Registered Company number: 03896030

Stamford Properties Three Limited

Annual Report and Financial Statements

For the 52 weeks to 12 March 2016

Stamford Properties Three Limited
Strategic report
For the 52 weeks to 12 March 2016

Business review and principal activities
The Company's profit for the financial year was £102,944 (2015: £41,079 loss). The financial position as at 12 March 2016 is shown in the balance sheet on page 7.

The principal activity of the Company is property investment and rental of supermarkets to Sainsbury's Supermarkets Ltd.

All material operations are carried out in the United Kingdom.

A full review of the business and the market can be found in the 2016 Annual Report and Financial Statements of J Sainsbury plc, the ultimate parent undertaking, on the following website: www.j-sainsbury.co.uk.

Principal risks and uncertainties
From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of J Sainsbury plc and its subsidiaries (the 'Group') and are not managed separately. Accordingly the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 36 to 38 of the Group's Annual Report and Financial Statements 2016, which do not form part of this report.

Further details on the risks relating to the company are set out in note 15 to the financial statements.

Future developments
No change is planned in the activities of the Company in the next financial year.

Key performance indicators (KPIs)
The Directors of J Sainsbury plc manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, are discussed on pages 10 to 11 and 30 to 35 of the Group's annual report, which does not form part of this report.

Financial risk management
The financial risk management policies of the Company are disclosed in note 15 of the financial statements.

By order of the Board:

David O'Loan
Director
5 October 2016

Stamford Properties Three Limited
Directors' report
For the 52 weeks to 12 March 2016
Registered Company Number: 03896030

The Directors present their report and the audited financial statements of Stamford Properties Three Limited (the 'Company') for the 52 weeks to 12 March 2016. The prior financial year was the 52 weeks to 14 March 2015.

Dividends
During the financial year, there were no dividends recommended or paid (2015: £nil).

Directors
The Directors of Stamford Properties Three Limited who held office during the financial year and up to the date of signing the financial statements are shown below:

Richard Learmont	(resigned 2 October 2015)
Tim Fallowfield	
Sainsburys Corporate Director Limited	
David O'Loan	(appointed 14 October 2015)

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

Hazel Jarvis	(resigned 12 April 2016)
Anthony Guthrie	(appointed 12 April 2016)

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

Directors' indemnities
The Directors are entitled to be indemnified by the parent company, J Sainsbury plc, to the extent permitted by law and the Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The parent company purchased and maintained Directors' and Officers' liability insurance throughout 2015/16, which has been renewed for 2016/17. The insurance covers all Directors and Officers of companies in the J Sainsbury plc Group. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

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

Independent auditors
During the year, PricewaterhouseCoopers LLP resigned as auditors of the Company. Ernst & Young LLP were appointed as auditors for the year beginning 15 March 2015. Ernst & Young LLP have indicated their willingness to continue in office.

By order of the Board:

David O'Loan
Director
5 October 2016

Stamford Properties Three Limited
Statement of Directors' responsibilities
For the 52 weeks to 12 March 2016

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

By order of the Board:

David O'Loan
Director
5 October 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAMFORD PROPERTIES THREE LIMITED

We have audited the financial statements of Stamford Properties Three Limited for the 52 week period ended 12 March 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 12 March 2016 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STAMFORD PROPERTIES THREE LIMITED (CONTINUED)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ben Marles (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 October 2016

Stamford Properties Three Limited
Statement of comprehensive income
For the 52 weeks to 12 March 2016

	Note	2016 £	2015 £
Revenue		**3,301,449**	3,301,449
Cost of sales		**(3,079,973)**	(3,092,331)
Gross profit		**221,476**	209,118
Operating profit	4	**221,476**	209,118
Finance costs	6	**(571,571)**	(625,979)
Loss before tax		**(350,095)**	(416,861)
Income tax credit	7	**453,039**	375,782
Profit/(loss) for the financial year		**102,944**	(41,079)
Items that may be reclassified subsequently to the income statement:			
Available-for-sale financial assets fair value movements	9	**974,727**	(40,192,573)
Deferred tax relating to items that may be reclassified	12	**11,111,995**	8,038,716
Total other comprehensive income/(loss) for the financial year (net of tax)		**12,086,722**	(32,153,857)
Total comprehensive income/(loss) for the financial year		**12,189,666**	(32,194,936)

The notes on pages 9 to 21 form an integral part of these financial statements.

Stamford Properties Three Limited
Balance sheet
As at 12 March 2016 and 14 March 2015

	Note	**2016**	2015
		£	£
Fixed assets			
Investment property	8	**18,873,934**	21,953,907
Available-for-sale financial assets	9	**145,316,809**	144,342,082
		164,190,743	166,295,989
Current assets			
Trade and other debtors	10	**2,946,623**	2,972,680
		2,946,623	2,972,680
Total assets		**167,137,366**	169,268,669
Current liabilities			
Trade and other creditors	11	**(28,132,417)**	(30,888,352)
		(28,132,417)	(30,888,352)
Net current liabilities		**(25,185,794)**	(27,915,672)
Non-current liabilities			
Deferred income tax liability	12	**(18,272,915)**	(29,837,949)
		(18,272,915)	(29,837,949)
Net assets		**120,732,034**	108,542,368
Equity			
Called up share capital	13	**1**	1
Available-for-sale financial assets reserve		**125,760,391**	113,673,669
Accumulated losses	14	**(5,028,358)**	(5,131,302)
Total equity		**120,732,034**	108,542,368

The notes on pages 9 to 21 form an integral part of these financial statements.

The financial statements on pages 6 to 21 were approved by the Board of Directors on 5 October 2016 and are signed on its behalf by:

Ed Barker

Ed Barker
On behalf of Sainsburys Corporate Director Limited
Director

Stamford Properties Three Limited
Statement of changes in equity
For the 52 weeks to 12 March 2016

	Called up share capital	Available-for-sale financial assets reserve	Accumulated losses	Total equity
	£	£	£	£
At 15 March 2015	**1**	**113,673,669**	**(5,131,302)**	**108,542,368**
Profit for the financial year	-	-	**102,944**	**102,944**
Other comprehensive income:				
Available-for-sale financial assets fair value movements (net of tax)	-	**12,086,722**	-	**12,086,722**
Total comprehensive income for the financial year	-	**12,086,722**	**102,944**	**12,189,666**
At 12 March 2016	**1**	**125,760,391**	**(5,028,358)**	**120,732,034**

At 16 March 2014	1	145,827,526	(5,090,223)	140,737,304
Loss for the financial year	-	-	(41,079)	(41,079)
Other comprehensive expense:				
Available-for-sale financial assets fair value movements (net of tax)	-	(32,153,857)	-	(32,153,857)
Total comprehensive expense for the financial year	-	(32,153,857)	(41,079)	(32,194,936)
At 14 March 2015	1	113,673,669	(5,131,302)	108,542,368

The available-for-sale financial assets reserve represents the fair value adjustments to the Company's beneficial interest in a commercial property investment pool.

The notes on pages 9 to 21 form an integral part of these financial statements.

Stamford Properties Three Limited
Notes to the financial statements
For the 52 weeks to 12 March 2016

1. General information

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

The ultimate parent company and controlling party of the Company is J Sainsbury plc, which is registered in England and Wales, and forms the only group into which the financial statements of the Company are consolidated. Copies of the parent company's financial statements may be obtained from www.j-sainsbury.co.uk.

The Company's financial year represents the 52 weeks to 12 March 2016 (prior financial year: 52 weeks to 14 March 2015).

2. Accounting policies

(a) Statement of compliance

The 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 is a qualifying entity for the purposes of FRS 101. The Company's transition date to FRS 101 was 16 March 2013. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements. The results of the Company are consolidated into the Annual Report and Financial Statements 2016 of J Sainsbury plc, available on the Group's website.

FRS 101 sets out amendments to IFRS as adopted by the European Union that are necessary to achieve compliance with the Companies Act and related regulations. These amendments had no impact on the Statement of comprehensive income, Balance sheet or Statement of changes in equity for the Company for the year ended 12 March 2016.

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.

(b) Basis of preparation

The financial statements are presented in sterling, rounded to the nearest pound (£) unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for available-for-sale financial assets that have been measured at fair value.

The preparation of financial statements in conformity with FRS 101 requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

2. Accounting policies (continued)
(b) Basis of preparation

Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2(c).

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

New standards, interpretations and amendments to published standards

Effective for the Company in these financial statements:
The Company has considered the following new standards, interpretations and amendments to published standards that were effective for the Company for the financial year beginning 15 March 2015:

- Amendments to IFRS 2, 'Share-based payments' on the definition of vesting conditions
- Amendments to IFRS 3, 'Business combinations' on scope exclusions for joint ventures and the subsequent measurement of contingent considerations
- Amendments to IFRS 8, 'Operating segments' on aggregation of operating segments and reconciliations of assets
- Amendments to IFRS 13, 'Fair value measurements' on application of the portfolio exception
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' on the proportionate restatement of accumulated depreciation/amortisation
- Amendments to IAS 19, 'Employee benefits' on the recognition of employee contributions to defined benefit plans
- Amendments to IAS 24, 'Related party disclosures' on entities providing key management personnel services
- Amendments to IAS 40, 'Investment property' on the interrelationship between IFRS 3 and IAS 40

The Company has concluded that the above new standards, interpretations and amendments are either not relevant to the Company or that they do not have a significant impact on the Company's financial statements, apart from additional disclosure.

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

Revenue
Revenue consists of rental income for the provision of supermarkets. Revenue is recognised when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Rental income is recognised on an accruals basis.

Cost of sales
The cost of sales is made up solely of depreciation expenses relating to the Company's land and buildings, and fixtures and equipment.

2. Accounting policies (continued)

Finance costs
Finance costs comprises of interest on a loan from the parent company recognised in the income statement as it accrues.

Investment property
Investment properties are those properties held for capital appreciation and/or to earn rental income. They are initially measured at cost, which includes the original purchase price of the assets and the costs attributable to bringing the asset to its working condition for its intended use, including related transaction costs. After initial recognition at cost, they are measured using the "cost method" which is cost less accumulated depreciation and any recognised impairment loss.

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

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

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

Gains and losses on disposal are determined by comparing proceeds with the asset's carrying amount and are recognised within operating profit.

Impairment of non-financial assets
At each reporting date, the Company reviews the carrying amounts of its investment property to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value less costs to 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 investment property, the CGU is deemed to be each trading store.

Any impairment charge 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 accumulated depreciation if lower.

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, in which case the current tax is also dealt with in equity or other comprehensive income respectively.

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.

2. Accounting policies (continued)

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

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

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Financial instruments

Financial assets
The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale ('AFS').

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company has no intention of trading these loans and receivables. Subsequent to initial recognition at fair value plus transaction costs, these assets are carried at amortised cost less impairment using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Subsequent to initial recognition at fair value plus transaction costs, these assets are recorded at fair value with the movements in fair value recognised in other comprehensive income until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Dividends of AFS equity instruments are recognised in the income statement when the entity's right to receive payment is established. Interest on AFS debt instruments is recognised using the effective interest rate.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Trade receivables
Trade receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method less provision for impairment.

Financial liabilities
Payables are initially recorded at fair value, which is generally the proceeds received, net of direct issue costs. Subsequently these liabilities are held at amortised cost using the effective interest method.

Fair value estimation
The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed in note 16.

2. Accounting policies (continued)

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

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

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

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

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

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

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

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

(c) Judgements and estimates
The preparation of financial statements in conformity with FRS 101 requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those which are significant to the Company are discussed separately below: The judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are discussed below.

2. Accounting policies (continued)

Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating leases for lessors
The Company earns rental income through commercial property leases on its portfolio of stores. At inception of each lease, the terms and conditions of the arrangements are evaluated to assess whether the lease terms constitute a major part of the economic life of the assets and whether the present value of the minimum lease payments amount to substantially all of the fair value of the commercial property. Where there is no evidence of this, management conclude that the significant risks and rewards of ownership do not transfer and these leases are accounted for as operating leases, with the underlying asset presented in the balance sheet and lease income recognised over the lease term on a straight-line basis.

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

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

Impairment models are continually reviewed to ensure data and assumptions are appropriate with the most material assumption being around expected loss rates. The accuracy of any such impairment calculation will be affected by unexpected changes to the economic situation, and assumptions which differ from actual outcomes. As such, judgement is applied when determining the levels of provisioning.

Income taxes
The Company recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made. Details of the tax charge and deferred tax are set out in note 7 and note 12 respectively.

Fair value of investment property
The Company carries its investment properties using the "cost method" which is cost less accumulated depreciation and any recognised impairment loss. This investment property relates to extensions or refurbishments on properties in the investment pool. For disclosure purposes, the fair value as at 12 March 2016 was estimated to be the net book value.

3. Administrative expenses
Administrative charges, including the auditors' remuneration for the current and prior financial year, have been borne by Sainsbury's Supermarkets Ltd or other Group companies and have not been recharged to the Company.

4. Operating profit

	2016	2015
	£	£
Operating profit is stated after charging the following item:		
Property operating expenses	**3,079,973**	3,092,331

There were £nil (2015: £nil) direct operating expenses arising from investment property that did not generate rental income during the year.

5. Employee costs

The average monthly number of persons (including Directors) employed by the Company during the financial year was nil (2015: nil).

All of the Directors are also employees of the ultimate parent company, J Sainsbury plc, or other Group companies. The Directors' emoluments are borne by Sainsbury's Supermarkets Ltd, a Group company that makes no recharge to the Company. It is not possible to make an accurate apportionment of the Directors' emoluments as they serve as Directors to a number of Group companies. Accordingly, the income statement does not include emoluments in respect of the Directors.

6. Finance costs

	2016	2015
	£	£
Interest on amounts due to parent company	**571,571**	625,979

7. Income tax credit

	2016	2015
	£	£
Current tax credit:		
Over provision in prior years	**-**	-
Deferred tax credit:		
Origination and reversal of temporary differences	**(395,932)**	(396,262)
Change in tax rate	**(56,400)**	20,480
Over provision in prior years	**(707)**	-
	(453,039)	(375,782)
Total income tax credit in income statement	**(453,039)**	(375,782)

7. Income tax credit (continued)

The effective tax rate of 129.41 per cent (2015: 90.15 per cent) is higher than (2015: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	2016	2015
	£	£
Loss before tax	**(350,095)**	(416,861)
Income tax at corporation rate of 20.05% (2015: 21.09%)	**(70,194)**	(87,916)
Effects of:		
Non-qualifying depreciation	**118,512**	128,439
Over provision in prior years	**(707)**	-
Group relief claimed for £nil consideration	**(444,250)**	(436,785)
Deferred tax rate change	**(56,400)**	20,480
Income tax credit per income statement	**(453,039)**	(375,782)

Reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 20% to 19% effective from 1 April 2017 and to 18% from 1 April 2020. 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 further reduction in the corporation tax rate to 17%, rather than 18%, from 1 April 2020 was announced in the 2016 Budget. However, this further rate change was not substantively enacted at the balance sheet date, so its effect is not reflected in these financial statements.

8. Investment property

	Land and buildings	**Fixtures and equipment**	**Total**
	£	**£**	**£**
Cost			
At 15 March 2015	**34,562,865**	**10,499,630**	**45,062,495**
At 12 March 2016	**34,562,865**	**10,499,630**	**45,062,495**
Accumulated depreciation and impairment			
At 15 March 2015	**(16,537,566)**	**(6,571,022)**	**(23,108,588)**
Depreciation expense	**(2,215,623)**	**(864,350)**	**(3,079,973)**
At 12 March 2016	**(18,753,189)**	**(7,435,372)**	**(26,188,561)**
Net book value at 12 March 2016	**15,809,676**	**3,064,258**	**18,873,934**

8. Investment property (continued)

	Land and buildings £	Fixtures and equipment £	Total £
Cost			
At 16 March 2014	34,562,865	10,499,630	45,062,495
At 14 March 2015	34,562,865	10,499,630	45,062,495
Accumulated depreciation and impairment			
At 16 March 2014	(14,320,343)	(5,695,914)	(20,016,257)
Depreciation expense	(2,217,223)	(875,108)	(3,092,331)
At 14 March 2015	(16,537,566)	(6,571,022)	(23,108,588)
Net book value at 14 March 2015	18,025,299	3,928,608	21,953,907

The fair value of the investment property at 12 March 2016 was estimated to be the net book value.

There are no restrictions on the realisibility of the investment property or the remittance of income or the remittance of income or proceeds on disposals. There are no contractual obligations to purchase, construct or develop the investment property for repairs, maintenance or enhancements.

9. Available-for-sale financial assets

	2016 £	2015 £
Non-current		
Other financial asset	**145,316,809**	144,342,082

The other financial asset represents the Company'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 (2015: 0.8 per cent) and a weighted average cost of capital of nine per cent (2015: nine per cent). The available-for-sale financial asset is denominated in sterling. There were no disposals or impairment provisions on the available-for-sale financial asset in either the current or the previous financial year. See note 16 for sensitivity analysis.

The movements in the financial asset during the financial year are shown below.

Other financial asset	£
At 15 March 2015	**144,342,082**
Fair value movement	**974,727**
At 12 March 2016	**145,316,809**
At 16 March 2014	184,534,655
Fair value movement	(40,192,573)
At 14 March 2015	144,342,082

10. Trade and other debtors

	2016	2015
	£	£
Current		
Accrued income	**2,946,623**	2,972,680
Total trade and other debtors	**2,946,623**	2,972,680

The carrying amounts of trade and other debtors are denominated in sterling and are non-interest bearing. All amounts due are not considered overdue or impaired.

11. Trade and other creditors

	2016	2015
	£	£
Current		
Amounts due to parent company	**28,132,417**	30,888,352

The amounts due to the parent company are denominated in sterling, carry a floating rate of interest of base rate plus 1.5 per cent (2015: base rate plus 1.5 per cent) and all amounts are payable on demand. Details of interest charged on the amounts outstanding are disclosed in note 6. Refer to note 15 for sensitivity analysis.

12. Deferred income tax liability

The movements in deferred income tax liabilities during the financial year are shown below.

	Accelerated capital allowances	Fair value movements	Total
	£	£	£
At 15 March 2015	**(969,534)**	**(28,868,415)**	**(29,837,949)**
Credit to income statement	**453,039**	**-**	**453,039**
Credit to other comprehensive income	**-**	**11,111,995**	**11,111,995**
At 12 March 2016	**(516,495)**	**(17,756,420)**	**(18,272,915)**
At 16 March 2014	(1,345,316)	(36,907,131)	(38,252,447)
Credit to income statement	375,782	-	375,782
Credit to other comprehensive income	-	8,038,716	8,038,716
At 14 March 2015	(969,534)	(28,868,415)	(29,837,949)

13. Called up share capital

	2016 £	2015 £
Issued and fully paid		
Called up share capital: 1 (2015: 1) ordinary share of £1	**1**	1

14. Accumulated losses

	£
At 15 March 2015	(5,131,302)
Profit for the financial year	102,944
At 12 March 2016	**(5,028,358)**
At 16 March 2014	(5,090,223)
Loss for the financial year	(41,079)
At 14 March 2015	(5,131,302)

15. Financial risk management

Treasury management

Treasury policies are reviewed and approved by the ultimate parent company's board. The J Sainsbury plc Chief Executive and Chief Financial Officer have joint delegated authority from the ultimate parent company's board to approve finance transactions.

The Group operates a central treasury function which is responsible for managing the Company's liquid resources, funding requirements and interest rate and currency exposures. 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.

Interest rate risk

The Company's exposure to interest rate fluctuations is limited to amounts payable to the parent company. The Company is exposed to interest rate fluctuations as interest payable is calculated on the Bank of England base rate plus 1.5%.

Sensitivity analysis for variable rate instruments

The Company had £28,132,417 (2015: £30,888,352) payable to Group companies as at the balance sheet date of which £28,132,417 was interest bearing (2015: £30,888,352). The sensitivity of this balance and post-tax profit or loss to a change of 100 basis points in interest rates at the balance sheet date is shown below:

	2016 Change in interest rate +/- 1.0% £	2015 Change in interest rate +/- 1.0% £
Variable rate instruments	**(224,919)/112,459**	(243,740)/121,870

Liquidity risk

The Company's exposure to liquidity risk is managed by funding cash flow requirements from the parent company.

15. Financial risk management (continued)

Credit risk

The Company's exposure to credit risk is limited to accrued income arising from its beneficial interest in a commercial property investment pool. None of the amounts are past due or impaired.

Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide services to the Group and to maintain an optimal capital structure.

16. Financial instruments

Fair value

The available-for-sale financial asset represents the Company's beneficial interest in a commercial property investment pool. The asset is recognised at fair value plus transaction costs. The fair value is based on discounted cash flows. Fair value movements on available for sale financial assets are disclosed in note 9.

The fair values of receivables and payables with a maturity of less than one year are assumed to approximate their book values.

Financial assets and liabilities by category

Set out below is the accounting classification of each class of financial assets and liabilities as at 12 March 2016 and 14 March 2015.

	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Total
	£	£	£	£
At 12 March 2016				
Trade and other receivables	**2,946,623**	**-**	**-**	**2,946,623**
Available-for-sale financial assets	**-**	**145,316,809**	**-**	**145,316,809**
Trade and other creditors	**-**	**-**	**(28,132,417)**	**(28,132,417)**
	2,946,623	**145,316,809**	**(28,132,417)**	**120,131,015**
At 14 March 2015				
Trade and other receivables	2,972,680	-	-	2,972,680
Available-for-sale financial assets	-	144,342,082	-	144,342,082
Trade and other creditors	-	-	(30,888,352)	(30,888,352)
	2,972,680	144,342,082	(30,888,352)	116,426,410

16. Financial instruments (continued)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are recognised subsequent to initial recognition 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 those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
At 12 March 2016				
Available-for-sale financial assets	-	-	**145,316,809**	**145,316,809**
At 14 March 2015				
Available-for-sale financial assets	-	-	144,342,082	144,342,082

Reconciliation of Level 3 fair value measurements of financial assets:

	2016
	£
Opening balance	**144,342,082**
Total gains:	
In other comprehensive income	**974,727**
Closing balance	**145,316,809**

	2015
	£
Opening balance	184,534,655
Total losses:	
In other comprehensive income	(40,192,573)
Closing balance	144,342,082

The available-for-sale financial assets relate to the Company's beneficial interest in a property investment pool. The net present value of the interest in the various freehold reversions owned by the commercial property investment pool has been derived by assuming a property growth rate of 0.6 per cent per annum (2015: 0.8 per cent) and a discount rate of nine per cent per annum (2015: nine per cent). 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:

	2016		2015	
	Change in growth rate +/- 1.0%	**Change in discount rate +/- 1.0%**	Change in growth rate +/- 1.0%	Change in discount rate +/- 1.0%
	£	**£**	£	£
Available-for-sale assets	**14,941,116/ (14,029,131)**	**(9,416,807)/ 10,165,298**	16,442,342/ (15,293,721)	(10,426,174)/ 11,354,876