision Maker for the Group) to make operational decisions on the management of the Group. Three operating segments were identified as follows:

— Retail – Food

— Retail – General Merchandise and Clothing

— Financial Services

4 Significant accounting judgements, estimates and assumptions continued

Management has considered the economic characteristics, similarity of products, production processes, customers, sales methods and regulatory environment of its two Retail segments. In doing so it has been concluded that they should be aggregated into one 'Retail' segment in the financial statements. This aggregated information provides users the financial information needed to evaluate the business and the environment in which it operates.

d) Non-underlying items

In order to provide shareholders with additional insight into the underlying performance of the business, certain items are excluded from the Group's underlying results and presented as 'profit before non-underlying items' on the face of the income statement. This is consistent with how the performance of the Group is reviewed by management. Determining which items are to be adjusted requires judgement, and considers both the nature and scale of the item, as well as the circumstances surrounding it. Reversals of prior non-underlying items are considered based on the same criteria.

Profit before non-underlying items is not defined by International Financial Reporting Standards and is one of the APMs used by the Group. Therefore it may not be directly comparable with adjusted measures of other companies.

Further information on non-underlying items included in the Group's income statement are included in note 6, along with the impact on the Group cash flow statement. More details on the Group's APMs can be found on pages 205 to 208.

e) Impact of COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections across many countries. Management has exercised significant judgement when determining whether any adjustments are required to the financial statements as at 7 March 2020.

The conditions that existed at the balance sheet date were that a disease, present in a number of countries globally, was in existence. It had stabilised in China, however had caused a level of uncertainty in the market. The UK response to the outbreak was still minor and day-to-day life in the UK where the Group operates was unchanged. Despite the lockdown in China, a UK lockdown and subsequent economic impact was not readily apparent at this stage. As a result none of the conditions at the balance sheet date indicated that any adjustments would be required to the Group's financial statements.

The subsequent rise in infections in the UK, significant market movements and global lockdowns occurred after the year-end date, but do not provide additional information about conditions that existed at the balance sheet date. In particular, it was on 11 March that the World Health Organisation declared the virus a pandemic, and from 16 March that the UK Government announced major government-backed loans. It is also this date that day-to-day life in the UK began to be impacted through announced social distancing measures, with additional, stay at home measures being enforced even later. The scale of these Government interventions and impact on daily life in the UK were not apparent at the balance sheet date and therefore represent non-adjusting events to the Group. Given the significance of these events, additional disclosures, including sensitivities, are included in note 41.

Sources of estimation uncertainty

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

a) Impairment of non-financial assets

The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which it is allocated. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates, as disclosed in note 16. Actual outcomes could vary from these estimates.

Other 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. The recoverable amount is sensitive to the discount rate used for the value in use model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. During the current financial period, an impairment charge was recognised of £263 million – further information on the key assumptions and sensitivities is provided in note 17.

b) Impairment of loans and advances

IFRS 9 requires that the measurement of expected credit losses (ECLs) should reflect an unbiased and probability weighted amount that is determined by evaluating a range of forward-looking economic assumptions. The Group has engaged an external supplier to provide economic forecasts which are subject to review, challenge and approval. The ECL models utilise three scenarios including a 'base case' scenario considered to be the most likely outcome together with an upside and downside scenario. The base case has been assigned a probability weighting of 40% with the upside and downside scenarios each assigned 30%. A revised downside scenario was introduced to replace the downside scenario at 7 March 2020 with more extreme economic assumptions – also with 30% probability.

The key macro-economic assumptions included in the ECL calculation were:

	As at 7 March 2020				As at 9 March 2019			
	Base %	**Upside %**	**Downside %**	**Revised Downside %**	Base %	Upside %	Downside %	Revised Downside %
Unemployment rate	**3.9**	**3.9**	**4.1**	**6.1**	4.3	4.2	4.5	6.0
Consumer price growth	**2.0**	**1.4**	**2.2**	**2.4**	2.0	1.4	2.4	2.4
GDP	**1.6**	**2.1**	**1.3**	**1.1**	1.6	2.0	1.2	1.1
Mortgage debt as a percentage of household income	**99.3**	**96.5**	**101.0**	**103.4**	94.1	91.9	97.3	98.3
Real household disposable income	**1.5**	**2.2**	**1.2**	**0.2**	1.1	1.9	0.6	0.2

The above are based on five year averages from the reporting date.

4 Significant accounting judgements, estimates and assumptions continued

Changing the probability of the revised economic downside risk from 30 per cent to 100 per cent would result in an increase in impairment provisions of £12 million (2019: £12 million). Note that these sensitivities are based on the information available at 7 March and do not fully incorporate the effects of the COVID-19 as this is determined to be a non-adjusting post balance sheet event. For details regarding the impact on ECLs of COVID-19 in the post balance sheet period see note 41.

c) Post-employment benefits

Liabilities

The Group operates one defined benefit scheme for employees, segregated into two sections – the Sainsbury's section and the Argos section. The present value of the scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on the discount rate applied which is derived from the expected yields on high quality corporate bonds over the duration of the Group's pension scheme. High quality corporate bonds are those for which at least one of the main ratings agencies considers them to be at least AA (or equivalent).

During the year the Group refined it's method of extrapolation for long duration liabilities used for determining the discount rate. The corporate bond dataset used remains unchanged. The Group believes this refinement better reflects expected yields as it is based on existing data rather than theoretical extrapolation.

The discount rate used following this refinement is 1.6 per cent. The resulting actuarial loss is included within the £89 million of remeasurement gains as disclosed in note 35.

Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 35. 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 35.

Assets

The Pension Scheme has circa £2 billion of private market assets, split between private debt, private equity and property. These assets are held as they are expected to deliver a greater risk/return profile vs public market equivalents. The assets are genuinely illiquid (likely to be realised over 5+ years) but the Pension Scheme holds sufficient liquid assets (cash, gilts and other liquid securities) to be confident that it can meet its pension and collateral obligations over time.

The valuation of these assets is based on the audited accounts of the funds, where available, and net asset value statements from the investment managers where recent accounts are not available. For many of the investments the valuations provided are at 31 December. In prior years, these valuations have been used in the year-end pension deficit/surplus calculation despite the time difference between the fund valuation and the Group year-end and adjusted for any cash received or paid between the valuation date and the year-end. This year, to reflect the high level of market volatility, caused in part by the COVID-19 crisis, the Group has performed a roll-forward for these valuations using relevant liquid indices as follows:

Asset Class	Return
Global equity GBP return	(6.8)%
Global High Yield Debt GBP return	(0.5)%
US loans GBP return	0.1%
Global High Yield Debt local currency return	(2.5)%
US loans USD return	(1.8)%
UK REITS return	(11.1)%

This has reduced the asset valuations by £57 million. A one per cent increase/decrease in the indices used would have caused a £1 million decrease/£1 million increase in the adjustment.

d) Provisions

Provisions have been made for onerous contracts, dilapidations, restructuring, insurance and Financial Services related provisions. 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 24.

e) Determining fair values

The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, overdrafts and payables are assumed to approximate to their book values. Further information in relation to the fair value of the Group's financial assets and liabilities is included within note 30.

f) Revenue recognition – Fair value of Nectar points

The Group estimates the fair value of points awarded under the Nectar programme by reference to the value per point to a customer, multiplied by expected breakage assumptions. Breakage represents management's estimate of points issued that will never be redeemed. As points issued under the programme do not expire, such estimates are subject to uncertainty. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, and adjusted for changes to any terms and conditions that may affect members' redemption patterns.

If the breakage estimate used in determining the deferred revenue for the Group had been 0.5 per cent lower, the deferred points liability would have been £20 million higher. If the breakage estimate had been 0.5 per cent higher, the deferred points liability would have been £20 million lower.

g) Effective interest rate

In calculating the effective interest rate of a financial instrument the Group takes into account all amounts that are integral to the yield of a financial instrument as well as incremental transaction costs. In the case of loans and advances to customers significant judgement is applied in estimating the effect of various factors, including future customer transactional and repayment behaviours, on future cash flows.

Estimates are based on historical experience from similar product types. Management considers that the most material judgement is the estimated life of credit card balances which is a maximum of 60 months. To the extent that estimated life differs by +/- 12 months, the value of loans and advances to customers on the balance sheet would be £9.8 million higher or £11.2 million lower respectively.

h) Inventory

Inventory provisions are recognised in cases where the expected net realisable value of inventory is lower than its carrying amount, including provisions for obsolete, slow moving stock and waste. All inventory provisioning requires a level of judgement, and is based on a number of factors including current and expected sales performance, stock cover and in the case of non-food, current trends and changes in technology.

i) Supplier arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and directly affect the Group's reported margin. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset. A description of the different types of supplier arrangements, and their values for the year, are provided in note 8.

4 Significant accounting judgements, estimates and assumptions continued

j) Lease liabilities

The discount rate used to calculate the lease liability is the rate implicit in the lease if it can be readily determined, or the Group's incremental borrowing rate (IBR) if not.

The IBRs depend on the start date and term of the lease, and are determined based on a number of inputs including a reference (risk free) rate and adjustments to reflect the Group's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the Group and quoted credit default swaps ("CDS").

The weighted average IBR applied on transition to IFRS 16 was 5.5 per cent, with individual leases ranging from 0.7 per cent to 16.5 per cent.

5 Adoption of IFRS 16 'Leases'

IFRS 16 'Leases' supersedes IAS 17 'Leases', IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group has adopted IFRS 16 with a date of initial application of 10 March 2019. The Group adopted IFRS 16 using the full retrospective method of adoption as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in the consolidated financial statements has been restated.

The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

a. Effect of adoption of IFRS 16

The Group's lease portfolio consists of properties including retail, distribution and office properties, as well as vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Assets funded through finance leases were capitalised as property, plant and equipment and depreciated over the shorter of their estimated useful lives or the lease term. The amount capitalised was the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term. The resulting lease obligations were included in liabilities net of finance charges. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. For operating leases under IAS 17, the lease payments were recognised as rental expense in the income statement on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised within "Other receivables" and "Trade and other payables", respectively.

Upon adoption of IFRS 16, the Group now applies a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The Group recognises a right-of-use asset and a lease liability at the lease commencement date, and the rental charge is replaced with depreciation on the right-of-use asset and interest on the lease liability. The new accounting policies for leases are detailed in note 15.

The effect of adoption of IFRS 16 on the consolidated balance sheet as at 10 March 2018 is as follows:

	11 March 2018 £m
Assets	
Property, plant and equipment	(500)
Right-of-use asset	5,091
Intangible assets	(1)
Other receivables	33
Non-current assets	4,623
Trade and other receivables	(25)
Current assets	(25)
Liabilities	
Trade and other payables	50
Lease liabilities	(503)
Provisions	15
Current liabilities	(438)
Other payables	245
Lease liabilities	(5,275)
Deferred income tax liability	158
Provisions	71
Non-current liabilities	(4,801)
Net assets	(641)
Equity	
Retained earnings	(641)
Total equity	(641)

Reconciliation from previously reported operating lease commitments

	£m
Operating lease commitments (discounted) as previously reported at 10 March 2018[1]	(5,939)
Application of lease specific discount rates	178
Effect of extension / break periods	(107)
IFRS 16 lease liability	(5,868)
Add back finance lease liability already recognised	90
Net impact of IFRS 16 on lease liability	(5,778)

1. Comprised of £5,931m retail discounted operating lease commitments and £8m relating to financial services.

5 Adoption of IFRS 16 'Leases' continued

A full reconciliation of the impact of IFRS 16 on the Group income statement and balance sheet as at 9 March 2019 is set out below:

Group income statement

	52 weeks to 9 March 2019 (reported) £m	IFRS 16 impact £m	52 weeks to 9 March 2019 (restated) £m
Revenue	29,007	–	29,007
Cost of sales[1]	(27,000)	281	(26,719)
Gross profit	2,007	281	2,288
Administrative expenses[1]	(1,733)	8	(1,725)
Other income	38	–	38
Operating profit	312	289	601
Finance income[2]	22	2	24
Finance costs[1]	(99)	(328)	(427)
Share of post-tax profit from joint ventures and associates	4	–	4
Profit before tax	239	(37)	202
Analysed as:			
Underlying profit before tax	635	(34)	601
Non-underlying items	(396)	(3)	(399)
	239	(37)	202
Income tax credit/(expense)	(20)	4	(16)
Profit for the financial year	219	(33)	186

	Pence	Pence	Pence
Earnings per share			
Basic earnings	9.1	(1.5)	7.6
Diluted earnings	8.9	(1.4)	7.5
Underlying basic earnings	22.0	(1.3)	20.7
Underlying diluted earnings	20.3	(1.2)	19.1

1 Adjustments to cost of sales, administrative expenses and finance costs reflect rental expenses under IAS 17 being replaced with interest on lease liabilities and depreciation on right-of-use assets.
2 Adjustment to finance income relates to interest income on leases where the Group acts as lessor.

There is no material impact on other comprehensive income.

5 Adoption of IFRS 16 'Leases' continued

Group balance sheet

	52 weeks to 9 March 2019 (reported) £m	IFRS 16 impact £m	52 weeks to 9 March 2019 (restated) £m
Non-current assets			
Property, plant and equipment[1]	9,708	(515)	9,193
Right-of-use asset[2]	–	4,993	4,993
Intangible assets	1,044	(1)	1,043
Investments in joint ventures and associates	205	–	205
Financial assets at fair value through other comprehensive income	645	–	645
Other receivables[3]	33	24	57
Amounts due from Financial Services customers	3,349	–	3,349
Derivative financial instruments	9	–	9
Net retirement benefit surplus	959	–	959
	15,952	4,501	20,453
Current assets			
Inventories	1,929	–	1,929
Trade and other receivables[3]	661	(31)	630
Amounts due from Financial Services customers	3,638	–	3,638
Financial assets at fair value through other comprehensive income	211	–	211
Derivative financial instruments	21	–	21
Cash and cash equivalents	1,121	–	1,121
	7,581	(31)	7,550
Assets held-for-sale	8	–	8
	7,589	(31)	7,558
Total assets	23,541	4,470	28,011
Current liabilities			
Trade and other payables[4]	(4,444)	71	(4,373)
Amounts due to Financial Services customers and other deposits	(5,797)	–	(5,797)
Borrowings (including lease liabilities)[5]	(832)	(517)	(1,349)
Derivative financial instruments	(17)	–	(17)
Taxes payable	(204)	–	(204)
Provisions[7]	(123)	14	(109)
	(11,417)	(432)	(11,849)
Net current liabilities	(3,828)	(463)	(4,291)
Non-current liabilities			
Other payables[4]	(340)	253	(87)
Amounts due to Financial Services customers and other deposits	(1,804)	–	(1,804)
Borrowings (including lease liabilities)[5]	(950)	(5,192)	(6,142)
Derivative financial instruments	(17)	–	(17)
Deferred income tax liability[6]	(397)	162	(235)
Provisions[7]	(160)	65	(95)
	(3,668)	(4,712)	(8,380)
Net assets	8,456	(674)	7,782
Equity			
Called up share capital	630	–	630
Share premium account	1,147	–	1,147
Merger reserve	568	–	568
Capital redemption reserve	680	–	680
Other reserves	172	–	172
Retained earnings	4,763	(674)	4,089
Total equity before perpetual securities	7,960	(674)	7,286
Perpetual capital securities	248	–	248
Perpetual convertible bonds	248	–	248
Total equity	8,456	(674)	7,782

1 Reduction in property, plant and equipment reflects previously capitalised direct costs in relation to leases now being included within right-of-use assets, and removal of finance leases recognised under IAS 17.
2 Recognition of right-of-use assets.
3 Adjustments to receivables reflect the recognition of lease receivables where the Group sublets leased properties, offset by the removal of any rent prepayments.
4 Predominantly the removal of any liabilities previously recognised due to lease incentives, along with rent accruals.
5 Recognition of lease liabilities.
6 Deferred tax asset recognised on transition.
7 Predominantly relates to the removal of onerous lease provisions.

5 Adoption of IFRS 16 'Leases' continued

Impact on Group cash flow statement

Prior to the adoption of IFRS 16, the repayment of interest on obligations under finance leases was presented within cash flows from financing activities. This was to be consistent with the presentation of payments of capital elements of finance leases. The repayment of interest on all lease obligations is now presented within cash flows from operating activities, as lease arrangements are part of the operating activities of the business. The impact of adopting IFRS 16 on the Group consolidated cash flow statement as at 9 March 2019 is as follows:

Group cash flow statement

	52 weeks to 9 March 2019 (reported) £m	IFRS 16 impact £m	52 weeks to 9 March 2019 (restated) £m
Cash flows from operating activities			
Profit before tax[1]	239	(37)	202
Net finance costs[2]	77	326	403
Share of post-tax-profit from joint ventures and associates	(4)	–	(4)
Operating profit	312	289	601
Adjustments for:			
Depreciation expense[3]	649	470	1,119
Amortisation expense	143	–	143
Non-cash adjustments arising from acquisitions	(2)	–	(2)
Financial Services impairment losses on loans and advances	98	–	98
Loss on sale of properties	17	–	17
Impairment charge of property, plant and equipment	3	–	3
Share-based payments expense	39	–	39
Non-cash defined benefit scheme expenses	108	–	108
Cash contributions to benefit schemes	(63)	–	(63)
Operating cash flows before changes in working capital	1,304	759	2,063
Changes in working capital			
Increase in inventories	(118)	–	(118)
Increase in current financial assets	(97)	–	(97)
Decrease in trade and other receivables[4]	74	18	92
Increase in amounts due from Financial Services customers and other deposits	(1,480)	–	(1,480)
Increase in trade and other payables[4]	94	(23)	71
Increase in amounts due to Financial Services customers and other deposits	1,077	–	1,077
Decrease in provisions and other liabilities[5]	(105)	12	(93)
Cash generated from operations	749	766	1,515
Interest paid[6]	(63)	(341)	(404)
Corporation tax paid	(68)	–	(68)
Net cash generated from operating activities	618	425	1,043
Cash flows from investing activities			
Purchase of property, plant and equipment[7]	(478)	4	(474)
Initial direct costs on right-of-use assets[7]	–	(11)	(11)
Purchase of intangible assets	(116)	–	(116)
Proceeds from disposal of property, plant and equipment	64	–	64
Proceeds from financial assets at fair value through other comprehensive income	39	–	39
Investment in joint ventures	(5)	–	(5)
Interest received	4	–	4
Dividends and distributions received	18	–	18
Net cash used in investing activities	(474)	(7)	(481)

5 Adoption of IFRS 16 'Leases' continued

Group cash flow statement continued

	52 weeks to 9 March 2019 (reported) £m	IFRS 16 impact £m	52 weeks to 9 March 2019 (restated) £m
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	22	–	22
Proceeds from borrowings	135	–	135
Repayment of borrowings	(593)	–	(593)
Purchase of own shares	(30)	–	(30)
Repayment of capital element of lease obligations[8]	(5)	(425)	(430)
Repayment of capital element of obligations under hire purchase arrangements	(27)	–	(27)
Interest elements of lease obligations[9]	(7)	7	–
Dividends paid on ordinary shares	(224)	–	(224)
Dividends paid on perpetual securities	(23)	–	(23)
Net cash used in financing activities	(752)	(418)	(1,170)
Net decrease in cash and cash equivalents	(608)	–	(608)
Opening cash and cash equivalents	1,728	–	1,728
Closing cash and cash equivalents	1,120	–	1,120

(1) Reduction in profit due to recognition of IFRS 16 depreciation and interest being greater than derecognised IAS 17 costs, predominantly rent.
(2) Add back of additional interest expense on recognition of lease liabilities.
(3) Depreciation on right-of-use assets added back as non-cash.
(4) Movement year-on-year of de-recognised accrual balances, predominantly prepaid and accrued rent.
(5) Movement year-on-year of de-recognised onerous leases.
(6) IFRS 16 interest paid offset by de-recognised existing IAS 17 finance leases.
(7) Initial direct costs capitalised as part of right-of-use assets removed from the purchase of property, plant and equipment with outflow now recognised in right-of-use asset along with initial direct costs previously expensed.
(8) Repayment of IFRS 16 lease liability capital element offset by repayment of IAS 17 finance lease liabilities de-recognised.
(9) De-recognition of IAS 17 finance leases replaced by IFRS 16.

b. Summary of new accounting policies

The new accounting policies of the Group upon adoption of IFRS 16 are detailed within note 15.

c. Updates to judgements and estimates

New judgements and estimates as a result of adopting IFRS 16 are as disclosed in note 4.

6 Profit before non-underlying items

In order to provide shareholders with additional insight into the underlying performance of the business, items recognised in reported profit or loss before tax which, by virtue of their size and/or nature do not reflect the Group's underlying performance, are excluded from the Group's underlying results. The adjusted items are as follows:

— Financial Services transition – multi-year costs incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme. These principally comprise contractor and service provider costs relating to the migration of data and other services to the Bank's new infrastructure and operating model.

— Profit on disposal of properties – such disposals are not part of the Group's underlying business.

— Investment property fair value movements – these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount at the previous reporting date and are held within the property JVs. The valuations are impacted by external market factors and can therefore vary significantly year-on-year.

— Perpetual securities coupons – these are accounted for as equity in line with IAS 32 'Financial instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit as they are included by management when assessing Group borrowing.

— Non-underlying finance movements – these include fair value remeasurements on derivatives not in a hedging relationship. The fair value measurements are impacted by external market factors and can fluctuate significantly year-on-year. Lease interest on impaired non-trading sites, including site closures, is excluded from underlying profit as those sites do not contribute to the underlying business.

— IAS 19 pension expenses include the financing element and scheme expenses of the Group's defined benefit scheme. These are reported outside underlying profit as they no longer relate to the Group's on-going activities following closure of the scheme to future accrual.

— Acquisition adjustments – these reflect the adjustments arising from acquisitions including the fair value unwind and amortisation of acquired intangibles.

— Other – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance and in the current year include the property strategy programme and retail restructuring programme.

6 Profit before non-underlying items continued

The effects of these adjusted items are as follows:

	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/ (costs) £m	Share of loss from JVs £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Property strategy programme	(255)	(41)	–	–	–	(296)	28	(268)
Retail restructuring programme	(21)	(11)	–	–	–	(32)	6	(26)
Financial Services transition and other	(2)	(27)	–	–	–	(29)	4	(25)
Total strategic programmes	(278)	(79)	–	–	–	(357)	38	(319)
Property, finance, pension and acquisition adjustments								
Profit/(loss) on disposal of properties	–	–	56	–	(21)	35	3	38
Investment property fair value movements	–	–	–	–	(3)	(3)	–	(3)
Perpetual securities coupons	–	–	–	23	–	23	(4)	19
Non-underlying finance movements	–	–	–	(17)	(5)	(22)	3	(19)
IAS 19 pension expenses	–	(9)	–	28	–	19	(4)	15
Acquisition adjustments	–	(26)	–	–	–	(26)	5	(21)
Total property, finance, pension and acquisition adjustments	–	(35)	56	34	(29)	26	3	29
Tax adjustments								
Over provision in prior years	–	–	–	–	–	–	8	8
Revaluation of deferred tax balances	–	–	–	–	–	–	(3)	(3)
Total adjustments	(278)	(114)	56	34	(29)	(331)	46	(285)

(a) Property strategy programme

— The Group identified an impairment indicator during the period following an approved programme of store closures during the year. This programme was initially announced at the Capital Markets Day in September. It was subsequently revisited during the second half of the year resulting in additional planned closures. An impairment charge of £(252) million has been recognised on property, plant and equipment (£154 million), right-of-use assets (£80 million) and goodwill allocated to stores (£18 million). £(126) million of the charge is in relation to properties identified for closure. The remaining £(126) million relates to unprofitable and marginally profitable sites for which the cash flows no longer support the carrying amount. Further information on the impairment charges, including sensitivities, can be found in note 17.

— In addition, store closure costs have been recognised in the period of £(44) million. They comprise £(41) million onerous contract charges and dilapidation costs, and £(3) million of redundancy provisions.

(b) Retail restructuring programme

— Restructuring costs of £(32) million in the year mostly comprise redundancy payments following changes to the Group's store management structure, responding to changing customer shopping habits and reducing costs throughout the store estate, as well as the closure of one Argos distribution centre, prior to the wider store closure programme announced at the Capital Markets Day.

— Also includes costs incurred following announced head-office restructures during the year.

(c) Financial Services transition and other

— These predominantly comprise Financial Services transition costs of £(19) million and were incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme. These principally comprise contractor and service provider costs relating to the migration of data and other services to the Bank's new infrastructure and operating model.

— In addition, a number of ATMs were decommissioned during the year, leading to write-downs of £(6) million within property, plant and equipment.

(d) Property, finance, pension and acquisition adjustments

— Profit on disposal of properties for the financial period comprised £56 million for the Group and £(21) million for the joint ventures.

— The coupons on the perpetual subordinated capital securities and the perpetual subordinated convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit before tax.

— Non-underlying finance movements for the financial year comprised £(17) million for the Group and £(5) million for the joint ventures. These are presented separately in note 10.

— Defined benefit pension expenses comprise pension finance income of £28 million and scheme expenses of £(9) million (see note 35). Included in the prior year-end were £(98) million non-cash past service costs relating to Guaranteed Minimum Pension (GMP) equalisation and £(2) million of pension related expenses incurred directly by the Group.

— Acquisition adjustments of £(26) million reflect the unwind of non-cash fair value adjustments arising from the Sainsbury's Bank, Home Retail Group and Nectar UK acquisitions and are recognised as follows:

6 Profit before non-underlying items continued

	2020				2019			
	Financial Services £m	**Argos £m**	**Nectar £m**	**Total Group £m**	Financial Services £m	Argos £m	Nectar £m	Total Group £m
Revenue	**–**	**–**	**–**	**–**	–	–	–	–
Cost of sales	**–**	**2**	**–**	**2**	–	2	–	2
Depreciation	**–**	**(2)**	**–**	**(2)**	–	(13)	–	(13)
Amortisation	**–**	**(18)**	**(8)**	**(26)**	(1)	(16)	(25)	(42)
	–	**(18)**	**(8)**	**(26)**	(1)	(27)	(25)	(53)

Comparative information

2019 (restated)	Revenue £m	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance (costs)/ income £m	Share of loss from JVs £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Retail restructuring programme	–	–	(81)	–	–	–	(81)	15	(66)
Financial Services transition and other	–	–	(70)	–	–	–	(70)	13	(57)
Argos integration costs	–	–	(40)	–	–	–	(40)	8	(32)
Asda transaction costs	–	–	(37)	–	(9)	–	(46)	2	(44)
Total strategic programmes	–	–	(228)	–	(9)	–	(237)	38	(199)
Property, finance, pension and acquisition adjustments									
Loss on disposal of properties	–	–	–	(17)	–	–	(17)	9	(8)
Impairments and investment property fair value movements	–	–	(3)	–	–	(2)	(5)	–	(5)
Perpetual securities coupons	–	–	–	–	23	–	23	(5)	18
Non–underlying finance movements	–	–	–	–	10	(2)	8	(3)	5
IAS 19 pension expenses	–	–	(110)	–	(8)	–	(118)	23	(95)
Acquisition adjustments	–	(11)	(42)	–	–	–	(53)	10	(43)
Total property, finance, pension and acquisition adjustments	–	(11)	(155)	(17)	25	(4)	(162)	34	(128)
Tax adjustments									
Over provision in prior years	–	–	–	–	–	–	–	61	61
Revaluation of deferred tax balances	–	–	–	–	–	–	–	(2)	(2)
Total adjustments	–	(11)	(383)	(17)	16	(4)	(399)	131	(268)

Cash flow statement

The table below shows the impact of non-underlying items on the Group cash flow statement:

	2020 £m	2019 £m
Cash flows from operating activities		
IAS 19 pension expenses	**(9)**	(10)
Sainsbury's Bank transition	**(22)**	(66)
Argos integration costs	**(2)**	(52)
Property strategy programme	**(8)**	–
Restructuring costs	**(26)**	(152)
Transaction costs relating to the proposed merger with Asda	**(13)**	(39)
Cash used in operating activities	**(80)**	(319)
Cash flows from investing activities		
Proceeds from property disposals	**81**	64
Cash generated from investing activities	**81**	64
Net cash flows	**1**	(255)

7 Segment reporting

Background

The Group's businesses are organised into three (previously four) operating segments:

— Retail – Food;

— Retail – General Merchandising and Clothing;

— Financial Services (Sainsbury's Bank plc and Argos Financial Services entities).

Previously the Group has disclosed a Property Investment segment, relating to its joint ventures with The British Land Company PLC and Land Securities Group PLC. Following the sale of properties from the joint venture with British Land to Reality Income Corporation during the year, management has reassessed this segment, and determined that it no longer meets the definition of an operating segment due to its results not being reviewed by the chief operating decision maker to make decisions about resource allocations. As a result, financial information relating to this component is now included in the Group's Retail segment. Comparative information has been restated.

As discussed in note 4, the Food and General Merchandise and Clothing segments have been aggregated into a Retail segment in the financial statements.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. Underlying profit before tax is an APM as described in note 6. All material operations and assets are in the UK.

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

Accounting policies

Revenue

Revenue consists of sales through retail outlets and online and, in the case of Financial Services, interest receivable, fees and commissions and excludes Value Added Tax. Revenue is recognised when the Group has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation.

a) Retail – sale of goods

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

b) Nectar points

On issuance of Nectar points within the Group, a portion of the transaction price is allocated to the loyalty programme using the fair value of points issued and corresponding deferred revenue recognised in relation to points issued but not yet redeemed. The deferral is treated as a deduction from revenue. The fair value of the points awarded is determined with reference to the fair value to the customer and considers factors such as breakage and the money off that each point entitles a customer to. Deferred revenue is subsequently recognised when Nectar points are redeemed.

c) Other income

Other income generally consists of profits and losses on disposal of assets.

d) Financial Services

Interest income is recognised in the income statement for all instruments measured at amortised cost using the effective interest method. This calculation takes into account all amounts that are integral to the yield as well as incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset or liability at initial recognition.

Fees and commissions that are not integral to the effective interest rate calculation relate primarily to certain credit card and storecard fees, ATM interchange fees, insurance introduction commission and warranty commission receivable. These are recognised in the income statement on an accruals basis as services are provided. Where in the case of insurance commissions the income comprises an initial commission and profit share, both are recognised on completion of the service to the extent reliably measurable. Where there is a risk of potential clawback, an appropriate element of the commission receivable is deferred and amortised over the clawback period. Where the relevant contract requires Financial Services to perform future services in respect of the income receivable, initial commission is recognised on completion of the service provided, with an element deferred to reflect services yet to be performed in future periods.

Margin from the sale of travel money, representing the difference between the cost price and the selling price, is recognised when the sale to the customer takes place within other operating income.

Segment revenue presents a disaggregation of revenue from customers consistent with the Group's primary revenue streams.

7 Segment reporting continued

Income statement and balance sheet

52 weeks to 7 March 2020	Retail £m	Financial Services £m	Group £m
Segment revenue			
Retail sales to external customers	28,424	–	28,424
Financial Services to external customers[1]	–	569	569
Underlying revenue	28,424	569	28,993
Revenue	28,424	569	28,993
Underlying operating profit	938	48	986
Underlying finance income	4	–	4
Underlying finance costs	(404)	–	(404)
Underlying share of post-tax profit from joint ventures and associates	–	–	–
Underlying profit before tax	538	48	586
Non-underlying expense (note 6)			(331)
Profit before tax			255
Income tax expense (note 11)			(103)
Profit for the financial period			152
Assets	18,463	9,465	27,928
Investment in joint ventures and associates	9	–	9
Segment assets	18,472	9,465	27,937
Segment liabilities	(11,738)	(8,426)	(20,164)
Other segment items			
Capital additions[2]	1,021	37	1,058
Depreciation expense[3]	1,119	8	1,127
Amortisation expense[4]	106	23	129
Net impairment and onerous contract charge	300	6	306
Share-based payments	34	3	37

1 Financial Services income includes £405 million recognised using the effective interest rate method.
2 Retail capital additions consists of right-of-use asset additions of £406 million, property, plant and equipment additions of £527 million and intangible asset additions of £88 million. Financial Services capital additions consists of right-of-use asset additions of £nil, property, plant and equipment additions of £1 million and intangible asset additions of £36 million.
3 Depreciation within the Retail segment includes a £2 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.
4 Amortisation expense within the Retail segment includes £26 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

7 Segment reporting continued

Income statement and balance sheet

52 weeks to 9 March 2019	Retail (restated) £m	Financial Services (restated) £m	Group (restated) £m
Segment revenue			
Retail sales to external customers	28,466	–	28,466
Financial Services to external customers[1]	–	541	541
Underlying revenue	28,466	541	29,007
Revenue	28,466	541	29,007
Underlying operating profit	981	31	1,012
Underlying finance income	5	–	5
Underlying finance costs	(424)	–	(424)
Underlying share of post-tax profit from joint ventures and associates	8	–	8
Underlying profit before tax	570	31	601
Non-underlying expense (note 6)			(399)
Profit before tax			202
Income tax expense (note 11)			(16)
Profit for the financial period			186
Assets	18,885	8,921	27,806
Investment in joint ventures and associates	205	–	205
Segment assets	19,090	8,921	28,011
Segment liabilities	(12,284)	(7,945)	(20,229)
Other segment items			
Capital additions[2]	941	44	985
Depreciation expense[3]	1,111	8	1,119
Amortisation expense[4]	127	16	143
Net impairment and onerous contract charge	3	–	3
Share-based payments	36	3	39

1 Financial Services income includes £385 million recognised using the effective interest rate method.
2 Retail capital additions consists of right-of-use asset additions of £388 million, property, plant and equipment additions of £473 million and intangible asset additions of £80 million. Financial Services capital additions consists of right-of-use asset additions of £nil, property, plant and equipment additions of £8 million and intangible asset additions of £36 million.
3 Depreciation within the Retail segment includes a £13 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.
4 Amortisation expense within the Retail segment includes £41 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK. Amortisation expense within the Financial Services segment includes a £1 million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

Geographical segments

The Group trades predominantly in the UK and the Republic of Ireland and consequently the majority of revenues, capital expenditure and segment net assets arise there. The profits, turnover and assets of the businesses in the Republic of Ireland are not material to the Group.

7 Segment reporting continued

Cash flow

	APM reference	52 weeks to 7 March 2020 Retail £m	Financial Services £m	Group £m	52 weeks to 9 March 2019 Retail (restated) %	Financial Services (restated) £m	Group (restated) £m
Profit/(loss) before tax		**235**	**20**	**255**	223	(21)	202
Net finance costs		**363**	**3**	**366**	403	–	403
Share of post-tax loss/(profit) from joint ventures and associates		**29**	**–**	**29**	(4)	–	(4)
Operating profit		**627**	**23**	**650**	622	(21)	601
Adjustments for:							
Depreciation and amortisation expense		**1,225**	**31**	**1,256**	1,238	24	1,262
Net impairment charge on property, plant and equipment, right-of-use asset, investment property and intangible assets		**257**	**6**	**263**	3	–	3
Non-cash adjustments arising from acquisitions		**(2)**	**–**	**(2)**	(2)	–	(2)
Financial Services impairment losses on loans and advances		**–**	**80**	**80**	–	98	98
(Profit)/loss on sale of properties and early termination of leases		**(56)**	**–**	**(56)**	17	–	17
Share-based payments expense		**34**	**3**	**37**	36	3	39
Non-cash defined benefit scheme expenses		**9**	**–**	**9**	108	–	108
Cash contributions to defined benefit scheme		**(52)**	**–**	**(52)**	(63)	–	(63)
Operating cash flows before changes in working capital		**2,042**	**143**	**2,185**	1,959	104	2,063
Changes in working capital							
Increase in working capital		**(71)**	**(248)**	**(319)**	(38)	(510)	(548)
Cash generated from operations		**1,971**	**(105)**	**1,866**	1,921	(406)	1,515
Interest paid	a	**(384)**	**–**	**(384)**	(404)	–	(404)
Corporation tax paid		**(113)**	**3**	**(110)**	(61)	(7)	(68)
Net cash generated/(used) from operating activities		**1,474**	**(102)**	**1,372**	1,456	(413)	1,043
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(517)**	**(2)**	**(519)**	(430)	(8)	(438)
Strategic capital expenditure	b	**–**	**–**	**–**	(36)	–	(36)
Purchase of property, plant and equipment		**(517)**	**(2)**	**(519)**	(466)	(8)	(474)
Initial direct costs on new leases		**(13)**	**–**	**(13)**	(11)	–	(11)
Purchase of intangible assets		**(82)**	**(38)**	**(120)**	(78)	(38)	(116)
Proceeds from disposal of property, plant and equipment		**81**	**–**	**81**	64	–	64
Proceeds from financial assets at fair value through other comprehensive income	d	**–**	**–**	**–**	39	–	39
Investment in joint ventures	f	**–**	**–**	**–**	(5)	–	(5)
Interest received	a	**2**	**–**	**2**	4	–	4
Dividends and distributions received	f	**143**	**–**	**143**	18	–	18
Net cash used in investing activities		**(386)**	**(40)**	**(426)**	(435)	(46)	(481)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	**15**	**–**	**15**	22	–	22
Proceeds from borrowings	d	**250**	**–**	**250**	135	–	135
Repayment of borrowings	d	**(169)**	**–**	**(169)**	(593)	–	(593)
Repayment upon maturity of convertible bonds	d	**(450)**	**–**	**(450)**	–	–	–
Purchase of own shares	e	**(18)**	**–**	**(18)**	(30)	–	(30)
Repayment of capital element of obligations under lease liabilities	c	**(419)**	**(1)**	**(420)**	(429)	(1)	(430)
Repayment of capital element of obligations under hire purchase agreements	d	**(10)**	**–**	**(10)**	(27)	–	(27)
Dividends paid on ordinary shares		**(247)**	**–**	**(247)**	(224)	–	(224)
Dividends paid on perpetual securities	a	**(23)**	**–**	**(23)**	(23)	–	(23)
Net cash used in financing activities		**(1,071)**	**(1)**	**(1,072)**	(1,169)	(1)	(1,170)
Intra group funding							
Bank capital injections		**(35)**	**35**	**–**	(110)	110	–
Net cash (used in)/generated from intra group funding		**(35)**	**35**	**–**	(110)	110	–
Net decrease in cash and cash equivalents		**(18)**	**(108)**	**(126)**	(258)	(350)	(608)

8 Supplier arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and directly affect the Group's reported margin. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset. The four key types are as follows:

— **Discounts and supplier incentives** – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.

— **Fixed amounts** – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.

— **Supplier rebates** – these are typically agreed on an annual basis, aligned with the Group's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes and requires estimates of the amount earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, agreements from suppliers are obtained to agree the value to be recognised at year-end, prior to it being invoiced. By aligning the agreements to the Group's financial year, where possible, the judgements required are minimised.

— **Marketing and advertising income** – relates to income which is directly linked to the cost of producing the Argos catalogue as well as advertising income from suppliers through the Group's subsidiary Nectar 360 Services LLP (previously Insight 2 Communication). Income relating to the Argos catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Group. Advertising income within Nectar 360 involves a level of judgement to ensure amounts are recognised in the correct period.

The income for the above arrangements is recognised as a credit within cost of sales unless the income earned relates to inventory purchases which are held by the Group at the reporting date, in which case the income is included within the cost of those inventories. It is then subsequently recognised when the inventory is sold.

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

	2020 £m	2019 £m
Fixed amounts	**278**	281
Supplier rebates	**68**	69
Marketing and advertising income	**105**	107
Total supplier arrangements	**451**	457

Of the above amounts, the following was outstanding and held on the balance sheet at the period-end:

	2020 £m	2019 £m
Within inventory	**(7)**	(7)
Within current trade receivables		
Supplier arrangements due	**44**	39
Accrued supplier arrangements	**38**	39
Within current trade payables		
Supplier arrangements due	**12**	22
Deferred income due	**(2)**	(1)
Total supplier arrangements	**85**	92

9 Operating profit

Accounting policies

Cost of sales

Cost of sales consists of all costs that are directly attributable to the point of sale including warehouse, transportation costs and all the costs of operating retail outlets. In the case of Financial Services, cost of sales includes interest expense on operating activities, calculated using the effective interest method.

Operating profit is stated after charging/(crediting) the following items:

	2020 £m	2019 (restated) £m
Employee costs (note 34)	**3,227**	3,170
Depreciation expense (note 14 & note 15)[1]	**1,127**	1,119
Amortisation expense (note 16)[2]	**129**	143
(Profit)/loss on disposal of properties (note 6)	**(56)**	17
Foreign exchange (gains)/losses	**20**	(12)
IFRS 9 impairment losses on loans and advances	**80**	98
Impairment and onerous contract charges	**306**	3

1 Depreciation expense includes £2 million (2019: £13 million) in relation to the unwind of acquisition adjustments.
2 Amortisation expense includes £26 million charge (2019: £41 million) in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

	2020 £m	2019 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	**1.0**	1.0
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**2.9**	2.2
Audit related assurance services	**0.1**	0.1
Other non-audit fees	**–**	0.5
Total fees	**4.0**	3.8

10 Finance income and finance costs

Accounting policies

Finance income and costs, excluding those arising from Financial Services, are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method. For Financial Services, finance income and finance costs are recognised in revenue and cost of sales.

Interest paid and interest received for the purpose of the cash flow statement relates to retail only, with Financial Services interest paid and interest received included in the net operating cash flow.

The coupons on the perpetual capital securities and perpetual convertible bonds are accounted for as dividends in accordance with IAS 32 'Financial Instruments: Presentation' and hence are not a finance cost.

	2020			2019 (restated)		
	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Interest on bank deposits and other financial assets	**2**	**–**	**2**	3	–	3
Fair value measurements	**–**	**–**	**–**	–	19	19
IAS 19 pension financing income	**–**	**28**	**28**	–	–	–
Finance income on net investment in leases	**2**	**–**	**2**	2	–	2
Finance income	**4**	**28**	**32**	5	19	24
Borrowing costs:						
Secured borrowings	**(50)**	**–**	**(50)**	(55)	–	(55)
Unsecured borrowings	**(12)**	**–**	**(12)**	(19)	–	(19)
Lease liabilities	**(323)**	**(9)**	**(332)**	(333)	(9)	(342)
Fair value measurements	**–**	**(8)**	**(8)**	–	–	–
	(385)	**(17)**	**(402)**	(407)	(9)	(416)
Other finance costs:						
Interest capitalised – qualifying assets	**4**	**–**	**4**	6	–	6
IAS 19 pension financing charge	**–**	**–**	**–**	–	(8)	(8)
Transaction financing costs	**–**	**–**	**–**	–	(9)	(9)
Perpetual securities coupon	**(23)**	**23**	**–**	(23)	23	–
	(19)	**23**	**4**	(17)	6	(11)
Finance costs	**(404)**	**6**	**(398)**	(424)	(3)	(427)

Fair value remeasurements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship. The prior year includes a £10 million fair value gain on financial assets at fair value through other comprehensive income that was reclassified to the income statement on disposal of the related debt-securities.

11 Taxation

Accounting policies

Current tax

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

Amendments to IAS 12 'Income Taxes' were adopted by the Group in the current financial year. The amendments clarified that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

Previously the tax on dividends paid on the perpetual securities was recognised in equity, however under the amended standard, this is now recognised in the income statement. The tax on the perpetual securities was £5 million in the prior year. The comparative balances have therefore not been restated based on materiality.

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.

11 Taxation continued

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches and joint ventures except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

	2020 £m	2019 (restated) £m
Current tax expense:		
Current year UK tax	**96**	102
Current year overseas tax	**5**	5
Under/(over) provision in prior years	**(13)**	(26)
Total current tax expense	**88**	81
Deferred tax credit:		
Origination and reversal of temporary differences	**(2)**	(35)
Under/(over) provision in prior years	**17**	(30)
Total deferred tax expense/(credit)	**15**	(65)
Total income tax expense in income statement	**103**	16
Analysed as:		
Underlying tax	**149**	147
Non-underlying tax	**(46)**	(131)
Total income tax expense in income statement	**103**	16
Underlying tax rate	**25.4%**	24.5%
Effective tax rate	**40.4%**	7.9%

The effective tax rate of 40.4 per cent (2019: 7.9 per cent (as restated)) is higher than (2019: lower than) the standard rate of corporation tax in the UK of 19%. The differences are explained below:

	2020 £m	2019 (restated) £m
Profit before tax	**255**	202
Income tax at UK corporation tax rate of 19.0% (2019: 19.0%)	**48**	38
Effects of underlying items:		
Disallowed depreciation on UK properties	**24**	28
Under /(over) provision in prior years	**11**	5
Revaluation of deferred tax balances	**1**	3
Other	**2**	(3)
Effects of non-underlying items[1]:		
Profit on disposal of properties	**(10)**	(5)
Investment property fair value movements	**1**	–
Property strategy programme	**28**	–
Financial Services transition and other	**2**	–
Asda transaction costs	**–**	7
Non-underlying finance movements	**1**	1
Under/(over) provision in prior years	**(7)**	(61)
Revaluation of deferred tax balances	**3**	2
Other	**(1)**	1
Total income tax expense in income statement	**103**	16

1 Disclosed where the tax on non-underlying items differs from the statutory rate.

11 Taxation continued

The over provision in prior years reflected in 2019 includes a prior year deferred tax credit of £50 million that arose on the recognition of a UK capital loss which crystallised as part of transactions undertaken by the Group in 2015/16 to eliminate dormant/limited activity companies relating to the US business.

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%, 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. A change to the corporation tax rate, so that it remains at 19 per cent rather than reducing to 17 per cent from 1 April 2020, was announced in the 2020 Budget. However, this rate change was not substantively enacted at the balance sheet date, so its effect is not reflected in these financial statements.

The effect of a two per cent increase in the corporation tax rate on the deferred tax balances at the balance sheet date would increase the deferred tax liability by £32 million, which is primarily recognised in the income statement.

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

	Share based payments[2] £m	Retirement benefit obligations[1] £m	Fair value movements[1] £m	Perpetual security coupons[2] £m	IFRS 9 transition[2] £m	Total £m
52 weeks to 07 March 2020						
Current tax recognised in equity or other comprehensive income	–	–	–	–	–	–
Deferred tax recognised in equity or other comprehensive income	–	**15**	–	–	–	**15**
Income tax charged	–	**15**	–	–	–	**15**
52 weeks to 09 March 2019						
Current tax recognised in equity or other comprehensive income	(1)	–	(2)	(5)	(2)	(10)
Deferred tax recognised in equity or other comprehensive income	1	216	15	–	(15)	217
Income tax charged/(credited)	–	216	13	(5)	(17)	207

1 Recognised in other comprehensive income.
2 Recognised in equity.

The current and deferred tax in relation to the Group's defined benefit pension scheme's remeasurements, cash flow hedge movements and financial assets at fair value through other comprehensive income fair value movements have been charged or credited through other comprehensive income where appropriate.

11 Taxation continued

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

	Accelerated capital allowances £m	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payments £m	Leases (IFRS 16) £m	Other £m	Total £m
At 10 March 2019 (restated)	**(146)**	**93**	**(50)**	**(84)**	**(216)**	**14**	**162**	**(8)**	**(235)**
Prior year adjustment to income statement	**(17)**	**1**	**–**	**–**	**–**	**(4)**	**–**	**3**	**(17)**
Prior year adjustment to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
(Charge)/credit to income statement	**23**	**(1)**	**5**	**1**	**19**	**2**	**(38)**	**(5)**	**6**
(Charge)/credit to equity or other comprehensive income	**–**	**–**	**–**	**–**	**(17)**	**–**	**–**	**–**	**(17)**
Revaluation adjustment to income statement	**(3)**	**–**	**(1)**	**–**	**(2)**	**–**	**–**	**2**	**(4)**
Revaluation adjustment to equity or other comprehensive income	**–**	**–**	**–**	**–**	**2**	**–**	**–**	**–**	**2**
At 07 March 2020	**(143)**	**93**	**(46)**	**(83)**	**(214)**	**12**	**124**	**(8)**	**(265)**
At 11 March 2018 (restated)	(159)	35	(19)	(85)	(4)	10	158	(19)	(83)
Prior year adjustment to income statement	(1)	52	–	–	–	–	–	(21)	30
Prior year adjustment to other comprehensive income	–	–	3	–	–	–	–	–	3
(Charge)/credit to income statement	16	7	(15)	1	4	6	4	17	40
(Charge)/credit to equity or other comprehensive income	–	–	(20)	–	(241)	(1)	–	15	(247)
Revaluation adjustment to income statement	(2)	(1)	(1)	–	–	(1)	–	–	(5)
Revaluation adjustment to equity or other comprehensive income	–	–	2	–	25	–	–	–	27
At 09 March 2019 (restated)	(146)	93	(50)	(84)	(216)	14	162	(8)	(235)

	2020 £m	2019 (restated) £m
Total deferred income tax liabilities	**(494)**	(504)
Total deferred income tax assets	**229**	269
Net deferred income tax liability recognised in non-current liabilities	**(265)**	(235)

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

The Finance Bill 2020 includes legislation restricting the amount of chargeable gains that a company can relieve with its carried-forward capital losses from previous accounting periods. Broadly, a company will only be able to offset up to 50 per cent of chargeable gains using carried-forward capital losses. There is no such restriction under current tax law. The proposed new legislation was not substantively enacted at the balance sheet date, so its effect is not reflected in these financial statements.

The Group's carried forward capital losses are fully recognised on the 2019/20 balance sheet. Management are considering the potential impact of the proposed changes in tax law, but it is anticipated that they could affect the recognition of deferred tax assets on capital losses carried forward in a future reporting period.

12 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Trusts (note 28), which are treated as cancelled.

For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated convertible bonds. The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the number of shares that would be issued if all senior convertible bonds and perpetual subordinated convertible bonds are assumed to be converted.

Underlying earnings per share is provided by excluding the effect of any non-underlying items as defined in note 6. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance. All operations are continuing for the periods presented.

	2020 million	2019 (restated) million
Weighted average number of shares in issue	**2,207.6**	2,197.6
Weighted average number of dilutive share options	**24.1**	42.1
Weighted average number of dilutive senior convertible bonds	**153.7**	148.1
Weighted average number of dilutive subordinated perpetual convertible bonds	**84.6**	80.8
Total number of shares for calculating diluted earnings per share	**2,470.0**	2,468.6

	£m	£m
Profit for the financial year (net of tax)	**152**	186
Less profit attributable to:		
Holders of perpetual capital securities	**(16)**	(12)
Holders of perpetual convertible bonds	**(7)**	(6)
Profit for the financial year attributable to ordinary shareholders	**129**	168

	£m	£m
Profit for the financial year attributable to ordinary shareholders	**129**	168
Add interest on senior convertible bonds (net of tax)	**9**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted earnings for calculating diluted earnings per share	**144**	186

	£m	£m
Profit for the financial year attributable to ordinary shareholders of the parent	**129**	168
Adjusted for non-underlying items (note 6)	**331**	399
Tax on non-underlying items (note 11)	**(46)**	(131)
Add back coupons on perpetual securities[1]	**23**	18
Underlying profit after tax attributable to ordinary shareholders of the parent	**437**	454
Add interest on convertible bonds (net of tax)	**9**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**452**	472

	Pence per share	Pence per share
Basic earnings	**5.8**	7.6
Diluted earnings	**5.8**	7.5
Underlying basic earnings	**19.8**	20.7
Underlying diluted earnings	**18.3**	19.1

1 Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities (note 27) are added back.

13 Dividends

	2020 Pence per share	2019 Pence per share	2020 £m	2019 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**7.9**	7.1	**174**	156
Interim dividend of current financial year	**3.3**	3.1	**73**	68
	11.2	10.2	**247**	224

No final dividend is proposed. Given the wide range of potential profit and cash flow outcomes of COVID-19, the Board believes it is prudent to defer any dividend payment decisions until later in the financial year, when there will be improved visibility on the potential impact of COVID-19 on the business.

14 Property, plant and equipment

Accounting policies

a) Land and buildings

Land and buildings are held at historical cost less accumulated depreciation and any recognised provision for impairment. Capital work in progress is held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs to bringing the asset to its working condition for intended use. This includes capitalised borrowing costs.

b) Fixtures and equipment

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and its intended use.

c) Depreciation

Depreciation is calculated to write down the cost of the assets to their residual values, on a straight-line basis, using the following rates:

— Freehold buildings and leasehold properties – 50 years, or the lease term if shorter

— Fixtures, equipment and vehicles – three to 15 years

— Freehold land is not depreciated

Capital work in progress is not depreciated.

Gains and losses on disposal are determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and are recognised within operating profit.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capitalisation of interest

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

14 Property, plant and equipment continued

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 10 March 2019 (restated)	**9,917**	**5,111**	**15,028**
Additions	**31**	**497**	**528**
Disposals	**(245)**	**(305)**	**(550)**
Transfer from/(to) asset held for sale	**9**	**–**	**9**
At 7 March 2020	**9,712**	**5,303**	**15,015**
Accumulated depreciation and impairment			
At 10 March 2019 (restated)	**2,644**	**3,191**	**5,835**
Depreciation expense for the year	**184**	**450**	**634**
Impairment loss for the year	**123**	**37**	**160**
Disposals	**(269)**	**(264)**	**(533)**
Transfer from/(to) asset held for sale	**8**	**–**	**8**
At 7 March 2020	**2,690**	**3,414**	**6,104**
Net book value at 7 March 2020	**7,022**	**1,889**	**8,911**
Capital work-in-progress included above	**141**	**295**	**436**
Cost			
At 11 March 2018 (restated)	9,939	5,076	15,015
Additions	63	418	481
Disposals	(85)	(384)	(469)
At 9 March 2019 (restated)	9,917	5,110	15,027
Accumulated depreciation and impairment			
At 11 March 2018 (restated)	2,504	3,112	5,616
Depreciation expense for the year	177	456	633
Impairment loss for the year	2	1	3
Disposals	(39)	(379)	(418)
At 9 March 2019 (restated)	2,644	3,190	5,834
Net book value at 9 March 2019 (restated)	7,273	1,920	9,193
Capital work-in-progress included above	135	107	242

Impairment charges include £6 million in relation to decommissioned ATMs within the Financial Services business, and £154 million in relation to the property strategy review. Further details are included in note 17.

Interest capitalised

Interest capitalised included in additions amounted to £4 million (2019: £6 million) for the Group. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £333 million (2019: £336 million) for the Group. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.1 per cent (2019: 4.1 per cent).

Security

Property, plant and equipment pledged as security is as follows:

	2020		2019	
	Number of properties	Net book value £bn	Number of properties	Net book value £bn
Loan due 2031	**48**	**0.9**	48	0.9
Revolving credit facility	**60**	**1.3**	60	1.3
Asset backed pension contribution scheme	**48**	**1.2**	24	0.5
Bank loans due 2021	**10**	**0.2**	10	0.2
Loan due 2024	**5**	**0.1**	–	–
Other	**6**	**0.1**	6	0.1
	177	**3.8**	148	3.0

15 Leases

Accounting policies

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease and are measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, less any lease incentives receivable. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in the future lease payments due to a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to groups of underlying leases that are considered uniformly low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are expensed to the income statement, as well as costs relating to variable lease payments dependent on performance of usage and 'out of contract' payments.

Lessor accounting

Where the Group subleases assets, the sublease classification is assessed with reference to the head lease right-of-use asset. This assessment considers, among other factors, whether the sublease represents the majority of the remaining of life of the head lease. The ratio of rental income to head lease rental payments is used to determine how much of the right-of-use asset should be derecognised. This assessment takes into consideration whether the sublet/head lease are above/below market rate.

Amounts due from lessees under finance leases are recorded as a receivable at an amount equal to the net investment in the lease. This is initially calculated and recognised using the IBR prevalent at the recognition date, at the appropriate duration. Any difference between the derecognised right-of-use asset and the newly recognised amounts due for lessees under finance leases is recognised in the income statement.

The Group recognises finance income over the lease term, reflecting a constant periodic rate of return on the Group's net investment in the lease. Operating lease income is recognised as earned on a straight-line basis over the lease term.

Group as lessee

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

Net book value	Land and buildings £m	Equipment £m	Total £m
At 10 March 2019 (restated)	**4,747**	**246**	**4,993**
Additions[1]	**285**	**121**	**406**
Depreciation charge	**(416)**	**(77)**	**(493)**
Impairment charge	**(80)**	**–**	**(80)**
At 7 March 2020	**4,536**	**290**	**4,826**
At 11 March 2018 (restated)	4,858	233	5,091
Additions[1]	303	85	388
Depreciation charge	(414)	(72)	(486)
At 9 March 2019 (restated)	4,747	246	4,993

1 Additions include cash and non-cash indirect costs and are offset by terminations which occurred during the period.

15 Leases continued

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020 £m	2019 £m
At 10 March 2019 and 11 March 2018	**5,831**	5,905
Additions[1]	**373**	382
Interest expense	**332**	342
Payments	**(762)**	(798)
At 7 March 2020 and 9 March 2019	**5,774**	5,831
Current	**510**	533
Non-current	**5,264**	5,298

1 Additions are net of terminations which occurred during the period.

The following are the amounts recognised in profit or loss:

	2020 £m	2019 £m
Depreciation of right-of-use assets	**(493)**	(486)
Interest on lease liabilities	**(332)**	(342)
Variable lease payments not included in the measurement of lease liabilities	**(1)**	(1)
Finance income from sub-leasing of right-of-use assets	**2**	2
Operating sublet income	**47**	51
Expenses relating to short-term leases	**(28)**	(29)
Expenses relating to leases of low-value assets	**(8)**	(9)
Total amount recognised in profit or loss	**(813)**	(814)
Total cash outflow for leases	**(798)**	(836)

There were no leases with residual value guarantees nor leases not yet commenced to which the Group is committed. The Group assumes contractual terms unless it is reasonably certain that an extension or break option will be applied. There have been no sale or leaseback transactions during the period.

The Group does not hold any leases as investment properties under IAS 40. All right-of-use assets are recognised on a historical cost convention.

Maturity analysis

Lease liabilities:

	2020 £m	2019 £m
Contractual undiscounted cash flows		
Less than one year	**820**	789
One to five years	**2,722**	2,690
More than five years	**8,245**	7,927
Total undiscounted lease liability	**11,787**	11,406
Lease liabilities included in the statement of financial position	**5,774**	5,831
Current	**510**	533
Non-current	**5,264**	5,298

The Group is committed to payments totalling £38 million (2019: £96 million) in relation to leases that have been signed but have not yet commenced.

Group as lessor

The below tables sets out the maturity analysis of lease receivables classified as operating leases:

	2020 £m	2019 £m
Less than one year	**19**	19
One to two years	**16**	19
Two to three years	**14**	16
Three to four years	**11**	14
Four to five years	**9**	11
More than five years	**54**	64
Total undiscounted lease payments receivable	**123**	143

The finance lease receivable (net investment in the lease) included in other receivables is £25 million (2019: £33 million).

16 Intangible assets

Accounting policies

a) Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

b) Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are amortised on a straight-line basis over their useful economic lives of five to fifteen years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38, 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of five to fifteen years within administrative expenses.

c) Acquired intangible assets

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets with finite useful economic lives are carried at cost less accumulated amortisation and any provision for impairment and are amortised on a straight-line basis over their estimated useful economic lives, ranging from five to ten years, within administrative expenses.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Goodwill is tested for impairment annually.

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.

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Total £m
Cost					
At 10 March 2019 (restated)	**400**	**617**	**231**	**32**	**1,280**
Additions	**–**	**124**	**–**	**–**	**124**
Disposals	**–**	**(247)**	**–**	**–**	**(247)**
At 7 March 2020	**400**	**494**	**231**	**32**	**1,157**
Accumulated amortisation and impairment					
At 10 March 2019 (restated)	**4**	**122**	**89**	**22**	**237**
Amortisation expense for the year	**–**	**105**	**20**	**4**	**129**
Impairment loss for the year	**18**	**5**	**–**	**–**	**23**
Disposals	**–**	**(244)**	**–**	**–**	**(244)**
At 7 March 2020	**22**	**(12)**	**109**	**26**	**145**
Net book value at 7 March 2020	**378**	**506**	**122**	**6**	**1,012**
Cost					
At 11 March 2018 (restated)	401	524	231	32	1,188
Additions	–	116	–	–	116
Disposals	(1)	(23)	–	–	(24)
At 9 March 2019 (restated)	400	617	231	32	1,280
Accumulated amortisation and impairment					
At 11 March 2018 (restated)	4	45	66	2	117
Amortisation expense for the year	–	100	23	20	143
Disposals	–	(23)	–	–	(23)
At 9 March 2019 (restated)	4	122	89	22	237
Net book value at 9 March 2019 (restated)	396	495	142	10	1,043

Goodwill impairments of £18 million are detailed in note 17. The £5 million software impairment relates to assets written off in full for which replacements are planned.

Acquired brands and customer relationships arose from the acquisition of Nectar UK and Argos. The Nectar brand is amortised over five years whilst the customer relationships are amortised between one and five years. The Argos brand is being amortised over ten years.

16 Intangible assets continued

Goodwill

Goodwill comprises the following:

	2020 £m	2019 £m
Jacksons Stores Limited	**38**	46
Home Retail Group	**119**	119
Sainsbury's Bank plc	**45**	45
Nectar	**147**	147
Bells Stores Limited	**12**	16
Other	**18**	23
	378	396

The goodwill balances above are allocated to the respective cash-generating units (CGUs) or group of CGUs within the Retail or Financial Services segments. The CGUs to which goodwill has been allocated and the level at which it is monitored in the retailing segment are deemed to be the respective acquired retail chains of stores. Financial Services is a separate CGU, as is Home Retail Group and Nectar. The goodwill arising on the purchases of Home Retail Group and Nectar have been allocated to the Retail segment.

Goodwill impairments of £18 million were recognised in the year as part of the Group's property review – these are detailed in note 17. Subsequently, the value of the remaining 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 same assumptions as detailed in note 17.

Goodwill balances relating to Financial Services, Home Retail Group and Nectar are calculated using Board approved cash flows discounted at a pre-tax rate of nine per cent (2019: nine per cent) over a five-year period and then into perpetuity, with no growth rates applied.

Based on the operating performance of the CGUs, an impairment of goodwill of £18 million was identified in the current financial year (2019: £nil million). The carrying amounts and respective headroom are shown below.

Sensitivity analysis on the impairment tests for each group of cash-generating units to which goodwill has been allocated has been performed. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill. Management are satisfied that there are no reasonable changes to assumptions that would lead to an impairment.

			Sensitivities (revised headroom)			
			Discount rate		Cash flows	
	Carrying amount £m	Headroom £m	Decrease of 1% £m	Increase of 1% £m	Decrease of 1% £m	Increase of 1% £m
Jacksons Stores Limited	38	32	35	29	31	33
Home Retail Group	119	325	485	197	312	338
Sainsbury's Bank plc	45	584	790	419	568	600
Nectar UK	147	460	544	393	453	467
Bells Stores Limited	12	3	4	3	3	4
Other	18	88	88	88	87	89

17 Impairment of non-financial assets

Accounting policies

At each reporting date, the Group 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.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Retail property, plant and equipment, the CGU is deemed to be each trading store, store pipeline development site or in the case of Argos a cluster of stores. Non-store assets, including depots and IT assets, are reviewed separately.

Argos clusters relate to its multi-channel network that enables customers to source the most convenient pick-up point for a product from a number of local stores. If unavailable at their chosen store, a customer can be directed to an alternative nearby store that holds the necessary stock, or it can be delivered to their chosen store from another within the same catchment area. As a result, customers regularly switch between stores for their benefit and convenience. Clusters are created using store location, proximity to other stores and postcode catchment areas.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

17 Impairment of non-financial assets continued

Impairment review for the year-ended 7 March 2020

At the Capital Markets Day on 25 September 2019, a programme of store closures was announced. In doing so, the performance of all stores, including pipeline developments, was reviewed, identifying stores whose economic performance was worse than expected and thus triggering a full impairment review by management on the Group's property portfolio.

A total impairment charge of £(252) million has been recognised during the year, allocated as follows:

— £154 million on property, plant and equipment;

— £80 million on right-of-use assets; and,

— £18 million on goodwill allocated to stores.

£(126) million of the charge is in relation to properties identified for closure – in these instances the carrying amounts of these stores has been written down to £nil. The remaining £(126) million relates to unprofitable and marginally profitable sites for which the cash flows no longer support the carrying amount. Assets with a carrying amount of £578 million were written down to their recoverable amount of £452 million.

The recoverable amounts for trading store CGUs has been determined using value in use calculations which are based on the cash flows expected to be generated by the stores using the latest budget and forecast data, the results of which are reviewed by the Board. Budget and forecast data reflect both past experience and future expectation of market conditions. The key assumptions in the value in use calculation are as follows:

Composition of CGU	— Property, plant and equipment and any goodwill attributable to individual stores. — For leased assets, the CGU also includes right-of-use assets and corresponding lease liabilities as management has concluded that lease liabilities need to be considered when determining the recoverable amount of the CGU.
Cash flow years / assumptions	— Board approved cash flow projections for five years are used and then extrapolated for a further 20 years for supermarkets and ten years for convenience stores with no assumed growth rate, representing the typical time between refits. — Where lease terms are shorter than this, the remaining lease term has been used.
Terminal value	— For owned sites, a terminal value is included in the final cash flow year, representing the net cash flows expected to be received for the disposal of the assets at the end of their useful life. — It is calculated using an assumed market rent for the stores, with an investment yield based on similar properties in the area.
Discount rate	— A post-tax discount rate representing the Group's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 9%. — The post-tax WACC has been calculated using the capital asset pricing model, the inputs of which include a risk-free rate for the UK, a UK equity risk premium, levered debt premium and a risk adjustment using a ten year average beta for the Group.

For store pipeline development sites the carrying value of the asset is compared with its value in use using a methodology consistent with that described above for sites that will be developed. Future cash flows include the estimated costs to completion. For sites where there is no plan to develop a store, the recoverable amount is based on its fair value less costs to dispose.

Sensitivities

Of the above assumptions, the value-in-use calculations are most sensitive to changes in the discount rate, cash flows and inputs underpinning the terminal value. The table below sets out the key sensitivities performed on the trading value-in-use model.

Sensitivity area	Sensitivity	Increase/ (decrease) in impairment £m
Discount rate	Increase of 1%	38
	Decrease of 1%	(21)
Cash flows	Increase of 1%	(2)
	Decrease of 1%	2
Rental yield (input for terminal values)	Increase of 1%	4
	Decrease of 1%	(5)
Market rent (input for terminal values)	Increase of 5%	(1)
	Decrease of 5%	1

18 Investments in joint ventures and associates

Accounting policies

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

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

Associates are entities over which the Group has significant influence but not control.

A full list of the Group's joint ventures is included in note 42. Joint ventures with a different year-end date to the Group are reported to include the results up to 29 February 2020, the nearest month-end to the Group's year-end. Adjustments are made for the effects of significant transactions or events that occurred between 29 February and the Group's balance sheet date.

Following the announced sale of properties from the Group's joint venture with The British Land Company PLC to Realty Income Corporation, BL Sainsbury Superstores Limited is no longer considered a principal joint venture of the Group. Information is included below for comparative purposes.

	Statutory year-end	Share of ordinary allotted capital	Country of registration or incorporation
BL Sainsbury Superstores Limited (British Land property investment)	31 March	50%	England

	British Land £m	Other joint ventures £m	Total £m
At 10 March 2019	**173**	**32**	**205**
Disposals	**–**	**(21)**	**(21)**
Dividends and distributions received	**(134)**	**(6)**	**(140)**
Share of retained profit:			
Underlying profit/(loss) after tax	**2**	**(2)**	**–**
Investment property fair value movements	**(3)**	**–**	**(3)**
Fair value movements	**(5)**	**–**	**(5)**
Share of (loss)/profit on disposal of properties	**(22)**	**1**	**(21)**
Share of retained loss	**(28)**	**(1)**	**(29)**
Share of joint venture loss after tax	**(28)**	**(1)**	**(29)**
Disposals from the Group	**(6)**	**–**	**(6)**
At 7 March 2020	**5**	**4**	**9**
At 11 March 2018	187	45	232
Additions	–	5	5
Disposals	–	(5)	(5)
Dividends and distributions received	(18)	–	(18)
Share of retained profit:			
Underlying profit/(loss) after tax	9	(1)	8
Investment property fair value movements	–	(2)	(2)
Fair value movements	(2)	–	(2)
Share of (loss)/profit on disposal of properties	(3)	3	–
Share of retained profit	4	–	4
Share of joint venture profit after tax	4	–	4
Disposals from the Group	–	(13)	(13)
At 9 March 2019	173	32	205

The disposal in the current year relates to a capital repayment and is included within dividends and distributions in the cash flow statement. £18 million of dividends had not been received at year-end.

18 Investments in joint ventures and associates continued

The total assets, liabilities, income and expenses of the Group's joint venture BL Sainsbury Superstores Limited are detailed below:

	2020 £m	2019 £m
Non-current assets	–	488
Current assets	**48**	32
Current liabilities	**(38)**	(15)
Non-current liabilities	**–**	(172)
Joint venture net assets	**10**	333
Group share of joint venture net assets (at 50%)	**5**	167
Goodwill	**–**	5
Unrealised loss on disposal of properties	**–**	1
Group share of joint venture net assets as disclosed above	**5**	173
Revenue	**11**	32
Other expenses	**(58)**	(11)
Interest expenses	**(7)**	(12)
Joint venture (loss)/profit before tax	**(54)**	9
Analysed as:		
Underlying profit before tax	**4**	20
Investment property fair value movements	**(6)**	–
Finance fair value movements	**(10)**	(4)
Loss on disposal of properties	**(42)**	(7)
	(54)	9
Underlying income tax expense	**–**	(2)
Joint venture profit/(loss) after tax	**(54)**	7
Total comprehensive (expense)/income	**(54)**	7

Included in current assets is £38 million of cash (2019: £1 million). Depreciation in both years was £nil.

The joint venture had no other contingent liabilities nor capital commitments other than those disclosed in notes 37 and 39.

19 Financial assets at fair value through other comprehensive income

Accounting policies

Financial assets that are held for both the purpose of collecting contractual cash flows and to sell are classified as fair value through other comprehensive income (FVOCI). They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Subsequent to initial recognition at fair value plus transaction costs, these assets are recorded at fair value at each period end with the movements recognised in other comprehensive income until derecognition or impaired. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income reserves is recognised in the income statement for debt instruments. Gains and losses on equity instruments are never recycled to the income statement. Dividends on financial assets at fair value through other comprehensive income are recognised in the income statement when the entity's right to receive payment is established.

Interest on financial assets at fair value through other comprehensive income debt instruments is recognised using the effective interest method.

	2020 £m	2019 £m
Non-current		
Equity		
Other financial assets	**251**	233
Debt		
Interest bearing financial assets	**1**	1
Financial Services related investment securities	**720**	411
	972	645
Current		
Debt		
Financial Services related investment securities	**82**	211
	1,054	856

The other financial asset predominantly represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of 0.6 per cent (2019: 0.6 per cent) and a weighted average cost of capital of nine per cent (2019: nine per cent). There were no disposals in the current year (2019: nil) and no impairment provisions in either the current or the previous financial year.

20 Inventories

Accounting policies

Inventories comprise goods held for resale and are valued on a weighted average cost basis and carried at the lower of cost or net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

	2020 £m	2019 £m
Goods held for resale	**1,732**	1,929

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 7 March 2020 was £21,673 million (2019: £21,720 million).

21 Receivables

(a) Trade and other receivables

Accounting policies

Trade and other receivables are non-interest bearing and are on commercial terms. They are initially recognised at fair value and subsequently measured at amortised cost less allowances for expected credit losses, using the simplified approach under IFRS 9, with adjustments for factors specific to each receivable.

	2020 £m	2019 (restated) £m
Non-current		
Other receivables	**36**	49
Prepayments and accrued income	**7**	8
	43	57
Current		
Trade receivables	**140**	144
Other receivables	**499**	322
	639	466
Prepayments and accrued income	**172**	164
	811	630

Trade and other receivables include amounts relating to supplier arrangements where there is no right of offset. Refer to note 8. In addition, current other receivables of £499 million (2019: £322 million), include £199 million (2019: £182 million) of bank funds in the course of settlement. The carrying amounts of trade and other receivables are denominated in sterling.

The Group's exposure to credit risk arising from its retail operations is minimal given that the customer base is large and unrelated and that the overwhelming majority of customer transactions are settled through cash or secure electronic means. New parties wishing to obtain credit terms with the Group are credit checked prior to invoices being raised and credit limits are determined on an individual basis.

(b) Amounts due from Financial Services customers

Accounting policies

Loans and advances are initially recognised at fair value and subsequently held at amortised cost, using the effective interest method, less provision for impairment and recognised on the balance sheet when cash is advanced.

The accounting policies for impairment under IFRS 9 are detailed in note 30.

	2020 £m	2019 £m
Non-current		
Loans and advances to customers	**3,528**	3,426
Impairment of loans and advances	**(75)**	(77)
	3,453	3,349
Current		
Loans and advances to customers	**4,143**	3,808
Impairment of loans and advances	**(192)**	(170)
	3,951	3,638

Loans and advances to customers accrue interest at the effective interest rate. Financial Services has pledged the rights to £1,590 million (2019: £1,476 million) of its personal loans book with the Bank of England as collateral for its funding facilities. As at 7 March 2020 £950 million (2019: £950 million) of borrowings were drawn under the Term Funding Scheme and £75 million (2019: £75 million) of borrowings were drawn under the Indexed Long Term Repo facility.

21 Receivables continued

Financial Services has assigned the beneficial interest in £194 million (2019: £334 million) of its personal loans book to a Special Purpose Entity for use as collateral in securitisation transactions, facilitating £101 million (2019: £275 million) of drawings. Refer to note 29 for details on Financial Services credit risk.

(c) Provision for impairment of loans and advances

	2020				2019				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Incurred loss £m	Total £m
Opening provision	**(34)**	**(64)**	**(149)**	**(247)**	–	–	–	(132)	(132)
IFRS 9 opening balance adjustment	**–**	**–**	**–**	**–**	(35)	(58)	(111)	132	(72)
Transfers between stages	**30**	**6**	**(36)**	**–**	31	4	(35)	–	–
Additional provisions less amounts recovered	**(6)**	**(6)**	**(1)**	**(13)**	(8)	(10)	(2)	–	(20)
Write-offs	**–**	**1**	**59**	**60**	–	1	54	–	55
Changes in credit risk during the year	**(27)**	**11**	**(51)**	**(67)**	(22)	(1)	(55)	–	(78)
Closing provision	**(37)**	**(52)**	**(178)**	**(267)**	(34)	(64)	(149)	–	(247)

(d) Major counterparties

The Group has six major counterparties totalling £167 million (2019: £30 million). No major counterparty balances are considered overdue or impaired.

22 Assets held for sale

Accounting policies

Assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable within one year from the date of classification and the assets are available for sale in their present condition. Assets held for sale are stated at the lower of the carrying amount and fair value less costs to dispose.

	2020 £m	2019 £m
Assets held for sale		
Retail segment properties	**4**	8

Of the Group's assets held for sale at 9 March 2019, £3 million were sold during the current financial year and £3 million are no longer classified as held for sale. There were £2 million additional assets classified as held for sale during the current financial year. For the remaining assets, the sale is still considered probable in the next financial year and so they remain classified as held for sale.

23 Payables

(a) Trade and other payables

Accounting policies

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

Trade payables are initially recognised at fair value, which is typically in the invoiced amount, and then held at amortised cost. They are shown net of supplier arrangements due where there is a contractual right of offset.

	2020 £m	2019 (restated) £m
Current		
Trade payables	**2,960**	3,044
Other payables	**508**	561
Accruals and deferred income/gains	**807**	768
	4,275	4,373
Non-current		
Other payables	**8**	10
Accruals and deferred income/gains	**3**	77
	11	87

Foreign currency risk

The Group has net euro denominated trade payables of £38 million (2019: £50 million) and US dollar denominated trade payables of £138 million (2019: £209 million).

23 Payables continued

Supplier financing arrangements

The Group has four supply chain finance programmes across Sainsbury's and Argos, with the largest in the UK and the remainder in Asia. The programmes act as an alternative source of financing for the suppliers who have the option to trade their invoices with funding providers in order to receive cash earlier than the invoice due dates. The payment terms offered to suppliers who are party to the supply chain finance programmes are within standard supplier payment terms and agreed directly between the Group and the supplier. The financing arrangements are agreed between the supplier, the funding providers and, where applicable, the third party platform provider. The Group is not party to these financing arrangements. As a result the balances outstanding under the supply chain finance programme are classified as accounts payables.

Included in trade payables at 7 March 2020 are amounts of £590 million (9 March 2019: £618 million) drawn by suppliers who are party to the supply chain finance programmes.

(b) Amounts due to Financial Services customers and banks

Accounting policies

With the exception of fixed rate bonds, amounts due to Financial Services customers are generally repayable on demand and accrue interest at retail deposit rates.

	2020 £m	2019 £m
Current		
Customer accounts	**6,059**	5,514
Other deposits	**730**	167
Senior secured loan notes	**101**	116
	6,890	5,797
Non-current		
Customer accounts	**253**	436
Other deposits	**951**	1,209
Senior secured loan notes	**–**	159
	1,204	1,804

Sainsbury's Bank, via its subsidiary undertakings, is party to a bilateral securitisation transaction. This facility entered the amortisation phase in May 2019 where the facility is reducing in line with the maturity profile of the underlying secured assets. At 7 March 2020, £101 million remained drawn (9 March 2019: £275 million). Interest on the notes is repayable at a floating rate linked to three-month LIBOR and their contractual repayment is determined by cash flows on the relevant personal loans included in the collateral pool.

Other deposits of £1,681 million (2019: £1,376 million) relate to deposits from wholesale counterparties.

24 Provisions

Accounting policies and key information

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation and where the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Onerous contract provisions

Provisions for onerous contracts are recognised where expected cash outflows exceed the anticipated future benefits. The amounts provided are based on the Group's best estimate of the likely committed outflow, net of anticipated future benefits. Upon adoption of IFRS 16, these provisions no longer include rent, however do include unavoidable costs related to the lease, such as service charges and business rates.

Insurance provisions

The provision relates to the Group's outstanding insurance claims liabilities in relation to public and employer's liability claims, and third party motor claims. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent actuary and are intended to provide a best estimate of the most likely or expected outcome.

Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

The charge for the year mostly comprises redundancy payments following changes to the Group's store management structure, responding to changing customer shopping habits and reducing costs throughout the store estate, the closure of one Argos distribution centre and costs incurred following announced head-office restructures during the year.

24 Provisions continued

Financial services related provisions

Financial services loan commitment provisions reflect expected credit losses modelled in relation to loan commitments not yet recognised on the balance sheet (on credit cards and Argos store cards).

Other financial services related provisions are primarily in relation to Argos Financial Services customers in respect of potential redress payable arising from the historic sales of Payment Protection Insurance (PPI), and in respect of potential customer redress payable in relation to other customer conduct issues arising from a review of the governance and risk management framework.

With regards to PPI provisions, the eventual cost is dependent on response rates, uphold rates, complaint rates, redress costs and claim handling costs. The provision represents management's best estimate of future costs and is expected to be fully utilised by August 2021. These assumptions are inherently uncertain and the ultimate financial impact may differ from the amount provided.

The remaining customer redress costs incorporate detailed calculations combined with historic experience, therefore elements of these estimates are inherently uncertain and the ultimate financial impact may be different from that provided. The provision reflects management's best estimates and is expected to be utilised within one year.

	Onerous contracts £m	Insurance provisions £m	Restructuring £m	Financial Services loan commitment provisions £m	Other Financial Services related provisions £m	Other provisions £m	Total £m
At 10 March 2019 (restated)	**34**	**71**	**22**	**18**	**39**	**20**	**204**
Additional provisions	**46**	**25**	**22**	**2**	**9**	**14**	**118**
Unused amounts reversed	**(4)**	**(9)**	**–**	**–**	**(13)**	**(10)**	**(36)**
Utilisation of provision	**(15)**	**(24)**	**(24)**	**–**	**(18)**	**(8)**	**(89)**
At 7 March 2020	**61**	**63**	**20**	**20**	**17**	**16**	**197**
At 11 March 2018 (restated)	37	78	94	–	52	19	280
IFRS 9 opening adjustment	–	–	–	17	(3)	–	14
Additional provisions	20	29	67	2	8	18	144
Unused amounts reversed	(6)	(6)	–	(1)	(5)	–	(18)
Utilisation of provision	(17)	(30)	(139)	–	(13)	(17)	(216)
At 9 March 2019 (restated)	34	71	22	18	39	20	204

	2020 £m	2019 (restated) £m
Disclosed as:		
Current	**108**	109
Non-current	**89**	95
	197	204

25 Called up share capital, share premium and merger reserve

Accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	2020 million	2019 million	2020 £m	2019 £m
Called up share capital				
Allotted and fully paid ordinary shares 28 4/7p	**2,217**	2,206	**634**	630
Share premium account				
Share premium			**1,159**	1,147

The movements in the called up share capital, share premium and merger reserve are set out below:

	Number of ordinary shares million	Ordinary shares £m	Share premium account £m	Merger reserve £m
At 10 March 2019	**2,206**	**630**	**1,147**	**568**
Allotted in respect of share option schemes	**11**	**4**	**12**	**–**
At 7 March 2020	**2,217**	**634**	**1,159**	**568**
At 11 March 2018	2,194	627	1,130	568
Allotted in respect of share option schemes	12	3	17	–
At 9 March 2019	2,206	630	1,147	568

26 Capital redemption and other reserves

	Currency translation reserve £m	Financial assets at fair value through other comprehensive income £m	Cash flow hedge £m	Convertible bond £m	Total other reserves £m	Capital redemption reserve £m
At 10 March 2019	**5**	**192**	**(30)**	**5**	**172**	**680**
Financial assets at fair value through other comprehensive income movements	**–**	**21**	**–**	**–**	**21**	**–**
Cash flow hedges effective portion of fair value movements	**–**	**–**	**(1)**	**–**	**(1)**	**–**
Items reclassified from cash flow hedge reserve	**–**	**–**	**(19)**	**–**	**(19)**	**–**
Amortisation of convertible bond – equity component	**–**	**–**	**–**	**(5)**	**(5)**	**–**
Deferred tax	**–**	**(4)**	**4**	**–**	**–**	**–**
At 7 March 2020	**5**	**209**	**(46)**	**–**	**168**	**680**
At 11 March 2018	4	156	(52)	13	121	680
Currency translation differences	1	–	–	–	1	–
Financial assets at fair value through other comprehensive income movements	–	55	–	–	55	–
Items reclassified from financial assets at fair value through other comprehensive income reserve	–	(10)	–	–	(10)	–
Cash flow hedges effective portion of fair value movements	–	–	71	–	71	–
Items reclassified from cash flow hedge reserve	–	–	(45)	–	(45)	–
Amortisation of convertible bond – equity component	–	–	–	(8)	(8)	–
Deferred tax	–	(9)	(4)	–	(13)	–
At 9 March 2019	5	192	(30)	5	172	680

The currency translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.

The financial assets at fair value through other comprehensive income reserve represents the fair value gains and losses on the financial assets at fair value through other comprehensive income held by the Group. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Group.

The convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014. This bond matured in November 2019.

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

27 Perpetual securities

Accounting policies and key information

Perpetual securities (perpetual capital securities and perpetual convertible bonds) are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity and as a liability at the time it becomes obligated to pay the periodic return. Any associated tax impacts are recognised in the income statement as this is where the distributable profits were generated in line with the amendments made to IAS 12 'Income Taxes'.

On 30 July 2015 the Group issued £250 million of perpetual subordinated capital securities and £250 million of perpetual subordinated convertible bonds, collectively known as perpetual securities. Costs directly associated with the issue of £6 million were offset against the value of the proceeds. The securities are perpetual with no fixed redemption date. Holders of the perpetual securities do not benefit from any put option rights however the Group does have the right to call the perpetual subordinated capital securities at their principal amount on 30 July 2020, and the perpetual subordinated convertible bonds on 30 July 2021. The perpetual subordinated convertible bonds may be converted into ordinary shares of the Company at the option of the holders at any time up to 23 July 2021 at a conversion price of 288.2329 pence.

The Group has the right to defer coupons on the perpetual securities on any coupon payment date where the Company has not either paid a dividend on its ordinary shares or bought back ordinary shares (excluding shares bought to satisfy employee share schemes) within the previous 12 month period. The coupon rate on the perpetual subordinated capital securities increases after the fifth anniversary and for the perpetual subordinated convertible bonds after the sixth anniversary.

The next coupon date on the perpetual securities is 30 July 2020. As the Company paid a dividend to ordinary shareholders in the 12 months prior to this date (in January 2020), the periodic distributions of £16 million (2019: £16 million) for the perpetual subordinated capital securities and £7 million (2019: £7 million) for the perpetual subordinated convertible bonds have been recognised in the financial year.

	Perpetual capital securities £m	Perpetual convertible bonds £m
At 10 March 2019	**248**	**248**
Distributions to holders of perpetual securities	**(16)**	**(7)**
Profit for the year attributable to holders of perpetual securities	**16**	**7**
At 7 March 2020	**248**	**248**
At 11 March 2018	248	248
Distributions to holders of perpetual securities	(16)	(7)
Current tax relief on distributions to holders of perpetual securities	4	1
Profit for the year attributable to holders of perpetual securities	12	6
At 9 March 2019	248	248

28 Retained earnings

	Own shares £m	Profit and loss account £m	Total retained earnings £m
At 10 March 2019 (as previously reported)	**(19)**	**4,782**	**4,763**
Cumulative adjustment to opening balance on adoption of IFRS 16	**–**	**(674)**	**(674)**
At 10 March 2019 (restated)	**(19)**	**4,108**	**4,089**
Profit for the year	**–**	**129**	**129**
Remeasurements on defined benefit pension schemes	**–**	**89**	**89**
Deferred tax on retirement benefit obligations	**–**	**(15)**	**(15)**
Dividends paid	**–**	**(247)**	**(247)**
Amortisation of convertible bond – equity component	**–**	**5**	**5**
Share-based payment	**–**	**37**	**37**
Purchase of own shares	**(18)**	**–**	**(18)**
Allotted in respect of share option schemes	**21**	**(22)**	**(1)**
At 7 March 2020	**(16)**	**4,084**	**4,068**
At 11 March 2018 (as previously reported)	(6)	3,795	3,789
Cumulative adjustment to opening balance on adoption of IFRS 16	–	(641)	(641)
At 11 March 2018 (restated)	(6)	3,154	3,148
Day 1 accounting adjustments (net of tax)	–	(74)	(74)
Profit for the year	–	168	168
Remeasurements on defined benefit pension schemes	–	1,269	1,269
Deferred tax on retirement benefit obligations	–	(216)	(216)
Dividends paid	–	(224)	(224)
Amortisation of convertible bond – equity component	–	8	8
Share-based payment	–	37	37
Purchase of own shares	(30)	–	(30)
Allotted in respect of share option schemes	17	(15)	2
Deferred tax on share based payment equity movement	–	1	1
At 9 March 2019	(19)	4,108	4,089

Own shares held by Employee Share Ownership Trusts (ESOT)

The Group owns 7,269,702 (2019: 7,240,112) of its ordinary shares of $28^{4}/_{7}$ pence nominal value each. At 7 March 2020, the total nominal value of the own shares was £2.1 million (2019: £2.1 million).

All shares (2019: all shares) are held by Group trusts for the Executive Share Plans. All Group trusts waive the rights to the dividends receivable in respect of the shares under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 7 March 2020 was £15 million (2019: £16 million).

29 Financial risk management

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

Financial risk management is managed by a central treasury department in accordance with policies and guidelines which are reviewed and approved by the Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying financial exposures and setting appropriate risk limits and controls. The risk management policies also ensure sufficient liquidity is available to the Group to meet foreseeable financial obligations and that cash assets are invested safely.

Financial risk management with respect to Financial Services is separately managed within the Financial Services' governance structure. The risks are more fully described in the Financial Services section below.

The Group uses forward contracts to hedge foreign exchange and commodity exposures, and interest rate swap contracts to hedge interest rate exposures. The use of financial derivatives is governed by Board approved policies which prohibits the use of derivative financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the Group could be unable to meet its financial obligations as they fall due.

The principal operational cash flow of the Group is largely stable and predictable reflecting the low business risk profile of the food retail sector and the cyclical profile of the non-food retail sector. Cash flow forecasts are produced to assist management in identifying future liquidity requirements. The Group's liquidity policy sets a minimum funding headroom of £400 million in excess of forecast funding requirements over a rolling 12 month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding contingent committed credit facilities. The Group has prepared additional cash flow forecasts in connection to COVID-19, to identify associated liquidity requirements.

The Group's committed £1,450 million Revolving Credit Facility was undrawn at 7 March 2020. The facility is provided by a syndicate of 16 banking partners. The Group has no financial covenants. In September 2019 the maturity of part of the £1,450 million RCF was extended by one year. The facility is split into two Facilities, a £300 million Facility (A) and a £1,150 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024. As at 7 March 2020, £nil had been drawn (2019: £35 million).

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows or an estimate of cash flows in respect of floating interest rate liabilities.

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 7 March 2020				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2031[1]	(72)	(74)	(233)	(488)
Unsecured loans:				
Bank loans due 2021[2]	(3)	(201)	–	–
Bank loans due 2024[2]	(3)	(3)	(258)	–
Trade and other payables	(3,835)	–	–	–
Lease liabilities	(820)	(772)	(1,950)	(8,245)
Amounts due to Financial Services customers and banks[5]	(6,883)	(1,116)	(95)	–
Derivative contracts – net settled				
Commodity contracts	–	–	–	–
Interest rate swaps in hedging relationships[1, 4]	(8)	(4)	–	(1)
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	(1,837)	(193)	–	–
Foreign exchange forwards – inflow[3]	1,822	194		
Commodity contracts – outflow	(11)	(8)	(18)	(16)
Commodity contracts – inflow	8	6	18	19

29 Financial risk management continued

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 9 March 2019 (restated)				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2031[1]	(71)	(73)	(236)	(619)
Unsecured loans:				
Bank overdraft	(1)	–	–	–
Short-term borrowings	(135)	–	–	–
Bank loans due 2019[2]	(199)	–	–	–
Convertible bond due 2019	(450)	–	–	–
Trade and other payables	(4,087)	–	–	–
Lease liabilities and hire purchase leases	(789)	(749)	(1,941)	(7,927)
Amounts due to Financial Services customers and banks[5]	(5,836)	(738)	(1,086)	(2)
Derivative contracts – net settled				
Commodity contracts	1	–	–	–
Interest rate swaps in hedging relationships[1, 4]	–	1	7	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	(1,342)	(63)	–	–
Foreign exchange forwards – inflow[3]	1,351	64	–	–
Commodity contracts – outflow	(11)	(11)	(21)	(22)
Commodity contracts – inflow	11	11	20	26

Assumptions:

1 Cash flows relating to debt and swaps linked to inflation rates have been calculated using an RPI of 2.6 per cent for the year ended 7 March 2020, 2.6 per cent for the year ending 7 March 2021 and 2.7 per cent for future years (2019: RPI of 4.0 per cent for the year ended 9 March 2019, 2.6 per cent for the year ending 9 March 2020 and 3.4 per cent for future years).
2 Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates as at 7 March 2020 and 9 March 2019.
3 Cash flows in foreign currencies have been translated using spot rates as at 7 March 2020 and 9 March 2019.
4 The swap rate that matches the remaining term of the interest rate swaps as at 7 March 2020 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2019: 9 March 2019).
5 Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.

Further information relating to liquidity risk in Financial Services is more fully described in the separate section on Financial Services financial risk factors below.

Counterparty credit risk

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of the Group's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers. The Group considers its maximum credit risk to be £10,206 million (2019: £9,485 million), equivalent to the Group's total financial assets and commitments, and of this amount £9,266 million relates to Financial Services (2019: £8,891 million).

The Group (excluding Financial Services) sets counterparty limits for each of its banking and investment counterparties based on their credit ratings. The minimum unsecured long-term credit rating accepted by the Group is BBB- (Standard & Poor's and Fitch) or Baa3 (Moody's) or, in the case of sterling liquidity funds, AAA or Aaa/MR1+ from Moody's. In the event of a split credit rating, the lower rating applies.

The table below analyses the Group's cash and cash equivalents by credit exposure excluding bank balances, store cash, cash in transit and cash at ATMs:

Counterparty	Long-term rating	Group 2020 £m	Group 2019 £m
Financial institutions – Money market deposits	AAAm/Aaa	–	84
Financial institutions – Money market deposits	AA+/Aa1 to A/A2	**202**	120
Deposits at central banks	AA+/Aa1	**273**	308

Management does not expect any losses arising from non-performance of deposit counterparties.

Interest rate swaps, forward contracts and commodity contracts are used by the Group to hedge interest rate, foreign currency and fuel exposures. The table below analyses the fair value of the Group's derivative financial assets by credit exposure, excluding any collateral held:

Counterparty	Long-term rating	Group 2020 £m	Group 2019 £m
Interest rate swaps	AA+/Aa1 to A/A2	**4**	10
FX forward contracts	AA+/Aa1 to A/A2	**14**	18
Commodity forward contracts	AA+/Aa1 to A/A2	–	2

Further information relating to counterparty credit risk in Financial Services is more fully described in the section on Financial Services financial risk factors below.

29 Financial risk management continued

Foreign currency risk

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

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

The Group has exposure to currency risk on balances held in foreign currency denominated bank accounts, which may arise due to short-term timing differences on maturing hedges and underlying supplier payments.

The Group considers that a ten per cent movement in exchange rates against sterling is a reasonable measure of volatility. The impact of a ten per cent movement in the exchange rate of US dollar and euro versus sterling as at the balance sheet date, with all other variables held constant, is summarised in the table below:

	2020 Change in exchange rate impact on post-tax profit +/-10% £m	**2020 Change in exchange rate impact on cash flow hedge reserve +/-10% £m**	2019 Change in exchange rate impact on post-tax profit +/-10% £m	2019 Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	**3/(3)**	**(120)/147**	(1)/1	(101)/123
EUR/GBP	**2/(2)**	**(27)/33**	1/(1)	(23)/28

Interest rate risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates impacting on the Group's borrowing and investment portfolios. The Group's interest rate policy seeks to limit the impact of fluctuating interest and inflation rates by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

Interest on financial instruments is classified as fixed rate if interest re-sets on the borrowings are less frequent than once every 12 months. Interest on financial instruments is classified as floating rate if interest re-sets on the borrowings occur every 12 months or more frequently. Floating rate instruments are considered variable capped rate if the nominal interest rate is subject to a cap.

The mix of the Group's financial assets and liabilities at the balance sheet date was as follows:

	Fixed £m	Floating £m	Variable capped £m	Total £m
At 7 March 2020				
Interest bearing financial assets at fair value through other comprehensive income	**155**	**647**	**–**	**802**
Amounts due from Financial Services customers	**4,505**	**2,899**	**–**	**7,404**
Cash and cash equivalents	**351**	**643**	**–**	**994**
Borrowings	**(180)**	**(449)**	**(667)**	**(1,296)**
Leases	**(2,954)**	**(2,820)**	**–**	**(5,774)**
Amounts due to Financial Services customers and banks	**(1,262)**	**(6,832)**	**–**	**(8,094)**
Derivative effect:				
Interest rate swaps	**(4,407)**	**4,407**	**–**	**–**
Inflation linked swaps	**(490)**	**–**	**490**	**–**
Total	**(4,282)**	**(1,505)**	**(177)**	**(5,964)**
At 9 March 2019 (restated)				
Interest bearing financial assets at fair value through other comprehensive income	174	449	–	623
Amounts due from Financial Services customers	4,461	2,526	–	6,987
Cash and cash equivalents	1,005	116	–	1,121
Borrowings	(621)	(335)	(704)	(1,660)
Leases	(3,143)	(2,688)	–	(5,831)
Amounts due to Financial Services customers and banks	(1,124)	(6,477)	–	(7,601)
Derivative effect:				
Interest rate swaps	(4,106)	4,106	–	–
Inflation linked swaps	540	–	(540)	–
Total	(2,814)	(2,303)	(1,244)	(6,361)

Further information relating to interest rate risk in Financial Services is more fully described in the section on Financial Services financial risk factors below.

29 Financial risk management continued

(i) Cash flow sensitivity for floating rate instruments

The Group considers that a 100 basis point movement in interest rates is a reasonable measure of volatility. The sensitivity of floating rate balances to a change of 100 basis points in the interest rate (or such lesser amount as would result in a zero rate of interest) at the balance sheet date is shown below:

	2020 Impact on post-tax profit £m	**2020 Impact on cash flow hedge reserve £m**	2019 Impact on post-tax profit £m	2019 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(13)/16**	**4/(4)**	(7)/5	1/(1)

(ii) Cash flow sensitivity for variable capped rate liabilities

The Group holds £667 million of capped inflation-linked borrowings (2019: £704 million) of which £490 million (2019: £540 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing in April 2023.

The Group considers that a 100 basis point movement in the RPI rate is a reasonable measure of volatility. The sensitivity of variable capped balances to a change of 100 basis points in the RPI rate at the balance sheet date is shown below:

	2020 Impact on post-tax profit £m	**2020 Impact on cash flow hedge reserve £m**	2019 Impact on post-tax profit £m	2019 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(2)/2**	**13/(13)**	(1)/1	17/(17)

Commodity risk

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

The Group hedges own use consumption of electricity and gas with forward purchases under flexible purchasing arrangements with its suppliers. The Group uses a combination of purchasing agreements and financial derivatives to hedge fuel exposures on a layered basis using contracts for difference.

The Group considers a ten per cent movement in commodity prices a reasonable measure of volatility.

	2020 Impact on cash flow hedge reserve £m	2019 Impact on cash flow hedge reserve £m
Change in the fair value of electricity, diesel and gas price +/-10%	**3/(3)**	3/(3)

Capital risk management

The Group defines capital as total equity plus net debt.

The Board's capital objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide optimal returns for shareholders and safeguard the Group's status as a going concern. There has been no change to capital risk management policies during the year.

The Board monitors a broad range of financial metrics including return on capital employed, balance sheet gearing and fixed charge cover.

The Board can manage the Group's capital structure by diversifying the debt portfolio, adjusting the size and timing of dividends paid to shareholders, recycling capital through sale and leaseback transactions, issuing new shares or repurchasing shares in the open market and flexing capital expenditure.

From time-to-time the Company purchases its own shares in the market for the purpose of issuing shares under the Group's share option programmes; however the Group does not operate a defined share buy-back plan.

Part of the Group's capital risk management is to ensure compliance with the general covenants included in the Group's various borrowing facilities. There have been no breaches of general covenants in the financial year ended 7 March 2020.

29 Financial risk management continued

Information relating to Financial Services capital risk management is detailed below.

Financial Services

Liquidity and funding risk

Liquidity risk is the risk that the Bank cannot meet its payment obligations as they fall due, or can only do so at excessive cost. The Bank seeks to ensure that financial obligations can be met at all times, even under liquidity stress conditions.

The annual Internal Liquidity Adequacy Assessment Process (ILAAP) enables the Bank to:

(1) Identify and assess its most relevant liquidity risk drivers

(2) Quantify its liquidity needs under various stress scenarios and

(3) Put in place appropriate limits and controls to mitigate liquidity risks.

In meeting its internal limits as well as PRA requirements, the Bank maintains a stock of high quality liquid assets that can be readily monetised by outright sale or repurchase agreement to meet the Bank's obligations to depositors and other creditors.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside cash flow and funding ratios. Long-term and short-term forecasts are prepared to assess liquidity requirements, taking into account factors such as ATM cash management, contractual maturities and customer deposit patterns (stable or less stable deposits) as well as outflows regarding undrawn commitments. These reports support daily liquidity management, with early warning indicators reviewed on a daily basis and appropriate triggers for escalation and action in line with risk appetite, Liquidity and Funding Policy and Liquidity Contingency Plan. Asset encumbrance ratios and risk indicators for wholesale funding concentrations by type (total/secured/unsecured), maturity, sector, geography and counterparty are also regularly monitored and reported to ALCO.

Market risk

Market risk is the risk that the value of the Bank's assets, liabilities, capital and earnings are exposed to the adverse change of the market risk drivers. The Bank's market risks include Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange (FX) risk. The Bank does not have a trading book.

a. Interest rate risk

IRRBB arises from interest rates movements which impact the present value and timing of future cash flows resulting in changes in the underlying value of a bank's assets, liabilities and off-balance sheet instruments and hence its economic value. Interest rates movements also affect a bank's earnings by altering interest-sensitive income and expenses, affecting its net interest income.

The main types of interest rate risk faced by the Bank are:

- Re-pricing gap risk: the risk arising from timing differences in the interest rate changes of bank assets and liabilities (e.g. fixed rate personal loans and instant access savings accounts).
- Yield curve risk: the risk arising from changes in the slope and shape of the yield curve.
- Basis risk: risk arising from imperfect correlation between different interest rate indices (e.g. administered rate on savings products and treasury assets linked to LIBOR).
- Prepayment risk: the risk arising from the timing of customer prepayments which differ from planning and hedging assumptions.
- Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for the Bank.
- Credit spread risk: the risk of adverse effects resulting from a change in credit spreads, arising via the Bank's Treasury portfolio.

Interest risk exposure is actively managed within limits that are aligned with the Bank's risk appetite by using financial instruments such as interest rate swaps and by taking into account natural hedges between assets and liabilities with similar repricing characteristics. Hedging strategies are implemented and reviewed to ensure the Bank remains within its limits.

In order to measure the exposure to interest rate risk the Bank adopts a Capital at Risk ('CaR') approach to assess the value sensitivity of the Bank's capital to movements in interest rates under various interest rates shock scenarios, as well as, via an annual earnings at risk metric which measures the sensitivity of the Bank's earnings to movements in interest rates over a 12 month period. The CaR measure is an aggregate measure of five separate risk components, each being a distinct form of interest rate risk including repricing risk, basis risk, prepayment risk, MTM risk and credit spread risk.

For interest rate risk measurement, all products are allocated within a re-pricing gap analysis based on their nearest re-pricing date (all non-maturing deposits are assumed to re-price in month one) and where applicable using a customer behavioural repayment profile.

b. Foreign exchange risk

The Bank is exposed to FX risk through its holding of cash denominated in foreign currencies, primarily Euro and US Dollar, within its travel money bureaux in J Sainsbury's stores. The FX positions are hedged on a daily basis. Furthermore a US dollar deposit is held with MasterCard. This exposure is also hedged.

29 Financial risk management continued

Credit risk

Credit risk is central to the Bank's day to day activities and is managed in line with the Board approved risk appetite. Key developments over the course of the year have been further enhancements of IFRS 9 forecasting and stress testing models and increased capture of income data for AFS applicants.

a. Retail credit risk

Retail credit risk is the possibility of losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. Retail Credit utilise automated scorecards to assess the credit worthiness and affordability criteria of new applicants and ongoing behavioural characteristics of existing customers. The outcomes from all scorecard models are monitored utilising a set of credit quality metrics to ensure actual performance is in line with agreed expectations. Additional expert underwriting of credit applications is undertaken by a specialist operational team where further consideration is appropriate.

The Retail Credit Risk Committee provides portfolio oversight control over credit strategy to maintain lending in line with the Board approved risk appetite, with additional oversight and control provided by the Executive Risk Committee and Board Risk Committee. Internal Audit provide additional assurance by undertaking regular reviews on the adequacy of credit risk policies and procedures.

b. Wholesale and derivative credit risk

The Bank's treasury portfolio is held primarily for liquidity management purposes and in the case of derivatives, for the purpose of managing market risk. The liquidity portfolio is invested in eligible investment securities that qualify for the regulatory Liquidity Coverage Ratio (LCR) and internal Operational Liquidity Pool (OLP). These investments include the Bank of England's (BoE) reserve account, UK government securities (gilts or Treasury bills), multilateral development bank securities, government guaranteed agency securities, UK regulated covered bond programmes and asset backed securities.

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings. Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark to market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures. Daily monitoring is undertaken by the Bank's Treasury department, including early warning indicators with appropriate triggers for escalation.

At 7 March 2020, the maximum credit exposure of the Bank in the event of other parties failing to perform their obligations is equal to the sum of loans and advances to customers, loans and advances to banks, investment securities and credit lines and other commitments to lend. No account is taken of any collateral held and the maximum exposure to loss is considered to be the instrument's balance sheet carrying amount.

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	2020 £m	2019 £m
Credit risk exposures relating to on balance sheet items		
Loans and advances to customers		
Unsecured	**5,542**	5,546
Secured	**1,862**	1,441
Cash and balances with central banks	**547**	655
Derivative financial instruments	**4**	10
Investment securities	**802**	622
Other assets	**428**	290
Credit risk exposures relating to off balance sheet items		
Loan commitments and other related liabilities	**80**	323
Total credit risk exposures	**9,265**	8,887

29 Financial risk management continued

The commitments to lend disclosed in the above table do not include undrawn limits on credit cards and store cards. These are not considered contractual commitments but, because in practice Financial Services does not expect to withdraw these credit limits from customers, they are within the scope of impairment provisioning in the following tables.

An analysis by loan-to-value (LTV) ratio of the Bank's residential mortgage lending is presented below. The value of collateral used in determining the LTV ratios has been estimated based upon the last actual valuation, adjusted to take into account subsequent movements in house prices.

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
At 7 March 2020				
Less than 70%	**1,076**	**1**	**6**	**1,083**
70% to 80%	**389**	**–**	**1**	**390**
80% to 90%	**320**	**–**	**1**	**321**
90% to 100%	**68**	**–**	**–**	**68**
Greater than 100%	**–**	**–**	**–**	**–**
Total mortgages	**1,853**	**1**	**8**	**1,862**

	Neither past due nor impaired £m	Past due but not impaired £m	Impaired £m	Gross £m
At 9 March 2019				
Less than 70%	779	–	4	783
70% to 80%	314	–	–	314
80% to 90%	229	–	–	229
90% to 100%	109	–	–	109
Greater than 100%	6	–	–	6
Total mortgages	1,437	–	4	1,441

The following table shows the maximum exposure to credit risk for commitments and balances measured at amortised cost along with the related amounts which are credit impaired at the reporting date.

	Maximum exposure to credit risk £m	Of which secured by collateral (Residential property) £m
Loan commitments	**8,621**	**14**
Of which credit impaired at 7 March 2020	**28**	**–**
Financial assets measured at amortised cost – Retail lending	**7,644**	**1,862**
Of which credit impaired at 7 March 2020	**243**	**8**
Total credit risk exposures	**16,265**	**1,876**
Of which credit impaired at 7 March 2020	**271**	**8**

	Maximum exposure to credit risk £m	Of which secured by collateral (Residential property) £m
Loan commitments	8,392	210
Of which credit impaired at 9 March 2019	35	–
Financial assets measured at amortised cost – Retail lending	7,235	1,441
Of which credit impaired at 9 March 2019	201	4
Total credit risk exposures	15,627	1,651
Of which credit impaired at 9 March 2019	236	4

29 Financial risk management continued

Credit quality per class of financial asset

Loans and advances to customers are summarised as follows:

	2020 £m	2019 £m
Impaired	**243**	201
Past due but not impaired	**67**	63
Neither past due nor impaired	**7,334**	6,971
Gross	**7,644**	7,235
Less: allowance for impairment	**(267)**	(247)
Less: hedging fair value adjustment	**27**	(1)
Net book value	**7,404**	6,987

Credit quality analysis:

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
7 March 2020				
Past due and impaired				
Less than three months, but impaired	**–**	**–**	**38**	**38**
Past due three to six months	**–**	**–**	**39**	**39**
Past due six to 12 months	**–**	**–**	**35**	**35**
Past due over 12 months	**–**	**–**	**2**	**2**
Recoveries	**–**	**–**	**129**	**129**
Total gross impaired loans	**–**	**–**	**243**	**243**
Past due less than three months but not impaired	**9**	**58**	**–**	**67**
Neither past due nor impaired	**6,824**	**510**	**–**	**7,334**
Total gross amount due	**6,833**	**568**	**243**	**7,644**

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
9 March 2019				
Past due and impaired				
Less than three months, but impaired	–	–	32	32
Past due three to six months	–	–	28	28
Past due six to 12 months	–	–	5	5
Past due over 12 months	–	–	1	1
Recoveries	–	–	135	135
Total gross impaired loans	–	–	201	201
Past due less than three months but not impaired	6	57	–	63
Neither past due nor impaired	6,207	764	–	6,971
Total gross amount due	6,213	821	201	7,235

Mortgages held over residential properties represent the only collateral held by the Bank for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired was £19 million (2019: £12 million). The fair value of collateral held against possession cases was £nil (2019: £nil).

29 Financial risk management continued

The Group defines the following classifications for all credit exposures: High, Satisfactory, Low and Credit impaired. These are segmented by 12 month probability of default (PD) under IFRS 9. Unsecured lending represents Sainsbury's Bank credit cards and personal loan lending in addition to Argos storecards at 7 March 2020. Secured lending represents Sainsbury's Bank mortgage lending.

	IFRS 9 12 month PD
High quality:	<=3.02%
Satisfactory quality	>3.02%; < 11.11%
Low quality	>= 11.11%
Credit impaired	100%

Unsecured lending

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
7 March 2020				
High quality	**4,515**	**112**	**–**	**4,627**
Satisfactory quality	**502**	**246**	**–**	**748**
Low quality	**39**	**134**	**–**	**173**
Credit impaired	**–**	**–**	**235**	**235**
Total	**5,056**	**492**	**235**	**5,783**

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
9 March 2019				
High quality	4,630	117	–	4,747
Satisfactory quality	436	289	–	725
Low quality	9	116	–	125
Credit impaired	–	–	196	196
Total	5,075	522	196	5,793

Secured lending

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
7 March 2020				
High quality	**1,778**	**73**	**–**	**1,851**
Satisfactory quality	**–**	**1**	**–**	**1**
Low quality	**–**	**2**	**–**	**2**
Credit impaired	**–**	**–**	**8**	**8**
Total	**1,778**	**76**	**8**	**1,862**

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
9 March 2019				
High quality	1,276	158	–	1,434
Satisfactory quality	–	1	–	1
Low quality	–	1	–	1
Credit impaired	–	–	5	5
Total	1,276	160	5	1,441

29 Financial risk management continued

Financial Services capital resources (unaudited)

The following table analyses the regulatory capital resources under CRD IV. From a prudential perspective, the Bank is monitored and supervised on a consolidated basis with its subsidiary, Home Retail Group Card Services Limited, from the point of acquisition of Argos Financial Services in September 2016. The Bank has obtained an individual consolidation waiver from the PRA, which allows the Bank to monitor its capital position on a consolidated basis only. Therefore, the capital position shown below is on a regulatory consolidated basis.

The Bank implemented IFRS 9, effective 1 March 2018. The following table analyses the regulatory capital resources under CRD IV and aligns to the phase-in approach of IFRS 9 impacts on capital, over a five-year period.

	Transitional 2020 IFRS 9 £m	**Full impact 2020 IFRS 9 £m**	Transitional 2019 IFRS 9 £m	Full impact 2019 IFRS 9 £m
Common Equity Tier 1 (CET 1) capital:				
Ordinary share capital	**901**	**901**	866	866
Allowable reserves	**93**	**93**	66	66
Regulatory adjustments	**(172)**	**(239)**	(147)	(226)
Tier 1 capital	**822**	**755**	785	706
Tier 2 capital (loan notes – listed)	**167**	**167**	172	172
Total capital	**989**	**922**	957	878

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV) as enacted in the UK. Common Equity Tier 1 (CET 1) capital includes ordinary share capital, other reserves, losses and regulatory deductions.

The movement of CET 1 capital during the financial year is analysed as follows:

	Transitional 2020 IFRS 9 £m	**Full impact 2020 IFRS 9 £m**	Transitional 2019 IFRS 9 £m	Full impact 2019 IFRS 9 £m
At 1 March 2019 and 1 March 2018	**785**	**705**	725	725
Share capital issued	**35**	**35**	110	110
IFRS 9 adjustment to retained earnings	**–**	**–**	(84)	(84)
Verified profits/(losses) attributable to shareholders	**20**	**20**	(24)	(24)
Transitional adjustments	**(13)**	**–**	79	–
Other reserve movements	**7**	**7**	–	–
Movement in additional value adjustments	**–**	**–**	(1)	(1)
Increase in intangible assets	**(12)**	**(12)**	(20)	(20)
At 29 February 2020 and 28 February 2019	**822**	**755**	785	706

Leverage ratio (unaudited)

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets, which is measured below on a regulatory consolidated basis. The denominator represents the total non-risk weighted assets of the regulatory group (Bank and Home Retail Group Card Services Limited) adjusted for certain off balance sheet exposures assets and regulatory deductions and provides a non-risk-weighted 'backstop' capital measure. The leverage ratio is calculated below as at 28 February 2020. The Bank's leverage ratio of 8.1 per cent exceeds the minimum Basel leverage ratio of 3 per cent.

	Transitional 2020 IFRS 9 £m	**Full impact 2020 IFRS 9 £m**	Transitional 2019 IFRS 9 £m	Full impact 2019 IFRS 9 £m
Components of the leverage ratio				
Total assets as per published financial statements (Sainsbury's Bank plc)	**9,402**	**9,402**	8,832	8,832
Uplift on consolidation of subsidiary undertakings	**58**	**58**	49	49
Exposure value for derivatives and securities financing transactions	**15**	**15**	18	18
Off balance sheet exposures: unconditionally cancellable (10%)	**906**	**906**	810	810
Off balance sheet: other (100%)	**16**	**16**	65	65
Other adjustments	**(238)**	**(238)**	(226)	(226)
	10,159	**10,159**	9,548	9,548
Tier 1 capital	**822**	**755**	785	706
Leverage ratio	**8.1%**	**7.4%**	8.2%	7.4%

Capital management

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. During the year to 29 February 2020, the Bank received further injections of £35 million of ordinary share capital from J Sainsbury plc. Capital adequacy is monitored on an ongoing basis by senior management, the ALCO, the Executive Risk Committee and the Board Risk Committee. Our submissions to the PRA in the year have shown that the Bank has complied with all externally imposed capital requirements. The Bank's tier 1 capital ratio of 14.1 per cent exceeds internal and regulatory thresholds.

The Bank will disclose Pillar 3 information as required by the Capital Requirements Regulations and PRA prudential sourcebook on the J Sainsbury plc external website.

30 Financial instruments

Accounting policies

a) Financial assets

The Group classifies all of its financial assets as either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

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

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

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

Financial instruments at amortised cost

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

Financial assets at fair value through other comprehensive income

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

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 'Financial instruments: Presentation' and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Fair value gains and losses on these equity instruments are never recycled to the income statement. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

Financial assets at fair value through profit and loss

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

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

b) Impairment of financial assets

Loan loss impairments are accounted for using a three stage forward-looking expected credit loss (ECL) approach in line with IFRS 9. The Group is required to record an allowance for ECL for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

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

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

c) Financial Services loans and advances including impairment

For Financial Services portfolios of loans, such as credit card lending, scorecard lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level. The allowance is calculated by reference to the estimated probability of default (PD), exposure at default (EAD) and loss given default (LGD).

- The probability of default represents the likelihood of a borrower defaulting within 12 months from the balance sheet date or within the expected lifetime of the borrower.
- Exposure at default represents the expected amount due from the borrower at the point of default by reference to exposure at the balance sheet date adjusted for expected future changes including repayments and utilisation of undrawn facilities.
- Loss given default represents the expected percentage loss at the point of default relative to the EAD. The estimate takes into account utilisation of any expected collections and recoveries strategies, debt sale arrangements and collateral.

30 Financial instruments continued

ECL three stage model

- Stage 1 – Impairment allowance on financial assets that have not significantly increased in credit risk since origination, nor are credit impaired, is calculated using the probability that a borrower will default within 12 months from the balance sheet date. Interest income is recognised on the gross carrying value of the financial asset.
- Stage 2 – Where a financial asset exhibits a significant increase in credit risk (SICR) but is not yet considered to be credit impaired, the probability of default considered in the impairment allowance is based upon the lifetime probability of the borrower defaulting. Interest income continues to be recognised on the gross carrying value of the financial asset.
- Stage 3 – Assets considered to be credit impaired resulting from one or more events have occurred that has resulted in a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets will continue to recognise lifetime expected impairment losses (with a 100% probability of default) and interest income will be recognised on the net carrying amount (i.e. gross amount less impairment allowance).

In determining ECL allowances, expected future recoveries are discounted to the reporting date at the original effective interest rate of the relevant instrument.

Significant increases in credit risk

The Group determines whether there has been a significant increase in credit risk by reference to quantitative thresholds, qualitative indicators and has also chosen to adopt the rebuttable backstop presumption that credit risk has significantly increased if contractual payments are more than 30 days past due.

Quantitative thresholds have been determined that when the lifetime PD of an instrument as at the reporting date has increased to greater than a specified multiple of the origination lifetime PD, a significant increase in credit risk is deemed to have occurred.

Qualitative tests are based around the Group's credit origination policy rules for Financial Services customers. These rules are in place at account origination in order to decline accounts that may demonstrate risk factors outside of risk appetite that are not yet reflected in PD measures. At the reporting date, if an account satisfies any policy decline rules that it had not at the point of origination, it will be considered to have significantly increased in credit risk.

There is no probationary period applied in respect of accounts that cure from stage 2 to stage 1. Transfer criteria have been subject to extensive analysis to ensure that they appropriately reflect the flow of accounts from origination to default so as to maximise the number of accounts that flow through the stages and minimise accounts that jump from stage 1 to stage 3, or that fail to enter stage 3 from stage 2.

The Group has applied the low credit risk exemption in respect of its high quality treasury portfolio held for liquidity purposes. This exemption permits low credit risk loans (i.e. those considered investment grade) to remain in Stage 1 without an assessment of significant increase in credit risk.

Definition of default

The Group's definition of default is used in determining those accounts classified as stage 3 (i.e. credit impaired). The Group has chosen not to rebut the backstop presumption prescribed by IFRS 9 that where an account is 90 days or more past its due date then default has occurred.

The Group has also defined a number of unlikeliness-to-pay criteria that result in an account being deemed to have defaulted. These include:

- Where operational collections activities have been exhausted on accounts that are less than 90 days past due and the account is subject to recoveries processes
- If any forbearance has been granted on the account
- Where the customer is subject to insolvency proceedings
- Where the customer is deceased

Where an account no longer meets any of the default criteria, such as by bringing payments back up to date, the Group will continue to consider the account as being in default for a period of 24 months from the date when it last met the definition of default.

Write-off

Loans and advances to customers are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off.

However, financial assets that are written off could be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Subsequent recoveries of amounts previously written off result in impairment gains recorded in the statement of comprehensive income.

Expected lifetime

For the purposes of considering the lifetime probability of default, the expected lifetime of a financial asset is the contractual term where this is fixed within the contract, or in the case of revolving products such as credit cards a behavioural life is determined by reference to historic trends.

Modified financial assets

When the contractual cash flows of a financial asset have been renegotiated or modified and the financial asset was not derecognised, its gross carrying amount is recalculated as the present value of the modified contractual cash flows, discounted at the original effective interest rate with a gain or loss recognised in the income statement.

Macro-economic scenarios

IFRS 9 requires that the measurement of ECL should reflect an unbiased and probability weighted amount that is determined by evaluating a range of forward-looking economic assumptions. The Group has engaged an external supplier to provide economic forecasts which are subject to review, challenge and approval. The ECL models utilise three scenarios including a 'base case' scenario considered to be the most likely outcome together with an upside and downside scenario. The base case has been assigned a probability weighting of 40 per cent with the upside and downside scenarios each assigned 30 per cent. A revised downside scenario was introduced to replace the downside scenario at 7 March 2020 with more extreme economic assumptions – also with 30 per cent probability.

30 Financial instruments continued

d) Financial liabilities

The Group recognises all of its financial liabilities at amortised cost and all derivative financial liabilities are classified as FVTPL.

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

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

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

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

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

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 7 March 2020 and 9 March 2019.

Group	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Total £m
At 7 March 2020				
Cash and cash equivalents	**841**	**–**	**153**	**994**
Trade and other receivables	**506**	**–**	**169**	**675**
Amounts due from Financial Services customers	**7,404**	**–**	**–**	**7,404**
Financial assets at FVOCI	**–**	**1,054**	**–**	**1,054**
Trade and other payables	**(3,835)**	**–**	**–**	**(3,835)**
Current borrowings	**(48)**	**–**	**–**	**(48)**
Non-current borrowings	**(1,248)**	**–**	**–**	**(1,248)**
Amounts due to Financial Services customers and banks	**(8,094)**	**–**	**–**	**(8,094)**
Derivative financial instruments	**–**	**–**	**(71)**	**(71)**
Lease liabilities	**(5,774)**	**–**	**–**	**(5,774)**
	(10,248)	**1,054**	**251**	**(8,943)**

Group	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Total £m
At 9 March 2019 (restated)				
Cash and cash equivalents	929	–	192	1,121
Trade and other receivables	371	–	144	515
Amounts due from Financial Services customers	6,987	–	–	6,987
Financial assets at FVOCI	–	856	–	856
Trade and other payables	(4,087)	–	–	(4,087)
Current borrowings	(816)	–	–	(816)
Non-current borrowings	(844)	–	–	(844)
Amounts due to Financial Services customers and banks	(7,601)	–	–	(7,601)
Derivative financial instruments	–	–	(4)	(4)
Lease liabilities	(5,831)	–	–	(5,831)
	(10,892)	856	332	(9,704)

30 Financial instruments continued

e) Fair value estimation

Set out below is a comparison of the carrying amount and the fair value of financial instruments that are carried in the financial statements at a value other than fair value. The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, other receivables, overdrafts and payables are assumed to approximate to their book values.

Group	Group Carrying amount £m	Group Fair value £m
At 7 March 2020		
Financial assets		
Amounts due from Financial Services customers[1]	**7,405**	**7,455**
Financial liabilities		
Loans due 2031	**(667)**	**(888)**
Bank loans due 2021	**(199)**	**(199)**
Bank loans due 2024	**(250)**	**(250)**
Tier 2 capital due 2023	**(180)**	**(177)**
Lease liabilities and hire purchase leases	**(5,774)**	**(5,774)**
Amounts due to Financial Services customers and other banks	**(8,093)**	**(8,100)**
	(15,163)	**(15,388)**

Group	Group Carrying amount £m	Group Fair value £m
At 9 March 2019		
Financial assets		
Amounts due from Financial Services customers[1]	6,987	7,006
Financial liabilities		
Loans due 2031	(704)	(894)
Short-term borrowings	(135)	(135)
Bank overdrafts	(1)	(1)
Bank loans due 2019	(199)	(199)
Convertible bond due 2019	(445)	(452)
Tier 2 capital due 2023	(176)	(177)
Lease liabilities and hire purchase leases (restated)	(5,831)	(5,831)
Amounts due to Financial Services customers and other banks	(7,601)	(7,577)
	(15,092)	(15,266)

1 Included within a portfolio fair value hedging relationship with £4,512 million (2019: £4,734 million) of interest rate swaps.

The fair value of financial assets as disclosed in the table above as at 7 March 2020 was £7,455 million (2019: £7,006 million). The fair value of the financial assets has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy (see below for fair value hierarchy description). The fair value of financial liabilities was £15,388 million (2019: £15,266 million) of which £15,389 million (2019 : £14,814 million) has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy. The fair value of the Level 1 financial liabilities was £nil (2019: £452 million) and has been determined using market values.

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are recognised at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

— Level 1 fair value measurements are derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities at the balance sheet date. This level includes listed equity securities and debt instrument on public exchanges;

— Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates; and

— Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 Financial instruments continued

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 7 March 2020				
Cash and cash equivalents	**153**	**–**	**–**	**153**
Trade and other receivables	**169**	**–**	**–**	**169**
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	**–**	**1**	**–**	**1**
Other financial assets	**–**	**14**	**237**	**251**
Investment securities	**802**	**–**	**–**	**802**
Derivative financial assets	**–**	**18**	**–**	**18**
Derivative financial liabilities	**–**	**(86)**	**(3)**	**(89)**
At 9 March 2019				
Cash and cash equivalents	192	–	–	192
Trade and other receivables	144	–	–	144
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	–	1	–	1
Other financial assets	–	13	220	233
Investment securities	622	–	–	622
Derivative financial assets	–	29	1	30
Derivative financial liabilities	–	(34)	–	(34)

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

52 weeks to 7 March 2020	Financial instruments at FVTOCI £m	Commodity derivatives £m	Total £m
At 9 March 2019	**220**	**1**	**221**
In finance cost in the Group income statement	**–**	**(4)**	**(4)**
In other comprehensive income	**17**	**–**	**17**
At 7 March 2020	**237**	**(3)**	**234**

52 weeks to 9 March 2019	Financial instruments at FVTOCI £m	Commodity derivatives £m	Total £m
At 10 March 2018	164	(9)	155
In finance cost in the Group income statement	–	10	10
In other comprehensive income	56	–	56
At 9 March 2019	220	1	221

The financial instruments at fair value through OCI relate to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 0.6 per cent per annum (2019: 0.6 per cent) and a discount rate of nine per cent (2019: nine per cent), (see note 19). The sensitivity of this balance to changes of one per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

	2020 Change in growth rate +/-1.0% £m	2020 Change in discount rate +/-1.0% £m	2019 Change in growth rate +/-1.0% £m	2019 Change in discount rate +/-1.0% £m
Financial instruments at fair value through OCI	**11/(10)**	**(7)/7**	13/(12)	(9)/9

30 Financial instruments continued

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial liabilities is £(4) million (2019: £1 million) relating to these agreements. The Group values its Power Purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

	2020 Change in volume +/-20.0% £m	**2020 Change in electricity forward price +/-20.0% £m**	2019 Change in volume +/-20.0% £m	2019 Change in electricity forward price +/-20.0% £m
Derivative financial instruments	**(1)/1**	**6/(8)**	(0)/0	9/(10)

f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

The following table sets out the Group's financial assets and financial liabilities that are subject to counterparty offsetting or a master netting agreement. The master netting agreements regulate settlement amounts in the event either party defaults on their obligations.

				Amounts not offset in balance sheet		
	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	Net amounts recognised in the balance sheet £m	Balances subject to a contractual right of offset £m	Cash collateral pledged £m	Net amounts £m
At 7 March 2020						
Assets						
Derivative financial assets	**18**	**–**	**18**	**2**	**–**	**20**
Trade and other receivables	**737**	**(62)**	**675**	**–**	**–**	**675**
Cash and cash equivalents	**994**	**–**	**994**	**–**	**–**	**994**
Total assets	**1,749**	**(62)**	**1,687**	**2**	**–**	**1,689**
Liabilities						
Derivative financial liabilities	**(89)**	**–**	**(89)**	**(2)**	**(28)**	**(119)**
Trade and other payables	**(3,897)**	**62**	**(3,835)**	**–**	**–**	**(3,835)**
Total liabilities	**(3,986)**	**62**	**(3,924)**	**(2)**	**(28)**	**(3,954)**
At 9 March 2019 (restated)						
Assets						
Derivative financial assets	30	–	30	21	–	51
Trade and other receivables	548	(33)	515	–	–	515
Cash and cash equivalents	1,121	–	1,121	–	–	1,121
Total assets	1,699	(33)	1,666	21	–	1,687
Liabilities						
Derivative financial liabilities	(34)	–	(34)	(21)	2	(53)
Bank overdrafts	(1)	–	(1)	–	–	(1)
Trade and other payables	(4,120)	33	(4,087)	–	–	(4,087)
Total liabilities	(4,155)	33	(4,122)	(21)	2	(4,141)

The Group holds certain financial derivatives which are subject to credit support agreements. Under these agreements cash collateral is posted by one party to the other party should the fair value of the financial derivative exceed a pre-agreed level. As at 7 March 2020, the Group held no collateral against these financial derivative assets (2019: nil).

Financial Services has derivatives that are governed by the International Swaps and Derivatives Association and their associated credit support annex bilateral agreements whereby if the fair value exceeds a pre-agreed level, cash collateral is exchanged. As at 7 March 2020, Financial Services and its subsidiary undertakings had received collateral of £28 million (2019: provided collateral of £2 million) against the derivatives.

The Group also operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. As at 7 March 2020 the Group had a £nil overdraft (2019: £1m).

30 Financial instruments continued

g) Derivative financial instruments and hedge accounting

Accounting policies

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates. Where derivatives do not qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised in the income statement as finance income or costs as they arise.

To qualify for hedge accounting, the Group documents, at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction, the nature of the risks being hedged and an assessment of the effectiveness of the hedging relationship to ensure it is highly effective on an ongoing basis.

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

i) Cash flow hedges

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the Group's exposure to variability in cash flows resulting from a highly probable forecasted transaction. These include the exchange rate risk of inventory purchases denominated in foreign currency, interest rate risk and commodity risk on purchases of power and fuel. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

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.

ii) Fair value hedges

The Group designates certain derivatives as fair value hedges where the derivative financial instrument hedges the change in fair value of the particular risks inherent in recognised assets or liabilities (fair value hedges).

The Group has adopted IFRS 9 hedge accounting requirements for its fair value hedges of investment securities and its one-for-one hedge on Tier 2 Debt issuance within Sainsbury's Bank. The Group continues to adopt IAS 39 for its macro portfolio fair value hedges of fixed rate personal loans and residential mortgages, as it is permitted to do so under IFRS 9 and until the point that the new macro hedge accounting standard is finalised and adopted.

Fair value hedging matches the change in fair value of designated hedged items against the corresponding change in value of the hedging derivative. The designated hedged item can be a recognised asset or liability, a firm commitment or an identified portion of an asset.

The effective part of any gain or loss on the hedged item adjusts the balance of the hedged item and is recognised in the income statement, offsetting the gain or loss on the hedging derivative. Should circumstances arise where the hedge relationship subsequently proves ineffective, is early settled or is terminated the adjustment to the balance of the hedged item is amortised over the remaining life of the hedged item and to the income statement.

Micro fair value hedging – IFRS 9

The Group has purchased a number of fixed rate debt investment securities and has issued fixed rate subordinated debt within Sainsbury's Bank. These instruments are hedged via plain vanilla interest rate swaps, with the critical economic terms of both the hedging instrument and hedged item matching. The notional amount, fixed interest legs and maturity dates are economically matched.

Portfolio fair value hedging – IAS 39

The Group uses portfolio fair value hedging as a risk management tool for hedging interest rate risk on the Personal Loans and Mortgage portfolios. Portfolio fair value hedging allows the designation of the whole or part of a portfolio of assets or liabilities with similar risk exposures. The hedged item can be designated based on expected maturities to match the hedging derivative maturity. Hedge effectiveness is considered to have been met where the change in fair value of the hedged item offsets the change in fair value of hedging instruments, within the 80 to 125% ratio corridor.

IBOR reform

With regards to fair value hedges, during the year to 7 March 2020, the Group has initiated its London Interbank Offered Rate (LIBOR) transition plan and, from August 2019, hedged balance sheet interest rate exposures within the Financial Services business using swaps referencing the Sterling Overnight Index Average (SONIA) index, being a risk-free rate. At 7 March 2020, the Group (within Financial Services) had remaining exposures to LIBOR impacted by the reform with a notional amount of £4,009 million, of which £4,000 million were designated in fair value hedge accounting relationships and £9 million not in a hedge relationship. Of these, £2,700 million are due to mature by December 2021. The Group expects to transition the remaining £1,309 million to SONIA in the next financial year. Further clarifications on hedge accounting implications for the financial statements are expected to be provided by IASB following completion of Phase 2 of the IASB IBOR Reform project.

The Group's cash flow hedge interest rate swaps, that are in a hedging relationship, mature prior to the transition, therefore the Group continues to apply hedge accounting for these.

The effects of hedge accounting on the Group's financial position and performance

The fair value of derivative financial instruments has been disclosed in the balance sheet as follows:

	2020 Asset £m	2020 Liability £m	2019 Asset £m	2019 Liability £m
Non-current	**6**	**(36)**	9	(17)
Current	**12**	**(53)**	21	(17)
Total	**18**	**(89)**	30	(34)

30 Financial instruments continued

	2020				2019			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
At 7 March 2020								
Fair value hedges								
Interest rate swaps	**5**	**282**	**(35)**	**4,230**	10	2,183	(11)	2,552
Cash flow hedges								
Interest rate swaps	**–**	**–**	**–**	**200**	–	–	(1)	100
Inflation rate swaps	**–**	**–**	**(15)**	**490**	–	–	(7)	540
Foreign exchange forward contracts	**13**	**729**	**(26)**	**1,000**	18	634	(15)	(708)
Commodity contracts	**–**	**–**	**(8)**	**56**	1	15	–	–
Derivatives not in a formal hedging relationship								
Interest rate swaps	**–**	**–**	**–**	**259**	–	53	–	119
Cross currency swaps	**–**	**127**	**(1)**	**66**	–	–	–	–
Commodity contracts	**–**	**–**	**(4)**	**13**	1	13	–	–
Total	**18**	**1,138**	**(89)**	**6,314**	30	2,898	(34)	2,603

At 7 March 2020 the maturity profile and average price/rate of the hedging instruments used in the Group's non-dynamic hedging strategies were as follows:

	Maturity				
	Less than 1 month	1 to 3 months	3 months to 1 year	One to five years	More than five years
At 7 March 2020					
Fair value hedges					
Interest rate risk					
Interest rate swaps					
Notional amount	–	270	1,402	2,831	9
Average net interest (pay)/receive	–	(0.31)%	(0.32)%	(0.19)%	0.05%
Cash flow hedges					
Interest rate risk					
Notional amount	–	–	–	690	–
Average net interest (pay)/receive	–	–	–	(0.79)%	–
At 9 March 2019					
Fair value hedges					
Interest rate risk					
Interest rate swaps					
Notional amount	28	141	962	3,575	29
Average net interest (pay)/receive	(0.49)%	0.11%	(0.36)%	(0.25)%	(0.43)%
Cash flow hedges					
Interest rate risk					
Notional amount	50	–	100	490	–
Average net interest (pay)/receive	(0.45)%	–	(2.86)%	(1.09)%	–

30 Financial instruments continued

Hedge ineffectiveness

Fair value hedges

Within the Financial Services business, interest rate swaps are executed to hedge interest rate risk arising from fixed rate exposures in its retail personal loan and retail mortgage books, and certain fixed rate treasury investment securities, which are predominantly funded by variable rate linked liabilities. The Group has also executed an interest rate swap to hedge interest rate risk arising from its fixed Tier 2 notes issued. This is achieved by hedging specific balance sheet exposures.

The cash flows under the hedging instruments (interest rate swap derivatives) substantially match the cash flow profile of the hedged items (personal loans, mortgages, treasury investment securities and borrowings). The changes in fair value of the derivatives offset changes in the fair value of the hedged items through the income statement, with any ineffective portion also being recognised in the income statement.

The main source of ineffectiveness within the micro hedge relationships relates to the floating leg valuation changes inherent within the hedging instrument that do not exist within the hedged item.

Ineffectiveness on portfolio hedges can arise as a result of several factors, including floating leg valuation changes inherent within the hedging instrument that do not exist within the hedged item, mismatch in cash flow maturities between the hedged item and hedging instrument and basis risk between cash flows discounted using different benchmark rates e.g. LIBOR v OIS.

The impact of the hedged items on Group's financial statements is as follows:

	Carrying amount of the hedged item		Change in fair value used for measuring ineffectiveness for the period	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		
	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m	Line item in financial statements
At 7 March 2020						
Fair value hedges						
Interest rate swaps	**4,536**	**–**	**28**	**27**	**–**	**Amounts due from Financial Services customers**
Interest rate swaps	**156**	**–**	**(1)**	**(1)**	**–**	**Financial assets at FVOCI**
Interest rate swaps	**–**	**(180)**	**(2)**	**–**	**(4)**	**Borrowings**
	4,692	**(180)**	**25**	**26**	**(4)**	

	Carrying amount of the hedged item		Change in fair value used for measuring ineffectiveness for the period	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		
	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m	Line item in financial statements
At 9 March 2019						
Fair value hedges						
Interest rate swaps	4,487	–	11	(1)	–	Amounts due from Financial Services customers
Interest rate swaps	98	–	–	–	–	Financial assets at FVOCI
Interest rate swaps	–	(176)	(2)	–	(2)	Borrowings
	4,585	(176)	9	(1)	(2)	

The impact of the hedging instruments on the financial statements is as follows:

	Notional amount £m	Carrying amount		Change in fair value used for measuring ineffectiveness for the period £m	Line item in financial statements
		Asset £m	Liability £m		
At 7 March 2020					
Fair value hedges					
Interest rate swaps (loans and mortgages)	**4,183**	**–**	**(33)**	**(32)**	**Derivative financial liabilities**
Interest rate swaps (Tier 2 capital)	**175**	**5**	**–**	**3**	**Derivative financial assets**
Interest rate swaps (investment securities)	**154**	**–**	**(2)**	**1**	**Derivative financial liabilities**
	4,512	**5**	**(35)**	**(28)**	

30 Financial instruments continued

	Notional amount £m	Carrying amount Asset £m	Carrying amount Liability £m	Change in fair value used for measuring ineffectiveness for the period £m	Line item in financial statements
At 9 March 2019					
Fair value hedges					
Interest rate swaps (loans and mortgages)	4,465	8	(8)	(13)	Derivative financial assets/(liabilities)
Interest rate swaps (Tier 2 capital)	175	2	–	2	Derivative financial assets
Interest rate swaps (investment securities)	95	–	(3)	1	Derivative financial liabilities
	4,735	10	(11)	(10)	

The above hedging relationships impacted profit or loss as follows:

	Hedge ineffectiveness recognised in profit or loss 2020 £m	Hedge ineffectiveness recognised in profit or loss 2019 £m	Line item in income statement
Fair value hedges			
Interest rate swaps	**(3)**	(1)	Cost of sales

Cash flow hedges

There is an economic relationship between the hedged items and the hedging instruments as the terms of the interest rate swaps, foreign exchange and commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e. notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

— Differences in the timing of the cash flows of the hedged items and the hedging instruments
— Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
— The counterparties' credit risk differently impacting the fair value movements of the hedging instrument compared to the hedged items
— Changes to the forecasted amount of cash flows of hedged items

The impact of the hedged items on the Group's financial statements is as follows:

	Change in value of hedged item for calculating hedge ineffectiveness £m	Change in value of hedging instrument for calculating hedge ineffectiveness £m	Cumulative impact on cash flow hedge reserve £m
At 7 March 2020			
Cash flow hedges			
Interest rate swaps	**–**	**–**	**1**
Inflation rate swaps	**10**	**10**	**(13)**
Foreign exchange forward contracts	**(18)**	**18**	**(31)**
Commodity contracts	**9**	**(9)**	**(8)**

	Change in value of hedged item for calculating hedge ineffectiveness £m	Change in value of hedging instrument for calculating hedge ineffectiveness £m	Cumulative impact on cash flow hedge reserve £m
At 9 March 2019			
Cash flow hedges			
Interest rate swaps	–	–	(1)
Inflation rate swaps	3	3	(8)
Foreign exchange forward contracts	(70)	(70)	(25)
Commodity contracts	(4)	(4)	1

There are no amounts remaining in the hedging reserves for which hedge accounting is no longer applied.

The following table presents a reconciliation by risk category of the cash flow hedge reserve and analysis of other comprehensive income in relation to hedge accounting:

	Opening £m	Fair value movements recognised in other comprehensive income £m	Amounts reclassified £m	Closing £m	Reclassification recognised in
7 March 2020					
Interest rate swaps	**(1)**	**–**	**–**	**(1)**	**Finance costs**
Inflation rate swaps	**(8)**	**(10)**	**5**	**(13)**	**Finance costs**
Foreign exchange forward contracts	**(25)**	**18**	**(24)**	**(31)**	**Inventory**
Commodity contracts	**1**	**(9)**	**–**	**(8)**	**Cost of sales**
Tax	**3**	**4**	**–**	**7**	
	(30)	**3**	**(19)**	**(46)**	

	Opening £m	Fair value movements recognised in other comprehensive income £m	Amounts reclassified £m	Closing £m	Reclassification recognised in
9 March 2019					
Interest rate swaps	(2)	–	1	(1)	Finance costs
Inflation rate swaps	(7)	(3)	2	(8)	Finance costs
Foreign exchange forward contracts	(51)	70	(44)	(25)	Inventory
Commodity contracts	1	4	(4)	1	Cost of sales
Tax	7	(4)		3	
	(52)	67	(45)	(30)	

Derivatives not in a hedge relationship

Some of the Group's derivative contracts do not qualify for hedge accounting and are therefore not designated in a hedging relationship. In addition, where gains or losses on a derivative contract economically offset the losses or gains on an underlying transaction, the derivative is not designated as being in a hedging relationship.

Sainsbury's Bank and its subsidiaries hold a £9 million portfolio of interest rate swaps hedging mortgage pipeline offers that do not qualify for hedge accounting (2019: £172 million) with fair value movements accounted for in full through the P&L, with no effective offset. The fair value movement crediting the income statement for interest rate swaps economically hedging mortgage pipeline interest rate risk but not qualifying for hedge accounting was a cost of £2 million (2019: a credit of £2 million).

The Group holds £250 million (2019: £nil) of interest rate swaps hedging the interest rate risk of the £250 million bilateral loan. Under the terms of the swaps the Group receives floating rate interest and pays fixed rate interest. The fair value movement debiting the income statement was less than £1 million (2019: £nil).

Commodity forward contracts at fair value through profit and loss relate to the Group's long-term fixed price power purchase agreements with independent producers.

31 Cash and cash equivalents

Accounting policies

Cash and cash equivalents

Cash and bank balances comprise cash in hand and at bank, deposits at central banks, investments in money market funds and deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2020 £m	2019 £m
Cash in hand and bank balances	**519**	609
Money market funds and deposits	**202**	204
Deposits at central banks	**273**	308
Cash and bank balances	**994**	1,121
Bank overdrafts	**–**	(1)
Net cash and cash equivalents	**994**	1,120

Of the above balance, £21 million (2019: £49 million) was restricted as at year-end.

32 Analysis of net debt

The Group's definition of net debt includes the capital injections to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are part of the daily operating cycle of the Bank rather than for financing purposes. The Group's definition of net debt has been updated and now includes lease liabilities as recognised under IFRS 16 and perpetual securities. In addition, net debt now excludes derivatives that are not used to hedge borrowings. Refer to note 4 for further information. All comparative periods have been restated.

A reconciliation of opening to closing net debt is included below. Balances and movements for the total Group and Financial Services are shown in addition to Retail to enable reconciliation between the Group balance sheet and Group cash flow statement. Liabilities arising from hire purchase arrangements are included within lease liabilities on the balance sheet – further information on these is included within note 4.

Financial assets at fair value through other comprehensive income exclude equity related financial assets which predominantly relate to the Group's beneficial interest in a commercial property investment pool.

Derivatives exclude those not used to hedge borrowings, and borrowings exclude bank overdrafts as they are disclosed separately.

		Cash movements		Non-cash movements			
	9 March 2019 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Accrued interest £m	Other non-cash movements £m	Changes in fair value £m	7 March 2020 £m
Retail							
Financial assets at fair value through other comprehensive income	1	–	–	–	–	–	1
Net derivative financial instruments (restated)	(9)	–	4	(5)	5	(10)	(15)
Cash and cash equivalents	466	(19)	(2)	2	–	–	447
Bank overdrafts	(1)	1	–	–	–	–	–
Borrowings (excluding overdrafts and finance leases)	(1,483)	369	48	(50)	-	-	(1,116)
Lease liabilities and hire purchase arrangements (restated)	(5,824)	429	332	(332)	(373)	-	(5,768)
Retail net debt (excluding perpetual securities) (restated)	(6,850)	780	382	(385)	(368)	(10)	(6,451)
Financial Services							
Financial assets at fair value through other comprehensive income	622	177	–	–	–	3	802
Net derivative financial instruments (restated)	–	–	–	–	–	4	4
Cash and cash equivalents	655	(108)	–	–	–	–	547
Bank overdrafts	–	–	–	–	–	–	–
Borrowings (excluding overdrafts and finance leases)	(176)	–	–	–	–	(4)	(180)
Lease liabilities and hire purchase arrangements (restated)	(7)	1	–	–	–	–	(6)
Financial Services net debt (restated)	1,094	70	–	–	–	3	1,167
Group							
Financial assets at fair value through other comprehensive income	623	177	–	–	–	3	803
Net derivative financial instruments (restated)	(9)	–	4	(5)	5	(6)	(11)
Cash and cash equivalents	1,121	(127)	(2)	2	–	–	994
Bank overdrafts	(1)	1	–	–	–	–	–
Borrowings (excluding overdrafts and finance leases)	(1,659)	369	48	(50)	–	(4)	(1,296)
Lease liabilities and hire purchase arrangements (restated)	(5,831)	430	332	(332)	(373)	–	(5,774)
Group net debt (excluding perpetual securities) (restated)	(5,756)	850	382	(385)	(368)	(7)	(5,284)
Retail net debt (excluding perpetual securities) (restated)	(6,850)	780	382	(385)	(368)	(10)	(6,451)
Perpetual capital securities	(248)						(248)
Perpetual convertible bonds	(248)						(248)
Retail net debt (including perpetual securities) (restated)	(7,346)	780	382	(385)	(368)	(10)	(6,947)
Of which:							
Leases	(5,824)						(5,768)
Net debt excluding lease liabilities	(1,522)						(1,179)

Other non-cash movements relate to interest accruals and new leases.

32 Analysis of net debt continued

	11 March 2018 £m	Cash changes: Cash flows excluding interest £m	Cash changes: Net interest (received)/ paid £m	Non-cash changes: Accrued interest £m	Non-cash changes: Other non-cash movements £m	Non-cash changes: Changes in fair value £m	9 March 2019 £m
Retail							
Financial assets at fair value through other comprehensive income	40	(39)	–	–	–	–	1
Net derivative financial instruments (restated)	(8)	–	(1)	1	–	(1)	(9)
Cash and cash equivalents	725	(259)	–	–	–	–	466
Bank overdrafts	(2)	1	–	–	–	–	(1)
Borrowings	(1,937)	458	60	(64)	–	–	(1,483)
Lease liabilities and hire purchase arrangements (restated)	(5,897)	456	341	(342)	(382)	–	(5,824)
Retail net debt (excluding perpetual securities) (restated)	(7,079)	617	400	(405)	(382)	(1)	(6,850)
Financial Services							
Financial assets at fair value through other comprehensive income	526	97	–	–	–	(1)	622
Net derivative financial instruments (restated)	(2)	–	–	–	–	2	–
Cash and cash equivalents	1,005	(350)	–	–	–	–	655
Borrowings	(174)	–	–	–	–	(2)	(176)
Lease liabilities and hire purchase arrangements (restated)	(8)	1	–	–	–	–	(7)
Financial Services net debt (restated)	1,347	(252)	–	–	–	(1)	1,094
Group							
Financial assets at fair value through other comprehensive income	566	58	–	–	–	(1)	623
Net derivative financial instruments (restated)	(10)	–	(1)	1	–	1	(9)
Cash and cash equivalents	1,730	(609)	–	–	–	–	1,121
Bank overdrafts	(2)	1	–	–	–	–	(1)
Borrowings	(2,111)	458	60	(64)	–	(2)	(1,659)
Lease liabilities and hire purchase arrangements (restated)	(5,905)	457	341	(342)	(382)	–	(5,831)
Group net debt (excluding perpetual securities) (restated)	(5,732)	365	400	(405)	(382)	(2)	(5,756)
Retail net debt (excluding perpetual securities) (restated)	(7,079)	617	400	(405)	(382)	(1)	(6,850)
Perpetual capital securities	(248)						(248)
Perpetual convertible bonds	(248)						(248)
Retail net debt (including perpetual securities) (restated)	(7,575)	617	400	(405)	(382)	(1)	(7,346)
Of which:							
Leases	(5,897)						(5,824)
Net debt excluding lease liabilities	(1,678)						(1,522)

32 Analysis of net debt continued

Reconciliation of net cash flow to movement in net debt

	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Net decrease in cash and cash equivalents	**(126)**	(609)
Elimination of Financial Services movement in cash and cash equivalents	**108**	350
Retail cash movement in net debt items:		
Decrease in financial assets at fair value through other comprehensive income	**–**	(39)
Decrease in borrowings	**369**	459
Decrease in lease obligations and hire purchase leases	**429**	456
Net interest paid on components of net debt	**382**	400
Changes in net debt resulting from cash flow	**1,162**	1,017
Retail net interest charge on components of net debt	**(385)**	(405)
Retail fair value and other non-cash movements	**(378)**	(383)
Decrease in net debt	**399**	229
Opening net debt	**(6,850)**	(7,079)
Closing net debt	**(6,451)**	(6,850)
Perpetual capital securities	**(248)**	(248)
Perpetual convertible bonds	**(248)**	(248)
Closing net debt (including perpetual securities)	**(6,947)**	(7,346)

33 Borrowings

	2020			2019		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Loan due 2031	**45**	**622**	**667**	36	668	704
Short-term borrowings	**–**	**–**	**–**	135	–	135
Bank overdrafts	**–**	**–**	**–**	1	–	1
Bank loans due 2019	**–**	**–**	**–**	199	–	199
Bank loans due 2021	**–**	**199**	**199**	–	–	–
Bank loans due 2024		**250**	**250**	–	–	–
Convertible bond due 2019	**–**	**–**	**–**	445	–	445
Sainsbury's Bank Tier 2 Capital due 2023	**3**	**177**	**180**	–	176	176
Total borrowings (restated)	**48**	**1,248**	**1,296**	816	844	1,660

a) Loan due 2031

The secured loan is secured on 48 (2019: 48) supermarket properties (note 14) and consists of a loan from a finance company, Longstone Finance plc. This is an inflation linked amortising loan from Longstone Finance plc with an outstanding principal value of £653 million (2019: £687 million) at a fixed real rate of 2.36 per cent where principal and interest rate are uplifted annually by RPI subject to a cap at five per cent and a floor at nil per cent with a carrying amount of £667 million (2019: £704 million) with a final repayment date of April 2031.

The Group has entered into inflation swaps to convert £490 million (2019: £540 million) of the £653 million (2019: £687 million) loan due 2031 from RPI linked interest to fixed rate interest until April 2023. These transactions have been designated as cash flow hedges (note 30).

The principal activity of Longstone Finance plc is the issuing of commercial mortgage backed securities and applying the proceeds towards the secured loans due 2031 with the Group as summarised above.

Intertrust Corporate Services Limited holds all the issued share capital of Longstone Finance Holdings Limited on trust for charitable purposes. Longstone Finance Holdings Limited beneficially owns all the issued share capital of Longstone Finance plc. As the Group has no interest, power or bears any risk over these entities they are not included in the Group consolidation.

b) Bank overdrafts

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

33 Borrowings continued

c) Short-term borrowings

In September 2019 the maturity of part of the £1,450 million Revolving Credit Facility was extended by one year. The Revolving Credit Facility is split into two Facilities, a £300 million Facility (A) and a £1,150 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024. As at 7 March 2020, the Revolving Credit Facility was undrawn (2019: £35 million).

The Revolving Credit Facility incurs commitment fees at market rates and drawdowns bear interest at a margin above LIBOR.

The Group maintains uncommitted facilities to provide additional capacity to fund short-term working capital requirements. Drawdowns on these uncommitted facilities bear interest at a margin over LIBOR. The uncommitted facilities were undrawn at 7 March 2020 (2019: £100 million).

d) Bank loan due 2019 extended to 2021

In May 2019, the Group extended the £200 million secured bank loan by two years from August 2019 to August 2021. The bank loan is held at a floating rate of interest.

In February 2020, the Group entered into £200 million of interest rate swaps to convert from a floating rate of interest to fixed rate interest until August 2021 (2019: £100 million interest rate swap due August 2019). These transactions have been designated as cash flow hedges (note 30).

e) Bank loan due 2024

In July 2019, the Group entered into a new £250 million Bilateral Loan Facility due July 2024 to part refinance the £450 million convertible bond that matured in November 2019. The bank loan is held at a floating rate of interest. The Bilateral Loan Facility was fully drawn at 7 March 2020.

In November 2019, the Group entered into £250 million of interest rate swaps to convert from a floating rate of interest to fixed rate interest until July 2020.

f) Convertible bond due 2019

In November 2014, the Group issued £450 million of unsecured convertible bonds due November 2019. The Convertible bond has now matured and was redeemed in full.

	2020 £m	2019 £m
Liability component brought forward	**445**	436
Interest expense	**10**	14
Interest paid	**(6)**	(6)
Repayment	**(450)**	–
Fees	**1**	1
Liability component as at the end of the year	**–**	445

g) Sainsbury's Bank Tier 2 capital due 2027

The Bank issued £175 million of fixed rate reset callable subordinated Tier 2 notes on 23 November 2017. The notes pay interest on the principal amount at a rate of six per cent per annum, payable in equal instalments semi-annually in arrears, until 23 November 2022 at which time the interest rate will reset. The Bank has the option to redeem these notes on 23 November 2022.

34 Employee costs

	2020 £m	2019 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**2,846**	2,822
Social security costs	**187**	189
Pension costs – defined contribution schemes	**157**	120
Share-based payments expense	**37**	39
	3,227	3,170

	2020 Number 000s	2019 Number 000s
The average number of employees, including Directors, during the year was:		
Full-time	**25.9**	38.9
Part-time	**145.5**	141.0
	171.4	179.9
Full-time equivalent	**111.9**	116.4

Details of key management compensation can be found in note 40 and within the Directors' Remuneration Report on pages 72 to 95.

35 Retirement benefit obligations

Accounting policies

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

Actuarial gains and losses are reported in the statement of other comprehensive income as incurred, and comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses.

The financing charge is determined by applying the discount rate used to measure the defined benefit obligation to the pension scheme liabilities and plan assets at the beginning of the financial year.

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

Background

All retirement benefit obligations related to the Sainsbury's Pension Scheme plus two unfunded pension liabilities relating to former senior employees of Sainsbury's and Home Retail Group.

On 20 March 2018, the Home Retail Group Pension Scheme was merged into the Sainsbury's Pension Scheme. The Sainsbury's Pension Scheme has two sections, the Sainsbury's section which holds all the Scheme assets and liabilities relating to members who were in the original Sainsbury's Pension Scheme, and the Argos section which holds all the assets and liabilities relating to former members of the Home Retail Group Pension Scheme. Each section's assets are segregated by deed and ring fenced for the benefit of the members of that section. The Scheme has nine Trustee directors.

The retirement benefit obligations at the year-end have been calculated by Isio, the actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at the date of the previous triennial valuations (see below) for known events and changes in market conditions as allowed under IAS 19 'Employee Benefits'. Assets are valued at bid price and are held separately from the Group's assets.

Sainsbury's section

The Sainsbury's section of the Scheme has three different benefit categories: final salary, career average and cash balance. For final salary and career average members, benefits at retirement are determined by length of service and salary. For cash balance members, benefits are determined by the accrued retirement account credits.

The section was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. The Scheme is also used to pay life assurance benefits to current (including new) colleagues.

Argos section

The section holds the assets and liabilities of the former Home Retail Group Pension Scheme, which was closed to new employees in 2009 and to future accrual in January 2013. Pension benefits at retirement are based on service and final salary.

Triennial valuation

In these financial statements the Group accounts for pension costs in accordance with IAS 19 'Employee Benefits'. Under this standard, the difference between the fair values of scheme assets and the present value of scheme liabilities is reported as a surplus or deficit in the balance sheet. The accounting value is different from the result obtained using the triennial funding basis.

The accounts show a surplus compared to the deficit in the triennial funding valuation. The main reason for this is the different assumptions used to value the liabilities in the accounting and triennial funding valuations. The triennial funding valuation assumptions are used to determine the contributions that the Group is required to pay into the Scheme to ensure that the Scheme has sufficient assets to pay all the benefits due in future. Regulations require that the triennial funding assumptions are set conservatively. These assumptions therefore place a relatively high value on the Scheme's liabilities. By contrast, the IAS 19 accounting standard requires all companies to value their pension scheme liabilities on 'best estimate' assumptions. This approach places a lower value on pension scheme liabilities and results in a more favourable financial position.

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 as at 30 September 2018 was £538 million.

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

In respect of the establishment of the Partnership, properties with a valuation of £1,350 million were transferred into a newly formed property holding company – Sainsbury's Property Holdings Ltd ("Propco") from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. The Propco is a wholly owned subsidiary of the Group and leases the transferred properties to other Group companies. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership, in which the Scheme holds an interest.

The Partnership is controlled by Sainsbury's and its results are consolidated by the Group. The Group's balance sheet, IAS 19 deficit and income statement are unchanged by the establishment of the Partnership. The investment held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets.

The value of the properties transferred to the Propco remains included within the Group's property, plant and equipment on the balance sheet. In addition, the Group retains full operational flexibility to extend, develop and substitute the properties within the Propco.

35 Retirement benefit obligations continued

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 (approximately £15 million per year)
2) Payments to the Argos section (approximately £20 million per year)
3) Switching payment stream, paid to either the Sainsbury's section or Argos section (initially approximately £23 million per year, increasing to £33 million by 2038)

In addition to the above, further cash contributions of £40 million have been agreed in FY2021 and £10 million in FY2022. No additional cash contributions have been agreed for subsequent years.

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 switching 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.

The level of property in the Propco reduces as the Scheme reaches the funding targets.

IFRIC 14

IFRIC 14 is the interpretation that details when a company can recognise any pension surplus that exists. If the company has a funding commitment in excess of the IAS 19 deficit, then IFRIC 14 requires recognition of this excess in those circumstances when the surplus that would result on fulfilling that commitment cannot be recognised. A surplus may be recognised either because of an unconditional right to a refund to the company, or on grounds of a future contribution reduction where schemes are still open to future accrual.

For the Sainsbury's section, management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such no adjustment has been made for potential additional liabilities.

As part of the 2018 triennial valuation agreement, the Argos section rules were amended. As a result of the amendments, management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such, no adjustment has been made for potential additional liabilities. In the prior year, additional balance sheet liabilities in respect of a 'minimum funding requirement' of £134 million as at 9 March 2019 were recognised. The resulting movement in the liability is included within remeasurement gains in other comprehensive income.

Unfunded pension liabilities

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

a) Income statement

The amounts recognised in the income statement are as follows:

	2020 £m	2019 £m
Excluded from underlying profit before tax:		
Interest cost on pension liabilities[1]	**(248)**	(279)
Interest income on plan assets	**276**	271
Total included in finance income/(costs) (note 10)	**28**	(8)
Defined benefit pension scheme expenses	**(9)**	(10)
Past service cost	**–**	(98)
Total excluded from underlying profit before tax	**19**	(116)
Total income statement credit/(expense)	**19**	(116)

1 Includes interest of £1 million for the unfunded pension scheme (2019: £1 million) and £4 million in relation to interest on the minimum funding requirement (2019: £2 million).

35 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 judgement requires equalisation between men and women for the effect of unequal GMPs. The Group worked with the Trustee of the Scheme and independent actuaries and estimated the cost of equalising benefits at £98 million for the Sainsbury's section and £3 million for the Argos section.

This cost for the Sainsbury's section was recognised in the prior year in the consolidated income statement as a non-underlying item for the 52 weeks ended 9 March 2019 (2018: £nil). The cost for the Argos section was recognised as an experience loss in other comprehensive income due to GMP equalisation in 1997.

b) Other comprehensive income

Re-measurement of the retirement benefit obligations have been recognised as follows:

	2020 £m	2019 £m
Return on plan assets, excluding amounts included in interest	**1,512**	212
Actuarial (losses)/gains arising from changes in:		
Finance assumptions[1]	**(1,507)**	(80)
Demographic assumptions[2]	**(29)**	547
Experience[3]	**113**	644
Total actuarial (losses)/gains	**(1,423)**	1,111
Additional liability due to minimum funding requirements (IFRIC 14)	**–**	(54)
Total remeasurements	**89**	1,269

1 Includes £5 million loss for the unfunded pension scheme (2019: £nil million gain). Includes £138 million gain on the minimum funding requirement (2019: £nil million gain).
2 Includes £nil million gain for the unfunded pension scheme (2019: £1 million gain).
3 Includes £3 million gain for the unfunded pension scheme (2019: £nil million gain).

c) Balance sheet

The amounts recognised in the balance sheet are as follows:

	Sainsbury's 2020 £m	Argos 2020 £m	Group 2020 £m	Sainsbury's 2019 £m	Argos 2019 £m	Group 2019 £m
Present value of funded obligations	**(8,914)**	**(1,421)**	**(10,335)**	(7,654)	(1,202)	(8,856)
Fair value of plan assets	**10,025**	**1,466**	**11,491**	8,759	1,224	9,983
	1,111	**45**	**1,156**	1,105	22	1,127
Additional liability due to minimum funding requirements (IFRIC 14)	**–**	**–**	**–**	–	(134)	(134)
Retirement benefit surplus/(deficit)	**1,111**	**45**	**1,156**	1,105	(112)	993
Present value of unfunded obligations	**(21)**	**(16)**	**(37)**	(20)	(14)	(34)
Retirement benefit surplus/(deficit)	**1,090**	**29**	**1,119**	1,085	(126)	959

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

The movements in the Group's net defined benefit obligation are as follows:

	2020 £m	2019 £m
As at the beginning of the year	**959**	(257)
Interest cost	**28**	(8)
Remeasurement gains	**89**	1,269
Pension scheme expenses	**(9)**	(10)
Contributions by employer	**52**	63
Past service (charge)/credit	**–**	(98)
As at the end of the year	**1,119**	959

35 Retirement benefit obligations continued

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

	2020 £m	2019 £m
As at the beginning of the year	**(9,024)**	(10,141)
Interest cost	**(248)**	(279)
Remeasurement (losses)/ gains	**(1,423)**	1,111
Additional liability due to minimum funding requirement (IFRIC 14)	**–**	(54)
Benefits paid	**323**	430
Past service charge	**–**	(98)
Liabilities extinguished on settlement	**–**	7
As at the end of the year	**(10,372)**	(9,024)
Analysed as:		
Retirement benefit obligations	**(10,335)**	(8,856)
Unfunded obligations	**(37)**	(34)
Additional liability due to minimum funding requirements (IFRIC 14)	**–**	(134)

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

	2020 £m	2019 £m
As at the beginning of the year	**9,983**	9,884
Interest income on plan assets	**276**	271
Pension scheme expenses	**(9)**	(10)
Remeasurement gains	**1,512**	212
Contributions by employer	**52**	63
Benefits paid	**(323)**	(430)
Assets distributed on settlement	**–**	(7)
As at the end of the year	**11,491**	9,983

Risks associated with the Group's defined benefit pension scheme

The Trustee considers that its primary responsibility in respect of investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due. Based on this responsibility and its obligation to manage the investments, its investment objectives are as follows:

In respect of the Sainsbury's section:

1. Target a 50 per cent or better chance of being fully funded on a gilts + 0.5 per cent p.a. funding level basis by March 2022; and
2. To limit the downside risk associated with the investment policy, wherever possible.

In respect of the Argos section:

1. Target a 50 per cent or better chance of being fully funded on a gilts + 0.5 per cent funding level basis by September 2022; and
2. To limit the downside risk associated with the investment policy, wherever possible.

35 Retirement benefit obligations continued

The risks associated with achieving the above strategy are as follows:

Risk	Description	Mitigation
Asset volatility	Returns on assets that vary from the discount rate create funding level volatility. Both sections of the Scheme hold 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.	Diversification of non-matching assets (equities, real estate and emerging market debt) reduces volatility and is expected to outperform the discount rate in the long term. The equity portfolios are invested passively and diversified between UK and overseas markets, including 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. The Scheme has for some time been reducing equity. All other assets are invested actively and are widely diversified to reduce returns risk and enhance returns.
Currency	The Scheme's liabilities are sterling based whereas the majority of investments are denominated in foreign currencies.	Currency risk is hedged by investing in currency hedging programmes which hold currency derivatives to help dampen returns volatility caused by the fluctuation of sterling against other leading currencies.
Changes in bond yields	A decrease in bond yields, which in turn drive the discount rate, will increase the present value of the Scheme's liabilities for accounting purposes.	A significant proportion of assets are held in corporate bonds that provide a hedge against falling bond yields. Furthermore significant levels of interest rate hedging within the Scheme's liability hedging portfolios through interest rate derivatives serve to protect against falling bond yields. Over the last twelve months, the Scheme has increased the interest rate and inflation hedging to 90% of liabilities and will extend the interest rate hedge to cover the front 25 years of all cash flows in the target hedge.
Inflation	The majority of the Scheme's liabilities are linked to UK price inflation indices.	The investment strategy includes investing in liability-driven investments. These portfolios hedge significant proportions of inflation liabilities by holding index linked bonds and inflation rate derivatives. The Scheme's equity portfolio provides a natural hedge against inflation. In August 2019, the Scheme surrendered two insurance policies covering some of the Argos section pensioner liabilities in exchange for inflation linked investments such as gilts and corporate bonds. The decision to surrender the buy-in policies for the Argos section reflected the premium payable over fair value. This included an amount to cover the fair value of the longevity insurance that it provided and was then taken back into the Scheme. Rather than removing the longevity risk in one area of the Scheme, the Trustee will instead consider longevity risk across the Scheme in the near future.
Longevity	Beneficiaries living longer than expected could increase the Scheme's liabilities.	The Trustee and the Company have agreed a joint review of the Scheme's longevity risk.
Operational	Poor administration of benefits may result in an increased defined benefit obligation in future years.	The Scheme's benefits administrators have agreed service level agreements and controls are carefully monitored.

35 Retirement benefit obligations continued

The major categories of plan assets are as follows:

	Quoted 2020 £m	Unquoted[1] 2020 £m	Quoted 2019 £m	Unquoted 2019 £m
Equity				
Public[2]	**922**	**–**	972	–
Private	**–**	**316**	–	322
Bonds[3]				
Government Bonds	**1,639**	**–**	1,620	–
Corporate Bonds	**4,878**	**91**	3,950	(51)
Emerging Market Bonds	**523**	**1**	462	(6)
Derivatives[4]	**802**	**567**	278	743
Alternatives				
Real Estate	**64**	**619**	67	591
Private Debt[3]	**–**	**595**	–	479
Diversified Growth	**–**	**279**	–	–
Insurance Policies[5]	**–**	**–**	–	306
Cash and Cash equivalents	**211**	**(16)**	252	(2)
	9,039	**2,452**	7,601	2,382

Notes

1 Certain unquoted fixed interest securities, private equity and debt investments and property investments are stated at fair value. These fair values may differ from their realisable values due to the absence of liquid markets in these investments.
2 Quoted equities – circa 70 per cent of the Scheme's equities are invested in publically quoted, highly liquid securities across developed markets. The remainder are invested in smaller companies and Emerging Markets.
3 Bonds – circa 89 per cent of the Scheme's bonds are invested in investment grade credit. The remainder are below investment grade.
4 Swap contract derivatives outstanding at the year-end are stated at the net present value of future discounted cash flows of each leg of the swap.
5 Insurance policies of £nil million (2019: £306 million) refers to refers to buy in policies that were held by the Argos section of the Scheme and were surrendered during the year. In 2019, the fair value of the insurance policies was calculated to be the present value of the related obligations.

Of the above assets, £4,850 million are denominated in sterling and £6,641 million are denominated in overseas currencies.

d) Assumptions

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

	2020 %	2019 %
Discount rate	**1.6**	2.8
Inflation rate – RPI	**2.7**	3.2
Inflation rate – CPI	**1.7**	2.2
Future pension increases	**1.65 – 2.70**	2.00 – 3.05

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements are CMI 2018 projections with a long-term rate of improvement of 1.25 per cent per annum.

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

	Sainsbury's section Main Scheme 2020 Years	Sainsbury's section Executive Scheme 2020 Years	Argos section 2020 Years	Sainsbury's section Main Scheme 2019 Years	Sainsbury's section Executive Scheme 2019 Years	Argos section 2019 Years
Male pensioner	**20.0**	**24.1**	**21.6**	19.8	24.0	21.5
Female pensioner	**23.7**	**25.2**	**24.0**	23.5	25.1	23.9

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

	Sainsbury's section Main Scheme 2020 Years	Sainsbury's section Executive Scheme 2020 Years	Argos section 2020 Years	Sainsbury's section Main Scheme 2019 Years	Sainsbury's section Executive Scheme 2019 Years	Argos section 2019 Years
Male pensioner	**21.3**	**25.4**	**23.0**	21.1	25.3	22.9
Female pensioner	**25.2**	**26.7**	**25.5**	25.0	26.5	25.4

35 Retirement benefit obligations continued

e) Sensitivities

The following sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

	Sainsbury's £m	Argos £m	Total £m
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	**829**	**143**	**972**
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	**954**	**166**	**1,120**
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	**633**	**148**	**781**
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	**570**	**140**	**710**
An increase of one year to the life expectancy would increase the present value of funded obligations by	**394**	**49**	**443**

f) Future benefit payments

Details of future committed payments are included in the Background section at the beginning of this note. Expected cash contributions in FY2021 are approximately £98 million.

The duration of the plan liabilities is around 21 years for the Sainsbury's section and 22 years for the Argos section. The following table provides information on the timing of benefit payments (amounts undiscounted):

	2020 £m
Within the next 12 months (next annual reporting period)	**192**
Between 2 and 5 years	**892**
Between 6 and 15 years	**3,545**
Between 16 and 25 years	**4,391**
Beyond 25 years	**6,997**
Total expected payments	**16,017**

36 Share-based payments

Accounting policies

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

For equity-settled share-based payments, the fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions. All share options are valued using an option-pricing model (Black-Scholes or Monte Carlo). This fair value is charged to the income statement over the vesting period of the share-based payment scheme with a corresponding increase in equity.

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

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

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The Group recognised £37 million (2019: £39 million) of employee costs (note 34) related to share-based payment transactions made during the financial year. Of these, £nil million (2019: £1 million) were cash-settled.

36 Share-based payments continued

The Group operates a number of share-based payment schemes as set out below:

a) Savings-Related Share Option Scheme (Sharesave)

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

Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

A reconciliation of Sharesave option movements is shown below:

	2020 Number of options million	2020 Weighted average exercise price pence	2019 Number of options million	2019 Weighted average exercise price pence
Outstanding at the beginning of the year	**61.4**	**211**	68.5	196
Granted	**23.7**	**161**	17.2	260
Forfeited	**(17.1)**	**224**	(13.6)	205
Exercised	**(7.2)**	**188**	(10.7)	205
Outstanding at the end of the year	**60.8**	**190**	61.4	211
Exercisable at the end of the year	**6.3**	**193**	5.6	224
Exercisable price range		**185 to 332**		184 to 332

The weighted average share price for options exercised over the year was 211 pence (2019: 272 pence). The weighted average remaining contractual life of options outstanding at 7 March 2020 was 2.2 years (2019: 2.1 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:

		2020	2019
Share price at grant date (pence)		**220**	300
Exercise price (pence)		**161**	260
Expected volatility	– 3 year period (%)	**26.1**	24.5
	– 5 year period (%)	**27.8**	26.9
Option life	– 3 year period (years)	**3.2**	3.2
	– 5 year period (years)	**5.2**	5.2
Expected dividends (expressed as dividend yield %)		**2.9**	3.5
Risk-free interest rate	– 3 year period (%)	**0.6**	0.9
	– 5 year period (%)	**0.7**	1.3
Fair value per option	– 3 year period (pence)	**59**	53
	– 5 year period (pence)	**62**	62

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

36 Share-based payments continued

b) Long-Term Incentive Plan

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

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

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

Dividend equivalents 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:

	2020 million	2019 million
Outstanding at the beginning of the year	**8.9**	7.2
Conditionally allocated	**7.2**	4.2
Forfeited	**(1.8)**	(0.4)
Released to participants	**(4.1)**	(2.1)
Outstanding at the end of the year	**10.2**	8.9

The weighted average remaining contractual life of share options outstanding at 7 March 2020 was 1.5 years (2019: 1.4 years).

Details of shares conditionally allocated at 7 March 2020 are set out below:

Date of conditional award	2020 million	2019 million
15 May 2014 (2014 Future Builder)	**–**	0.2
14 May 2015 (2015 Future Builder)	**0.1**	1.6
12 May 2016 (2016 Future Builder)	**2.0**	2.0
11 May 2017 (2017 Future Builder)	**2.2**	2.5
11 May 2018 (2018 Future Builder)	**2.2**	2.6
9 May 2019 (2018 Future Builder)	**3.7**	–
	10.2	8.9

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:

	2020	2019
Share price at grant date (pence)	**219**	301
Option life (years)	**3 or 4**	3 or 4
Fair value per option (pence)	**219**	301

During the year, a total number of 4.1 million shares were exercised (2019: 2.1 million shares). The weighted average share price during the year for options exercised was 213 pence (2019: 303 pence).

36 Share-based payments continued

c) Deferred Share Award

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

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

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

	2020 million	2019 million
Outstanding at the beginning of the year	**3.5**	3.4
Granted	**2.6**	2.2
Forfeited	**(1.6)**	(2.0)
Exercised	**(0.7)**	(0.1)
Outstanding at the end of the year	**3.8**	3.5

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

	2020 million	2019 million
12 May 2017	**–**	1.5
11 May 2018	**1.7**	2.0
9 May 2019	**2.1**	–
	3.8	3.5

The weighted average remaining contractual life of share options outstanding at 7 March 2020 was 0.6 years (2019: 0.6 years). The weighted average share price during the year for options exercised was 215 pence (2019: 301 pence).

d) Bonus Share Award

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

60 per cent of the bonus is paid in cash and 40 per cent awarded in shares. Shares are subject to forfeiture if the participant resigns or is dismissed.

Dividend equivalents accrue on these shares which 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:

	2020 million	2019 million
Outstanding at the beginning of the year	**11.4**	10.2
Granted	**8.5**	5.1
Exercised	**(5.4)**	(3.0)
Forfeited	**(1.8)**	(0.9)
Outstanding at the end of the year	**12.7**	11.4

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

	2020 million	2019 million
13 May 2016	**–**	4.4
12 May 2017	**2.2**	2.7
11 May 2018	**3.6**	4.3
09 May 2019	**6.9**	–
	12.7	11.4

The weighted average remaining contractual life of share options outstanding at 7 March 2020 was 1.4 years (2019: 1.0 years). The weighted average share price during the year for options exercised was 225 pence (2019: 246 pence).

37 Capital commitments

At 7 March 2020, capital commitments contracted, but not provided for by the Group, amounted to £112 million (9 March 2019: £90 million) and £nil for the property joint ventures (9 March 2019: £7 million).

In addition, the group is committed to payments totalling £38 million (2019: £96 million) in relation to leases that have been signed but have not yet commenced.

38 Financial commitments

Sainsbury's Bank has off-balance sheet commitments to extend credit to customers of £80 million (2019: £323 million).

At the year-end, £20 million of expected credit loss provisions are recognised in respect of off-balance sheet loan commitments in line with IFRS 9 (2019: £18 million).

39 Contingent liabilities

The Group has a number of contingent liabilities in respect of historic lease guarantees, particularly in relation to the disposal of assets, which if the current tenant and their ultimate parents become insolvent, may expose the Group to a material liability. This is not expected to materialise.

Along with other retailers, the Group is currently subject to claims from approximately 5,500 current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. Typically, claims of this nature can take many years to be determined. Given that the claims against the Group are still at a relatively early stage and the outcome of such claims is highly uncertain at this stage, the Group considers the likelihood of a material pay-out to be remote.

40 Related party transactions

a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc Board of Directors and the Operating Board. The key management personnel compensation is as follows:

	2020 £m	2019 £m
Short-term employee benefits	**12**	11
Post-employment employee benefits	**1**	1
Share-based payments	**6**	10
	19	22

Two key management personnel had credit card balances with Financial Services (2019: five). These arose in the normal course of business and were immaterial to the Group and the individuals. One key management personnel held saving deposit accounts with Financial Services (2019: three). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 7 March 2020, the Group entered into various transactions with joint ventures and associates as set out below:

	2020 £m	2019 £m
Dividends and distributions received	**141**	18
Repayment of loans from joint venture	**–**	(5)
Disposals of joint ventures	**(21)**	–
Rental expenses paid	**(14)**	(38)

Year-end balances arising from transactions with joint ventures and associates

	2020 £m	2019 £m
Payables		
Other payables	**18**	(5)

c) Retirement benefit obligations

As discussed in note 35, the Group has entered into an arrangement with the Pension Scheme Trustee as part of the funding plan for the actuarial deficit in the Scheme. Full details of this arrangement are set out in note 35 to these financial statements.

41 Post balance sheet events

Impact of coronavirus (COVID-19)

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of infections across many countries. The Group's operational priorities are set out on pages 6 to 9. As detailed in note 4 it has been concluded that none of the conditions at the balance sheet date indicated that any adjustments would be required to the Group's financial statements. However, given the significance of these events, further disclosure is provided below indicating where there may be material changes in the Group's judgements and estimates impacting the balance sheet as at 7 March 2020.

Impairment of non-current assets

Details of the Group's impairment methodology and assumptions, impairment charges, net carrying value of non-current assets and sensitivity analysis are included in note 17.

Subsequent to the balance sheet date, the Group closed Argos standalone stores – the effect of this is to decrease cash flows attributable to Argos clusters and therefore the recoverable amount used for impairment testing purposes.

In addition, operating expenses will be materially higher than forecast, particularly in the areas of retail labour and absence costs and instore costs where we assume disruption will continue for most of the first half of our financial year. There will however be some offset from approximately £450 million of business rates relief on shops in England, Scotland and Northern Ireland.

The Group has carried out sensitivity analyses, including on forecast cash flows, for its portfolio of store and store cluster CGUs as part of the impairment review conducted during the year – these are detailed in note 17. Sensitivities covering the Group's goodwill impairment testing are also included in note 16. As the pandemic continues to progress and evolve, it is challenging at this time to predict the full extent and duration of its business and economic impact. For Argos clusters, a decrease in cash flows has been modelled in line with the assumptions included within the Group's viability statement with no additional impairments noted. For Sainsbury's stores, it is likely that the additional instore costs and reduction in general merchandise and clothing sales will be mostly offset by the grocery sales growth and business rates relief. It is therefore not anticipated that the resulting cash flow impacts will cause material impairment charges on the Group's non-current assets.

Financial Services expected credit loss implications

Refer to note 29 for details of the Group's expected credit loss calculations. As at the balance sheet date, a multi-scenario economic model is used which includes an assessment of downside risk reflective of future economic uncertainty that existed at that time.

Subsequent to the balance sheet date, there has been a deterioration in the economic outlook in the UK as a consequence of the COVID-19 pandemic and measures taken by the government to control the spread of the virus. A significant reduction in UK economic output is now expected over an uncertain period, with increases in unemployment resulting in increased expected credit losses. These losses will be mitigated, to some degree, by UK government actions such as subsidies to businesses for furloughed employees and the self-employed. In order to estimate the increased credit losses resulting from this deterioration in outlook, the Group has developed three unemployment scenarios which have been risk-weighted to determine an overlay rate applied to the existing IFRS 9 models. In line with guidance from the Bank of England, these scenarios assume that there will be significant economic disruption while social distancing measures are in place, followed by an expected recovery when these are lifted. The three scenarios assume peak unemployment over the next 12 months of 6 per cent, 8 per cent and 10 per cent respectively, with the weighted average resulting in an ECL uplift of approximately £30 million.

Pension surplus

The defined benefit pension scheme (the Scheme) has been affected by the impact of COVID-19 on financial markets and the global economy.

An approximate reassessment of the IAS 19 retirement benefit surplus as at 31 March 2020 has been performed, resulting in an estimated revised surplus of £1,340 million (excluding the unfunded obligations), an increase of 16 per cent compared to 7 March 2020. A valuation date of 31 March has been selected as it aligns with the Scheme's quarter-end date and captures movements following the COVID-19 lockdown.

When considering the ongoing funding of the Scheme, the exposure to falling asset values has been reduced as a result of the continued reduction in equities held in recent years. Although there was an absolute reduction in the value of the Scheme's assets (some of which have been estimated) over this period, when valuing the Scheme on an IAS 19 basis, this reduction was more than offset by the increase in yields on AA corporate bonds (mainly due to a widening of credit spreads) over the same period and a reduction in inflation expectations over the long-term. Additional mitigations of risks associated with the Group's defined pension scheme are included within note 35 and remain valid in the current economic environment.

Although there has been no formal update to the official mortality tables since the 31st March, it is expected that any decline in longevity, due to the Coronavirus, will be minimal. Equity prices have recovered some of the losses experienced in March, with bond prices also higher, albeit only slightly. There is also a slight decrease to the discount rate applied to the expected liability cash flows, suggesting that whilst the overall pension surplus will have decreased since the 31st March, we do not believe the movement to be significant relative to the size of the assets, liabilities or surplus.

Note 35 includes detail of the Group contributions which are set by the Trustee's triennial valuation and will not be impacted by COVID-19. The Group contributions framework allows for short-term changes in volatility, so the Scheme can continue its longer-term journey to being funded on a low dependency basis, giving members a greater level of security.

Inventory

The inventory provisions in our General Merchandise and Clothing areas have been reviewed for post year-end changes in expected net realisable value, driven by changes in customer buying behaviour as a result of COVID-19. All inventory provisioning requires judgement, and is based on a number of factors including current and expected sales performance, stock cover, current trends and changes in technology. Following the review it is not anticipated that further material provisioning is required against the inventory held at the balance sheet date of 7 March 2020.

Financial risk management

As documented in note 29, financial risk management, the Group has prepared additional cash flow forecasts in connection to COVID-19, to identify associated liquidity requirements and ensure these are closely managed. The counterparty credit, foreign currency, interest rate, inflation and commodity risks detailed in note 29 have been considered in light of the current economic environment and the sensitivities detailed within the note remain reasonable. The Group's policies on foreign currency, interest rate, commodity and counterparty credit risk management are unchanged.

42 Details of related undertakings

All companies listed below are owned by the Group and all interests are in the ordinary share capital, except where otherwise indicated. All subsidiaries have been consolidated.

a) Subsidiary undertakings

The Group holds a majority of the voting rights of the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address*
ARG Personal Loans Limited	UK	100%	Indirect	Avebury
ARG Services Limited	UK	100%	Indirect	33 Holborn
Argos Best Sellers Limited	UK	100%	Indirect	33 Holborn
Argos Business Solutions Limited	UK	100%	Indirect	Avebury
Argos Card Transactions Limited	UK	100%	Indirect	33 Holborn
Argos Direct Limited	UK	100%	Indirect	33 Holborn
Argos Distributors (Ireland) Limited	Ireland	100%	Indirect	Unit 7, Ashbourne Retail Park
Argos Extra Limited	UK	100%	Indirect	33 Holborn
Argos Holdings Limited	UK	100%	Indirect	Avebury
Argos Limited	UK	100%	Indirect	Avebury
Argos Retail Group Limited	UK	100%	Indirect	33 Holborn
Argos Superstores Limited	UK	100%	Indirect	33 Holborn
Argos Surbs Investments Limited	UK	100%	Indirect	Avebury
Barleygold Limited	UK	100%	Indirect	50 Bedford Street
Bed Store & More Limited	UK	100%	Indirect	33 Holborn
Bells Stores Limited	UK	100%	Direct	33 Holborn
BLSSP (PHC 7) Limited	UK	100%	Indirect	33 Holborn
Braemar Castle Limited	UK	100%	Direct	33 Holborn
Brand-Leader's Limited	UK	100%	Indirect	33 Holborn
Chad Valley Limited	UK	100%	Indirect	33 Holborn
Clearance Bargains Limited	UK	100%	Indirect	33 Holborn
Cliffrange Limited	UK	100%	Indirect	33 Holborn
Coolidge Investments Limited	UK	100%	Indirect	33 Holborn
Financial Recovery Services Limited	UK	100%	Indirect	Avebury
First Stop Stores Limited	UK	100%	Indirect	33 Holborn
Flint Castle Limited	UK	100%	Direct	33 Holborn
Global (Guernsey) Limited	Guernsey	100%	Indirect	PO BOX 33 Dorey Court
Habitat Retail Limited	UK	100%	Indirect	Avebury
Holborn UK Investments Limited	UK	100%	Direct	33 Holborn
Home Retail Group Limited	UK	100%	Indirect	Avebury
Home Retail Group (Cyprus) Limited	Cyprus	100%	Indirect	5 Anastasios Leventis Street
Home Retail Group (Finance) LLP	UK	100%	Indirect	Avebury
Home Retail Group (Guernsey) LP	Guernsey	100%	Indirect	PO Box 33 Dorey Court
Home Retail Group (Jersey) Limited	Jersey	100%	Indirect	44 Esplanade
Home Retail Group (UK) Limited	UK	100%	Indirect	Avebury
Home Retail Group Card Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Holdings (Overseas) Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Insurance Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Nominees Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Pension Scheme Nominees Limited	UK	100%	Indirect	Avebury
Home Retail Group UK Service Company Limited	UK	100%	Indirect	33 Holborn
Home Store & More Limited	UK	100%	Indirect	33 Holborn
J Sainsbury Limited	Ireland	100%	Direct	6th Floor, South Bank House
J Sainsbury Common Investment Fund Limited	UK	100%	Indirect	33 Holborn
J Sainsbury Distribution Limited	UK	100%	Direct	33 Holborn
J Sainsbury Pension Scheme Trustees Limited	UK	100%	Direct	33 Holborn
J Sainsbury Trustees Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores Limited	UK	100%	Direct	33 Holborn
Jacksons Stores 2002 Limited	UK	100%	Indirect	33 Holborn
JS Information Systems Limited	UK	100%	Direct	33 Holborn
JS Insurance Limited	Isle of Man	100%	Direct	Third Floor, St George's Court
JSD (London) Limited	UK	100%	Indirect	33 Holborn

*See full addresses on page 193.

42 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Address*
Jungle Online	UK	100%	Indirect	33 Holborn
Jungle.com Limited	UK	100%	Indirect	33 Holborn
Jungle.com Holdings Limited	UK	100%	Indirect	33 Holborn
Nash Court (Kenton) Limited	UK	100%	Indirect	33 Holborn
Nectar 360 Limited (formerly Nectar Loyalty Limited)	UK	100%	Indirect	33 Holborn
Nectar 360 Services LLP (formerly Insight 2 Communication LLP)	UK	100%	Indirect	33 Holborn
Nectar EMEA Limited	UK	100%	Indirect	33 Holborn
Nectar Loyalty Holding Limited	UK	100%	Direct	33 Holborn
Premier Incentives Limited	UK	100%	Indirect	33 Holborn
Ramheath Properties Limited	UK	100%	Direct	33 Holborn
Sainsbury Bridgeco Holdco Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco A Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco B Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco A Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco B Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco C Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco D Limited	UK	100%	Direct	33 Holborn
Sainsbury Property Investments Limited	UK	100%	Direct	33 Holborn
Sainsbury's Argos Asia Limited	Hong Kong	100%	Indirect	7/F, 348 Kwun Tong Road
Sainsbury's Argos Asia Commercial Limited	Hong Kong	100%	Indirect	7/F, 348 Kwun Tong Road
Sainsbury's Argos Asia Sourcing Limited	Hong Kong	100%	Indirect	7/F, 348 Kwun Tong Road
Sainsbury's Argos Asia Technical Limited	Hong Kong	100%	Indirect	7/F, 348 Kwun Tong Road
Sainsbury's Argos Commercial Consulting (Shanghai) Limited	China	100%	Indirect	26/F, Tower 1
Sainsbury's Bank plc	UK	100%	Direct	33 Holborn
Sainsbury's Convenience Stores Limited	UK	100%	Direct	33 Holborn
Sainsburys Corporate Director Limited	UK	100%	Direct	33 Holborn
Sainsbury's Group Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Heather GP Limited	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Intermediate Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Limited	Ireland	100%	Direct	6th Floor, South Bank House
Sainsbury's Limited	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Manor GP Limited	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Manor II Property Limited	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Manor Property Limited	UK	100%	Direct	3 Lochside Avenue
Sainsbury's Planet Limited	UK	100%	Direct	33 Holborn
Sainsbury's Property Scottish Partnership	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Rose LP Limited	UK	100%	Indirect	33 Holborn
Sainsbury's Supermarkets Limited	UK	100%	Direct	33 Holborn
Sainsbury's Thistle Scottish Limited Partnership	UK	100%	Indirect	3 Lochside Avenue
Sainsbury's Tyne Property Holdings Limited (formerly Sainsbury's Property Holdings Limited)	UK	100%	Indirect	33 Holborn
Software Warehouse Holdings Limited	UK	100%	Indirect	33 Holborn
Stamford House Investments Limited	UK	100%	Direct	33 Holborn
Stamford Properties One Limited	UK	100%	Direct	33 Holborn
Stamford Properties Three Limited	UK	100%	Direct	33 Holborn
Stamford Properties Two Limited	UK	100%	Direct	33 Holborn
Stanhope Finance Limited	UK	100%	Indirect	33 Holborn
Tintagel Castle Limited	UK	100%	Direct	33 Holborn
Town Centre Retail (Bicester) Limited	UK	100%	Indirect	33 Holborn

*See full addresses on page 193.

42 Details of related undertakings continued

b) Associated undertakings

The Group has a participating interest in the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address*
3BW Limited	UK	50%	Indirect	33 Holborn
BL Sainsbury Superstores Limited	UK	50%	Indirect	York House
Harvest 2 GP Limited	UK	50%	Indirect	100 Victoria Street
Harvest 2 Limited Partnership	UK	50%	Indirect	100 Victoria Street
Harvest Development Management Limited	UK	50%	Indirect	100 Victoria Street
Harvest GP Limited	UK	50%	Indirect	100 Victoria Street
Hedge End Park Limited	UK	50%	Direct	33 Holborn

c) Undertakings other than subsidiaries and associated undertakings

The direct or indirect holder of 100 per cent of the voting interests in the following undertakings is an associate of the Group:

Entity	Country of incorporation	Interest	Holding	Address*
BL Superstores (Funding) Limited	UK	50%	Indirect	York House
BL Superstores Finance PLC	UK	50%	Indirect	York House
BLSSP (Cash Management) Limited	UK	50%	Indirect	York House
BLSSP (Lending) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1 2010) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1 2012) Limited	UK	50%	Indirect	York House
BLSSP (PHC 12) Limited	UK	50%	Indirect	York House
BLSSP (PHC 2 2010) Limited	UK	50%	Indirect	York House
BLSSP (PHC 20) Limited	UK	50%	Indirect	York House
BLSSP (PHC 25) Limited	UK	50%	Indirect	York House
BLSSP Property Holdings Limited	UK	50%	Indirect	York House
British Land Superstores (Non-Securitised)	UK	50%	Indirect	York House
Harvest 2 Selly Oak Limited	UK	50%	Indirect	100 Victoria Street
Harvest Nominee No. 1 Limited	UK	50%	Indirect	100 Victoria Street
Harvest Nominee No. 2 Limited	UK	50%	Indirect	100 Victoria Street
Pencilscreen Limited	UK	50%	Indirect	York House

d) Overseas branches

The Group has the following branches overseas:

Entity	Country	Holding	Address*
Sainsbury's Argos Asia Limited – Bangladesh Liaison Office	India	Indirect	Level 10, Simpletree Anarkali
Sainsbury's Argos Asia Limited – India Branch Office	India	Indirect	Unit No. 1, 1st Floor, Ambience Corporate Tower II

e) Companies in liquidation

Entity	Country of incorporation	Interest	Holding	Address*
Portfolio Investments Ltd	UK	100%	Indirect	Hill House
Netto Limited	UK	50%	Direct	33 Holborn

*See full addresses on page 193.

42 Details of related undertakings continued

Address	Full address
3 Lochside Avenue	3 Lochside Avenue, Edinburgh, EH12 9DJ, United Kingdom
5 Anastasios Leventis Street	5 Anastasios Leventis Street, Leventis Gallery Tower, 8th Floor, 1097 Nicosia, Cyprus
6th Floor, South Bank House	6th Floor, South Bank House, Barrow Street, Dublin 4
7/F, 348 Kwun Tong Road	7/F, 348 Kwun Tong Road, Kowloon, Hong Kong
26/F, Tower 1	26/F, Tower 1, Kerry Everbright City Phase III-Enterprise Centre, No.128, West Tian Mu Road Shanghai 200070, People's Republic of China
33 Holborn	33 Holborn, London, EC1N 2HT, United Kingdom
44 Esplanade	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands
50 Bedford Street	50 Bedford Street, Belfast, BT2 7FN, United Kingdom
100 Victoria Street	100 Victoria Street, London, SW1E 5JL, United Kingdom
Avebury	Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW, United Kingdom
Hill House	Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom
Level 10, Simpletree Anarkali	Level 10, Simpletree Anarkali, 89 Gulshan Avenue Plet 03, Block – CWS(A), Dhaka – 1212 Bangladesh
Paradigm Wing A	Paradigm Wing A, 1st Floor, Mindspace, Malad (West), Mumbai, 400 064, India
PO Box 33, Dorey Court	PO Box 33, Dorey Court, Admiral Park, St Peter Port, Guernsey GY1 4AT
Third Floor, St George's Court	Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Unit 7, Ashbourne Retail Park	Unit 7, Ashbourne Retail Park, Ballybin Road, Ashbourne, Republic of Ireland
Unit No. 1, 1st Floor, Ambience Corporate Tower II	Unit No. 1, 1st Floor, Ambience Corporate Tower II, Ambience Island, NH-8, Gurgaon – 122011 Haryana, India
York House	York House, 45 Seymour Street, London, W1H 7LX, United Kingdom

Company balance sheet
At 7 March 2020 and 9 March 2019

	Note	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	2	**–**	220
Investments in subsidiaries, joint ventures and associates	3, 4	**7,750**	6,162
Financial assets at fair value through other comprehensive income	5	**1**	1
Other receivables	6	**175**	189
Derivative financial assets		**14**	8
		7,940	6,580
Current assets			
Trade and other receivables	6	**1,784**	2,343
Derivative financial instruments		**1**	–
Cash and cash equivalents		**156**	60
		1,941	2,403
Total assets		**9,881**	8,983
Current liabilities			
Trade and other payables	7	**(2,138)**	(669)
Borrowings	8	**–**	(779)
Derivative financial instruments		**(1)**	(1)
Taxes payable		**(3)**	(3)
Provisions	9	**(2)**	(1)
		(2,144)	(1,453)
Net current liabilities		**(203)**	950
Non-current liabilities			
Borrowings	8	**(449)**	–
Derivative financial instruments		**(14)**	(8)
Provisions	9	**–**	(1)
		(463)	(9)
Total liabilities		**(2,607)**	(1,462)
Net assets		**7,274**	7,521
Equity			
Called up share capital	11	**634**	630
Share premium account	11	**1,159**	1,147
Merger reserve	11	**568**	568
Capital redemption reserve	11	**680**	680
Other reserves	11	**3**	8
Retained earnings	12	**3,734**	3,992
Total equity before perpetual securities		**6,778**	7,025
Perpetual capital securities		**248**	248
Perpetual convertible bonds		**248**	248
Total equity		**7,274**	7,521

The notes on pages 196 to 200 form an integral part of these financial statements.

The financial statements on pages 194 to 200 were approved by the Board of Directors on 29 April 2020, and are signed on its behalf by:

Mike Coupe
Chief Executive

Kevin O'Byrne
Chief Financial Officer

Company statement of changes in equity
for the 52 weeks to 7 March 2020

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 10 March 2019		**630**	**1,147**	**568**	**688**	**3,992**	**7,025**	**248**	**248**	**7,521**
(Loss)/profit for the year	12	–	–	–	–	**(53)**	**(53)**	**16**	**7**	**(30)**
Other comprehensive income	11	–	–	–	–	–	–	–	–	–
Total comprehensive (expense)/ income for the year ended 7 March 2020		**–**	**–**	**–**	**–**	**(53)**	**(53)**	**16**	**7**	**(30)**
Transactions with owners:										
Dividends	12	–	–	–	–	(247)	(247)	–	–	(247)
Distribution to holders of perpetual securities		–	–	–	–	–	–	(16)	(7)	(23)
Amortisation of convertible bond equity component	11, 12	–	–	–	(5)	5	–	–	–	–
Allotted in respect of share option schemes	11, 12	4	12	–	–	37	53	–	–	53
At 7 March 2020		**634**	**1,159**	**568**	**683**	**3,734**	**6,778**	**248**	**248**	**7,274**
At 11 March 2018		627	1,130	568	703	4,224	7,252	248	248	7,748
(Loss)/profit for the year	12	–	–	–	–	(54)	(54)	12	6	(36)
Other comprehensive (expense)/income	11	–	–	–	(7)	–	(7)	–	–	(7)
Total comprehensive (expense)/income for the year ended 9 March 2019		–	–	–	(7)	(54)	(61)	12	6	(43)
Transactions with owners:										
Dividends	12	–	–	–	–	(224)	(224)	–	–	(224)
Distribution to holders of perpetual securities	11, 12	–	–	–	–	–	–	(16)	(7)	(23)
Amortisation of convertible bond equity component	11, 12	–	–	–	(8)	8	–	–	–	–
Allotted in respect of share option schemes		3	17	–	–	38	58	–	–	58
Tax on items charged to equity		–	–	–	–	–	–	4	1	5
At 9 March 2019		630	1,147	568	688	3,992	7,025	248	248	7,521

The notes on pages 196 to 200 form an integral part of these financial statements.

Notes to the Company financial statements

1 Basis of preparation

The parent company's financial statements are prepared in accordance with United Kingdom Accounting Standards, in particular Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the Standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Company's transition date to FRS 101 was 13 March 2016. FRS 101 sets out amendments to IFRS as adopted by the European Union that are necessary to achieve compliance with the Companies Act and related regulations.

The financial year represents the 52 weeks to 7 March 2020 (prior financial year 52 weeks to 9 March 2019).

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

— The requirements of IAS 7 to present a cash flow statement.

— The requirements of paragraph 17 of IAS 24 'Related Party Transactions', to disclose information related to key management personnel, and the requirements of IAS 24 to disclose related party transactions between two or more members of a group for wholly owned subsidiaries.

— The requirements of paragraphs 30 and 31 of IAS 8 to disclose information assessing the possible impact of new standards issued but which are not yet effective.

— The requirements of IFRS 7 and IFRS 13 for disclosure of financial instruments and fair values.

The financial statements are presented in sterling, rounded to the nearest £million unless otherwise stated. They have been prepared on the going concern basis under the historical cost convention, except for derivative financial instruments and financial assets at fair value through other comprehensive income that have been measured at fair value.

Amendments to published standards

Effective for the Company in these financial statements:

The Company considered the following amendments to published standards that are effective for the Company for the financial year beginning 10 March 2019 and concluded that they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements. These standards and interpretations have been endorsed by the European Union.

— 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 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)

Standards and revisions effective for future periods:

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

The Company considered the following amendments to published standards that are effective for the Company for the financial year beginning 10 March 2019 and concluded that they are either not relevant to the Company or they do not have a significant impact on the Company's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

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

— Amendments to References to Conceptual Framework in IFRS Standards

— Amendments to IFRS 3 'Business Combinations' on the definition of a business

— 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 IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Presentation and IFRS 7 'Financial Instruments: Disclosures' on interest rate benchmark reform

— IFRS 17 'Insurance Contracts'

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement nor a statement of comprehensive income for the Company alone.

The loss after tax for the Company for the year was £(30) million (2019: loss of £(36) million).

2 Property, plant and equipment

Accounting policies

a) Land and buildings

Land and buildings are held at historical cost less accumulated depreciation and any recognised provision for impairment. Capital work in progress is held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs to bringing the asset to its working condition for intended use. This includes capitalised borrowing costs.

b) Fixtures and equipment

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and its intended use.

c) Depreciation

Depreciation is calculated to write down the cost of the assets to their residual values, on a straight-line basis, using the following rates:

— Freehold buildings and leasehold properties – 50 years, or the lease term if shorter

— Fixtures, equipment and vehicles – three to 15 years

— Freehold land is not depreciated

Capital work in progress is not depreciated.

Gains and losses on disposal are determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and are recognised within operating profit.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Retail property, plant and equipment, the CGU is deemed to be each trading store or store pipeline development site. Non-store assets, including depots and IT assets, are reviewed separately.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 10 March 2019	**213**	**7**	**220**
Additions	**2**	**–**	**2**
Disposals	**(215)**	**(7)**	**(222)**
At 7 March 2020	**–**	**–**	**–**
Cost			
At 11 March 2018	–	–	–
Additions	213	7	220
At 9 March 2019	213	7	220

3 Investments in subsidiaries

Accounting policies

Investments in subsidiaries are carried at cost less any impairment loss in the financial statements of the Company.

	2020 £m	2019 £m
Shares in subsidiaries		
At the beginning of the year	**6,161**	6,013
Additions	**1,588**	148
At the end of the year	**7,749**	6,161

Additions in the current year predominantly relate to investments following implementation of the Group's new asset-backed contribution arrangement (refer note 35 of the Group accounts).

4 Investments in joint ventures and associates

Accounting policies

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

	Company shares at cost 2020 £m	Company shares at cost 2019 £m
At the beginning of the year	**1**	6
Disposals	**–**	(5)
At the end of the year	**1**	1

5 Financial assets at fair value through other comprehensive income

Accounting policies

Financial assets that are held for both the purpose of collecting contractual cash flows and to sell are classified as fair value through other comprehensive income (FVOCI). They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Subsequent to initial recognition at fair value plus transaction costs, these assets are recorded at fair value at each period end with the movements recognised in other comprehensive income until derecognition or impaired. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income reserves is recognised in the income statement for debt instruments. Gains and losses on equity instruments are never recycled to the income statement. Dividends on FVOCI equity instruments are recognised in the income statement when the entity's right to receive payment is established. Interest on FVOCI debt instruments is recognised using the effective interest method.

	2020 £m	2019 £m
Non-current		
Interest bearing financial assets	**1**	1
	1	1

6 Other receivables

Accounting policies

Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

	2020 £m	2019 £m
Non-current		
Amounts owed by Group companies	**175**	189
Current		
Amounts owed by Group companies	**1,765**	2,340
Prepayments and accrued income	**19**	3
	1,784	2,343

7 Trade and other payables

Accounting policies

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

	2020 £m	2019 £m
Current		
Amounts owed to Group entities	**2,115**	643
Other payables	**23**	26
	2,138	669

8 Borrowings

	2020 Current £m	**2020 Non-current £m**	**2020 Total £m**	2019 Current £m	2019 Non-current £m	2019 Total £m
Bank loan due 2021	**–**	**199**	**199**	199	–	199
Short term borrowings	–	–	–	135	–	135
Bank loans due 2024	**–**	**250**	**250**	–	–	–
Convertible bond due 2019	**–**	**–**	**–**	445	–	445
Total borrowings	**–**	**449**	**449**	779	–	779

9 Provisions

Accounting policies

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

	Onerous contracts £m	Disposal provision £m	Total £m
At 10 March 2019	1	1	2
Utilisation of provision	–	–	–
Amortisation of discount	–	–	–
At 7 March 2020 and 9 March 2019	1	1	2

	2020 £m	2019 £m
Disclosed as:		
Current	**2**	1
Non-current	**–**	1
	2	2

10 Taxation

Accounting policies

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

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

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

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches and joint ventures except where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

	Capital losses £m	Rolled over capital gains £m	Total £m
At 7 March 2020 and 9 March 2019	**21**	**(21)**	**–**

	2020 £m	2019 £m
Total deferred income tax liabilities	**(21)**	(21)
Total deferred income tax assets	**21**	21
Net deferred income tax liability recognised in non-current liabilities	**–**	–

11 Share capital and reserves

Accounting policies

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share capital, share premium and merger reserve

	2020 million	2019 million	2020 £m	2019 £m
Called up share capital				
Allotted and fully paid ordinary shares 28 4/7p	**2,217**	2,206	**634**	630
Share premium account				
Share premium	**–**	–	**1,159**	1,147

11 Share capital and reserves continued

The movements in the called up share capital, share premium and merger reserve accounts are set out below:

	Number of ordinary shares million	Ordinary shares £m	Share premium account £m	Merger reserve £m
At 10 March 2019	**2,206**	**630**	**1,147**	**568**
Allotted in respect of share option schemes	**11**	**4**	**12**	**–**
At 7 March 2020	**2,217**	**634**	**1,159**	**568**
At 11 March 2018	2,194	627	1,130	568
Allotted in respect of share option schemes	12	3	17	–
At 9 March 2019	2,206	630	1,147	568

Capital redemption and other reserves

	Financial assets at fair value through other comprehensive income £m	Cash flow hedge £m	Convertible bond £m	Total other reserves £m	Capital redemption reserve £m
At 10 March 2019	**3**	**–**	**5**	**8**	**680**
Amortisation of convertible bond – equity component	**–**	**–**	**(5)**	**(5)**	**–**
Tax on items charged to equity	**–**	**–**	**–**	**–**	**–**
At 7 March 2020	**3**	**–**	**–**	**3**	**680**
At 11 March 2018	11	(1)	13	23	680
Financial assets at fair value through other comprehensive income movements	2	–	–	2	–
Items reclassified from financial assets at fair value through other comprehensive income reserve	(10)	–	–	(10)	–
Items reclassified from cash flow hedge reserve	–	1	–	1	–
Amortisation of convertible bond – equity component	–	–	(8)	(8)	–
Tax on items charged to equity	–	–	–	–	–
At 9 March 2019	3	–	5	8	680

The financial assets at fair value through other comprehensive income reserve represents the fair value gains and losses on the financial assets at fair value through other comprehensive income held by the Company. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Company.

The convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014. This matured in November 2019.

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

12 Retained earnings

	2020 £m	2019 £m
Beginning of the year	**3,992**	4,224
Loss for the year	**(53)**	(54)
Dividends paid	**(247)**	(224)
Allotted in respect of share option schemes	**37**	38
Amortisation of convertible bond – equity component	**5**	8
End of the year	**3,734**	3,992

13 Contingent liabilities

Through the normal course of business, the Company has issued guarantees covering various commitments of its subsidiaries. No liabilities have been recognised in the Company's accounts as it is considered remote that the guarantees will be called on.

Additional shareholder information

Financial calendar

Q1 Trading Statement	1 July 2020
Annual General Meeting	2 July 2020
Interim results announced	5 November 2020
Q3 Trading Statement	13 January 2021
Preliminary Results announced	28 April 2021*
Annual General Meeting	1 July 2021*

* provisional dates

The interim dividend was paid on 20 December 2019.

Shareholder profiles

End of year information as at 7 March 2020.

	2020	2019
Number of shareholders	**113,914**	118,272
Number of shares in issue	**2,217,340,901**	2,206,007,678

By size of holding

	Shareholders %		Shares %	
	2020	2019	2020	2019
500 and under	**68.87**	68.80	**0.38**	0.40
501 to 1,000	**10.95**	10.98	**0.42**	0.44
1,001 to 10,000	**18.31**	18.37	**2.61**	2.70
10,001 to 100,000	**1.39**	1.36	**1.76**	1.81
100,001 to 1,000,000	**0.32**	0.34	**5.78**	6.41
Over 1,000,000	**0.16**	0.15	**89.05**	88.24
	100	100	**100**	100

By category of shareholder

	Shareholders %		Shares %	
	2020	2019	2020	2019
Individuals	**96.97**	96.83	**4.20**	4.31
Insurance Companies	**0.00**	0.00	**0.00**	0.00
Banks and Nominees	**1.17**	1.22	**84.90**	83.74
Investment Trusts	**0.01**	0.01	**0.00**	0.00
Pension Funds	**0.00**	0.00	**0.00**	0.00
Other Corporate Bodies	**1.85**	1.94	**10.90**	11.95
	100	100	**100**	100

Annual General Meeting (AGM)

The AGM will be held at 11.00am on Thursday, 2 July 2020 at 33 Holborn, London EC1N 2HT. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report and further details will be available on our website **www.about.sainsburys.co.uk**.

Registrars

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact:

Equiniti Registrars
Aspect House
Spencer Road
Lancing
BN99 6DA
Telephone: 0333 207 6557*

*Lines are open 9am to 5pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

Please remember to tell Equiniti if you move house or change bank details or if there is any other change to your account information.

You can view and manage your shareholding online at **www.shareview.co.uk**. You will require your 11-digit Shareholder Reference Number (SRN) to log in. It can be found on share certificates and dividend confirmations.

Dividends

Having your dividends paid directly into your bank or building society account is a more secure way than receiving your dividend by cheque. If you would prefer your dividends to be paid directly into your bank or building society account further information is available from Equiniti (address and telephone number above). You will still receive an annual dividend confirmation detailing each dividend to enable you to complete your tax return to HMRC.

Dividend Reinvestment Plan (DRIP)

The Company has a DRIP, which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. No new shares are allotted under this DRIP and approximately 24,926 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from the Registrars. Alternatively, you can elect to join the DRIP by registering for Shareview at **www.shareview.co.uk**.

Shareholder communications website

J Sainsbury plc Interim and Annual Reports, and results announcements are available via the internet on our website at **www.about.sainsburys.co.uk**. As well as providing share price data and financial history, the site also provides background information about the Company, regulatory and news releases, and current issues.

Electronic shareholder communications

The Company encourages all shareholders to receive their shareholder communications electronically in order to reduce our impact on the environment and has set up a facility for shareholders to take advantage of electronic communications. The service allows you to:

— View the Annual Report and Financial Statements on the day it is published
— Receive electronic notification of the availability of future shareholder information (you must register your email address for this service)
— Check the balance and current value of your shareholding and view your dividend history
— Submit your vote online prior to a general meeting

To register visit **www.shareview.co.uk**. You will need your 11-digit Shareholder Reference Number which can be found on your share certificate or recent dividend confirmation.

Shareholder security

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company annual reports. If you receive any unsolicited investment advice, whether over the telephone, through the post or by email. You should:

— make sure you get the name of the person and organisation
— check that they are properly authorised by the FCA before getting involved by visiting **https://register.fca.org.uk/**; and
— report the matter to the FCA either by calling 0800 111 6768 or by completing an online form at **www.fca.org.uk/consumers/report-scam-unauthorised-firm**.

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website **www.scamsmart.fca.org.uk**.

Share dealing services

To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or a high street bank who will usually be able to assist you. Alternatively, you may consider using:

— Equiniti who offer a telephone and internet facility, which gives shareholders the opportunity to trade at a known price. The telephone service is available from 8.00am to 4.30pm, Monday to Friday, excluding bank holidays, on telephone number 0371 384 2030. The internet share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting **http://www.shareview.co.uk/4/Info/Portfolio/Default/en/Home/products/pages/buyandsellshares.aspx**.

— The Share Centre Ltd who offer a postal dealing service and they can be contacted at The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or email **dealing@share.co.uk** and quote Sainsbury's

Further information and detailed terms and conditions are available on request by calling either provider.

American Depository Receipts (ADRs)

The Company has a sponsored Level I ADR programme for which The Bank of New York Mellon acts as depository. The ADRs are traded on the over-the-counter (OTC) market in the US under the symbol JSAIY, where one ADR is equal to four ordinary shares. All enquiries relating to ADRs should be addressed to:

Bank of New York Mellon
Shareholder Correspondence
PO Box 505000
Louisville
KY 40233-5000

Toll Free Telephone number for US domestic callers: 1-888-269-2377

International callers can call: +1-201-680-6825

Website: **www.mybnymdr.com**

Email: shrrelations@bnymellon.com

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form may be obtained from Equiniti. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from **www.sharegift.org**.

ProSearch

Sainsbury's has instructed ProSearch, a specialist tracing company, to identify and communicate with shareholders who may be owed dividends or shares in Sainsbury's. If you have received a communication from ProSearch and think you may be due some dividends or shares in Sainsbury's and would like further information, please contact ProSearch directly. You can call them on 0800 389 6479 or for more information visit **www.prosearchassets.com**.

Tax information – Capital Gains Tax (CGT)

For CGT purposes, the market value of J Sainsbury plc ordinary shares on 31 March 1982 adjusted for all capital adjustments was 91.99 pence and B shares 10.941 pence.

CGT information on historic Home Retail Group corporate actions can be found in the Investor Section on our website **www.about.sainsburys.co.uk/investors/shareholder-information/hrg-acquisition.**

Share capital consolidation

The original base cost of shares apportioned between ordinary shares of 28 4/7 pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding came into existence. The market value for CGT purposes of any share or security quoted on the Stock Exchange Daily Official List is generally the lower of the two quotations on any day plus one quarter of the difference between the values.

On Monday, 19 July 2004 the values were determined as follows:

New ordinary shares 257.5 pence

B shares 35 pence

Historic share capital consolidation information relating to Home Retail Group can be found in the Investor Section on our website **www.about.sainsburys.co.uk/investors**.

Key contacts and advisers

General contact details

For any customer enquiries please visit our websites:

— Sainsbury's **https://help.sainsburys.co.uk/help/**

— Argos **www.argos.co.uk/help/contact-us/**

— Habitat **www.habitat.co.uk/contact-us**

— Nectar **www.nectar.com/help**

— Sainsbury's Bank **www.sainsburysbank.co.uk/insuring/support/customer_support_zone**

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33 Holborn
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Registered number 185647

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Registrar

Equiniti Registrars
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Spencer Road
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BN99 6DA

www.shareview.co.uk

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitors

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Stockbrokers

UBS
5 Broadgate
London
EC2M 2QS

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Cautionary statement

Certain statements included in this Annual Report are forward-looking. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Alternative Performance Measures (APMs)

In the reporting of financial information, the Directors use various APMs which they believe provide additional useful information for understanding the financial performance and financial health of the Group. These APMs should be considered in addition to, and are not intended to be a substitute for IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures.

All of the following APMs relate the current period's results and comparative periods where provided.

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Income statement – Revenue			
Underlying Group sales	**Revenue**	Total sales less acquisition fair value unwinds on Argos Financial Services. This is the headline measure of revenue for the Group. It shows the annual rate of growth in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.	A reconciliation of the measure is provided in note 7 of the financial statements.
Underlying Retail sales	**Revenue**	Underlying Group sales as above, less underlying Financial Services revenue. Shows the annual rate of growth in the Group's Retail business sales.	A reconciliation of the measure is provided in note 7 of the financial statements.
Like-for-like sales	**No direct equivalent**	Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year. The relocation of Argos stores into Sainsbury's supermarkets are classified as new space, while the host supermarket is classified like-for-like. Stores closed in the period are also excluded from like-for-like at the point in which they close with prior year comparatives then removed from the calculation in the equivalent closure weeks. The measure is used widely in the retail industry as an indicator of current trading performance and is useful when comparing growth between retailers that have different profiles of expansion, disposals and closures.	The reported retail like-for-like sales (excluding fuel) decrease of (0.6) per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for the 52 weeks to 7 March 2020. See movements below:
Income statement – Profit			
Retail underlying operating profit	**Profit before tax**	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	A reconciliation of the measure is provided in note 7 of the financial statements.

	52 weeks to 7 March 2020	52 weeks to 9 March 2019
Underlying retail like-for-like (exc. fuel)	**(0.6)**	(0.2)
Underlying net new space impact	**0.2**	0.6
Underlying total retail sales growth (exc. fuel)	**(0.4)**	0.4
Fuel impact	**0.3**	1.7
Underlying total retail sales growth (inc. fuel)	**(0.1)**	2.1

Alternative Performance Measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Underlying profit before tax	**Profit before tax**	Profit or loss before tax excluding items which by virtue of their size or nature may obscure understanding of the Group's underlying performance.	Underlying profit before tax is bridged to statutory profit before tax in the income statement and note 6 of the financial statements. The adjusted items are as follows: — Financial Services transition – multi-year costs incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme. These principally comprise contractor and service provider costs relating to the migration of data and other services to the Bank's new infrastructure and operating model. — Profit on disposal of properties – such disposals are not part of the Group's underlying business — Investment property fair value movements – these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount at the previous reporting date and are held within the property JVs. The valuations are impacted by external market factors and can therefore vary significantly year-on-year. — Perpetual securities coupons – these are accounted for as equity in line with IAS 32 'Financial instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit as they are included by management when assessing Group borrowing. — Non-underlying finance movements – these include fair value remeasurements on derivatives not in a hedging relationship. The fair value measurements are impacted by external market factors and can fluctuate significantly year-on-year. Lease interest on impaired non-trading sites, including site closures, is excluded from underlying profit as those sites do not contribute to the underlying business. — IAS 19 pension expenses include the financing element and scheme expenses of the Group's defined benefit scheme. These are reported outside underlying profit as they no longer relate to the Group's ongoing activities following closure of the scheme to future accrual. — Acquisition adjustments – these reflect the adjustments arising from acquisitions including the fair value unwind and amortisation of acquired intangibles. — Other – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance and in the current year include the property strategy programme and retail restructuring programme.
Underlying basic earnings per share	**Basic earnings per share**	Earnings per share using underlying profit as described above.	A reconciliation of the measure is provided in note 12 of the financial statements.
Retail underlying EBITDAR	**No direct equivalent**	Retail underlying operating profit as above, before rent, depreciation and amortisation.	A reconciliation of the measure is provided on page 32 of the Financial Review.
Underlying net finance costs	**Finance income less finance costs**	Net finance costs before any non-underlying items as defined above that are recognised within finance income/expenses.	A reconciliation of this measure is included in note 10 of the financial statements. The adjusted items are as follows: — Fair value remeasurements on derivatives not in a hedging relationship. The fair value measurements are impacted by external market factors and can fluctuate significantly year-on-year. — Lease interest on impaired non-trading sites, including site closures, is excluded from underlying profit as those sites do not contribute to the underlying business. — The financing element of the Group's defined benefit scheme. This is reported outside underlying profit as it no longer relates to the Group's ongoing activities following closure of the scheme to future accrual. — Perpetual securities coupons – these are accounted for as equity in line with IAS 32 'Financial instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit as they are included by management when assessing Group borrowing.

Alternative Performance Measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Underlying tax rate	**Effective tax rate**	Tax on underlying items, divided by underlying profit before tax. Provides an indication of the tax rate across the Group before the impact of non-underlying items.	The tax on non-underlying items is included in note 6 of the financial statements.

Cash flows and net debt

Retail cash flow items in Financial Review — **No direct equivalent**

To help the reader understand cash flows of the business a summarised cash flow statement is included within the Financial Review.

As part of this a number of line items have been combined. The cash flow in note 7 of the financial statements includes a reference to show what has been combined in these line items.

	Ref	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Net interest paid	a	**(405)**	(423)
Strategic capital expenditure	b	**–**	(36)
Repayment of lease liabilities	c	**(419)**	(429)
(Repayment)/proceeds from borrowings	d	**(379)**	(446)
Other	e	**(3)**	(8)
Joint ventures	f	**143**	13

Retail free cash flow — **Net cash generated from operating activities**

Net cash generated from retail operations, after perpetual security coupons and cash capital expenditure but before strategic capital expenditure, and including payments of lease obligations, cash flows from joint ventures and associates and Sainsbury's Bank capital injections.

This measures cash generation, working capital efficiency and capital expenditure of the retail business.

Reconciliation of retail free cash flow	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Cash generated from retail operations	**1,971**	1,921
Net interest paid (ref (a) above)	**(405)**	(423)
Corporation tax	**(113)**	(61)
Retail purchase of property, plant and equipment	**(517)**	(466)
Retail purchase of intangible assets	**(82)**	(78)
Retail proceeds from disposal of property, plant and equipment	**81**	64
Initial direct costs on right-of-use assets	**(13)**	(11)
Repayments of obligations under leases[1]	**(419)**	(429)
Add back: Strategic capital expenditure	**–**	36
Dividends and distributions received	**143**	18
Investment in joint ventures and associates	**–**	(5)
Bank capital injections	**(35)**	(110)
Free cash flow	**611**	456

1 "Repayments of obligations under leases" excludes repayments of hire purchase arrangements.

Net cash generated from retail operations (per Financial Review) — **Cash generated from operations**

This enables management to assess the cash generated from its core retail operations.

A reconciliation between this and cash generated from operations per the accounts is shown here:

	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Retail cash generated from operating activities (per note 7)	**1,474**	1,456
Perpetual security coupons	**(23)**	(23)
Interest received	**2**	4
Net retail cash generated from operations in Financial Review	**1,453**	1,437

Core retail capital expenditure — **No direct equivalent**

Capital expenditure excludes Sainsbury's Bank, before proceeds on disposals and before strategic capital expenditure.

This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance.

The reconciliation from the cash flow statement is included here.

	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Purchase of property, plant and equipment	**(517)**	(430)
Purchase of intangibles	**(82)**	(78)
Cash capital expenditure before strategic capital expenditure (note 7)	**(599)**	(508)

Alternative Performance Measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Net debt	**Borrowings, cash, derivatives, financial assets at FVTOCI, lease liabilities**	Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. It is calculated as: financial assets at fair value through other comprehensive income (excluding equity investments) + net derivatives to hedge borrowings + net cash and cash equivalents + loans + lease obligations + perpetual securities. This shows the overall strength of the balance sheet alongside the liquidity and its indebtedness and whether the Group can cover its debt commitments.	A reconciliation of the measure is provided in note 31 of the financial statements. In addition, to aid comparison to the balance sheet, reconciliations between financial assets at FVTOCI and derivatives per the balance sheet and Group net debt (i.e. including Financial Services) is included below:

	7 March 2020 £m	9 March 2019 (restated) £m
Financial instruments at FVTOCI per balance sheet	**1,054**	856
Less equity-related securities	**(251)**	(233)
Financial instruments at FVTOCI included in Group net debt	**803**	623
Net derivatives per balance sheet	**(71)**	(4)
Less derivatives not used to hedge borrowings	**60**	(5)
Derivatives included in Group net debt	**(11)**	(9)

Net debt/ underlying EBITDAR	**No direct equivalent**	Net debt divided by Group underlying EBITDAR. This helps management measure the ratio of the business's debt to operational cash flow.	A reconciliation of this is provided in the Financial Review on page 35.
Other			
Return on capital employed	**No direct equivalent**	Return on capital employed is calculated as return divided by average capital employed. Return is defined as 52 week rolling underlying profit before interest and tax. Capital employed is defined as Group net assets excluding pension deficit/surplus, less net debt (excluding perpetual securities). The average is calculated on a 14 point basis. This represents the total capital that the Group has utilised in order to generate profits. Management use this to assess the performance of the business.	An explanation of the calculation is provided in the Financial Review on page 35.
Fixed charge cover	**No direct equivalent**	Group underlying EBITDAR divided by rent (representing capital and interest repayments on leases) and underlying net finance costs, where interest on perpetual securities is treated as an underlying finance cost. All items are calculated on a 52 week rolling basis.	EBITDAR is reconciled in the Financial Review on page 35.
		This helps assess the Group's ability to satisfy fixed financing expenses from performance of the business.	Underlying net finance costs as per note 10 of the financial statements.

Glossary

Annual General Meeting (AGM) – This year the AGM will be held on Thursday 2 July 2020 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am.

Argos Financial Services (AFS) – ARG Personal Loans Limited; Home Retail Group Card Services Limited; and Home Retail Group Insurance Services Limited.

bps – Basis points.

by Sainsbury's – Core own-label brand.

Click & Collect – Service which allows customers to place general merchandise and grocery orders online for collection in-store.

Corporate Responsibility and Sustainability (CR&S) – The need to act responsibly in managing our impact on a range of stakeholders: customers, colleagues, shareholders, suppliers, the community and the environment.

CPI – Consumer Price Index.

Dividend cover – Underlying profit after tax from continuing operations attributable to ordinary shareholders divided by total value of dividends declared during the year.

Earnings Per Share (EPS) – Earnings attributable to ordinary shareholders of the parent divided by the weighted average number of ordinary shares in issue during the year, excluding those held by ESOP Trusts, which are treated as cancelled.

Fair value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FVTPL – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

Group – The Company and its subsidiaries.

IFRIC – International Financial Reporting Interpretations Committee.

IFRSs – International Financial Reporting Standard(s).

Joint venture (JV) – A business jointly owned by two or more parties.

Kantar Worldpanel (Kantar) – An independent third party providing data on the UK Grocery Market.

Live Well for Less – Sainsbury's customer commitment to continue to help people live the life they want to live, with quality products at fair prices.

LTIP – Long-Term Incentive Plan.

MSC – Marine Stewardship Council.

Nectar – One of the most popular loyalty schemes in the UK.

PRA – Prudential Regulation Authority.

RPI – Retail Price Index.

Taste the Difference – Sainsbury's premium own-brand range of products.

Total Shareholder Return (TSR) – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

Tu – Sainsbury's own-label clothing range.

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