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Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable.

The Board believes that the disclosures set out in this Annual Report provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 42 to 43, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and Directors' Report contained in the Annual Report and Financial Statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
1 May 2018

Independent auditor's report to the members of J Sainsbury plc

In our opinion:

- J Sainsbury plc's consolidated financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 10 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited J Sainsbury plc's financial statements for the 52 weeks ended 10 March 2018 which comprise:

Group	Parent company
Consolidated income statement	Balance sheet
Consolidated statement of comprehensive income	Statement of changes in equity
Consolidated balance sheet	Related notes 1 to 11 to the financial statements
Consolidated cash flow statement	
Consolidated statement of changes in equity	
Related notes 1 to 38 to the financial statements including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework"(United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Use of our report

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 62 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 35 in the Annual Report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 35 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters

- Supplier arrangements
- Aspects of revenue recognition
- Financial Services customer receivables impairment
- Nectar acquisition
- IT environment

Audit scope

- We performed a full scope audit of the complete financial information of the following components: J Sainsbury plc, Sainsbury's Supermarkets, Argos and Sainsbury's Bank. We performed audit procedures on specific balances including for Argos Financial Services, Nectar, the property companies, material joint ventures and the insurance company due to the size and risk of certain individual balances within these components.
- The components where we performed full or specific audit procedures accounted for 92 per cent of Profit before tax before one off items, 99 per cent of Revenue and 96 per cent of Total assets.

Materiality

- Overall Group materiality is £30.8 million which represents five per cent of profit before tax and before non-recurring Argos integration costs, Sainsbury's Bank transition costs and restructuring costs. A reconciliation is provided below.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Changes from the prior year
The Group acquired three UK entities and the remaining share of the Insight 2 Communication LLP joint venture from Aimia Inc. (referred to as the "Nectar acquisition"). We have reflected this in our risk assessment, the results of which are below. We have designated the significant Nectar balances as specific scope. We have included the Nectar acquisition as a key audit matter.

In the prior year because of the acquisition of HRG in that year we included "HRG acquisition purchase price allocation" as a key audit matter. We have removed this risk for this year.

Risk

Supplier arrangements
Refer to Accounting policies (page 103); and note 2 of the Consolidated Financial Statements (page 103)

The Group receives material discounts from suppliers, referred to as supplier arrangements. The accounting for some of these supplier arrangements is complex since management applies judgement, processing is either manual or more complex and the quantum of agreements is high. We focused our audit procedures on these complex supplier arrangements.

Complex supplier arrangements recognised in the income statement for the financial year are £450 million (2016/17: £343 million).

Our response to the risk
- We walked through the controls in place within the supplier arrangements process. We were able to take a controls-reliance approach over certain aspects of the process, testing the key controls, although there are areas where we cannot as the process for recording deals is manual.
- We selected a sample of suppliers to whom we sent confirmations across all "deal" types to confirm key deal input terms. Where we did not receive a response from the supplier, we performed alternative procedures, including obtaining evidence of initiation and where possible settlement of the arrangement.
- We tested the existence and valuation of balance sheet amounts recognised in accounts receivable and as a contra-asset in accounts payable by reviewing post-period end settlement. We also performed a 'look-back' analysis of prior period balance sheet amounts to check that these amounts were appropriately recovered.
- We tested the settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by off-set to accounts payable.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier arrangements to corroborating evidence.
- We tested deals recorded post period end and obtained the supplier agreement to validate that the deal was correctly recorded post period end.
- We read management's disclosure in respect of supplier arrangements amounts recorded in the income statement and balance sheet to confirm completeness and accuracy of amounts disclosed.

Key observations communicated to the Audit Committee
Supplier arrangement amounts are appropriately recognised in the income statement and balance sheet and the disclosure in the financial statements is appropriate.

Risk

Aspects of revenue recognition
Refer to the Audit Committee Report (page 61); Accounting policies (page 109); and note 4 of the Consolidated Financial Statements (page 106)

Our assessment is that the vast majority of the Group's revenue transactions are non-complex, with no judgement applied over the amount recorded. We focused our work on the manual adjustments that are made to revenue.

Our procedures were designed to address the risk of manipulation of accounting records and the ability to override controls.

Our response to the risk
- We obtained a detailed understanding of these manual adjustments. Due to the manual nature of these adjustments, we performed substantive audit procedures.
- We used our computer-aided analytics tools to identify those revenue journals for which the corresponding entry was not cash. These entries include Nectar points, coupons, vouchers and commission arrangements.
- We obtained corroborating evidence for such corresponding entries. For the Nectar points adjustment we obtained evidence from the administrator of the scheme. For third party coupons and vouchers we obtained evidence of collection and settlement.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries impacting revenue, as well as other adjustments made in the preparation of the financial statements. We considered unusual journals such as those posted outside of expected hours, or by unexpected individuals and, for large or unusual amounts.

Key observations communicated to the Audit Committee
Adjustments to revenue have been appropriately recognised.

Risk

Financial Services customer receivables impairment
Refer to the Audit Committee Report (page 61); Accounting policies note 15b; and note 15c of the Consolidated Financial Statements (page 122)

Financial Services customer receivables relate to Sainsbury's Bank credit cards, loans and mortgages; and Argos store cards. Total amounts recognised at year end are £5,692 million (2016/17: £4,602 million). The provision for impairment is £132 million (2016/17: £89 million).

The risk of collectability of Financial Services customer receivables, through either credit cards, loans, mortgages or Argos store cards is significant. There is judgement in the assumptions applied to calculate the loan provisions against outstanding balances.

Our response to the risk
- The loan impairment methodology was reviewed, to confirm it was consistent with both the IFRS requirements and that previously applied.
- The completeness and accuracy of the data from underlying systems that were used in the impairment models were tested.
- Key assumptions including the probability of default and the size of the loss if default occurred were assessed against internal and external evidence. The key assumptions within the models were compared to knowledge of assumptions used and also with internal historical trends, concluding that, based on the evidence obtained, management's conclusions were supportable.
- Changes to the modelling assumptions were assessed to confirm these were appropriate and in line with accounting standards.
- The accuracy of prior year impairment reserves was considered to assess the quality of management's estimation process.

Key observations communicated to the Audit Committee
The provision for impairment of Financial Services receivables due from customers is appropriately recognised.

Risk

Nectar acquisition

Refer to the Audit Committee Report (page 61); Accounting policies (page 109); and note 2e of the Consolidated Financial Statements (page 103)

The Group acquired Nectar during the year. The provisional business combination fair values are outlined in note 31 to the financial statements.

We focused our audit effort on the IFRIC 13 accounting treatment for the loyalty points and the acquisition accounting of the acquired companies, with a particular focus on the valuation of the Nectar points liability, including the breakage assumption.

Our response to the risk

- We walked through the controls in place within the purchase price accounting process including specifically around the fair value of acquired assets and liabilities and the estimates applied in the recognised intangibles.
- We understood management's processes and controls surrounding the Nectar points liability and verified the inputs to the calculation.
- We corroborated management's estimate on the breakage assumption and understood how management arrived at a reasonable range.
- We understood the underlying accounting model IFRIC 13, and verified its application to the Nectar points accounting.

Key observations communicated to the Audit Committee

The Nectar acquisition has been appropriately recognised.

Risk

The IT environment

The IT systems across the Group are complex and there are varying levels of integration between them. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process.

For Sainsbury's Bank the key system relating to the customer loan receivable impairment as described above, is provided by an external party.

Our response to the risk

- We held discussions with management to understand the IT environment and walked through the key financial processes to understand where IT systems were integral to the Group's controls over financial reporting. From this we identified which IT systems to include in the scope for our detailed IT testing.
- We assessed the IT general controls environment for the key systems impacting the accurate recording of transactions and the presentation of the financial statements.
- We designed our IT audit procedures to assess the IT environment, including an assessment of controls over changes made to the system and controls over appropriate access to the systems.
- Where we found that adequate IT general controls were not in place, we performed additional substantive testing to mitigate the risk of material misstatement.
- For Sainsbury's Bank we received a report from the auditors on the general control environment of the outsourced systems and followed up on matters arising, performing further procedures as necessary.

Key observations communicated to the Audit Committee

We have not identified any misstatements in the financial statements due to the limitations of the IT environment.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts of the components of the Group in the Group financial statements, we selected the head office company J Sainsbury plc, Sainsbury's Supermarkets, Argos and Sainsbury's Bank components to perform full scope procedures. These represent the principal business units within the Group based on their size and risk characteristics.

For other entities including Argos Financial Services, Nectar, the property companies, material joint ventures and insurance components we performed audit procedures on specific accounts which we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining balances, none are individually greater than five per cent of the Group's profit before tax excluding one off items. For these accounts, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations, to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY network firms operating under our instruction. Of the full scope components, audit procedures were performed on the head office company, J Sainsbury plc, Sainsbury's and Argos trading entities and consolidation of the Group by the primary team. The work at the specific scope locations was performed by EY components in Edinburgh, the Isle of Man and the primary team.

For the Sainsbury's Bank full scope component this was our first year as auditor. During the current period's audit cycle, the Senior Statutory Auditor visited Sainsbury's Bank and held discussions with management. The team discussed the audit approach with the component team and significant issues arising from their work, reviewing key audit working papers on risk areas. The closing discussion was attended by the primary team. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £30.8 million, which is five per cent of profit before tax excluding the items described below. We believe that this materiality basis provides us with the best assessment of the requirements of the users of the financial statements. This is consistent with the approach taken in the prior period.

Starting basis	Profit before tax	£409m
Adjustments	Argos related non-underlying costs	£85m
	Sainsbury's Bank transition costs	£38m
	Restructuring costs	£85m
	Total	£208m
	Profit before tax and adjustments	**£617m**
Materiality	Materiality of £30.8 million (five per cent of profit before tax and after making the adjustments noted above).	

We determined materiality for the Parent Company to be £155 million (2016/17: £145 million), which is two per cent (2016/17: two per cent) of net assets. The materiality of the parent company is greater than the Group because the Parent Company is a holding Company with significant net assets.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was approximately 75 per cent (2016/17: 75 per cent) of our planning materiality, namely £23 million (2016/17: £25 million). We have set performance materiality at this percentage due to our assessment that the risk of material misstatement is not high.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £4 million to £17 million (2016/17: £5 million to £19 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.5 million (2016/17: £1.7 million), which is set at five per cent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report as set out on pages 1 to 86 other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 88 – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on page 56 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 47 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 88, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- those that relate to the form and content of the financial statements, such as the Group accounting policy, International Financial Reporting Standards as adopted by the EU (IFRS), the UK Companies Act 2006 and the UK Corporate Governance Code;
- those that relate to the payment of employees; and
- industry related such as compliance with the requirements of the Grocery Supply Code of Practice.

We understood how J Sainsbury plc is complying with those frameworks by observing the oversight of those charged with governance, the culture of honesty and ethical behaviour and a strong emphasis placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by making an assessment of the key fraud risks to the Group and the manner in which such risks may manifest themselves in practice, based on our previous knowledge of the Group as well as an assessment of the current business environment.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error. We evaluated the design and operational effectiveness of controls put in place to address the risks identified, or that otherwise prevent, deter and detect fraud. We also considered performance targets and their influence on efforts made by management to manage earnings.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the Audit Committee we were appointed by the Company at its Annual General Meeting on 8 July 2015. We have been the statutory auditor since that date.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the Financial Statements.

Nigel Jones
(Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London
1 May 2018

1 The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

for the 52 weeks to 10 March 2018

	Note	2018 £m	2017 £m
Revenue	4	**28,456**	26,224
Cost of sales		**(26,574)**	(24,590)
Gross profit		**1,882**	1,634
Administrative expenses	5	**(1,415)**	(1,207)
Other income	5	**51**	215
Operating profit		**518**	642
Finance income	6	**19**	34
Finance costs	6	**(140)**	(136)
Share of post-tax profit/(loss) from joint ventures and associates	12	**12**	(37)
Profit before tax		**409**	503
Analysed as:			
Underlying profit before tax	3	**589**	581
Non-underlying items	3	**(180)**	(78)
		409	503
Income tax expense	7	**(100)**	(126)
Profit for the financial year		**309**	377

	Note	Pence	Pence
Earnings per share	8		
Basic earnings		**13.3**	17.5
Diluted earnings		**12.7**	16.5
Underlying basic earnings		**20.4**	21.8
Underlying diluted earnings		**19.1**	20.4

The notes on pages 99 to 168 form an integral part of these financial statements.

Consolidated statement of comprehensive income

for the 52 weeks to 10 March 2018

	Note	2018 £m	2017 £m
Profit for the financial year		**309**	377
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	29	**592**	(407)
Current tax relating to items not reclassified	7	**19**	41
Deferred tax relating to items not reclassified	7	**(118)**	28
		493	(338)
Items that may be reclassified subsequently to the income statement			
Currency translation differences		**(4)**	5
Available-for-sale financial assets fair value movements		**14**	10
Items reclassified from available-for-sale assets reserve		**2**	(1)
Cash flow hedges effective portion of fair value movements		**(139)**	115
Items reclassified from cash flow hedge reserve		**50**	(87)
Current tax on items that may be reclassified	7	**–**	(1)
Deferred tax relating to items that may be reclassified	7	**13**	5
		(64)	46
Total other comprehensive income/(expense) for the year (net of tax)		**429**	(292)
Total comprehensive income for the year		**738**	85

The notes on pages 99 to 168 form an integral part of these financial statements.

Consolidated balance sheet

At 10 March 2018 and 11 March 2017

	Note	2018 £m	2017 Restated £m
Non-current assets			
Property, plant and equipment	10	**9,898**	10,006
Intangible assets	11	**1,072**	803
Investments in joint ventures and associates	12	**232**	237
Available-for-sale financial assets	13	**540**	435
Other receivables	15a	**44**	69
Amounts due from Financial Services customers	15b	**2,332**	1,916
Derivative financial instruments	24	**17**	10
		14,135	13,476
Current assets			
Inventories	14	**1,810**	1,775
Trade and other receivables	15a	**744**	574
Amounts due from Financial Services customers	15b	**3,360**	2,686
Available-for-sale financial assets	13	**203**	100
Derivative financial instruments	24	**10**	94
Cash and cash equivalents	25	**1,730**	1,083
		7,857	6,312
Assets held for sale	16	**9**	10
		7,866	6,322
Total assets		**22,001**	19,798
Current liabilities			
Trade and other payables	17a	**(4,322)**	(3,741)
Amounts due to Financial Services customers and other deposits	17b	**(4,841)**	(4,284)
Borrowings	27	**(638)**	(172)
Derivative financial instruments	24	**(53)**	(22)
Taxes payable		**(247)**	(219)
Provisions	18	**(201)**	(148)
		(10,302)	(8,586)
Net current liabilities		**(2,436)**	(2,264)
Non-current liabilities			
Other payables	17a	**(313)**	(304)
Amounts due to Financial Services customers and other deposits	17b	**(1,683)**	(637)
Borrowings	27	**(1,602)**	(2,039)
Derivative financial instruments	24	**(26)**	(38)
Deferred income tax liability	7	**(241)**	(162)
Provisions	18	**(166)**	(186)
Net retirement benefit obligations	29	**(257)**	(974)
		(4,288)	(4,340)
Net assets		**7,411**	6,872
Equity			
Called up share capital	19	**627**	625
Share premium account	19	**1,130**	1,120
Capital redemption reserve	20	**680**	680
Merger reserve	19	**568**	568
Other reserves	20	**121**	193
Retained earnings	22	**3,789**	3,190
Total equity before perpetual securities		**6,915**	6,376
Perpetual capital securities	21	**248**	248
Perpetual convertible bonds	21	**248**	248
Total equity		**7,411**	6,872

The prior year restatements relate to hindsight adjustments to the acquired Home Retail Group plc balance sheet as required under IFRS 3 'Business Combinations'. See note 31 for more information.

The notes on pages 99 to 168 form an integral part of these financial statements.

The financial statements on pages 94 to 168 were approved by the Board of Directors on 1 May 2018, and are signed on its behalf by:

Mike Coupe Chief Executive
Kevin O'Byrne Chief Financial Officer

Consolidated cash flow statement

for the 52 weeks to 10 March 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit before tax		**409**	503
Net finance costs		**121**	102
Share of post-tax (profit)/loss from joint ventures and associates		**(12)**	37
Operating profit		**518**	642
Adjustments for:			
Depreciation expense		**659**	600
Amortisation expense		**72**	28
Non-cash adjustments arising from acquisitions		**1**	12
Financial Services impairment losses on loans and advances		**68**	33
Profit on sale of properties		**(11)**	(101)
Loss on disposal of intangibles		**2**	36
Profit on disposal of joint ventures		**(4)**	–
Profit on disposal of Pharmacy business		**–**	(98)
Impairment charge of property, plant and equipment		**–**	55
Share-based payments expense		**33**	32
Retirement benefit obligations		**(151)**	(311)
Operating cash flows before changes in working capital		**1,187**	928
Changes in working capital			
Increase in inventories		**(36)**	(6)
Increase in current available-for-sale financial assets		**(192)**	(126)
(Increase)/decrease in trade and other receivables		**(44)**	37
Increase in amounts due from Financial Services customers and other deposits		**(1,161)**	(681)
Increase in trade and other payables		**142**	29
Increase in amounts due to Financial Services customers and other deposits		**1,602**	1,166
Increase/(decrease) in provisions and other liabilities		**28**	(24)
Cash generated from operations		**1,526**	1,323
Interest paid		**(89)**	(95)
Corporation tax paid		**(72)**	(75)
Net cash generated from operating activities		**1,365**	1,153
Cash flows from investing activities			
Purchase of property, plant and equipment		**(561)**	(634)
Purchase of intangible assets		**(140)**	(110)
Proceeds from disposal of property, plant and equipment		**54**	55
Acquisition of subsidiaries, net of cash acquired	31	**135**	101
Capital return to Home Retail Group plc shareholders	31	**–**	(226)
Share issuance costs on acquisition of Home Retail Group plc	31	**–**	(3)
Investment in joint ventures	12	**(9)**	(16)
Interest received		**14**	18
Dividends and distributions received	12	**37**	65
Net cash used in investing activities		**(470)**	(750)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**12**	6
Drawdown of short-term borrowings		**–**	448
Repayment of borrowings		**(148)**	(622)
Proceeds from borrowings		**174**	–
Purchase of own shares		**(14)**	–
Repayment of capital element of obligations under finance lease borrowings		**(26)**	(37)
Interest elements of obligations under finance lease payments		**(7)**	(8)
Dividends paid on ordinary shares	9	**(212)**	(230)
Dividends paid on perpetual securities	21	**(23)**	(23)
Net cash used in financing activities		**(244)**	(466)
Net increase/(decrease) in cash and cash equivalents		**651**	(63)
Opening cash and cash equivalents		**1,077**	1,140
Closing cash and cash equivalents	25	**1,728**	1,077

The notes on pages 99 to 168 form an integral part of these financial statements.

Consolidated statement of changes in equity

for the 52 weeks to 10 March 2018

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 12 March 2017		625	1,120	873	568	3,190	6,376	248	248	6,872
Profit for the year	21,22	–	–	–	–	291	291	12	6	309
Other comprehensive (expense)/income	20,22	–	–	(64)	–	493	429	–	–	429
Total comprehensive (expense)/income for the year ended 10 March 2018		–	–	(64)	–	784	720	12	6	738
Transactions with owners:										
Dividends	9,22	–	–	–	–	(212)	(212)	–	–	(212)
Distribution to holders of perpetual securities (net of tax)	21	–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	20,22	–	–	(8)	–	8	–	–	–	–
Share-based payment (net of tax)	30	–	–	–	–	33	33	–	–	33
Purchase of own shares	22	–	–	–	–	(14)	(14)	–	–	(14)
Allotted in respect of share option schemes	19,22	2	10	–	–	–	12	–	–	12
At 10 March 2018		**627**	**1,130**	**801**	**568**	**3,789**	**6,915**	**248**	**248**	**7,411**

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 13 March 2016		550	1,114	835	–	3,370	5,869	248	248	6,365
Profit for the year	21,22	–	–	–	–	359	359	12	6	377
Other comprehensive income	20,22	–	–	46	–	(338)	(292)	–	–	(292)
Total comprehensive income for the year ended 11 March 2017		–	–	46	–	21	67	12	6	85
Transactions with owners:										
Dividends	9,22	–	–	–	–	(232)	(232)	–	–	(232)
Acquisition of subsidiaries		75	–	–	568	(3)	640	–	–	640
Adjustment to consideration in respect of share options		–	–	–	–	3	3	–	–	3
Distribution to holders of perpetual securities (net of tax)	21	–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	20,22	–	–	(8)	–	8	–	–	–	–
Share-based payment (net of tax)	30	–	–	–	–	32	32	–	–	32
Purchase of own shares	22	–	–	–	–	(9)	(9)	–	–	(9)
Allotted in respect of share option schemes	19,22	–	6	–	–	–	6	–	–	6
At 11 March 2017		625	1,120	873	568	3,190	6,376	248	248	6,872

The notes on pages 99 to 168 form an integral part of these financial statements.

Notes to the consolidated financial statements

1 Basis of preparation

J Sainsbury plc is a public limited company (the 'Company') incorporated in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 33 Holborn, London EC1N 2HT, United Kingdom.

The financial year represents the 52 weeks to 10 March 2018 (prior financial year 52 weeks to 11 March 2017). The consolidated financial statements for the 52 weeks to 10 March 2018 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

Sainsbury's Bank and its subsidiaries have been consolidated for the 12 months to 28 February 2018 (28 February 2017). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

Nectar Loyalty Holding Limited and its subsidiaries have been consolidated for the four weeks from acquisition on 1 February 2018 to 28 February 2018. Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

The year ended 10 March 2018 includes 52 weeks of Home Retail Group results (11 March 2017: 27 weeks).

The Group's principal activities are Food, General Merchandise and Clothing retailing and Financial Services.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments, defined benefit pension scheme assets, investment properties and available-for-sale financial assets that have been measured at fair value.

Significant accounting policies have been included in the relevant notes to which the policies relate, and those relating to the financial statements as a whole can be read further below. Significant accounting policies have been applied consistently to all periods presented in the financial statements.

The prior year balance sheet has been restated this year. The restatements relate to hindsight adjustments to the acquired Home Retail Group plc balance sheet as required under IFRS 3 'Business Combinations'. See note 31 for more information.

Basis of consolidation

The consolidated financial statements of the Group consist of the financial statements of the ultimate parent company J Sainsbury plc, all entities controlled by the Company and the Group's share of its interests in joint ventures and associates.

a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. This is when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the income statement from the date of acquisition or, in the case of disposals, up to the effective date of disposal. Intercompany transactions and balances between Group companies are eliminated upon consolidation.

Sainsbury's Property Scottish Partnership, Sainsbury's Property Scottish Limited Partnership and now Insight 2 Communication LLP, are partnerships the Group has an interest in, which are fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships ('Accounts') Regulations 2008 and has therefore not appended the accounts of these qualifying partnerships to these accounts.

b) Joint ventures and associates

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

Investments in joint ventures and associates are carried in the Group balance sheet at historical cost plus post-acquisition changes in the Group's share of net assets of the entity, less any provision for impairment.

Associates are entities over which the Group has significant influence but not control.

Investment properties held by the Group are those contained within its joint ventures with Land Securities Group PLC and The British Land Company PLC. These are properties held for capital appreciation and/or to earn rental income. They are initially measured at cost, including related transaction costs. After initial recognition at cost, they are carried at their fair values based on market value determined by professional valuers at each reporting date. The difference between the fair value of an investment property at the reporting date and its carrying amount prior to remeasurement is included within the income statement (within the profit / (loss) from joint ventures line item) but is excluded from underlying profit in order to provide a clear and consistent presentation of the underlying performance of the Group's ongoing business for shareholders.

Foreign currencies

The consolidated financial statements are presented in sterling, which is the ultimate parent company's functional currency.

a) Foreign operations

On consolidation, assets and liabilities of foreign operations are translated into sterling at year-end exchange rates. The results of foreign operations are translated into sterling at average rates of exchange for the year.

b) Foreign currency transactions

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

Amendments to published standards

Effective for the Group and Company in these financial statements:

The Group considered the following amendments to published standards that are effective for the Group for the financial year beginning 12 March 2017 and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- Amendments to IAS 7 'Statement of Cash Flows' on the disclosures in financial statements
- Annual Improvements Cycle – 2014-2016
- Amendments to IFRS 12 'Disclosure of Interests in Other Entities': Clarification of the scope of disclosure requirements in IFRS 12

1 Basis of preparation continued

Standards and revisions effective for future periods:

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

- IFRS 9 'Financial Instruments', effective for the financial year commencing 11 March 2018
- IFRS 15 'Revenue from Contracts with Customers', effective for the financial year commencing 11 March 2018
- IFRS 16 'Leases', effective for the financial year commencing 10 March 2019

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued the complete version of IFRS 9, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The main changes the new standard introduces are:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising impairments of financial assets; and
- changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.

The changes will be applied by adjusting the Group balance sheet on 11 March 2018, the date of initial application, with no restatement of comparative information.

a) Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Financial assets are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. Classification is determined by the nature of the cash flows of the assets and the business model in which they are held. These categories replace the existing IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

The Group does not expect any material changes in relation to the classification and measurement of financial assets and liabilities, and the associated accounting policies as detailed in the notes to the financial statements.

b) Impairment

IFRS 9 introduces an expected credit loss impairment model that differs significantly from the incurred loss model under IAS 39 and is expected to result in earlier recognition of credit losses. Additional details on the key elements of the new expected credit loss model are described below. The most significant impact will be on Sainsbury's Bank's unsecured lending portfolios.

Expected credit loss (ECL) impairment model

Under IFRS 9, credit loss allowances will be measured on each reporting date according to a three-stage expected credit loss impairment model. As soon as a financial instrument is originated or purchased, 12-month expected credit losses must be recognised in profit and loss and an impairment allowance will be established (Stage 1). If the credit risk increases significantly (and the resulting credit quality is not considered to be low credit risk) full lifetime expected credit losses will be provided for (Stage 2). Under both Stage 1 and Stage 2, interest income is recognised on the gross carrying value of the financial asset. Financial assets will move into Stage 3 when they are considered to be credit impaired, i.e. when one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets will continue to recognise lifetime expected impairment losses and interest income will be recognised on the net carrying amount (i.e. gross amount less impairment allowance) – as under IAS 39.

The expected impact is an increase in impairment provisions held within the Financial Services business as at 11 March 2018 of approximately £80 million, with a corresponding reduction to retained earnings of approximately £66 million, net of deferred tax.

Post-Day 1 movements in the ECL provisions reported through the income statement are expected to reduce profits at the Bank next year and be more volatile than under IAS 39 due to the forward-looking nature of the new approach and the need to take account of future macro-economic conditions in the ECL modelling, which will be sensitive to management judgement and estimates.

c) Hedge accounting

When initially applying IFRS 9, the Group expects to exercise the accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for its macro hedging relationships (applicable to the Financial Services business) and will adopt IFRS 9 in respect of its micro hedge accounting. Although the micro hedge accounting requirements under IFRS 9 are generally less restrictive, this is not expected to have a material impact on the Group.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements of IFRS. Either a full retrospective application or modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 15 on 11 March 2018 using the full retrospective method. During the year-ended 11 March 2017, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis in the year-ended 10 March 2018.

The majority of sales transactions are for goods sold in-store and online, where the sale (and delivery in the case of online sales) of these items is the only performance obligation. Revenue recognition occurs at a point in time when control of the asset is transferred to the customer. This is generally when the goods are purchased in-store, or delivered to the customer. IFRS 15 therefore is not expected to have a material impact on the Group's consolidated financial statements.

The assessment also included areas that required additional specific consideration, including rights of return, principal vs agent considerations and Financial Services income. No material impact is expected to the Group's current revenue recognition policies which are disclosed in the notes to the financial statements.

Nectar loyalty programme

On 1 February 2018, the Group acquired the shares of Aimia Inc's UK business, enabling the full and independent operation of the Nectar loyalty programme in the UK. Refer to note 31 for further information.

Prior to acquisition, the Group's accounting policy for Nectar points was to recognise sales net of the cost of Nectar points issued and redeemed, based on agreed rates with Aimia UK. Since acquisition, any points issued and redeemed in Sainsbury's and Argos are accounted for in line with IFRIC 13 'Customer Loyalty Programmes'. Under IFRIC 13, on issuance of Nectar points within the Group, a portion of the transaction price is allocated to the loyalty programme using the fair value of points issued and a corresponding deferred revenue recognised in relation to points issued but not yet redeemed.

1 Basis of preparation continued

Under IFRS 15, the Group will need to allocate a portion of the transaction price to the loyalty programme based on relative standalone selling price instead of the allocation using the fair value of points issued, i.e. residual approach, as it did under IFRIC 13. Due to only consolidating four weeks of Nectar UK results during the year-ended 10 March 2018, the adjustment to current year revenue is not expected to be material. A more detailed assessment of the impact of IFRS 15 to the Group's consolidation of the Nectar scheme is currently underway.

IFRS 16 'Leases'

IFRS 16 was issued in January 2016 and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will supersede the current lease guidance including IAS 17 'Leases' and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and the Group plans to adopt IFRS 16 on 10 March 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

A preliminary assessment indicates that the Group's current operating lease arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify as low value or short-term leases upon the application of IFRS 16. The Group is also currently assessing service type arrangements to determine whether any of those are deemed to include an embedded lease which would fall under the scope of IFRS 16.

IFRS 16 allows a choice of transitional approaches, either:

i. The full retrospective approach where IFRS 16 is applied to each prior reporting period presented and an adjustment is made to the opening retained earnings of the earliest comparative period presented; or
ii. The modified retrospective approach where the cumulative effect of initially applying IFRS 16 is recognised at the date of initial application.

The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on reported assets, liabilities and the income statement of the Group.

The Group has a comprehensive project underway to assess the impact to the Group of the transitional approaches available, determine the preferred transitional approach and to assess the overall impact to the Group's financial position of adopting IFRS 16. The project has also assessed the data required under each of the transitional approaches and is currently addressing these comprehensive data requirements.

IFRS 16 is expected to have the largest impact on the Group's property portfolio and will impact the leases of the Sainsbury's supermarkets the most due to the size of their passing rentals and their generally longer-term leases. The Argos property portfolio is generally shorter term and of lower value and will be impacted less.

In contrast, for finance leases where the Group is a lessee, as the Group has already recognised an asset and a related finance lease liability for the lease arrangement, and in cases where the Group is a lessor (for both operating and finance leases), the Directors of the Company do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

IFRS 16 requires the use of judgements in certain key areas which will directly affect the impact to the Group on adoption. These include:

- The assessment of how reasonably certain it is considered to be that a lease option (extension, termination or purchase) will be exercised;
- The determination of an appropriate discount rate used to present value the lease liability and to initially measure the right-of-use asset; and
- When a lease is deemed to be embedded in a service type arrangement.

As part of the Group's implementation project, the Directors are evaluating what they believe to be appropriate judgements and policies to address the above.

2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those which are significant to the Group are discussed separately below:

Judgements

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

a) Non-current assets and liabilities held for sale

At each balance sheet date management assesses whether any assets, whose carrying amount will be recovered through a sale transaction rather than continued use, meet the definition of held for sale. Where there is an active plan in place to locate a buyer, management consider such assets to meet the criteria to be classified as held for sale if they are available for immediate sale and the sale is highly probable.

For more information on the assets and liabilities held for sale, refer to note 16.

2 Significant accounting judgements, estimates and assumptions continued

b) Operating lease commitments

The Group is party to commercial property leases on a number of its stores. At inception of each lease, the terms and conditions of the arrangements are evaluated to assess whether the lease terms constitute a major part of the economic life of the assets and whether the present value of the minimum lease payments amount to substantially all of the fair value of the commercial property. Where there is no evidence of this, management concludes that all the significant risks and rewards of ownership do not transfer to the Group and these leases are accounted for as operating leases. Further information about committed operating lease payments is included in note 32.

c) Consolidation of structured entities

A structured entity is one in which the Group does not hold the majority interest but for which management has concluded that voting rights are not the dominant factor in deciding who controls the entity. In making such an assessment, management considers the terms of the arrangement to assess who has responsibility for the management of the entity and its assets. Where the Group has this responsibility, it is deemed that the Group controls the entity and it is fully consolidated into the Group accounts. The structured entities applicable to the Group are Sainsbury's Property Scottish Partnership and Sainsbury's Property Scottish Limited Partnership.

d) Aggregation of operating segments

Management has determined the operating segments based on the information provided to the Operating Board (the Chief Operating Decision Maker for the Group) to make operational decisions on the management of the Group. Following the acquisition of Home Retail Group plc in September 2016, four operating segments were identified as follows:

- Retail – Food
- Retail – General Merchandise and Clothing
- Financial Services
- Property Investment

Management has considered the economic characteristics, similarity of products, production processes, customers, sales methods and regulatory environment of its two Retail segments. In doing so it has been concluded that they should be aggregated into one 'Retail' segment in the financial statements. This aggregated information provides users the financial information needed to evaluate the business and the environment in which it operates.

Estimates and assumptions

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

a) Impairment of assets

The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which it is allocated. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates, as disclosed in note 11. Actual outcomes could vary from these estimates.

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

Impairment loss calculations on loans and advances within Financial Services (note 15(b)) involve the estimation of future cash flows of financial assets, based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. This will typically take into account the level of arrears, security, past loss experience and default levels. These calculations are undertaken on a portfolio basis using various statistical modelling techniques.

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

b) Post-employment benefits

The Group operated two defined benefit schemes for its employees during the financial year – the Sainsbury's Pension Scheme and the Home Retail Group Scheme. The present value of the schemes' liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on the discount rate applied. During the financial year the Group has changed the model used for deriving the discount rate assumption for valuing the Scheme's liabilities under IAS 19 to use an approach that the Group believes better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes.

For long duration liabilities there exists limited data. Under the old model the extrapolation for long duration liabilities projected in line with a risk-free curve, whereas the new method extrapolates the available corporate bond data at a credit spread above gilt rates. In addition, in order to broaden the corporate bond dataset, we have assumed that 'high quality' corporate bonds are those for which at least one of the main ratings agencies considers to be at least AA (or equivalent), whereas in previous years we required that the majority of the rating agencies rated a bond as AA.

The discount rate used under the updated approach is 2.8 per cent. The resulting gain (recognised in other comprehensive income) is included within the £495 million of actuarial gains due to changes in financial assumptions as disclosed in note 29. This gain also includes movements due to inflation changes.

Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 29. The carrying value of the retirement benefit obligations will be impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate. Sensitivities to movements in the discount rate are included in note 29.

Subsequent to year-end, the Home Retail Group Pension Scheme was merged into the Sainsbury's Pension Scheme on 20 March 2018. The liabilities and assets are held in segregated sections – the Sainsbury's section and the Argos section.

2 Significant accounting judgements, estimates and assumptions continued

c) Provisions

Provisions have been made for onerous leases, onerous contracts, dilapidations, restructuring, insurance and long service awards. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events and market conditions. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. The carrying amount of provisions will be impacted by changes in the discount rate. Details of provisions are set out in note 18.

d) Determining fair values

The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, overdrafts and payables are assumed to approximate to their book values.

e) Revenue recognition – Fair value of Nectar points

The Group estimates the fair value of points awarded under the Nectar programme by reference to the value per point to a customer, multiplied by expected breakage assumptions. Breakage represents management's estimate of points issued that will never be redeemed. As points issued under the programme do not expire, such estimates are subject to uncertainty. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions that may affect members' redemption patterns.

On acquisition, if the breakage estimate of six per cent used in determining the deferred revenue for the Group had been one per cent lower, the acquired deferred points liability would have been £41 million higher. If the breakage estimate had been one per cent higher, the acquired deferred points liability would have been £41 million lower. Refer to note 31 for more information.

f) Supplier arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and administrative expenses and directly affect the Group's reported margin. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset. The four key types are as follows:

- Discounts and supplier incentives – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.
- Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.
- Supplier rebates – these are typically agreed on an annual basis, aligned with the Group's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes and requires estimates of the amount earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, agreements from suppliers are obtained to agree the value to be recognised at year-end, prior to it being invoiced. By aligning the agreements to the Group's financial year, where possible, the judgements required are minimised.
- Marketing and advertising income – income which is directly linked to the cost of producing the Argos catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Group, which is the point at which the catalogue costs are recognised.

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

	2018 £m	2017 £m
Within cost of sales		
Fixed amounts	**261**	204
Supplier rebates	**97**	87
Marketing and advertising income	**92**	52
Total supplier arrangements	**450**	343

Of the above amounts, the following was outstanding and held on the balance sheet at year-end:

	2018 £m	2017 £m
Within inventory	**(7)**	(9)
Within current trade receivables		
Supplier arrangements due	**23**	29
Within current trade payables		
Supplier arrangements due	**23**	25
Accrued supplier arrangements	**14**	13
Total supplier arrangements	**53**	58

The above amounts exclude supplier income in relation to discounts and supplier incentives which do not involve any level of judgement or estimation.

3 Non-GAAP performance measures

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

	2018 £m	2017 £m
Underlying profit before tax	**589**	581
Property related		
Profit on disposal of properties	**5**	98
Joint venture investment property fair value movements	**7**	(25)
Net impairment and onerous contract charge	**–**	(37)
Argos		
Transaction costs relating to the acquisition of Home Retail Group	**–**	(22)
Argos integration costs	**(75)**	(27)
Homebase separation	**(10)**	(4)
Sainsbury's Bank transition	**(38)**	(60)
Nectar UK		
Transaction costs relating to the acquisition of Nectar UK	**(2)**	–
Revaluation of previously held equity interest in Insight 2 Communication LLP	**4**	–
Divestments		
Business rationalisation	**–**	72
IT write-offs	**–**	(57)
Restructuring costs	**(85)**	(33)
Other		
Perpetual securities coupons	**23**	23
Non-underlying finance movements	**(2)**	10
Acquisition adjustments	**(2)**	8
IAS 19 pension expenses	**(5)**	(24)
Total adjustments	**(180)**	(78)
Profit before tax	**409**	503

Property related

- Profit on disposal of properties for the financial year comprised £11 million for the Group (2017: £101 million) included within other income and £(6) million for the property joint ventures (2017: £(3) million) included within share of post-tax profit from joint ventures and associates.
- Net impairment and onerous contract charge in the prior year comprised £(19) million within property, plant and equipment and £(18) million onerous lease provisions. There were no impairment charges nor reversals during the current financial year.

Argos

- Argos integration costs for the year of £(75) million were part of the previously announced £(130) million required over the three years in order to achieve the synergies of £160 million. These costs include the reallocation of property, dilapidations, lease-break costs and people costs.
- The Homebase separation and restructuring costs for the year of £(10) million were part of the revised anticipated total exceptional costs of £45 million.

Sainsbury's Bank transition

- Sainsbury's Bank transition costs of £(38) million (2017: £(60) million) were incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme.

Nectar UK

- Acquisition-related costs (included in administrative expenses and recognised outside underlying profit) amount to £(2) million in the year (see note 31). In addition, an acquisition fair value gain of £4 million on the previously held equity interest in Insight 2 Communication LLP has been recorded in other income (and excluded from underlying profit before tax).

Divestments

- Divestments in the prior year include £98 million profit on disposal of the Pharmacy business (included within other income), offset by £(26) million of costs incurred closing non-core businesses to enable the Group to focus on its strategy. This included the closure of Netto, Sainsbury's Entertainment and Phoneshops.
- The Group incurred £(57) million in the prior year in relation to the cessation of non-core IT projects. This includes £(36) million in property, plant and equipment (note 10), £(19) million in intangibles (note 11) and £(2) million other directly attributable costs.

Restructuring costs

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

3 Non-GAAP performance measures continued

Other

- The coupons on the perpetual subordinated capital securities and the perpetual subordinated convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit before tax.
- Non-underlying finance movements for the financial year comprised £1 million for the Group (2017: £12 million) and £(3) million for the joint ventures (2017: £(2) million).
- Acquisition adjustments of £(2) million (2017: £8 million) reflect the unwind of fair value adjustments arising from the Sainsbury's Bank, Home Retail Group and Nectar UK acquisitions and are split as follows:

	2018				2017			
	Financial Services £m	**Argos £m**	**Nectar £m**	**Total Group £m**	Financial Services £m	Argos £m	Nectar £m	Total Group £m
Revenue	**(3)**	**–**	**–**	**(3)**	(7)	–	–	(7)
Cost of sales	**–**	**2**	**–**	**2**	–	(5)	–	(5)
Depreciation	**–**	**(18)**	**–**	**(18)**	–	(6)	–	(6)
Amortisation	**(3)**	**22**	**(2)**	**17**	(6)	32	–	26
	(6)	**6**	**(2)**	**(2)**	(13)	21	–	8

- IAS 19 pension expenses comprise the pension financing charge of £(26) million (2017: £(16) million) and scheme expenses of £(10) million (2017: £(8) million). These are offset this year by a £31 million past service credit in relation to a Pension Increase Exchange (PIE) at retirement option introduced from 1 April 2018, following a deed of amendment signed during the financial year. Refer to note 29 for more information.

Cash flow statement

The table below shows the impact of non-underlying items on the Group cash flow statement, where not already separately presented in the cash flow statement:

	2018 £m	2017 £m
IAS 19 pension expenses	**(10)**	(8)
Sainsbury's Bank transition	**(38)**	(47)
Divestments	**(1)**	(5)
Argos integration costs	**(32)**	(12)
Transaction costs relating to acquisition of Home Retail Group	**–**	(22)
Homebase separation	**(14)**	(2)
Restructuring costs	**(28)**	(19)
Cash used in operating activities	**(123)**	(115)
Profit on disposal of properties	**54**	55
Divestments (sale of Pharmacy business)	**–**	(4)
Cash generated from investing activities	**54**	51
Net cash flows	**(69)**	(64)

The tax impact of adjusted items is included within note 7.

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4 Segment reporting

Background

The Group's businesses are organised into four operating segments:

- Retail – Food;
- Retail – General Merchandising and Clothing;
- Financial Services (Sainsbury's Bank plc and Argos Financial Services entities); and
- Property Investments (the British Land Company PLC joint venture and Land Securities Group PLC joint venture).

As discussed in note 2, the Food and General Merchandise and Clothing segments have been aggregated into a Retail segment in the financial statements.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. All material operations and assets are in the UK. The year ended 10 March 2018 includes 52 weeks of Home Retail Group results (11 March 2017: 27 weeks) and four weeks of Nectar UK results.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Income statement and balance sheet

52 weeks to 10 March 2018	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	**27,944**	**–**	**–**	**27,944**
Financial Services to external customers	**–**	**515**	**–**	**515**
Underlying revenue	**27,944**	**515**	**–**	**28,459**
Acquisition adjustment fair value unwind[1]	**–**	**(3)**	**–**	**(3)**
Revenue	**27,944**	**512**	**–**	**28,456**
Underlying operating profit	**625**	**69**	**–**	**694**
Underlying finance income	**14**	**–**	**–**	**14**
Underlying finance costs[2]	**(133)**	**–**	**–**	**(133)**
Underlying share of post-tax profit from joint ventures and associates	**4**	**–**	**10**	**14**
Underlying profit before tax	**510**	**69**	**10**	**589**
Non-underlying expense (note 3)				**(180)**
Profit before tax				**409**
Income tax expense (note 7)				**(100)**
Profit for the financial period				**309**
Assets	**13,897**	**7,872**	**–**	**21,769**
Investment in joint ventures and associates	**1**	**–**	**231**	**232**
Segment assets	**13,898**	**7,872**	**231**	**22,001**
Segment liabilities	**(7,694)**	**(6,896)**	**–**	**(14,590)**
Other segment items				
Capital expenditure[3]	**640**	**77**	**–**	**717**
Depreciation expense[4]	**651**	**8**	**–**	**659**
Amortisation expense[5]	**59**	**13**	**–**	**72**
Net impairment and onerous contract charge	**–**	**–**	**–**	**–**
Share-based payments	**30**	**3**	**–**	**33**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.
2 The coupons on the perpetual capital securities and the perpetual convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying finance costs, as detailed in note 3.
3 Retail capital expenditure consists of property, plant and equipment additions of £570 million and intangible asset additions of £70 million. Financial Services capital expenditure consists of property, plant and equipment additions of £8 million and intangible asset additions of £69 million.
4 Depreciation within the Retail segment includes an £18 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.
5 Amortisation expense within the Retail segment includes £20 million income in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK. Amortisation expense within the Financial Services segment includes a £(3) million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

4 Segment reporting continued

52 weeks to 11 March 2017	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	25,824	–	–	25,824
Financial Services to external customers	–	407	–	407
Underlying revenue	25,824	407	–	26,231
Acquisition adjustment fair value unwind[1]	–	(7)	–	(7)
Revenue	25,824	400	–	26,224
Underlying operating profit	626	62	–	688
Underlying finance income	18	–	–	18
Underlying finance costs[2]	(137)	–	–	(137)
Underlying share of post-tax profit from joint ventures and associates	–	–	12	12
Underlying profit before tax	507	62	12	581
Non-underlying expense (note 3)				(78)
Profit before tax				503
Income tax expense (note 7)				(126)
Profit for the financial period				377
Assets	13,637	5,924	–	19,561
Investment in joint ventures and associates	4	–	233	237
Segment assets (restated)	13,641	5,924	233	19,798
Segment liabilities (restated)	(7,762)	(5,164)	–	(12,926)
Other segment items				
Capital expenditure[3]	741	58	–	799
Depreciation expense	593	7	–	600
Amortisation expense[4]	18	10	–	28
Net impairment and onerous contract charge[5]	37	–	–	37
Share-based payments	30	2	–	32

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.
2 The coupons on the perpetual capital securities and the perpetual convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying finance costs, as detailed in note 3.
3 Retail capital expenditure consists of property, plant and equipment additions of £683 million and intangible asset additions of £58 million. Financial Services capital expenditure consists of property, plant and equipment additions of £12 million and intangible asset additions of £46 million.
4 Depreciation within the Retail segment includes a £6 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG.
5 Amortisation expense within the Retail segment includes £32 million income in relation to the unwind of fair value adjustments recognised on acquisition of HRG. Amortisation expense within the Financial Services segment includes £6 million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

4 Segment reporting continued

Cash flow

	APM reference	52 weeks to 10 March 2018 Retail £m	52 weeks to 10 March 2018 Financial Services £m	52 weeks to 10 March 2018 Group £m	52 weeks to 11 March 2017 Retail £m	52 weeks to 11 March 2017 Financial Services £m	52 weeks to 11 March 2017 Group £m
Profit/(loss) before tax		**382**	**27**	**409**	516	(13)	503
Net finance costs		**121**	**–**	**121**	102	–	102
Share of post-tax (profit)/loss from joint ventures and associates[1]		**(12)**	**–**	**(12)**	37	–	37
Operating profit		**491**	**27**	**518**	655	(13)	642
Adjustments for:							
Depreciation/amortisation		**710**	**21**	**731**	611	17	628
Non-cash adjustments arising from acquisitions[2]		**(2)**	**3**	**1**	5	7	12
Financial Services impairment losses on loans and advances		**–**	**68**	**68**	–	33	33
Profit on sale of properties		**(11)**	**–**	**(11)**	(101)	–	(101)
Loss on disposal of intangibles		**–**	**2**	**2**	22	14	36
Profit on disposal of joint ventures		**(4)**	**–**	**(4)**	–	–	–
Profit on disposal of Pharmacy business		**–**	**–**	**–**	(98)	–	(98)
Impairment charge of property, plant and equipment		**–**	**–**	**–**	55	–	55
Share-based payments expense		**30**	**3**	**33**	30	2	32
Retirement benefit obligations		**(151)**	**–**	**(151)**	(112)	–	(112)
Exceptional pension contributions		**–**	**–**	**–**	(199)	–	(199)
Operating cash flows before changes in working capital		**1,063**	**124**	**1,187**	868	60	928
Changes in working capital							
Decrease in working capital		**196**	**143**	**339**	61	334	395
Cash generated from operations		**1,259**	**267**	**1,526**	929	394	1,323
Interest paid	a	**(89)**	**–**	**(89)**	(95)	–	(95)
Corporation tax paid		**(72)**	**–**	**(72)**	(87)	12	(75)
Net cash generated from operating activities		**1,098**	**267**	**1,365**	747	406	1,153
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(473)**	**(8)**	**(481)**	(530)	(12)	(542)
Strategic capital expenditure	b	**(80)**	**–**	**(80)**	(92)	–	(92)
Purchase of property, plant and equipment		**(553)**	**(8)**	**(561)**	(622)	(12)	(634)
Purchase of intangible assets		**(69)**	**(71)**	**(140)**	(58)	(52)	(110)
Proceeds from disposal of property, plant and equipment		**54**	**–**	**54**	55	–	55
Acquisition of subsidiaries	c	**(33)**	**–**	**(33)**	(447)	–	(447)
Cash acquired upon acquisition of subsidiaries	c	**168**	**–**	**168**	548	–	548
Capital return to Home Retail Group plc shareholders	c	**–**	**–**	**–**	(226)	–	(226)
Share issuance costs on acquisition of Home Retail Group plc	c	**–**	**–**	**–**	(3)	–	(3)
Investment in joint ventures		**(9)**	**–**	**(9)**	(16)	–	(16)
Interest received	a	**14**	**–**	**14**	18	–	18
Dividends and distributions received[3]		**37**	**–**	**37**	65	–	65
Net cash used in investing activities		**(391)**	**(79)**	**(470)**	(686)	(64)	(750)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	**12**	**–**	**12**	6	–	6
Drawdown of short-term borrowings	d	**–**	**–**	**–**	448	–	448
Repayment of borrowings	d	**(148)**	**–**	**(148)**	(622)	–	(622)
Proceeds from long-term borrowings	d	**–**	**174**	**174**	–	–	–
Purchase of own shares	e	**(14)**	**–**	**(14)**	–	–	–
Repayment of capital element of obligations under finance lease payments	d	**(26)**	**–**	**(26)**	(37)	–	(37)
Interest elements of obligations under finance lease payments	a	**(7)**	**–**	**(7)**	(8)	–	(8)
Dividends paid on ordinary shares		**(212)**	**–**	**(212)**	(230)	–	(230)
Dividends paid on perpetual securities	a	**(23)**	**–**	**(23)**	(23)	–	(23)
Net cash used in financing activities		**(418)**	**174**	**(244)**	(466)	–	(466)
Intra group funding							
Bank capital injections		**(190)**	**190**	**–**	(130)	130	–
HRG acquisition and AFS loan book refinancing	c	**–**	**–**	**–**	585	(585)	–
Net cash (used in)/generated from intra group funding		**(190)**	**190**	**–**	455	(455)	–
Net increase/(decrease) in cash and cash equivalents		**99**	**552**	**651**	50	(113)	(63)

1 Includes £8 million (2017: £(18) million) relating to the Property Investment segment.
2 The total Group balance excludes a £1 million acquisition adjustment unwind expense (2017: £20 million income) already included in depreciation and amortisation in this note.
3 Included within dividends and distributions received is £30 million (2017: £55 million) of dividends received from property investment joint ventures.

5 Operating profit

Accounting policies

Revenue

Revenue consists of sales through retail outlets and online and, in the case of Financial Services, interest receivable, fees and commissions and excludes Value Added Tax. Revenue is recognised when the significant risks and rewards of goods and services have been passed to the buyer and it can be measured reliably.

a) Retail – sale of goods

Sales through retail outlets are shown net of returns, colleague discounts, vouchers and sales made on an agency basis. Commission income is recognised in revenue based on the terms of the contract. Prior to the acquisition of Nectar UK, revenue was also shown net of the cost of Nectar reward points issued and redeemed.

Prior to acquisition, the Group's accounting policy for Nectar points was to recognise sales net of the cost of Nectar points issued and redeemed, based on agreed rates with Aimia UK. Since acquisition, any points issued and redeemed in Sainsbury's and Argos are accounted for in line with IFRIC 13 'Customer Loyalty Programmes'. Under IFRIC 13, on issuance of Nectar points within the Group, a portion of the transaction price is allocated to the loyalty programme using the fair value of points issued and corresponding deferred revenue recognised in relation to points issued but not yet redeemed. The deferral is treated as a deduction from revenue. The fair value of the points awarded is determined with reference to the fair value to the customer and considers factors such as breakage and the money off that each point entitles a customer to. Deferred revenue is subsequently recognised when Nectar points are redeemed.

Sales of in-store goods are generally recognised at the point of cash receipt. For delivered goods, sales are recognised when the goods have been delivered.

b) Other income

Other income generally consists of profits and losses on disposal of assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. Nectar revenue earned from non-Sainsbury's redemption partners is included within other income and recognised once points have been redeemed.

c) Financial Services interest receivable

Interest income is recognised in the income statement for all instruments measured at amortised cost using the effective interest method. This calculation takes into account all amounts that are integral to the yield as well as incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset or liability at initial recognition.

d) Financial Services fees and commissions

Fees and commissions that are not integral to the effective interest rate calculation relate primarily to certain credit card and storecard fees, ATM interchange fees, insurance introduction commission and warranty commission receivable. These are recognised in the income statement on an accruals basis as services are provided. Where in the case of insurance commissions the income comprises an initial commission and profit share, both are recognised on completion of the service to the extent reliably measurable. Where there is a risk of potential claw back, an appropriate element of the commission receivable is deferred and amortised over the clawback period. Where the relevant contract requires Financial Services to perform future services in respect of the income receivable, initial commission is recognised on completion of the service provided, with an element deferred to reflect services yet to be performed in future periods.

e) Financial Services other operating income

Margin from the sale of travel money, representing the difference between the cost price and the selling price, is recognised when the sale to the customer takes place within other operating income.

Cost of sales

Cost of sales consists of all costs that are directly attributable to the point of sale including warehouse, transportation costs and all the costs of operating retail outlets. In the case of Financial Services, cost of sales includes interest expense on operating activities, calculated using the effective interest method.

Operating profit is stated after charging/(crediting) the following items:

	2018 £m	2017 £m
Employee costs (note 28)	**3,134**	2,878
Depreciation expense (note 10)[1]	**659**	600
Amortisation expense (note 11)[2]	**72**	28
Profit on disposal of properties (note 3)	**(11)**	(101)
Operating lease rentals		
– land and buildings	**706**	625
– other leases	**90**	80
– sublease payments receivable	**(54)**	(53)
Foreign exchange losses/(gains)	**22**	(7)
Impairment losses on loans and advances	**68**	33
Impairment and onerous contract charges (note 3)[3]	**–**	37
IT write-offs (note 3)	**–**	57

1 Depreciation expense includes £18 million (2017: £6 million) in relation to the unwind of acquisition adjustments.
2 Amortisation expense includes £20 million income (2017: £32 million) in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK, and a £3 million charge (2017: £6 million charge) in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.
3 Includes an impairment of £nil (2017: £19 million) recognised against property, plant and equipment as detailed in note 10.

5 Operating profit continued

	2018 £m	2017 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and consolidated financial statements	**1.0**	0.8
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**1.2**	0.9
Audit related assurance services	**0.2**	0.1
Tax advisory, tax compliance and other non-audit fees	**–**	0.1
Total fees	**2.4**	1.9

The increase in audit fees during the year is as a result of Sainsbury's Bank and its subsidiaries being audited by Ernst & Young LLP for the first time this financial year (previously audited by PricewaterhouseCoopers LLP).

6 Finance income and finance costs

Accounting policies

Finance income and costs, excluding those arising from Financial Services, are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method. For Financial Services, finance income and finance costs are recognised in revenue and cost of sales.

Interest paid and interest received for the purpose of the cash flow statement relates to Retail only, with Financial Services interest paid and interest received included in the net operating cash flow.

The coupons on the perpetual capital securities and perpetual convertible bonds are accounted for as dividends in accordance with IAS 32 'Financial Instruments: Presentation' and hence are not a finance cost.

	2018			2017		
	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Interest on bank deposits and other financial assets	**14**	**–**	**14**	18	–	18
Non-underlying finance movements	**–**	**5**	**5**	–	16	16
Finance income	**14**	**5**	**19**	18	16	34
Borrowing costs:						
Secured borrowings	**(79)**	**–**	**(79)**	(81)	–	(81)
Unsecured borrowings	**(30)**	**–**	**(30)**	(30)	–	(30)
Obligations under finance leases	**(7)**	**–**	**(7)**	(8)	–	(8)
Provisions – amortisation of discount (note 18)	**(1)**	**(4)**	**(5)**	(2)	(4)	(6)
	(117)	**(4)**	**(121)**	(121)	(4)	(125)
Other finance costs:						
Interest capitalised – qualifying assets (note 10)	**7**	**–**	**7**	7	–	7
IAS 19 pension financing charge (note 29)	**–**	**(26)**	**(26)**	–	(16)	(16)
Interest expense on Pharmacy sale advance proceeds	**–**	**–**	**–**	–	(2)	(2)
Perpetual securities coupon	**(23)**	**23**	**–**	(23)	23	–
	(16)	**(3)**	**(19)**	(16)	5	(11)
Finance costs	**(133)**	**(7)**	**(140)**	(137)	1	(136)

Non-underlying finance movements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship.

Following the refinancing of the Group's revolving credit facility (see note 27), £3 million of capitalised fees in relation to the previous facility have been recognised within borrowing costs this year.

7 Taxation

Accounting policies

Current tax

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

Deferred tax

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

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

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

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches and joint ventures except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

	2018 £m	2017 £m
Current year UK tax	**121**	124
Current year overseas tax	**1**	–
Over-provision in prior years	**(15)**	(11)
Total current tax expense	**107**	113
Origination and reversal of temporary differences	**(13)**	17
Under-provision in prior years	**5**	14
Revaluation of deferred tax balances	**1**	(18)
Total deferred tax (credit)/charge	**(7)**	13
Total income tax expense in income statement	**100**	126
Analysed as:		
Underlying tax	**142**	135
Non-underlying tax	**(42)**	(9)
Total income tax expense in income statement	**100**	126
Underlying tax rate	**24.1%**	23.2%
Effective tax rate	**24.4%**	25.0%

7 Taxation continued

The effective tax rate of 24.4 per cent (2017: 25.0 per cent) is higher than (2017: higher than) the standard rate of corporation tax in the UK of 19.06 per cent. The differences are explained below:

	2018 £m	2017 £m
Profit before tax	**409**	503
Income tax at UK corporation tax rate of 19.06% (2017: 20.05%)	**78**	101
Effects of underlying items:		
Disallowed depreciation on UK properties	**26**	27
Under/(over) provision in prior years	**3**	(1)
Revaluation of deferred tax balances	**2**	(9)
Other	**(1)**	2
Effects of non-underlying items:[1]		
Profit on disposal of properties	**1**	(8)
Joint venture investment property fair value movements	**(1)**	5
Net impairment and onerous contract charge	**–**	6
Transaction costs relating to the acquisition of Home Retail Group	**–**	4
Argos integration costs	**7**	1
Homebase separation	**1**	1
Sainsbury's Bank transition	**(2)**	–
Revaluation of previously held equity interest in Insight 2 Communication LLP	**(1)**	–
IT write-offs	**–**	1
Non-underlying finance movements	**–**	1
(Over)/under provision in prior years	**(12)**	4
Revaluation of deferred tax balances	**(1)**	(9)
Total income tax expense in income statement	**100**	126

1 Disclosed where the tax on non-underlying items differs from the statutory rate.

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

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

	Retirement benefit obligations[1] £m	Fair value movements[1] £m	Perpetual security coupons[2] £m	Total £m
52 weeks to 10 March 2018				
Current tax recognised in equity or other comprehensive income	**(19)**	**–**	**(5)**	**(24)**
Deferred tax recognised in equity or other comprehensive income	**118**	**(13)**	**–**	**105**
Income tax charged/(credited)	**99**	**(13)**	**(5)**	**81**
52 weeks to 11 March 2017				
Current tax recognised in equity or other comprehensive income	(41)	1	(5)	(45)
Deferred tax recognised in equity or other comprehensive income	(28)	(5)	–	(33)
Income tax credited	(69)	(4)	(5)	(78)

1 Recognised in other comprehensive income.
2 Recognised in equity.

7 Taxation continued

The current and deferred tax in relation to the Group's defined benefit pension scheme's remeasurements, available-for-sale fair value movements and perpetual securities coupons have been charged or credited through other comprehensive income where appropriate.

The movements in deferred income tax assets and liabilities during the financial year, prior to the offsetting of the balances within the same tax jurisdiction, are shown below:

	Accelerated capital allowances £m	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payments £m	Other £m	Total £m
At 12 March 2017 (restated)	**(166)**	**31**	**(48)**	**(84)**	**124**	**8**	**(27)**	**(162)**
Acquisition of subsidiaries	**3**	**–**	**16**	**–**	**–**	**–**	**–**	**19**
Prior year adjustment to income statement	**(11)**	**5**	**–**	**(2)**	**–**	**–**	**3**	**(5)**
Credit/(charge) to income statement	**17**	**(1)**	**–**	**1**	**(11)**	**2**	**5**	**13**
(Charge)/credit to equity or other comprehensive income	**–**	**–**	**15**	**–**	**(132)**	**–**	**–**	**(117)**
Rate change adjustment to income statement	**(2)**	**–**	**–**	**–**	**1**	**–**	**–**	**(1)**
Rate change adjustment to equity or other comprehensive income	**–**	**–**	**(2)**	**–**	**14**	**–**	**–**	**12**
At 10 March 2018	**(159)**	**35**	**(19)**	**(85)**	**(4)**	**10**	**(19)**	**(241)**
At 13 March 2016	(159)	51	(25)	(95)	19	7	(35)	(237)
Acquisition of subsidiaries (restated)	(19)	–	(28)	–	82	1	19	55
Prior year adjustment to income statement	(16)	(12)	–	15	–	–	(1)	(14)
Prior year adjustment to equity or other comprehensive income	–	–	9	–	–	–	–	9
Credit/(charge) to income statement	21	(7)	(2)	(10)	(6)	–	(13)	(17)
(Charge)/credit to equity or other comprehensive income	–	–	(6)	–	40	–	–	34
Rate change adjustment to income statement	7	(1)	2	6	1	–	3	18
Rate change adjustment to equity or other comprehensive income	–	–	2	–	(12)	–	–	(10)
At 11 March 2017 (restated)	(166)	31	(48)	(84)	124	8	(27)	(162)

	2018 £m	2017 £m
Total deferred income tax liabilities	**(286)**	(325)
Total deferred income tax assets	**45**	163
Net deferred income tax liability recognised in non-current liabilities	**(241)**	(162)

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

8 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan Trusts (note 22), which are treated as cancelled. For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated convertible bonds (net of tax).

The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the number of shares that would be issued if all senior convertible bonds and perpetual subordinated convertible bonds are assumed to be converted.

Underlying earnings per share is provided by excluding the effect of any non-underlying items as defined in note 3. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance. All operations are continuing for the periods presented.

	2018 million	2017 million
Weighted average number of shares in issue	**2,186.2**	2,049.0
Weighted average number of dilutive share options	**21.8**	18.2
Weighted average number of dilutive senior convertible bonds	**143.5**	137.7
Weighted average number of dilutive subordinated perpetual convertible bonds	**78.3**	75.1
Total number of shares for calculating diluted earnings per share	**2,429.8**	2,280.0

	£m	£m
Profit for the financial year (net of tax)	**309**	377
Less profit attributable to:		
Holders of perpetual capital securities	**(12)**	(12)
Holders of perpetual convertible bonds	**(6)**	(6)
Profit for the financial year attributable to ordinary shareholders	**291**	359

	£m	£m
Profit for the financial year attributable to ordinary shareholders	**291**	359
Add interest on senior convertible bonds (net of tax)	**12**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted earnings for calculating diluted earnings per share	**309**	377

	£m	£m
Profit for the financial year attributable to ordinary shareholders of the parent	**291**	359
Adjusted for non-underlying items (note 3)	**180**	78
Tax on non-underlying items	**(42)**	(9)
Add back coupons on perpetual securities (net of tax)[1]	**18**	18
Underlying profit after tax attributable to ordinary shareholders of the parent	**447**	446
Add interest on convertible bonds (net of tax)	**12**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**465**	464

	Pence per share	Pence per share
Basic earnings	**13.3**	17.5
Diluted earnings	**12.7**	16.5
Underlying basic earnings	**20.4**	21.8
Underlying diluted earnings	**19.1**	20.4

1 Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities (note 21) are added back.

9 Dividends

	2018 Pence per share	2017 Pence per share	2018 £m	2017 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**6.6**	8.1	**144**	155
Interim dividend of current financial year	**3.1**	3.6	**68**	77
	9.7	11.7	**212**	232

After the balance sheet date on 30 April 2018 a final dividend of 7.1 pence per share (2017: 6.6 pence per share) was proposed by the Directors in respect of the 52 weeks to 10 March 2018. This results in a total final proposed dividend of £156 million (2017: £144 million), an increase of 8.3 per cent on the previous year. Subject to shareholders' approval at the Annual General Meeting, the dividend will be paid on 13 July 2018 to the shareholders on the register at 8 June 2018. The proposed final dividend has not been included as a liability at 10 March 2018.

10 Property, plant and equipment

Accounting policies

a) Land and buildings

Land and buildings are held at historical cost less accumulated depreciation and any recognised provision for impairment. Capital work in progress is held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs to bringing the asset to its working condition for intended use. This includes capitalised borrowing costs.

b) Fixtures and equipment

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition and its intended use.

c) Depreciation

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

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

Capital work in progress is not depreciated.

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Retail property, plant and equipment, the CGU is deemed to be each trading store, store pipeline development site or in the case of Argos a cluster of stores. Non-store assets, including depots and IT assets, are reviewed separately, whilst Financial Services is deemed a separate CGU.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

Capitalisation of interest

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised to the cost of the asset, gross of tax relief.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

a) Finance leases

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

b) Lease incentives

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

c) Leases with predetermined fixed rental increases

The Group has a number of leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the term of the lease.

10 Property, plant and equipment continued

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 12 March 2017	**10,445**	**5,084**	**15,529**
Acquisition of subsidiaries (note 31)	**–**	**3**	**3**
Additions	**189**	**389**	**578**
Disposals	**(56)**	**(384)**	**(440)**
Transfer to assets held for sale	**(1)**	**–**	**(1)**
At 10 March 2018	**10,577**	**5,092**	**15,669**
Accumulated depreciation and impairment			
At 12 March 2017	**2,494**	**3,029**	**5,523**
Depreciation expense for the year	**199**	**460**	**659**
Disposals	**(36)**	**(375)**	**(411)**
At 10 March 2018	**2,657**	**3,114**	**5,771**
Net book value at 10 March 2018	**7,920**	**1,978**	**9,898**
Capital work-in-progress included above	**250**	**78**	**328**
Cost			
At 13 March 2016	10,114	5,145	15,259
Acquisition of subsidiaries (note 31)	111	151	262
Additions	301	394	695
Disposals	(71)	(607)	(678)
Transfer to assets held for sale	(11)	–	(11)
Exchange differences	1	1	2
At 11 March 2017	10,445	5,084	15,529
Accumulated depreciation and impairment			
At 13 March 2016	2,313	3,182	5,495
Depreciation expense for the year	193	407	600
Impairment loss for the year[1]	17	38	55
Disposals	(28)	(599)	(627)
Transfer to assets held for sale	(1)	–	(1)
Exchange differences	–	1	1
At 11 March 2017	2,494	3,029	5,523
Net book value at 11 March 2017	**7,951**	**2,055**	**10,006**
Capital work-in-progress included above	**213**	**86**	**299**

1 Prior year comprises an impairment reversal of £17 million which was recognised on land where there had been an increase in the market value during the year, and an impairment charge of £72 million recognised on assets where impairment indicators existed. Net charge of £55 million comprises £36 million of non-core IT assets, and £19 million of other fixed asset impairments, both as detailed in note 3.

10 Property, plant and equipment continued

Interest capitalised

Interest capitalised included in additions amounted to £7 million (2017: £7 million) for the Group. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £340 million (2017: £352 million) for the Group. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.1 per cent (2017: 4.0 per cent).

Security

Property, plant and equipment pledged as security is as follows:

	2018 Number of properties	**2018 Net book value £bn**	2017 Number of properties	2017 Net book value £bn
Loan due 2018 and Loan due 2031	**125**	**2.5**	125	2.6
Revolving credit facility	**60**	**1.3**	60	1.3
Sainsbury's Property Scottish Partnership	**24**	**0.6**	24	0.6
Bank loans due 2019	**10**	**0.2**	10	0.2
Other	**6**	**0.1**	6	0.1
	225	**4.7**	225	4.8

Analysis of assets held under finance leases

	2018 Land and buildings £m	**2018 Fixtures and equipment £m**	**2018 Total £m**	2017 Land and buildings £m	2017 Fixtures and equipment £m	2017 Total £m
Cost	**82**	**16**	**98**	82	1	83
Accumulated depreciation and impairment	**(35)**	**(2)**	**(37)**	(33)	–	(33)
Net book value	**47**	**14**	**61**	49	1	50

11 Intangible assets

Accounting policies

a) Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

b) Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are amortised on a straight-line basis over their useful economic lives of five to fifteen years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38 'Intangible Assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of five to fifteen years within administrative expenses.

c) Acquired intangible assets

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets with finite useful economic lives are carried at cost less accumulated amortisation and any provision for impairment and are amortised on a straight-line basis over their estimated useful economic lives, ranging from three to ten years, within administrative expenses.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

11 Intangible assets continued

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Other £m	Total £m
Cost						
At 12 March 2017	**254**	**429**	**218**	**–**	**–**	**901**
Acquisition of subsidiaries (note 31)	**147**	**13**	**12**	**32**	**–**	**204**
Additions	**–**	**139**	**–**	**–**	**–**	**139**
Disposals	**–**	**(56)**	**–**	**–**	**–**	**(56)**
At 10 March 2018	**401**	**525**	**230**	**32**	**–**	**1,188**
Accumulated amortisation and impairment						
At 12 March 2017	**4**	**50**	**44**	**–**	**–**	**98**
Amortisation expense for the year	**–**	**48**	**22**	**2**	**–**	**72**
Disposals	**–**	**(54)**	**–**	**–**	**–**	**(54)**
At 10 March 2018	**4**	**44**	**66**	**2**	**–**	**116**
Net book value at 10 March 2018	**397**	**481**	**164**	**30**	**–**	**1,072**

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Other £m	Total £m
Cost						
At 13 March 2016	142	231	39	–	10	422
Reclassification	–	10	–	–	(10)	–
Acquisition of subsidiaries (restated) (note 31)	119	143	179	–	–	441
Additions	–	104	–	–	–	104
Disposals	(7)	(59)	–	–	–	(66)
At 11 March 2017	254	429	218	–	–	901
Accumulated amortisation and impairment						
At 13 March 2016	4	59	29	–	1	93
Reclassification	–	1	–	–	(1)	–
Amortisation expense for the year	–	13	15	–	–	28
Disposals	–	(23)	–	–	–	(23)
At 11 March 2017	4	50	44	–	–	98
Net book value at 11 March 2017 (restated)	250	379	174	–	–	803

Goodwill comprises the following:

	2018 £m	2017 (restated) £m
Jacksons Stores Limited	**47**	47
Home Retail Group	**119**	119
Sainsbury's Bank plc	**45**	45
Nectar UK	**147**	–
Bells Stores Limited	**16**	16
Other	**23**	23
	397	250

The goodwill balances above are allocated to the respective cash-generating units (CGUs) or group of CGUs within the Retail or Financial Services segments. The CGUs to which goodwill has been allocated and the level at which it is monitored in the Retail segment are deemed to be the respective acquired retail chains of stores, whilst Financial Services is a separate CGU.

The value of the goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU or group of CGUs with the carrying value of its goodwill. The calculation of the Retail CGUs value in use is calculated on the cash flows expected to be generated by the stores using the latest budget and forecast data. Estimates of sales and costs are based on past experience and expectations of future changes in the market. Board approved cash flow projections for five years are used and then extrapolated out assuming flat cash flows and discounted at a pre-tax rate of nine per cent (2017: nine per cent) over the earlier of a 25-year period (being the estimated average remaining useful life of a freehold store) or lease length for leasehold stores. Financial Services CGUs value in use is calculated using Board approved cash flows discounted at a pre-tax rate of nine per cent (2017: nine per cent) over a five-year period with a terminal value.

Home Retail Group (acquisition of the Argos brand) is considered a separate CGU. Total value in use for Argos is calculated using total Board approved cash flows for the Argos business as a whole over a five-year period and then into perpetuity and discounted at a pre-tax rate of nine per cent. Goodwill arising on the purchase of Nectar has been allocated to the Group's Retail segment.

11 Intangible assets continued

Based on the operating performance of the CGUs, an impairment of goodwill of £nil was identified in the current financial year (2017: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill. Sensitivity analysis on the impairment tests for each group of CGU to which goodwill has been allocated has been performed. Management are satisfied that there are no changes to assumptions that would lead to impairment.

Additions to acquired brands and customer relationships in the current year arose from the acquisition of Nectar UK. The brand is amortised over five years whilst the customer relationships are amortised between one and five years. Additions to acquired brands in the prior year arose from the acquisition of HRG and relates to the Argos brand. This is being amortised over ten years.

12 Investments in joint ventures and associates

Accounting policies

The Group applies IFRS 11 'Joint Arrangements' to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

Investments in joint ventures and associates are carried in the Group balance sheet at historical cost plus post-acquisition changes in the Group's share of net assets of the entity, less any provision for impairment.

Associates are entities over which the Group has significant influence but not control.

The Group's principal joint venture is:

	Statutory year-end	Share of ordinary allotted capital	Country of registration or incorporation
BL Sainsbury Superstores Limited (British Land property investment)	31 March	50%	England

A full list of the Group's joint ventures is included in note 38. Joint ventures with a different year-end date to the Group are reported to include the results up to 28 February 2018, the nearest month-end to the Group's year-end. Adjustments are made for the effects of significant transactions or events that occurred between 28 February and the Group's balance sheet date.

	British Land £m	Other joint ventures £m	Total £m
At 12 March 2017	**205**	**32**	**237**
Additions	**–**	**9**	**9**
Disposals	**–**	**(2)**	**(2)**
Dividends and distributions received	**(30)**	**(7)**	**(37)**
Share of retained profit:			
Underlying profit after tax	**10**	**4**	**14**
Investment property fair value movements	**(1)**	**8**	**7**
Finance fair value movements	**(3)**	**–**	**(3)**
Share of loss on disposal of properties	**(7)**	**1**	**(6)**
Share of joint venture (loss)/profit after tax	**(1)**	**13**	**12**
Disposals from the Group	**13**	**–**	**13**
At 10 March 2018	**187**	**45**	**232**
At 13 March 2016	275	52	327
Additions[1]	–	18	18
Dividends and distributions received	(54)	(11)	(65)
Share of retained loss:			
Underlying profit after tax	12	–	12
Investment property fair value movements	(23)	(2)	(25)
Finance fair value movements	(2)	–	(2)
Share of loss on disposal of properties[2]	(5)	–	(5)
Other non-underlying joint venture items	–	(19)	(19)
Share of retained loss	(18)	(21)	(39)
Disposals to the Group[2]	2	–	2
Share of joint venture loss after tax	(16)	(21)	(37)
Disposals from the Group	–	(6)	(6)
At 11 March 2017	205	32	237

1 In the prior year, additions of £18 million include a non-cash element of £2 million.
2 In the prior year, total joint venture property losses of £(3) million as per note 3.

12 Investments in joint ventures and associates continued

On 1 February 2018, as part of the acquisition of Nectar UK the Group acquired an additional 50 per cent of the share capital of Insight 2 Communication LLP, previously a joint venture, making the company a wholly-owned subsidiary which has been consolidated within the Group results from the date of acquisition onwards. The joint venture had a carrying value of £2 million and a fair value of £6 million, leading to a non-underlying gain of £4 million. The acquisition of Nectar UK has been detailed in note 31.

The total assets, liabilities, income and expenses of the Group's principal joint venture BL Sainsbury Superstores Limited are detailed below:

	2018 £m	2017 £m
Non-current assets	**522**	769
Cash and cash equivalents	**80**	3
Current liabilities	**(21)**	(24)
Non-current liabilities	**(221)**	(324)
Joint venture net assets	**360**	424
Group share of joint venture net assets (at 50%)	**180**	212
Goodwill	**5**	5
Unrealised profit/(loss) on disposal of properties	**2**	(12)
Group share of joint venture net assets as disclosed above	**187**	205
Revenue	**40**	48
Other expenses	**(28)**	(61)
Interest expenses	**(15)**	(20)
Joint venture loss before tax	**(3)**	(33)
Analysed as:		
Underlying profit before tax	**24**	27
Investment property fair value movements	**(2)**	(45)
Finance fair value movements	**(6)**	(3)
Loss on disposal of properties	**(19)**	(12)
	(3)	(33)
Underlying income tax expense	**(4)**	(5)
Non-underlying income tax expense	**5**	2
Joint venture loss after tax	**(2)**	(36)
Total comprehensive expense	**(2)**	(36)

13 Available-for-sale financial assets

Accounting policies

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

	2018 £m	2017 £m
Non-current		
Equity		
Unlisted equity investment	–	2
Other financial assets	**177**	161
Debt		
Interest bearing financial assets	**40**	39
Financial Services related investment securities	**323**	233
	540	435
Current		
Debt		
Financial Services related investment securities	**203**	100
	743	535

The other financial asset predominantly represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of 0.6 per cent (2017: 0.5 per cent) and a weighted average cost of capital of nine per cent (2017: nine per cent). In the current year there was a £1.6 million disposal of an available-for-sale financial asset (2017: £nil). There were no impairment provisions in either the current or the previous financial year.

14 Inventories

Accounting policies

Inventories comprise goods held for resale and properties held for resale or in the course of development and are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

	2018 £m	2017 £m
Goods held for resale	**1,810**	1,774
Development properties	–	1
	1,810	1,775

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 10 March 2018 was £21,209 million (2017: £19,483 million).

15 Receivables

(a) Trade and other receivables

Accounting policies

Trade receivables are non-interest bearing and are on commercial terms. Other receivables have both non-interest and interest bearing receivables. Trade and other receivables are stated at their carrying amounts and are written off when management deems them uncollectable or forgiven.

	2018 £m	2017 £m
Non-current		
Other receivables	**35**	59
Prepayments and accrued income	**9**	10
	44	69
Current		
Trade receivables	**117**	106
Other receivables	**470**	312
	587	418
Prepayments and accrued income	**157**	156
	744	574

Current other receivables of £470 million (2017: £312 million), which include £213 million (2017: £165 million) of bank funds in the course of settlement, are generally non-interest bearing. The carrying amounts of trade and other receivables are denominated in sterling.

The Group's exposure to credit risk arising from its retail operations is minimal given that the customer base is large and unrelated and that the overwhelming majority of customer transactions are settled through cash or secure electronic means. New parties wishing to obtain credit terms with the Group are credit checked prior to invoices being raised and credit limits are determined on an individual basis.

(b) Amounts due from Financial Services customers

Accounting policies

Loans and advances are initially recognised at fair value and subsequently held at amortised cost, using the effective interest method, less provision for impairment and recognised on the balance sheet when cash is advanced. For the Financial Services portfolios of loans, such as credit card lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. Such evidence may include a missed interest or principal payment or the breach of a banking covenant.

Provisioning on unsecured balances identified as being in arrears is calculated based on past experience, with regularly updated assumptions. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement and a provision recognised in the balance sheet.

The written down value of the impaired loan is compounded back to the net realisable balance over time using the effective interest rate. This is reported through revenue within the income statement and represents the unwinding of the discount.

A write-off is made when all or part of a loan or advance is deemed uncollectable or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement. Subsequent recoveries of amounts written off decrease the charge for loan impairment in the income statement.

15 Receivables continued

An allowance for impairment losses is also maintained in respect of assets which are impaired at the balance sheet date but which have not been identified as such, based on historical loss experience and other relevant factors. This includes analysis of the likelihood of a particular balance to move into an arrears status within a defined period of time and application of an appropriate loss rate. The emergence period into an arrears state represents the average time elapsed between the loss trigger event and default. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results.

	2018 £m	2017 £m
Non-current		
Loans and advances to customers	**2,373**	1,948
Impairment of loans and advances	**(41)**	(32)
	2,332	1,916
Current		
Loans and advances to customers	**3,451**	2,743
Impairment of loans and advances	**(91)**	(57)
	3,360	2,686

Loans and advances to customers accrue interest at the effective interest rate. Financial Services has pledged the rights to £1,519 million (2017: £678 million) of its personal loans book with the Bank of England as collateral for its funding facilities. As at 10 March 2018 £950 million (2017: £nil) of borrowings were drawn under the Term Funding Scheme. There was no funding received under the Funding for Lending Scheme (2017: £260 million of Treasury Bills received) and the Indexed Long-Term Repo Facility (2017: £155 million of borrowings). Funding for Lending Treasury Bills could be converted to cash as a source of future funding to the Bank however none had been converted as at 11 March 2017.

Financial Services has assigned the beneficial interest in £379 million (2017: £378 million) of its personal loans book to a Special Purpose Entity for use as collateral in securitisation transactions, facilitating £312 million (2017: £311 million) of drawings.

Refer to note 23 for details on Financial Services credit risk.

(c) Provision for impairment of loans and advances

	2018 £m	2017 £m
Opening provision	**(89)**	(79)
Additional provisions	**(68)**	(33)
Utilisation of provision	**26**	24
Amortisation of discount	**(1)**	(1)
Closing provision	**(132)**	(89)

The Group acquired Home Retail Group plc in the prior year. The loan book fair value acquired was £615 million net of provisions. Gross provisions at the date of acquisition were £66 million which are not shown in the table above in line with IFRS 3 ‘Business Combinations’.

(d) Major counterparties

The Group has three major counterparties totalling £67 million (2017: two major counterparties totalling £55 million). No major counterparty balances are considered overdue or impaired.

16 Assets and liabilities held for sale

Accounting policies
Assets and liabilities are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable within one year from the date of classification and the assets and liabilities are available-for-sale in their present condition. Assets held for sale are stated at the lower of the carrying amount and fair value less costs to dispose.

	2018 £m	2017 £m
Assets held for sale		
Retail segment properties	**9**	10

Of the Group's assets held for sale at 11 March 2017, £2 million were sold during the current financial year. For the remaining assets, the sale is still considered probable in the next financial year and so they remain classified as held for sale.

17 Payables

(a) Trade and other payables

Accounting policies
The Group's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms on the timely submission of satisfactory invoices.

Accruals and deferred income/gains includes accounting for leases with fixed rental increases and lease incentives on a straight-line basis over the term of the lease.

	2018 £m	2017 £m
Current		
Trade payables	**2,852**	2,685
Other payables	**598**	571
Accruals and deferred income/gains	**872**	485
	4,322	3,741
Non-current		
Other payables	**12**	19
Accruals and deferred income/gains	**301**	285
	313	304

Foreign currency risk
The Group has net euro denominated trade payables of £35 million (2017: £17 million) and US dollar denominated trade payables of £56 million (2017: £64 million).

(b) Amounts due to Financial Services customers and banks

Accounting policies
With the exception of fixed rate bonds, amounts due to Financial Services customers are generally repayable on demand and accrue interest at retail deposit rates.

	2018 £m	2017 £m
Current		
Customer accounts	**4,667**	3,885
Other deposits	**49**	278
Senior secured loan notes	**125**	121
	4,841	4,284
Non-current		
Customer accounts	**313**	216
Other deposits	**1,183**	231
Senior secured loan notes	**187**	190
	1,683	637

Sainsbury's Bank, via its subsidiary undertakings, has entered a £400 million asset-backed commercial paper securitisation of consumer loans. Of this facility, £312 million had been drawn as at 10 March 2018 (11 March 2017: £311 million). Interest on the notes is repayable at a floating rate linked to three-month LIBOR and their contractual repayment is determined by cash flows on the relevant personal loans included in the collateral pool.

Other deposits of £1,232 million (2017: £509 million) relate to deposits from wholesale counterparties.

18 Provisions

Accounting policies

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation and where the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The need for provisions for onerous leases, measured net of expected rental income, is assessed when the leased property becomes vacant and is no longer used in the operations of the business or when the leased property relates to an unprofitable trading store. Provisions for dilapidation costs are recognised on a lease-by-lease basis.

Provisions for onerous contracts are recognised where expected cash outflows exceed the anticipated future benefits. The amounts provided are based on the Group's best estimate of the likely committed outflow net of anticipated future benefits and after any impairment of pipeline development site assets where applicable.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring.

	Onerous leases and onerous contracts £m	Insurance provisions £m	Restructuring £m	Financial Services related provisions £m	Other provisions £m	Total £m
At 12 March 2017 (restated)	**100**	**80**	**50**	**83**	**21**	**334**
Additional provisions	**60**	**35**	**81**	**–**	**12**	**188**
Unused amounts reversed	**(3)**	**(12)**	**–**	**–**	**(6)**	**(21)**
Utilisation of provision	**(38)**	**(25)**	**(37)**	**(31)**	**(8)**	**(139)**
Amortisation of discount	**5**	**–**	**–**	**–**	**–**	**5**
At 10 March 2018	**124**	**78**	**94**	**52**	**19**	**367**
At 13 March 2016	96	57	2	–	20	175
Acquisition of subsidiaries (restated)	–	28	31	108	8	175
Additional provisions	32	21	33	–	5	91
Unused amounts reversed	(5)	(5)	–	–	–	(10)
Utilisation of provision	(29)	(21)	(16)	(25)	(12)	(103)
Amortisation of discount	6	–	–	–	–	6
At 11 March 2017 (restated)	100	80	50	83	21	334

	2018 £m	2017 restated £m
Disclosed as:		
Current	**201**	148
Non-current	**166**	186
	367	334

18 Provisions continued

Onerous lease and contract provisions

The need for provisions for onerous leases, measured net of expected rental income, is assessed when the leased property becomes vacant and is no longer used in the operations of the business or when the leased property relates to an unprofitable trading store. Provisions for dilapidation costs are recognised on a lease-by-lease basis.

Provisions for onerous leases are recognised where expected cash outflows exceed the anticipated future benefits. The amounts provided are based on the Group's best estimate of the likely committed outflow, net of anticipated future benefits and after any impairment of pipeline development site assets where applicable.

The onerous lease provision covers residual lease commitments of up to an average of 34 years (2017: 32 years), after allowance for existing or anticipated sublet rental income.

Insurance provisions

The provision relates to the Group's outstanding insurance claims liabilities in relation to public and employer's liability claims, and third party motor claims. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent actuary and are intended to provide a best estimate of the most likely or expected outcome.

Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring. The charge for the year is driven by the announced transformational changes to the Group's in-store operating model, responding to changing customer shopping habits and reducing costs throughout the store estate.

Financial Services related provisions

Financial Services related provisions are primarily in relation to Argos Financial Services customers in respect of potential redress payable arising from the historic sales of Payment Protection Insurance (PPI), and in respect of potential customer redress payable in relation to other customer conduct issues arising from a review of the governance and risk management framework.

Other provisions

Provisions for warranties and long service awards have been included within other provisions.

19 Called up share capital, share premium and merger reserve

Accounting policies

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

	2018 million	2017 million	2018 £m	2017 £m
Called up share capital				
Allotted and fully paid ordinary shares 28 4/7p	**2,194**	2,188	**627**	625

	2018 £m	2017 £m
Share premium account		
Share premium	**1,130**	1,120

The movements in the called up share capital, share premium and merger reserve are set out below:

	Number of ordinary shares million	Ordinary shares £m	Share premium account £m	Merger reserve £m
At 12 March 2017	**2,188**	**625**	**1,120**	**568**
Allotted in respect of share option schemes	**6**	**2**	**10**	**–**
At 10 March 2018	**2,194**	**627**	**1,130**	**568**
At 13 March 2016	1,924	550	1,114	–
Acquisition of subsidiaries[1]	261	75	–	568
Allotted in respect of share option schemes	3	–	6	–
At 11 March 2017	2,188	625	1,120	568

1 261 million new J Sainsbury plc shares of 28 4/7p nominal value each were issued (being 0.321 new J Sainsbury plc shares per existing Home Retail Group plc share); fair value of the consideration is based on a J Sainsbury plc share price of £2.4610 as of 2 September 2016. This is accounted for as £75 million in share capital, plus the premium arising from the consideration in excess of the nominal amount of shares issued of £568 million, which is recognised in the merger reserve as the transaction qualified for merger relief.

20 Capital redemption and other reserves

	Currency translation reserve £m	Available-for-sale assets £m	Cash flow hedge £m	Convertible bond reserve £m	Total other reserves £m	Capital redemption reserve £m
At 12 March 2017	**8**	**143**	**21**	**21**	**193**	**680**
Currency translation differences	**(4)**	**–**	**–**	**–**	**(4)**	**–**
Available-for-sale financial assets fair value movements (net of tax)	**–**	**11**	**–**	**–**	**11**	**–**
Items reclassified from available-for-sale financial asset reserve	**–**	**2**	**–**	**–**	**2**	**–**
Cash flow hedges effective portion of fair value movements (net of tax)	**–**	**–**	**(123)**	**–**	**(123)**	**–**
Items reclassified from cash flow hedge reserve	**–**	**–**	**50**	**–**	**50**	**–**
Amortisation of convertible bond – equity component	**–**	**–**	**–**	**(8)**	**(8)**	**–**
At 10 March 2018	**4**	**156**	**(52)**	**13**	**121**	**680**
At 13 March 2016	3	126	(3)	29	155	680
Currency translation differences	5	–	–	–	5	–
Available-for-sale financial assets fair value movements (net of tax)	–	18	–	–	18	–
Items reclassified from available-for-sale financial asset reserve	–	(1)	–	–	(1)	–
Cash flow hedges effective portion of fair value movements (net of tax)	–	–	111	–	111	–
Items reclassified from cash flow hedge reserve	–	–	(87)	–	(87)	–
Amortisation of convertible bond – equity component	–	–	–	(8)	(8)	–
At 11 March 2017	8	143	21	21	193	680

The currency translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.

The available-for-sale assets reserve represents the fair value gains and losses on the available-for-sale financial assets held by the Group. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Group.

The convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014.

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

21 Perpetual securities

Accounting policies and key information

Perpetual securities (perpetual capital securities and perpetual convertible bonds) are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity and as a liability at the time it becomes obligated to pay the periodic return. Any associated tax impacts are recognised directly in equity.

On 30 July 2015 the Group issued £250 million of perpetual subordinated capital securities and £250 million of perpetual subordinated convertible bonds, collectively known as perpetual securities. Costs directly associated with the issue of £6 million were offset against the value of the proceeds. The securities are perpetual with no fixed redemption date. Holders of the perpetual securities do not benefit from any put option rights however the Group does have the right to call the perpetual subordinated capital securities at their principal amount on 30 July 2020, and the perpetual subordinated convertible bonds on 30 July 2021. The perpetual subordinated convertible bonds may be converted into ordinary shares of the Company at the option of the holders at any time up to 23 July 2021 at a conversion price of 315.0195 pence.

The Group has the right to defer coupons on the perpetual securities on any coupon payment date where the Company has not either paid a dividend on its ordinary shares or bought back ordinary shares (excluding shares bought to satisfy employee share schemes) within the previous 12 month period. The coupon rate on the perpetual subordinated capital securities increases after the fifth anniversary and for the perpetual subordinated convertible bonds after the sixth anniversary.

The next coupon date on the perpetual securities is 30 July 2018. As the Company paid a dividend to ordinary shareholders in the 12 months prior to this date (in January 2018), the periodic distributions of £7 million (2017: £7 million) for the perpetual subordinated capital securities and £16 million (2017: £16 million) for the perpetual subordinated convertible bonds have been recognised in the financial year.

	Perpetual capital securities £m	Perpetual convertible bonds £m
At 12 March 2017	**248**	**248**
Distributions to holders of perpetual securities	**(16)**	**(7)**
Current tax relief on distributions to holders of perpetual securities	**4**	**1**
Profit for the year attributable to holders of perpetual securities	**12**	**6**
At 10 March 2018	**248**	**248**
At 13 March 2016	248	248
Distributions to holders of perpetual securities	(16)	(7)
Current tax relief on distributions to holders of perpetual securities	4	1
Profit for the year attributable to holders of perpetual securities	12	6
At 11 March 2017	248	248

22 Retained earnings

	Own shares £m	Profit and loss account £m	Total retained earnings £m
At 12 March 2017	**(11)**	**3,201**	**3,190**
Profit for the year	**–**	**291**	**291**
Remeasurements on defined benefit pension schemes (net of tax)	**–**	**493**	**493**
Dividends paid	**–**	**(212)**	**(212)**
Amortisation of convertible bond-equity component	**–**	**8**	**8**
Share-based payment (net of tax)	**–**	**33**	**33**
Purchase of own shares	**(14)**	**–**	**(14)**
Allotted in respect of share option schemes	**19**	**(19)**	**–**
At 10 March 2018	**(6)**	**3,795**	**3,789**
At 13 March 2016	(21)	3,391	3,370
Profit for the year	–	359	359
Remeasurements on defined benefit pension schemes (net of tax)	–	(338)	(338)
Dividends paid	–	(232)	(232)
Acquisition of subsidiaries	–	(3)	(3)
Adjustment to consideration in respect of share options (note 31)	–	3	3
Amortisation of convertible bond equity component	–	8	8
Share-based payment (net of tax)	–	32	32
Purchase of own shares	(9)	–	(9)
Allotted in respect of share option schemes	19	(19)	–
At 11 March 2017	(11)	3,201	3,190

Own shares held by Employee Share Ownership Plan (ESOP) trusts

The Group owns 2,421,178 (2017: 4,303,928) of its ordinary shares of 28 4/7 pence nominal value each. At 10 March 2018, the total nominal value of the own shares was £0.7 million (2017: £1.2 million).

All shares (2017: all shares) are held by Group trusts for the Executive Share Plans. All Group trusts waive the rights to the dividends receivable in respect of the shareholder under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 10 March 2018 was £6 million (2017: £11 million).

23 Financial risk management

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

Financial risk management is managed by a central treasury department in accordance with policies and guidelines which are reviewed and approved by the Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying financial exposures and setting appropriate risk limits and controls. The risk management policies also ensure sufficient liquidity is available to the Group to meet foreseeable financial obligations and that cash assets are invested safely.

Financial risk management with respect to Financial Services is separately managed within the Financial Services' governance structure. The risks are more fully described in the Financial Services section below.

The Group uses forward contracts to hedge foreign exchange and commodity exposures, and cross currency swap contracts and interest rate swap contracts to hedge interest rate exposures. The use of financial derivatives is governed by Board approved policies which prohibit the use of derivative financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the Group could be unable to meet its financial obligations as they fall due.

The principal operational cash flow of the Group is largely stable and predictable reflecting the low business risk profile of the food retail sector and the cyclical profile of the non-food retail sector. Cash flow forecasts are produced to assist management in identifying future liquidity requirements. The Group's liquidity policy sets a minimum funding headroom of £400 million in excess of forecast net debt over a rolling 12 month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding contingent committed credit facilities.

On 17 October 2017 the Group refinanced its syndicated committed revolving credit facility. The £1,450 million facility is split into two facilities, a £300 million Facility (A) maturing in April 2023 and a £1,150 million Facility (B) consisting of three tranches: a £300 million tranche A maturing in October 2020, a £400 million tranche B maturing in October 2021 and a £450 million tranche C maturing in October 2022. As at 10 March 2018, £nil had been drawn (2017: £nil).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows or an estimate of cash flows in respect of floating interest rate liabilities.

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 10 March 2018				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	**(575)**	**–**	**–**	**–**
Loan due 2031[1]	**(68)**	**(71)**	**(227)**	**(698)**
Unsecured loans:				
Bank overdraft	**(2)**	**–**	**–**	**–**
Bank loans due 2019[2]	**(4)**	**(202)**	**–**	**–**
Convertible bond due 2019	**(6)**	**(453)**	**–**	**–**
Finance lease obligations[2]	**(37)**	**(18)**	**(27)**	**(202)**
Trade and other payables	**(4,037)**	**–**	**–**	**–**
Amounts due to Financial Services customers and banks[5]	**(4,841)**	**(722)**	**(1,205)**	**–**
Derivative contracts – net settled				
Commodity contracts	**1**	**–**	**–**	**–**
Interest rate swaps in hedging relationships[1,4]	**7**	**8**	**8**	**–**
Other interest rate swaps[4]	**–**	**–**	**–**	**–**
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	**(1,366)**	**(69)**	**–**	**–**
Foreign exchange forwards – inflow[3]	**1,323**	**68**	**–**	**–**
Commodity contracts – outflow	**(15)**	**(26)**	**(25)**	**(4)**
Commodity contracts – inflow	**13**	**20**	**22**	**5**

Assumptions:

1 Cash flows relating to debt and swaps linked to inflation rates have been calculated using a RPI of 2.6 per cent for the year ended 10 March 2018, 2.7 per cent for the year ending 9 March 2019 and 2.7 per cent for future years (2017: RPI of 1.3 per cent for the year ended 11 March 2017, 2.6 per cent for the year ended 10 March 2018, and 3.6 per cent for future years).

2 Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates as at 10 March 2018 and 11 March 2017.

3 Cash flows in foreign currencies have been translated using spot rates as at 10 March 2018 and 11 March 2017.

4 The swap rate that matches the remaining term of the interest rate swap as at 10 March 2018 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2017: 11 March 2017).

5 Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.

23 Financial risk management continued

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 11 March 2017				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	(137)	(575)	–	–
Loan due 2031[1]	(66)	(68)	(219)	(777)
Unsecured loans:				
Bank overdraft	(6)	–	–	–
Bank loans due 2019[2]	(4)	(4)	(202)	–
Convertible bond due 2019	(6)	(6)	(453)	–
Finance lease obligations[2]	(31)	(34)	(32)	(206)
Trade and other payables	(3,741)	–	–	–
Amounts due to Financial Services customers and banks[5]	(4,365)	(364)	(293)	–
Derivative contracts – net settled				
Commodity contracts	3	–	–	–
Interest rate swaps in hedging relationships[1, 4]	(5)	(4)	(9)	(5)
Other interest rate swaps[4]	(1)	–	–	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	(1,327)	(92)	–	–
Foreign exchange forwards – inflow[3]	1,405	97	–	–
Commodity contracts – outflow	(15)	(15)	(37)	(29)
Commodity contracts – inflow	12	12	27	29

Assumptions:

1 Cash flows relating to debt and swaps linked to inflation rates have been calculated using a RPI of 2.6 per cent for the year ended 10 March 2018, 2.7 per cent for the year ending 9 March 2019 and 4.0 per cent for future years (2017: RPI of 1.3 per cent for the year ended 11 March 2017, 2.6 per cent for the year ended 10 March 2018, and 3.6 per cent for future years).

2 Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates as at 10 March 2018 and 11 March 2017.

3 Cash flows in foreign currencies have been translated using spot rates as at 10 March 2018 and 11 March 2017.

4 The swap rate that matches the remaining term of the interest rate swap as at 10 March 2018 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2017: 11 March 2017).

5 Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.

Further information relating to liquidity risk in Financial Services is more fully described in the separate section on Financial Services financial risk factors below.

Counterparty credit risk

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of the Group's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers. The Group considers its maximum credit risk to be £8,980 million (2017: 6,967 million), equivalent to the Group's total financial assets and commitments, and of this amount £7,798 million relates to Financial Services (2017: £5,620 million).

The Group (excluding Financial Services) sets counterparty limits for each of its banking and investment counterparties based on their credit ratings. The minimum unsecured long-term credit rating accepted by the Group is BBB- (Standard & Poor's and Fitch) or Baa3 (Moody's) or, in the case of sterling liquidity funds, AAA or Aaa/MR1+ from Moody's. In the event of a split credit rating, the lower rating applies.

The table below analyses the Group's cash and cash equivalents by credit exposure excluding bank balances, store cash, cash in transit and cash at ATMs:

Counterparty	Long-term rating	Group 2018 £m	Group 2017 £m
Financial institutions – Money market funds	AAAm/Aaa	**299**	294
Financial institutions – Money market deposits	AAAm/Aaa	**30**	9
Financial institutions – Money market deposits	AA+/Aa1 to A/A2	**66**	100
UK Government Treasury Bills	AA+/Aa1 to A/A2	**–**	–
Deposits at central banks	AA+/Aa1	**683**	241

Management does not expect any losses arising from non-performance of deposit counterparties.

23 Financial risk management continued

Interest rate swaps, forward contracts and commodity contracts for difference are used by the Group to hedge interest rate, foreign currency and fuel exposures. The table below analyses the fair value of the Group's derivative financial assets by credit exposure, excluding any collateral held.

Counterparty	Long-term rating	Group 2018 £m	Group 2017 £m
Interest rate swaps	AA+/Aa1 to A/A2	**22**	25
FX forward contracts	AA+/Aa1 to A/A2	**2**	65
FX forward contracts	A/A3- to BBB+/Baa1	**1**	11
FX forward contracts	BBB-	**–**	1
Commodity forward contracts	AA+/Aa1 to A/A2	**1**	2

Further information relating to counterparty credit risk in Financial Services is more fully described in the section on Financial Services financial risk factors below.

Offsetting of financial assets and liabilities

The following table sets out the Group's financial assets and financial liabilities that are subject to counterparty offsetting or a master netting agreement. The master netting agreements regulate settlement amounts in the event either party defaults on their obligations.

				Amounts not offset in balance sheet		
	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	Net amounts recognised in the balance sheet £m	Balances subject to a contractual right of offset £m	Cash collateral pledged £m	Net amounts £m
At 10 March 2018						
Derivative financial assets	**27**	**–**	**27**	**(37)**	**–**	**(10)**
Derivative financial liabilities	**(79)**	**–**	**(79)**	**37**	**(8)**	**(50)**
Trade and other receivables	**823**	**(35)**	**788**	**–**	**–**	**788**
Cash and cash equivalents	**1,730**	**–**	**1,730**	**–**	**–**	**1,730**
Bank overdrafts	**(2)**	**–**	**(2)**	**–**	**–**	**(2)**
Trade and other payables	**(1,712)**	**35**	**(1,677)**	**–**	**–**	**(1,677)**
	787	**–**	**787**	**–**	**(8)**	**779**
At 11 March 2017						
Derivative financial assets	104	–	104	(2)	–	102
Derivative financial liabilities	(60)	–	(60)	2	19	(39)
Trade and other receivables	703	(60)	643	–	–	643
Cash and cash equivalents	1,083	–	1,083	–	–	1,083
Bank overdrafts	(6)	–	(6)	–	–	(6)
Trade and other payables	(1,705)	60	(1,645)	–	–	(1,645)
	119	–	119	–	19	138

The Group holds certain financial derivatives which are subject to credit support agreements. Under these agreements cash collateral is posted by one party to the other party should the fair value of the financial derivative exceed a pre-agreed level. As at 10 March 2018, the Group held no collateral against financial derivative assets (2017: nil).

Financial Services has derivatives that are governed by the International Swaps and Derivatives Association and their associated credit support annex bilateral agreements whereby if the fair value exceeds a pre-agreed level, cash collateral is exchanged. As at 10 March 2018, Financial Services and its subsidiary undertakings had received collateral of £8 million (2017: provided collateral of £19 million) against the derivatives.

The Group also operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. As at 10 March 2018, the Group had £2 million (2017: £6 million) under this facility.

Foreign currency risk

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

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

The Group has exposure to currency risk on balances held in foreign currency denominated bank accounts, which may arise due to short-term timing differences on maturing hedges and underlying supplier payments.

23 Financial risk management continued

The Group considers that a ten per cent movement in exchange rates against sterling is a reasonable measure of volatility. The impact of a ten per cent movement in the exchange rate of US dollar and euro versus sterling as at the balance sheet date, with all other variables held constant, is summarised in the table below:

Group	2018 Change in exchange rate impact on post-tax profit +/-10% £m	2018 Change in exchange rate impact on cash flow hedge reserve +/-10% £m	2017 Change in exchange rate impact on post-tax profit +/-10% £m	2017 Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	**19/(19)**	**(98)/119**	12/(15)	(114)/139
EUR/GBP	**1/(1)**	**(19)/23**	(2)/2	(10)/13

Interest rate risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates impacting on the Group's borrowing and investment portfolios. The Group's interest rate policy seeks to limit the impact of fluctuating interest and inflation rates by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

Interest on financial instruments is classified as fixed rate if interest re-sets on the borrowings are less frequent than once every 12 months. Interest on financial instruments is classified as floating rate if interest re-sets on the borrowings occur every 12 months or more frequently. Floating rate instruments are considered variable capped rate if the nominal interest rate is subject to a cap.

The mix of the Group's financial assets and liabilities at the balance sheet date was as follows:

Group	Fixed £m	Floating £m	Variable capped £m	Total £m
At 10 March 2018				
Interest bearing available-for-sale financial assets	**526**	**40**	**–**	**566**
Amounts due from Financial Services customers	**3,089**	**2,603**	**–**	**5,692**
Cash and cash equivalents	**583**	**1,147**	**–**	**1,730**
Borrowings	**(1,182)**	**(201)**	**(730)**	**(2,113)**
Finance lease obligations	**(87)**	**(40)**		**(127)**
Amounts due to Financial Services customers and banks	**(739)**	**(5,785)**	**–**	**(6,524)**
Derivative effect:				
Interest rate swaps	**(2,607)**	**2,607**	**–**	**–**
Inflation linked swaps	**(590)**	**–**	**590**	**–**
Total	**(1,007)**	**371**	**(140)**	**(776)**
At 11 March 2017				
Interest bearing available-for-sale financial assets	334	39	–	373
Amounts due from Financial Services customers	2,862	1,740	–	4,602
Cash and cash equivalents	423	660	–	1,083
Borrowings	(1,108)	(205)	(761)	(2,074)
Finance lease obligations	(88)	(50)	–	(138)
Amounts due to Financial Services customers and banks	(770)	(4,151)	–	(4,921)
Derivative effect:				
Interest rate swaps	(2,437)	2,437	–	–
Inflation linked swaps	(400)	–	400	–
Total	(1,184)	470	(361)	(1,075)

23 Financial risk management continued

Further information relating to interest rate risk in Financial Services is more fully described in the section on Financial Services financial risk factors below.

(i) Cash flow sensitivity for floating rate instruments

The Group considers that a 100 basis point movement in interest rates is a reasonable measure of volatility. The sensitivity of floating rate balances to a change of 100 basis points in the interest rate (or such lesser amount as would result in a zero rate of interest) at the balance sheet date is shown below:

	2018 Impact on post-tax profit £m	**2018 Impact on cash flow hedge reserve £m**	2017 Impact on post-tax profit £m	2017 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(8)/5**	**10/(5)**	(10)/5	2/(2)

(ii) Cash flow sensitivity for variable capped rate liabilities

The Group holds £730 million of capped inflation-linked borrowings (2017: £761 million) of which £590 million (2017: £400 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing April 2018 to April 2023.

The Group considers that a 100 basis point movement in the RPI rate is a reasonable measure of volatility. The sensitivity of variable capped balances to a change of 100 basis points in the RPI rate at the balance sheet date is shown below:

	2018 Impact on post-tax profit £m	**2018 Impact on cash flow hedge reserve £m**	2017 Impact on post-tax profit £m	2017 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(6)/6**	**20/(22)**	(3)/3	2/(2)

Commodity risk

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

The Group hedges own use consumption of electricity and gas with forward purchases under flexible purchasing arrangements with its suppliers. The Group uses a combination of purchasing agreements and financial derivatives to hedge fuel exposures on a layered basis using contracts for difference.

The Group considers a ten per cent movement in commodity prices a reasonable measure of volatility.

	2018 Impact on cash flow hedge reserve £m	2017 Impact on cash flow hedge reserve £m
Change in the fair value of electricity, diesel and gas price +/-10%	**2/(2)**	2/(2)

Capital risk management

The Group defines capital as total equity plus net debt.

The Board's capital objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide optimal returns for shareholders and safeguard the Group's status as a going concern. There has been no change to capital risk management policies during the year.

The Board monitors a broad range of financial metrics including return on capital employed, balance sheet gearing and fixed charge cover.

The Board can manage the Group's capital structure by diversifying the debt portfolio, adjusting the size and timing of dividends paid to shareholders, recycling capital through sale and leaseback transactions, issuing new shares or repurchasing shares in the open market and flexing capital expenditure.

From time-to-time the Company purchases its own shares in the market for the purpose of issuing shares under the Group's share option programmes; however the Group does not operate a defined share buy-back plan.

Part of the Group's capital risk management is to ensure compliance with the general covenants included in the Group's various borrowing facilities. There have been no breaches of general covenants in the financial year ended 10 March 2018.

23 Financial risk management continued

Information relating to Financial Services capital risk management is detailed below.

Financial Services

Sainsbury's Bank (including Argos Financial Services) has identified a set of primary risk types (see table) that are actively managed by the Sainsbury's Bank Board Risk Committee (BRC) and Executive Risk Committee (ERC) in line with the guiding risk principles and overall risk appetite approved by the Sainsbury's Bank Board.

	Primary risk	How we manage the risk
Financial primary risk	**Liquidity and funding risk** The risk that the Bank is unable to meet its obligations as they fall due or can only do so at excessive cost. *How the risk may arise:* Loss of confidence in the Bank leading to a material and rapid outflow of savings deposits and/or difficulties in accessing wholesale funding markets.	— Daily monitoring and reporting of key Liquidity and Funding EWIs, with triggers in place for escalation. — Liquidity and funding targets built into our strategic planning and capital plans. — The annual ILAAP review determines the adequacy of liquidity and funding plans. — Liquidity Contingency Plan in place with identified management actions under stress conditions.
	Market risk The risk of loss as a result of the value of financial assets or liabilities (including off balance sheet instruments) being adversely affected by movements in market rates or prices. *How the risk may arise:* The Bank does not have a trading book, but is exposed to the impact of sudden changes in interest rates on its lending book as well as market risk in the assets held for liquidity purposes.	— A range of market risk limits are in place. Exposures are modelled and reported on a regular basis. — Hedging risk management strategies are used to reduce exposures to earnings volatility. — Behavioural assumptions are applied to the treatment of non-interest bearing balances and expectations within the Bank's balance sheet.
	Retail credit risk Losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. *How the risk may arise:* Changes in the economic conditions in the UK may impact on the ability of our customers to repay their loans leading to an increase in levels of bad debt.	— We lend responsibly, considering the suitability of the product to meet our customers' needs and their ability to repay any debt. — We have policies in place to support vulnerable customers and those in financial difficulties. — Credit decisioning based on information from a number of credit related sources. — Regular stress testing is undertaken using a variety of plausible stress scenarios.
	Wholesale credit risk Losses arising from institutional counterparties failing to meet their contractual cash flow obligations. *How the risk may arise:* Default or downgrades in the credit rating of counterparties.	— Counterparty limits and credit assessment process are in place to control exposure levels. — Key ratios are monitored and reported on a daily basis with triggers in place for escalation. — Investment activity for liquid assets focused on a small set of asset classes with proven credit performance.
	Capital adequacy risk Holding insufficient capital to absorb losses in normal and stressed conditions or the ineffective deployment of capital. *How the risk may arise:* Changes in economic conditions or regulatory requirements may impact on the level of capital resources required.	— Daily monitoring and reporting of capital position, with triggers in place for escalation. — Capital adequacy built in to our strategic planning and capital plans. — The annual ICAAP review determines the adequacy of the level and type of capital resources held.

Further detail on each of these risks is shown below:

Liquidity and funding risk

Liquidity risk is the risk that the Bank cannot meet its payment obligations as they fall due, or can only do so at extreme cost. We seek to ensure that we can meet our financial obligations at all times, even under liquidity stress conditions.

The annual Internal Liquidity Adequacy Assessment Process (ILAAP) enables the Bank to:

(1) demonstrate that it understands the liquidity risks it is running

(2) assess its liquidity needs under various stress scenarios and

(3) put in place appropriate controls to mitigate liquidity risks.

In meeting its internal limits as well as PRA requirements, the Bank maintains a stock of high quality liquid assets that can be readily monetised by outright sale or repurchase agreement to meet the Bank's obligations to depositors and other creditors.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are regularly monitored and forecast alongside cash flow and funding ratios. We prepare long-term and short-term forecasts to assess liquidity requirements, taking into account factors such as ATM cash management, contractual maturities and customer deposit patterns (stable or less stable deposits) as well as outflows regarding pipelines and commitments. These reports support daily liquidity management, with early warning indicators reviewed on a daily basis and appropriate triggers for escalation and action in line with the risk appetite, Liquidity and Funding Policy and Liquidity Contingency Plan. Asset encumbrance ratios and risk indicators for wholesale funding concentrations by type (total/secured/unsecured), maturity, sector, geography and counterparty are also regularly monitored and reported to ALCO.

23 Financial risk management continued

Market risk

Market risk is the risk that the value of the Bank's assets, liabilities, capital and earnings are exposed to the adverse change of the market risk drivers. The Bank's market risks include Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange (FX) Risk. The Bank does not have a trading book.

Interest rate risk

IRRBB arises from interest rate movements which impact present value and timing of future cash flows resulting in changes to the underlying value of a bank's assets, liabilities and off-balance sheet instruments and hence its economic value. Interest rate movements also affect a bank's earnings by altering interest-sensitive income and expenses, affecting its net interest income.

The main types of interest rate risk faced by the Bank are:

a) Re-pricing gap risk: the risk arising from timing differences in the interest rate changes of bank assets and liabilities (e.g. fixed rate personal loans and instant access savings accounts).

b) Yield curve risk: the risk arising from changes in the slope and shape of the yield curve.

c) Basis risk: risk arising from imperfect correlation between different interest rate indices (e.g. administered rate on savings products and treasury assets linked to LIBOR).

d) Prepayment risk: the risk arising from the timing of customer prepayments which differ from planning and hedging assumptions.

e) Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for the Bank.

Interest risk exposure is actively managed within limits that are aligned with the Bank's risk appetite by using financial instruments such as interest rate swaps and by taking into account natural hedges between assets and liabilities. The hedging strategies are implemented to ensure the Bank remains within its limits and that it takes advantage of natural hedging opportunities between fixed rate assets and liabilities with similar re-pricing characteristics.

In order to measure the exposure to interest rate risk under various interest rates shock scenarios, the Bank uses both economic value and earnings-based metrics: Market Value Sensitivity and Earnings at Risk. These metrics are monthly monitored and reported to ALCO.

For interest rate risk measurement, products are allocated within re-pricing gap analysis based on their nearest re-pricing date (all non-maturing deposits are assumed to re-price in month one) and personal loans are allocated according to behavioural repayment profile.

Foreign exchange risk

The Bank is exposed to FX risk through its holding of cash denominated in foreign currencies, primarily euro and US dollar, within its Travel Money bureaux in J Sainsbury's stores. From February 2017 onwards the FX positions are hedged on a daily basis.

Credit risk

Credit risk is central to the Bank's day-to-day activities and is managed in line with the Bank Board approved risk appetite. Key developments over the course of the year have been the successful roll out of Sainsbury's Bank mortgages providing our customers with a wider range of financial services to meet their needs, and the successful transition of loans applications from LBG to the New Banking Programme systems and processes. Work continues on the transfer of the Credit Card Portfolio onto the New Banking Programme systems, with this due to complete within the 2018/19 financial year.

Retail credit risk

Retail credit risk is the possibility of losses arising from a retail customer failing to meet their agreed repayment terms as they fall due. Retail Credit utilise automated scorecards to assess the credit-worthiness and affordability criteria of new applicants and ongoing behavioural characteristics of existing customers. The outcomes from all scorecard models are monitored utilising a set of credit quality metrics to ensure actual performance is in line with agreed expectations. Additional expert underwriting of credit applications is undertaken by a specialist operational team where further consideration is appropriate.

The Retail Credit Risk Committee provides portfolio oversight control over credit strategy to maintain lending in line with the Board approved risk appetite, with additional oversight and control provided by the Executive Risk Committee and the Board Risk Committee. Finally, Internal Audit provide additional assurance by undertaking regular reviews on the adequacy of credit risk policies and procedures.

Wholesale and derivative credit risk

The Bank invests its liquidity resources in eligible investment securities that qualify for the regulatory Liquidity Coverage Ratio (LCR) and internal Operational Liquidity Pool (OLP). These investments include the Bank of England's (BoE) reserve account, UK government securities (gilts or Treasury bills), multilateral development bank securities, government guaranteed agency securities, UK regulated covered bond programmes and asset backed securities.

Limits are established for all counterparty and asset class exposures based on their respective credit quality and market liquidity. Consideration is also given to geographical region and the strength of relevant sovereign credit ratings. Derivatives are subject to the same credit risk control procedures as are applied to other wholesale market instruments and the credit risk arising from mark to market derivative valuations is mitigated by daily margin calls, posting cash collateral to cover exposures. Daily monitoring is undertaken by the Bank's Treasury department, including early warning indicators with appropriate triggers for escalation.

23 Financial risk management continued

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	2018 £m	2017 £m
Credit risk exposures relating to on balance sheet items		
Loans and advances to customers		
Unsecured	**5,383**	4,564
Secured	**309**	38
Cash and balances with central banks	**1,005**	453
Derivative financial instruments	**18**	1
Investment securities	**526**	333
Other assets	**291**	231
Credit risk exposures relating to off balance sheet items		
Loans commitment and other related liabilities	**267**	98
Treasury bills drawn under FLS	**–**	260
Total credit risk exposures	**7,799**	5,978

Credit quality per class of financial asset

Loans and advances to customers are summarised as follows:

	2018 £m	2017 £m
Impaired	**169**	146
Past due but not impaired	**55**	50
Neither past due nor impaired	**5,612**	4,485
Gross	**5,836**	4,681
Less: allowance for impairment	**(132)**	(89)
Less: hedging fair value adjustment	**(12)**	10
Net book value	**5,692**	4,602

23 Financial risk management continued

Credit quality analysis

	Unsecured lending £m	Secured lending £m	Total £m
10 March 2018			
Past due and impaired			
Less than three months, but impaired	**2**	**1**	**3**
Past due three to six months	**22**	**–**	**22**
Past due six to 12 months	**–**	**1**	**1**
Past due over 12 months	**–**	**1**	**1**
Recoveries	**142**	**–**	**142**
Total gross impaired loans	**166**	**3**	**169**
Past due but not impaired			
Past due less than three months but not impaired	**53**	**2**	**55**
Total gross past due but not impaired	**53**	**2**	**55**
Neither past due nor impaired			
Not impaired	**5,307**	**305**	**5,612**
Total gross neither past due nor impaired	**5,307**	**305**	**5,612**
Total gross amount due	**5,526**	**310**	**5,836**

	Unsecured lending £m	Secured lending £m	Total £m
11 March 2017			
Past due and impaired			
Less than three months, but impaired	2	–	2
Past due three to six months	16	2	18
Past due six to 12 months	–	–	–
Past due over 12 months	–	–	–
Recoveries	126	–	126
Possession	–	–	–
Total gross impaired loans	144	2	146
Past due but not impaired			
Past due less than three months but not impaired	49	1	50
Total gross past due but not impaired	49	1	50
Neither past due nor impaired			
Not impaired	4,450	35	4,485
Total gross neither past due nor impaired	4,450	35	4,485
Total gross amount due	4,643	38	4,681

Mortgages held over residential properties represent the only collateral held by the Bank for retail exposures. The market value of collateral held for impaired loans and loans past due but not impaired was £6 million (2017: £7 million). The fair value of collateral held against possession cases was £nil (2017: £nil).

Financial Services capital resources (unaudited)

The following table analyses the regulatory capital resources under CRD IV. From a prudential perspective, the Bank is monitored and supervised on a consolidated basis with its subsidiary, Home Retail Group Card Services Limited, from the point of acquisition of Argos Financial Services in September 2016. The Bank has obtained an individual consolidation waiver from the PRA, which allows the Bank to monitor its capital position on a consolidated basis only. Therefore, the 2018 and 2017 capital positions shown below are on a regulatory consolidated basis.

	2018 £m	2017 £m
Common Equity Tier 1 (CET 1) capital:		
Ordinary share capital	**756**	566
Allowable reserves	**174**	148
Regulatory adjustments	**(205)**	(147)
Total Common Equity Tier 1 (CET 1) capital	**725**	567
Tier 1 capital	**725**	567

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV) as enacted in the UK. Common Equity Tier 1 (CET 1) capital includes ordinary share capital, other reserves, losses and regulatory deductions.

23 Financial risk management continued

The movement of CET 1 capital during the financial year is analysed as follows:

	2018 £m	2017 £m
At 1 March 2018 and 1 March 2017	**567**	485
Share capital issued	**190**	130
Verified profits / (losses) attributable to shareholders	**23**	(21)
Other reserve movements	**3**	2
Increase in intangible assets	**(58)**	(29)
At 28 February 2018 and 28 February 2017	**725**	567

Leverage ratio (unaudited)

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets, which is measured below on a regulatory consolidated basis. The denominator represents the total non-risk weighted assets of the regulatory group (Bank and Home Retail Group Card Services Limited) adjusted for certain off balance sheet exposures assets and regulatory deductions and provides a non-risk-weighted 'backstop' capital measure. The leverage ratio is calculated below as at 28 February 2018. The Bank's leverage ratio of 8.6 per cent exceeds the minimum Basel leverage ratio of three per cent.

	2018 £m	2017 £m
Components of the leverage ratio		
Total assets as per published financial statements (Sainsbury's Bank plc)	**7,765**	5,794
Uplift on consolidation of subsidiary undertakings	**61**	42
Exposure value for derivatives and securities financing transactions	**27**	269
Off balance sheet exposures: unconditionally cancellable (10%)	**716**	633
Off balance sheet: other (100%)	**54**	20
Other adjustments	**(205)**	(168)
	8,418	6,590
Tier 1 capital	**725**	567
Leverage ratio	**8.6%**	8.6%

Capital management

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. During the year to 28 February 2018, the Bank received further injections of £190 million of ordinary share capital from J Sainsbury plc and £175 million of subordinated debt (of which £155 million is currently eligible as Tier 2 capital). Capital adequacy is monitored on an ongoing basis by senior management, the ALCO, the Executive Risk Committee and the Board Risk Committee. Our submissions to the PRA in the year have shown that the Bank has complied with all externally imposed capital requirements. The Bank's tier 1 capital ratio of 14.1 per cent exceeds internal and regulatory thresholds.

The Bank will disclose Pillar 3 information as required by the Capital Requirements Regulations and PRA prudential sourcebook on the J Sainsbury plc external website.

24 Financial instruments

Accounting policies

a) Financial assets

The Group classifies its financial assets in the following categories: fair value through profit or loss (FVTPL), loans and receivables, and available-for-sale (AFS). Financial assets held at FVTPL are initially recognised at fair value and transaction costs are expensed. AFS investments are initially measured at fair value including transaction costs and are recognised at the trade date.

Financial assets held at FVTPL include financial assets held for trading and those designated at FVTPL at inception and are recorded at fair value, with any fair value gains or losses recognised in the income statement in the period in which they arise.

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

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

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

Within Financial Services, securities sold subject to standard sale and repurchase agreements ('repos') are not derecognised where the Bank retains substantially all the risks and rewards of ownership by virtue of the predetermined repurchase price. The counterparty liability is included in other deposits.

b) Impairment of financial assets

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

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

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

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

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

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

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

c) Financial Services loans and advances including impairment

For Financial Services portfolios of loans, such as credit card lending, storecard lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. Such evidence may include a missed interest or principal payment or the breach of a banking covenant. Provisioning on unsecured balances identified as being in arrears is calculated based on past experience, with regularly updated assumptions. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement and a provision recognised in the balance sheet.

The written down value of the impaired loan is compounded back to its net realisable balance over time using an effective interest rate. This is reported through interest receivable within the income statement and represents the unwinding of the discount.

A write-off is made when all or part of a claim is deemed uncollectable or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement. Subsequent recoveries of amounts written off decrease the charge for loan impairment in the income statement.

24 Financial instruments continued

An allowance for impairment losses is also maintained in respect of assets which are impaired at the balance sheet date but which have not been identified as such, based on historical loss experience and other relevant factors. This includes analysis of the likelihood of a particular balance to move into an arrears status within a defined period of time and application of an appropriate loss rate. The emergence period into an arrears state represents the average time elapsed between the loss trigger event and default. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results.

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

d) Financial liabilities

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

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

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

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

e) Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed below in the financial disclosure section.

f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates. Where derivatives do not qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised in the income statement as finance income or costs as they arise.

To qualify for hedge accounting, the Group documents, at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction, the nature of the risks being hedged and an assessment of the effectiveness of the hedging relationship to ensure it is highly effective on an ongoing basis.

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

a) Cash flow hedges

Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the Group's exposure to variability in cash flows resulting from a highly probable forecasted transaction. These include the exchange rate risk of inventory purchases denominated in foreign currency, as well as the commodity risk on purchases of power and fuel. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

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

b) Fair value hedges

Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of a financial asset or liability due to movements in interest rates. The changes in fair value of the hedging instrument are recognised in the income statement. The hedged item is also adjusted for changes in fair value with the corresponding adjustment made in the income statement.

c) Portfolio fair value hedging

During the period Sainsbury's Bank used portfolio fair value hedging as a risk management tool for hedging interest rate risk on the personal loans portfolio. Portfolio fair value hedging allows the designation of the whole or part of a portfolio of assets or liabilities with similar risk exposures. The hedged item can be designated based on expected maturities to match the hedging derivative maturity.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement for the period.

24 Financial instruments continued

The fair value of derivative financial instruments has been disclosed in the balance sheet as follows:

	2018 Asset £m	2018 Liability £m	2017 Asset £m	2017 Liability £m
Non-current	**17**	**(26)**	10	(38)
Current	**10**	**(53)**	94	(22)
Total	**27**	**(79)**	104	(60)

The fair value and notional amount of derivatives analysed by hedge type are as follows:

	2018				2017			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	**18**	**2,559**	**(8)**	**942**	8	774	(22)	2,386
Cash flow hedges								
Interest rate swaps	**–**	**–**	**(2)**	**100**	–	–	(4)	100
Inflation rate swaps	**–**	**–**	**(7)**	**590**	–	–	(2)	400
Foreign exchange forward contracts	**3**	**227**	**(50)**	**1,080**	77	1,301	(2)	119
Commodity contracts	**2**	**22**	**–**	**–**	3	21	–	–
Derivatives not in a formal hedging relationship								
Interest rate swaps	**4**	**404**	**(3)**	**302**	16	341	(15)	295
Commodity contracts	**–**	**–**	**(9)**	**15**	–	–	(15)	15
Total	**27**	**3,212**	**(79)**	**3,029**	104	2,437	(60)	3,315

Fair value hedges

Interest rate swaps

The Group holds a £110 million portfolio of interest rate swaps (2017: £160 million) to hedge a portion of fixed rate borrowings maturing in April 2018. Under the terms of the swaps, the Group receives fixed rate interest and pays floating rate interest.

For the year to 10 March 2018, the fair value movement in the Group's interest rate swaps resulted in a charge to the income statement of £6 million (2017: £7 million). The fair value movement in the underlying fixed rate borrowings resulted in a credit to the income statement of £5 million (2017: £6 million).

Financial Services holds a £3,391 million portfolio of interest rate swaps accounted for as fair value hedges (2017: £3,000 million). Interest rate swaps are transacted to hedge interest rate risk associated with the Bank's fixed rate customer asset lending (personal loans and mortgages), fixed interest treasury instruments and its debt issuance through a combination of pay and receive fixed swaps (£2,900 million and £491 million respectively (2017: £2,354 million and £646 million respectively)). All derivatives are designated as effective fair value hedge accounting relationships.

For the year to 10 March 2018, the fair value movement in Financial Services interest rate swaps resulted in a credit to the income statement of £23 million (2017: £3 million). The fair value movement in the underlying fixed rate borrowings, Sainsbury's Bank loans and advances to customers and fixed interest treasury instruments resulted in a charge to the income statement of £22 million (2017: £2 million).

Cash flow hedges

Interest rate swaps

The Group holds a £590 million (2017: £400 million) portfolio of inflation rate swaps to hedge a portion of the inflation linked secured loan due 2031. Under the terms of the swaps, the Group receives annual RPI inflation (subject to a cap at five per cent and floor at nil per cent) and pays fixed rate interest.

The Group holds a £100 million (2017: £100 million) portfolio of interest rate swaps to hedge £100 million of a £200 million floating rate bank loan due 2019. Under the terms of the swaps, the Group receives floating rate interest and pays fixed rate interest.

As at 10 March 2018, an unrealised loss of £9 million (2017: loss of £4 million) is included in other comprehensive income in respect of the swaps designated as cash flow hedges.

Foreign exchange forward contracts

The Group holds a portfolio of foreign exchange forward contracts to hedge its future foreign currency trading liabilities. As at 10 March 2018 the Group had forward purchased a net €238 million (2017: €135 million) and sold sterling with maturities from March 2018 to June 2019 (2017: March 2017 to July 2018) and forward purchased US$1,486 million (2017: US$1,521 million) and sold sterling with maturities from March 2018 to June 2019 (2017: March 2017 to June 2018).

As at 10 March 2018, an unrealised profit of £33 million (2017: £28 million) is included in other comprehensive income in respect of the forward contracts. During the year a debit of £52 million was transferred from the cash flow hedge equity reserve to inventory (2017: £83 million credit).

24 Financial instruments continued

Commodity forward contracts

The Group holds a portfolio of commodity forward contracts to hedge its own use fuel consumption over the next 24 months.

At 10 March 2018, an unrealised gain of £1 million (2017: gain of £3 million) is included in other comprehensive income in respect of the commodity contracts.

Derivatives not in a hedge relationship

Some of the Group's derivative contracts do not qualify for hedge accounting and are therefore not designated in a hedging relationship. In addition, where gains or losses on a derivative contract economically offset the losses or gains on an underlying transaction, the derivative is not designated as being in a hedging relationship.

Interest rate and foreign exchange swaps

The Group holds a £302 million (2017: £295 million) portfolio of interest rate swaps at fair value through profit or loss to convert floating rate obligations into fixed rates. Under the terms of the swaps the Group receives floating rate interest and pays fixed rate interest. Offsetting these swaps the Group holds a £404 million (2017: £341 million) portfolio of interest rate swaps at fair value through profit or loss, to convert fixed rate obligations into floating rate interest. Under the terms of the swaps the Group receives fixed rate interest and pays floating rate interest.

Sainsbury's Bank and its subsidiaries hold a £156 million portfolio of interest rate swaps hedging mortgage pipeline offers that do not qualify for hedge accounting (2017: £nil) with fair value movements accounted for in full through profit or loss, with no effective offset. The fair value movement crediting the income statement for interest rate swaps economically hedging mortgage pipeline interest rate risk but not qualifying for hedge accounting was £1 million.

Commodity forward contracts

Commodity forward contracts at fair value through profit and loss relate to the Group's long-term fixed price power purchase agreements with independent producers.

Fair value

Set out below is a comparison of the carrying amount and the fair value of financial instruments that are carried in the financial statements at a value other than fair value. The fair values of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, other receivables, overdrafts and payables are assumed to approximate to their book values.

	Group Carrying amount £m	Group Fair value £m
At 10 March 2018		
Financial assets		
Amounts due from Financial Services customers[1]	**5,692**	**5,736**
Financial liabilities		
Loans due 2018[2]	**(572)**	**(575)**
Loans due 2031	**(730)**	**(980)**
Bank overdrafts	**(2)**	**(2)**
Bank loans due 2019	**(199)**	**(199)**
Convertible bond due 2019	**(436)**	**(452)**
Tier 2 Capital due 2023	**(174)**	**(184)**
Obligations under finance leases	**(127)**	**(127)**
Amounts due to Financial Services customers and other banks	**(6,524)**	**(6,514)**

	Group Carrying amount £m	Group Fair value £m
At 11 March 2017		
Financial assets		
Amounts due from Financial Services customers[1]	4,602	4,640
Financial liabilities		
Loans due 2018[2]	(680)	(706)
Loans due 2031	(761)	(1,062)
Bank overdrafts	(6)	(6)
Bank loans due 2019	(199)	(199)
Convertible bond due 2019	(427)	(473)
Obligations under finance leases	(138)	(138)
Amounts due to Financial Services customers and other banks	(4,921)	(4,924)

1 Included within a portfolio fair value hedging relationship with £3,391 million (2017: £3,000 million) of interest rate swaps.
2 Includes £110 million accounted for as a fair value hedge (2017: £160 million).

24 Financial instruments continued

The fair value of financial assets as disclosed in the table above as at 10 March 2018 was £5,736 million (2017: £4,640 million). The fair value of the financial assets has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy (see below for fair value hierarchy description). The fair value of financial liabilities was £9,033 million (2017: £7,508 million) of which £452 million (2017: £473 million) has been determined using market values and is within Level 1 of the fair value hierarchy. The remaining £8,581 million (2017: £7,035 million) has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy.

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are recognised at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities at the balance sheet date. This level includes listed equity securities and debt instrument on public exchanges;
- Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates; and
- Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 10 March 2018				
Available-for-sale financial assets				
Interest bearing financial assets	**–**	**40**	**–**	**40**
Other financial assets	**–**	**13**	**164**	**177**
Investment securities	**526**	**–**	**–**	**526**
Financial assets				
Derivative financial assets	**–**	**27**	**–**	**27**
Financial liabilities				
Derivative financial liabilities	**–**	**(70)**	**(9)**	**(79)**
At 11 March 2017				
Available-for-sale financial assets				
Interest bearing financial assets	–	39	–	39
Other financial assets	–	13	148	161
Investment securities	333	–	–	333
Financial assets				
Derivative financial assets	–	104	–	104
Financial liabilities				
Derivative financial liabilities	–	(45)	(15)	(60)

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

52 weeks to 10 March 2018	Available-for-sale financial assets £m	Commodity derivatives £m	Investment securities £m	Total £m
At 11 March 2017	**148**	**(15)**	**–**	**133**
In finance cost in the Group income statement	**–**	**6**	**–**	**6**
In other comprehensive income	**16**	**–**	**–**	**16**
At 10 March 2018	**164**	**(9)**	**–**	**155**

52 weeks to 11 March 2017	Available-for-sale financial assets £m	Commodity derivatives £m	Investment securities £m	Total £m
At 12 March 2016	146	(34)	1	113
In finance cost in the Group income statement	–	19	(1)	18
In other comprehensive income	2	–	–	2
At 11 March 2017	148	(15)	–	133

24 Financial instruments continued

The available-for-sale financial assets relate to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 0.6 per cent per annum (2017: 0.5 per cent) and a discount rate of nine per cent (2017: nine per cent), (see note 13). The sensitivity of this balance to changes of one per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

	2018 Change in growth rate +/-1.0% £m	**2018 Change in discount rate +/-1.0% £m**	2017 Change in growth rate +/-1.0% £m	2017 Change in discount rate +/-1.0% £m
Available-for-sale assets	**12/(12)**	**(8)/9**	13/(13)	(8)/9

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial liabilities is £10 million (2017: £15 million) relating to these agreements. The Group values its Power Purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

	2018 Change in volume +/-20.0% £m	**2018 Change in electricity forward price +/- 20.0% £m**	2017 Change in volume +/- 20.0% £m	2017 Change in electricity forward price +/- 20.0% £m
Derivative financial instruments	**(2)/2**	**11/(12)**	(3)/3	12/(13)

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 10 March 2018 and 11 March 2017.

Group	**Loans and receivables £m**	**Available-for-sale £m**	**Fair value through profit or loss £m**	**Derivatives used for hedging £m**	**Other financial liabilities £m**	**Total £m**
At 10 March 2018						
Cash and cash equivalents	**1,730**	**–**	**–**	**–**	**–**	**1,730**
Trade and other receivables	**622**	**–**	**–**	**–**	**–**	**622**
Amounts due from Financial Services customers	**5,692**	**–**	**–**	**–**	**–**	**5,692**
Available-for-sale financial assets	**–**	**743**	**–**	**–**	**–**	**743**
Trade and other payables	**–**	**–**	**–**	**–**	**(4,037)**	**(4,037)**
Current borrowings	**–**	**–**	**–**	**–**	**(638)**	**(638)**
Non-current borrowings	**–**	**–**	**–**	**–**	**(1,602)**	**(1,602)**
Amounts due to Financial Services customers and banks	**–**	**–**	**–**	**–**	**(6,524)**	**(6,524)**
Derivative financial instruments	**–**	**–**	**(8)**	**(44)**	**–**	**(52)**
	8,044	**743**	**(8)**	**(44)**	**(12,801)**	**(4,066)**

Group	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
At 11 March 2017						
Cash and cash equivalents	1,083	–	–	–	–	1,083
Trade and other receivables	477	–	–	–	–	477
Amounts due from Financial Services customers	4,602	–	–	–	–	4,602
Available-for-sale financial assets	–	535	–	–	–	535
Trade and other payables	–	–	–	–	(3,741)	(3,741)
Current borrowings	–	–	–	–	(172)	(172)
Non-current borrowings	–	–	–	–	(2,039)	(2,039)
Amounts due to Financial Services customers and banks	–	–	–	–	(4,921)	(4,921)
Derivative financial instruments	–	–	(14)	58	–	44
	6,162	535	(14)	58	(10,873)	(4,132)

25 Cash and cash equivalents

Accounting policies

Cash and cash equivalents

Cash and bank balances comprise cash in hand and at bank, deposits at central banks, investments in money market funds and deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	2018 £m	2017 £m
Cash in hand and bank balances	**585**	439
Money market funds and deposits	**462**	403
Deposits at central banks	**683**	241
Cash and bank balances	**1,730**	1,083
Bank overdrafts	**(2)**	(6)
Net cash and cash equivalents	**1,728**	1,077

Of the above balances, £38 million was restricted as at year-end.

26 Analysis of net debt

The Group's definition of net debt includes the capital injections to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities.

A reconciliation of opening to closing net debt is included below. Balances and movements for the total Group and Financial Services are shown in addition to Retail to enable reconciliation between the Group balance sheet and Group cash flow statement.

		Cash changes		Non-cash changes			
	11 March 2017 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Acquisition movements £m	Other non-cash movements £m	Changes in fair value £m	10 March 2018 £m
Retail							
Available-for-sale assets[1]	39	–	(1)	–	1	1	40
Derivative assets	103	–	(20)	–	19	(93)	9
Derivative liabilities	(38)	–	17	–	(15)	(36)	(72)
Cash and cash equivalents	630	95	–	–	–	–	725
Bank overdrafts	(6)	4	–	–	–	–	(2)
Borrowings[2]	(2,067)	148	79	(15)	(87)	5	(1,937)
Finance leases	(138)	26	7	–	(22)	–	(127)
Retail net debt	(1,477)	273	82	(15)	(104)	(123)	(1,364)
Financial Services							
Available-for-sale assets[1]	333	192	–	–	–	1	526
Derivative assets	1	–	–	–	–	17	18
Derivative liabilities	(22)	–	–	–	–	15	(7)
Cash and cash equivalents	453	552	–	–	–	–	1,005
Borrowings	–	(174)	–	–	–	–	(174)
Financial Services net debt	765	570	–	–	–	33	1,368
Group							
Available-for-sale assets[1]	372	192	(1)	–	1	2	566
Derivative assets	104	–	(20)	–	19	(76)	27
Derivative liabilities	(60)	–	17	–	(15)	(21)	(79)
Cash and cash equivalents	1,083	647	–	–	–	–	1,730
Bank overdrafts	(6)	4	–	–	–	–	(2)
Borrowings[2]	(2,067)	(26)	79	(15)	(87)	5	(2,111)
Finance leases	(138)	26	7	–	(22)	–	(127)
Group net debt	(712)	843	82	(15)	(104)	(90)	4

26 Analysis of net debt continued

		Cash changes		Non-cash changes			
	12 March 2016 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Acquisition movements £m	Other non-cash movements £m	Changes in fair value £m	11 March 2017 £m
Retail							
Available-for-sale assets[1]	35	–	(1)	–	–	5	39
Derivative assets	64	–	(23)	39	23	–	103
Derivative liabilities	(89)	–	23	–	(23)	51	(38)
Cash and cash equivalents	577	53	–	–	–	–	630
Bank overdrafts	(3)	(3)	–	–	–	–	(6)
Borrowings[2]	(2,235)	174	78	–	(84)	–	(2,067)
Finance leases	(175)	37	8	–	(8)	–	(138)
Retail net debt	(1,826)	261	85	39	(92)	56	(1,477)
Financial Services							
Available-for-sale assets[1]	204	126	–	–	1	2	333
Derivative assets	4	–	–	–	–	(3)	1
Derivative liabilities	(23)	–	–	–	–	1	(22)
Cash and cash equivalents	566	(113)	–	–	–	–	453
Financial Services net debt	751	13	–	–	1	–	765
Group							
Available-for-sale assets[1]	239	126	(1)	–	1	7	372
Derivative assets	68	–	(23)	39	23	(3)	104
Derivative liabilities	(112)	–	23	–	(23)	52	(60)
Cash and cash equivalents	1,143	(60)	–	–	–	–	1,083
Bank overdrafts	(3)	(3)	–	–	–	–	(6)
Borrowings[2]	(2,235)	174	78	–	(84)	–	(2,067)
Finance leases	(175)	37	8	–	(8)	–	(138)
Group net debt	(1,075)	274	85	39	(91)	56	(712)

1 Available-for-sale assets exclude other financial assets (see note 13) which predominantly relate to the Group's beneficial interest in a commercial property investment pool.
2 Borrowings exclude bank overdrafts and finance leases as they are disclosed separately.

27 Borrowings

	2018 Current £m	**2018 Non-current £m**	**2018 Total £m**	2017 Current £m	2017 Non-current £m	2017 Total £m
Loan due 2018	**572**	**–**	**572**	108	572	680
Loan due 2031	**33**	**697**	**730**	34	727	761
Bank overdrafts	**2**	**–**	**2**	6	–	6
Bank loans due 2019	**–**	**199**	**199**	–	199	199
Convertible bond due 2019	**1**	**435**	**436**	1	426	427
Sainsbury's Bank Tier 2 Capital due 2023	**–**	**174**	**174**	–	–	–
Finance lease obligations	**30**	**97**	**127**	23	115	138
Total borrowings	**638**	**1,602**	**2,240**	172	2,039	2,211

a) Loan due 2018 and Loan due 2031

Secured loans are secured on 125 (2017: 125) supermarket properties (note 10) and comprise loans from two finance companies, Eddystone Finance plc and Longstone Finance plc:

- a fixed rate amortising loan from Eddystone Finance plc with an outstanding principal value of £568 million (2017: £670 million) at a weighted average rate of 5.48 per cent and carrying amount of £572 million (2017: £680 million) with a final repayment date of April 2018; and
- an inflation linked amortising loan from Longstone Finance plc with an outstanding principal value of £712 million (2017: £743 million) at a fixed real rate of 2.36 per cent where principal and interest are uplifted annually by RPI subject to a cap at five per cent and floor at nil per cent with a carrying amount of £730 million (2017: £761 million) with a final repayment date of April 2031.

27 Borrowings continued

The Group has entered into interest rate swaps to convert £110 million (2017: £160 million) of the £568 million (2017: £670 million) loan due 2018 from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 24). In previous years, £572 million of fixed to floating rate swaps accounted for as fair value hedges were de-designated from their fair value hedging relationship. The fair value adjustment of the debt previously hedged by these swaps will be amortised over the remaining life of the loans, resulting in an amortisation charge to the income statement in the current financial year of £1 million (2017: £1 million).

The Group has entered into inflation swaps to convert £590 million (2017: £400 million) of the £712 million (2017: £743 million) loan due 2031 from RPI linked interest to fixed rate interest for periods maturing April 2018 to April 2019. These transactions have been designated as cash flow hedges (note 24).

The principal activity of Eddystone Finance plc and Longstone Finance plc is the issuing of commercial mortgage backed securities and applying the proceeds towards the secured loans due 2018 and 2031 with the Group as summarised above.

Intertrust Management Limited holds all the issued share capital of Eddystone Finance Holdings Limited and Longstone Finance Holdings Limited on trust for charitable purposes. Eddystone Finance Holdings Limited beneficially owns all the issued share capital of Eddystone Finance plc and Longstone Finance Holdings Limited beneficially owns all the issued share capital of Longstone Finance plc. As the Group has no interest, power or bears any risk over these entities they are not included in the Group consolidation.

b) Bank overdrafts

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

c) Revolving credit facility

On 17 October 2017 the Group refinanced its syndicated committed revolving credit facility. The revised facility of £1.45 billion has three, four and five-year tranches with an initial final maturity for the longer dated tranche of April 2023. As at 10 March 2018, £nil had been drawn (2017: £nil).

The revolving credit facility incurs commitment fees at market rates and drawdowns bear interest at a margin above LIBOR.

d) Bank loans due 2019

On 5 May 2015, the Group amended its £200 million unsecured bank loan due August 2019 into a secured corporate £200 million bank loan due August 2019 at a floating rate of interest. £100 million of this has been swapped into a fixed rate liability. The £100 million portion of the loan and associated interest rate swap has been designated as a cash flow hedge.

e) Convertible bond due 2019

In November 2014, the Group issued £450 million of unsecured convertible bonds due November 2019. The bonds pay a coupon of 1.25 per cent payable semi-annually. Each bond is convertible into ordinary shares of J Sainsbury plc at any time up to 21 November 2019 at a conversion price of 309.26 pence.

The net proceeds of the convertible bond have been split as at 10 March 2018 into a liability component of £436 million and an equity component of £14 million. The equity component represents the fair value of the embedded option to convert the bond into ordinary shares of the Company.

	2018 £m	2017 £m
Liability component brought forward	**427**	418
Interest expense	**14**	13
Interest paid	**(6)**	(6)
Other[1]	**1**	2
Liability component as at the end of the year	**436**	427

1 Other relates to fees.

f) Sainsbury's Bank Tier 2 Capital due 2027

The Bank issued £175 million of fixed rate reset callable subordinated Tier 2 notes on 23 November 2017. The notes pay interest on the principal amount at a rate of six per cent per annum, payable in equal instalments semi-annually in arrears, until 23 November 2022 at which time the interest rate will reset. The Bank has the option to redeem these notes on 23 November 2022.

27 Borrowings continued

g) Finance lease obligations

	Minimum lease payments 2018 £m	Minimum lease payments 2017 £m	Present value of minimum lease payments 2018 £m	Present value of minimum lease payments 2017 £m
Obligations under finance leases:				
Less than one year	**37**	31	**30**	23
Within two and five years inclusive	**45**	66	**23**	41
After five years	**203**	207	**74**	74
	285	304	**127**	138
Less: future finance charges	**(158)**	(166)		
Present value of lease obligations	**127**	138		

	2018 £m	2017 £m
Disclosed as:		
Current	**30**	23
Non-current	**97**	115
	127	138

Finance leases have effective interest rates ranging from 4.3 per cent to 8.5 per cent (2017: 4.3 per cent to 8.5 per cent). The average remaining lease term is 71 years (2017: 72 years).

28 Employee costs

	2018 £m	2017 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**2,811**	2,579
Social security costs	**186**	165
Pension costs – defined contribution schemes	**104**	102
Share-based payments expense (note 30)	**33**	32
	3,134	2,878

	2018 Number 000s	2017 Number 000s
The average number of employees, including Directors, during the year was:		
Full-time	**52.8**	51.9
Part-time	**134.1**	130.0
	186.9	181.9
Full-time equivalent	**121.2**	118.7

Details of key management compensation can be found in note 36 and within the Directors' Remuneration Report on pages 66 to 83.

29 Retirement benefit obligations

Accounting policies

In respect of defined benefit pension schemes, the surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method. Plan assets are recorded at fair value.

Actuarial gains and losses are reported in the statement of other comprehensive income as incurred, and comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses.

The financing charge is determined by applying the discount rate used to measure the defined benefit obligation to the pension scheme liabilities and plan assets at the beginning of the financial year.

The Group contributions to defined contribution pension schemes are charged to the income statement as incurred. Any contributions unpaid at the balance sheet date are included as an accrual as at that date. The Group has no further payment obligations once the contributions have been paid.

Background

At 10 March 2018, retirement benefit obligations related to two defined benefit schemes, the Sainsbury's Pension Scheme and, from 2 September 2016, the Home Retail Group Pension Scheme (the 'Schemes') as well as two unfunded pension liabilities relating to senior former employees of Sainsbury's and Home Retail Group.

The retirement benefit obligations at the year-end have been calculated by KPMG, as actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at the date of the previous triennial valuations (see below) for known events and changes in market conditions as allowed under IAS 19 'Employee Benefits'.

Sainsbury's Pension Scheme

The Scheme has three different benefit categories: Final Salary, Career Average and Cash Balance. For Final Salary and Career Average members, benefits at retirement are determined by length of service and salary. For Cash Balance members, benefits are determined by the accrued retirement account credits.

The Scheme was closed to new employees on 31 January 2002 and closed to future benefit accrual on 28 September 2013. The Scheme is also used to pay life assurance benefits to current (including new) colleagues. The assets of the Scheme are valued at bid price and are held separately from the Group's assets.

The Scheme was subject to a triennial actuarial valuation, carried out by Willis Towers Watson for the Trustee, as at 14 March 2015 on the projected unit basis. On the basis of the assumptions agreed, the actuarial deficit at 14 March 2015 was £740 million, an increase of £148 million from the March 2012 deficit of £592 million.

A Recovery Plan was agreed in September 2016 which included:

- Two special contributions of £125 million paid in August 2015 and August 2016.
- Deficit contributions increasing to £65 million a year until March 2021.
- The interest in the property partnership to continue, of up to £600 million payable in 2030 if there is a deficit at that time.

The Scheme continues to receive annual coupons from the property partnership which are based on the average weighted discount rate used in the triennial valuation and so are effectively reset every three years. These coupons reduced from 2017/18 to £19 million a year.

The Scheme has a well-defined investment strategy that has been agreed with the Company. This aims for the Scheme to be funded on a low risk basis by 2023 referencing investment returns by asset class based on forward looking assumptions. A new investment strategy will be agreed as the current funding target is approached.

Home Retail Group Pension Scheme

The Scheme was closed to new employees in 2009 and closed to future benefit accrual in January 2013. The Scheme is used to pay life assurance benefits only to current (including new) colleagues. Pension benefits were based on service and final salary. The assets of the Scheme are valued at bid price and are held separately from the Group's assets.

The Home Retail Group defined benefit pension scheme was subject to a Trustees' triennial valuation as at 31 March 2015. This was carried out by Willis Towers Watson for the Trustee. On the basis of the assumptions agreed, the actuarial deficit as at 31 March 2015 was £315 million, an increase of £157 million from the March 2012 deficit of £158 million.

A Recovery Plan was agreed and implemented on acquisition which included:

- An immediate payment on acquisition by Sainsbury's of £50 million.
- Deficit contributions of £40 million a year, £10 million payable each quarter, until October 2021.
- Security over £80 million of freehold property.
- A parent guarantee of £470 million which reduces over time in line with deficit contributions paid and will be reset following triennial valuations.
- An additional payment of £50 million on the sale of Homebase by Home Retail Group.

29 Retirement benefit obligations continued

Scheme merger agreement

On 20 March 2018, subsequent to year-end, the HRG Pension Scheme was merged into the Sainsbury's Pension Scheme. The merger is on a segregated basis with two sections – the Argos section and the Sainsbury's section. There is no change to members' benefits and each section's assets are ring-fenced for the benefit of the members of that section.

As part of the merger agreement, the merged Scheme's year end has been moved to 30 September which better fits the triennial valuation process. The Merged Scheme's Trustee has directors from both the Sainsbury's Pension Scheme and the HRG Pension Scheme. There are currently 11 directors but this will reduce to nine once the 2018 triennial valuation is complete. The current chair of the merged Scheme's Trustee is retiring in June 2018 and will be replaced by a new independent chair. This is a Company appointment in consultation with the Trustee.

The investment strategy of the Argos section is being developed following the merger with the Sainsbury's Pension Scheme. A date by which a low risk funding level is to be achieved by reference to a forward looking asset return assumption will be agreed with the Trustee board. The assets and liabilities of the HRG Scheme form a separate section in the Sainsbury's Pension Scheme.

As part of the merger agreement, eligible pension scheme members were offered the opportunity to take a Winding Up Lump Sum. These will be paid to those members who accepted in May 2018 when the HRG Pension Scheme will be wound up. All other assets and liabilities have been transferred to the Argos section of the Sainsbury's Pension Scheme.

The next triennial valuation is due as at 10 March 2018.

Unfunded pension liabilities

The unfunded pension liabilities are unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

IFRIC 14

IFRIC 14 is the interpretation that details when a company can recognise any pension surplus that exists. Furthermore, if the company has a funding commitment in excess of the IAS 19 deficit, then IFRIC 14 requires recognition of this excess in those circumstances when the surplus that would result on fulfilling that commitment cannot be recognised. A surplus may be recognised either because of an unconditional right to a refund to the company, or on grounds of a future contribution reduction where schemes are still open to future accrual.

For the Sainsbury's Pension Scheme, management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such no adjustment has been made for potential additional liabilities.

Based on the net deficit of the Home Retail Group Pension Scheme as at 10 March 2018 and the committed payments under the Schedule of Contributions signed on 2 September 2016, there is a notional surplus of £78 million. Management is of the view that, based on the scheme rules, it does not have an unconditional right to a refund of surplus under IFRIC 14, and therefore an additional balance sheet liability in respect of a 'minimum funding requirement' of £78 million has been recognised.

a) Income statement

The amounts recognised in the income statement are as follows:

	2018 £m	2017 £m
Excluded from underlying profit before tax:		
Interest cost on pension liabilities[1]	**(289)**	(292)
Interest income on plan assets	**263**	276
Total included in finance costs (note 6)	**(26)**	(16)
Defined benefit pension scheme expenses	**(10)**	(8)
Past service credit	**31**	–
Total excluded from underlying profit before tax	**(5)**	(24)
Total income statement expense	**(5)**	(24)

1 Includes interest of £1 million for the unfunded pension scheme (2017: £1 million).

The past service credit of £31 million is in relation to a Pension Increase Exchange (PIE) option introduced in the Sainsbury's Pension Scheme from 1 April 2018, following a deed of amendment signed during the current financial year.

29 Retirement benefit obligations continued

b) Other comprehensive income

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

	2018 £m	2017 £m
Return on plan assets, excluding amounts included in interest	**(57)**	1,182
Actuarial gains/(losses) arising from changes in:		
Finance assumptions[1]	**495**	(2,005)
Demographic assumptions[2]	**245**	320
Experience	**(13)**	96
Total actuarial gains/(losses)	**727**	(1,589)
Additional liability due to minimum funding requirements (IFRIC 14)	**(78)**	–
Total remeasurements	**592**	(407)

1 Includes £2 million gain for the unfunded pension scheme (2017: £3 million loss).
2 Includes £1 million gain for the unfunded pension scheme (2017: £1 million gain).

c) Balance sheet

The amounts recognised in the balance sheet are as follows:

	Sainsbury's 2018 £m	Home Retail Group 2018 £m	Group 2018 £m	Sainsbury's 2017 £m	Home Retail Group 2017 £m	Group 2017 £m
Present value of funded obligations	**(8,744)**	**(1,284)**	**(10,028)**	(9,441)	(1,413)	(10,854)
Fair value of plan assets	**8,669**	**1,215**	**9,884**	8,708	1,212	9,920
	(75)	**(69)**	**(144)**	(733)	(201)	(934)
Additional liability due to minimum funding requirements (IFRIC 14)	**–**	**(78)**	**(78)**	–	–	–
Retirement benefit deficit	**(75)**	**(147)**	**(222)**	(733)	(201)	(934)
Present value of unfunded obligations	**(21)**	**(14)**	**(35)**	(23)	(17)	(40)
Retirement benefit obligations	**(96)**	**(161)**	**(257)**	(756)	(218)	(974)
Deferred income tax (liability)/asset (note 7)	**(38)**	**34**	**(4)**	77	47	124
Net retirement benefit obligations	**(134)**	**(127)**	**(261)**	(679)	(171)	(850)

The retirement benefit obligation and the associated deferred income tax balance are shown within different line items on the face of the balance sheet.

The movements in the Group's net defined benefit obligation are as follows:

	2018 £m	2017 £m
As at the beginning of the year	**(974)**	(408)
Acquisition of Home Retail Group plc (note 31)	**–**	(454)
Interest cost	**(26)**	(16)
Remeasurement gains/(losses)	**592**	(407)
Pension scheme expenses	**(10)**	(8)
Contributions by employer	**130**	319
Past service credit	**31**	–
As at the end of the year	**(257)**	(974)

29 Retirement benefit obligations continued

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

	2018 £m	2017 £m
As at the beginning of the year	**(10,894)**	(7,643)
Acquisition of Home Retail Group plc (note 31)	**–**	(1,587)
Interest cost	**(289)**	(292)
Remeasurement gains/(losses)	**727**	(1,589)
Additional liability due to minimum funding requirements (IFRIC 14)	**(78)**	–
Benefits paid	**362**	217
Past service credit	**31**	–
As at the end of the year	**(10,141)**	(10,894)
Analysed as:		
Retirement benefit obligations	**(10,028)**	(10,854)
Unfunded obligations	**(35)**	(40)
Additional liability due to minimum funding requirements (IFRIC 14)	**(78)**	–

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

	2018 £m	2017 £m
As at the beginning of the year	**9,920**	7,235
Acquisition of Home Retail Group plc (note 31)	**–**	1,133
Interest income on plan assets	**263**	276
Pension scheme expenses	**(10)**	(8)
Remeasurement (losses)/gains	**(57)**	1,182
Contributions by employer	**130**	319
Benefits paid	**(362)**	(217)
As at the end of the year	**9,884**	9,920

Risks associated with the Group's defined benefit pension schemes

The defined benefit schemes expose the Group to a number of risks as detailed below:

Risk	Description	Mitigation
Asset volatility	Returns on assets that vary from the discount rate create funding level volatility. Both schemes hold a significant proportion of growth assets such as equities and real estate. Whilst growth assets are expected to outperform corporate bond yields over the long term this might not always occur in the short term.	All equities are invested passively. The equity portfolio includes both emerging markets and smaller companies in order to track global economic growth by replicating global equity capitalisation. Asset volatility is therefore mitigated by investing in as many companies as possible. All other assets are invested actively and are widely diversified to reduce returns risk and enhance returns.
Currency	The schemes' liabilities are sterling based whereas the majority of assets are denominated in foreign currencies.	Currency hedging programmes help dampen returns volatility caused by the fluctuation of sterling against other leading currencies.
Changes in bond yields	A decrease in bond yields, which in turn drive the discount rate, will increase the present value of the schemes' liabilities for accounting purposes.	A significant proportion of assets are held in corporate bonds that provide a hedge against falling bond yields. Furthermore significant levels of interest rate hedging within the schemes' liability hedging portfolios through interest rate derivatives serve to protect against falling bond yields. Buy-in policies transfer a proportion of interest rate risk to an insurer.
Inflation	The majority of the schemes' liabilities are linked to UK price inflation indices (to a maximum of five per cent per year).	Liability hedging portfolios hedge significant proportions of inflation liabilities by holding index linked bonds and inflation rate derivatives. The schemes' equity portfolio provides a natural hedge against inflation. Buy-in policies transfer a proportion of inflation risk to an insurer.
Longevity	Beneficiaries living longer than expected could increase the schemes' liabilities.	Buy-in policies transfer some longevity risk to an insurer.
Operational	Poor administration of benefits may result in an increased defined benefit obligation in future years.	The schemes' benefits administrators have agreed service level agreements and controls are carefully monitored.

29 Retirement benefit obligations continued

The major categories of plan assets are as follows:

	Quoted 2018 £m	Unquoted[1] 2018 £m	Quoted 2017 £m	Unquoted 2017 £m
Equity				
Public[2]	**1,422**	**–**	1,987	–
Private	**–**	**267**	–	267
Bonds[3]				
Government bonds	**1,269**	**–**	1,272	–
Corporate bonds	**3,695**	**(35)**	3,483	(60)
Emerging market bonds	**444**	**–**	419	–
Derivatives[4]	**163**	**558**	–	519
Alternatives				
Real estate	**64**	**561**	58	524
Private debt	**–**	**404**	–	436
Diversified growth	**188**	**–**	185	–
Insurance policy[5]	**–**	**334**	–	357
Other	**–**	**–**	102	59
Cash and cash equivalents	**558**	**(8)**	390	(78)
	7,803	**2,081**	7,896	2,024

Notes

1 Certain unquoted fixed interest securities, private equity and debt investments, property investments and hedge funds are stated at fair value. These fair values may differ from their realisable values due to the absence of liquid markets in these investments.
2 Quoted equities – circa 78 per cent of the scheme's equities are invested in publicly quoted, highly liquid securities across developed markets. The remainder are invested in smaller companies and emerging markets.
3 Bonds – circa 91 per cent of the scheme's bonds are invested in investment grade credit. The remainder are below investment grade.
4 Swap contract derivatives outstanding at the year-end are stated at the net present value of future discounted cash flows of each leg of the swap.
5 Insurance policy of £334 million (2017: £357 million) refers to a buy-in policy held by the HRG scheme. The income from this policy exactly matches the amount and timing of all of the benefits payable for the insured pensioner members. Therefore the fair value of the insurance policy has been calculated to be the present value of the related obligations.

Of the above assets, £2,902 million are denominated in sterling and £6,982 million are denominated in overseas currencies.

d) Assumptions

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

	2018 %	2017 %
Discount rate	**2.80**	2.70
Inflation rate – RPI	**3.15**	3.30
Inflation rate – CPI	**2.15**	2.30
Future pension increases	**1.90 – 3.00**	2.00 – 3.15

During the financial year the Group has changed the model used for deriving the discount rate assumption for valuing the Schemes' liabilities under IAS 19 to use an approach that the Group believes better reflects expected yields on high quality corporate bonds over the duration of the Group's pension schemes.

For long duration liabilities there exists limited data. Under the old model the extrapolation for long duration liabilities projected in line with a risk-free curve, whereas the new method extrapolates the available corporate bond data at a credit spread above gilt rates. In addition, in order to broaden the corporate bond dataset, we have assumed that 'high quality' corporate bonds are those which at least one of the main ratings agencies considers to be at least AA (or equivalent), whereas in previous years we required that the majority of the rating agencies rated a bond as AA.

The discount rate used under the updated approach is 2.8 per cent. The resulting gain (recognised in other comprehensive income) is included within the £495 million of actuarial gains due to changes in financial assumptions as disclosed in Section b above. This gain also includes movements due to inflation changes.

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements have been updated from CMI 2015 projections at 2017 year-end to CMI 2017 projections with a long-term rate of improvement of 1.25 per cent p.a. at 10 March 2018.

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

	Sainsbury's Main Scheme 2018 Years	Sainsbury's Executive Scheme 2018 Years	Home Retail Group 2018 Years	Sainsbury's Main Scheme 2017 Years	Sainsbury's Executive Scheme 2017 Years	Home Retail Group 2017 Years
Male pensioner	**21.3**	**24.4**	**22.3**	21.5	24.8	22.6
Female pensioner	**23.9**	**25.5**	**24.6**	24.3	26.0	25.0

29 Retirement benefit obligations continued

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

	Sainsbury's Main Scheme 2018 Years	**Sainsbury's Executive Scheme 2018 Years**	**Home Retail Group 2018 Years**	Sainsbury's Main Scheme 2017 Years	Sainsbury's Executive Scheme 2017 Years	Home Retail Group 2017 Years
Male pensioner	**22.7**	**25.7**	**23.7**	23.3	26.5	24.4
Female pensioner	**25.4**	**27.0**	**26.1**	26.3	27.9	26.9

e) Sensitivities

The following sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

	Sainsbury's £m	**HRG[1] £m**	**Total £m**
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	886	122	1,008
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	1,029	145	1,174
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	653	132	785
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	620	117	737
An increase of one year to the life expectancy would increase the present value of funded obligations by	316	33	349

1 Changes in the 'insured' defined benefit obligations are matched by changes in the fair value of the buy-in policy and therefore the sensitivities above relate to the non-insured defined benefit obligations only.

f) Future benefit payments

The Group's expected contributions to the defined benefit scheme for the next financial year ending 9 March 2019 are £91 million for Sainsbury's and £40 million for HRG. Details of future committed payments are included in the Background section at the beginning of this note.

The duration of the plan liabilities is around 22 years for Sainsbury's and 25 years for HRG. The following table provides information on the timing of benefit payments (amounts undiscounted):

	2018 £m
Within the next 12 months (next annual reporting period)	**224**
Between 2 and 5 years	**998**
Between 6 and 15 years	**3,468**
Between 16 and 25 years	**4,580**
Beyond 25 years	**9,918**
Total expected payments	**19,188**

30 Share-based payments

Accounting policies

The Group provides benefits to employees (including Directors) of the Group in the form of equity-settled and cash-settled share-based payment transactions, whereby employees render services in exchange for shares, rights over shares or the value of those shares in cash terms.

For equity-settled share-based payments, the fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions. All share options are valued using an option-pricing model (Black-Scholes or Monte Carlo). This fair value is charged to the income statement over the vesting period of the share-based payment scheme.

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

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

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The Group recognised £33 million (2017: £32 million) of employee costs (note 28) related to share-based payment transactions made during the financial year. Of these, £nil (2017: £nil) were cash-settled.

30 Share-based payments continued

The Group operates a number of share-based payment schemes as set out below:

a) Savings-Related Share Option Scheme (Sharesave)

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

A reconciliation of Sharesave option movements is shown below:

	2018 Number of options million	**2018 Weighted average exercise price pence**	2017 Number of options million	2017 Weighted average exercise price pence
Outstanding at the beginning of the year	**66.5**	**210**	59.0	234
Granted	**23.7**	**184**	27.1	184
Forfeited	**(15.8)**	**230**	(16.7)	249
Exercised	**(5.9)**	**207**	(2.6)	249
Expired	**–**	**–**	(0.3)	208
Outstanding at the end of the year	**68.5**	**196**	66.5	210
Exercisable at the end of the year	**6.4**	**228**	5.7	301
Exercisable price range		**184 to 332**		185 to 332

The weighted average share price for options exercised over the year was 257 pence (2017: 269 pence). The weighted average remaining contractual life of options outstanding at 10 March 2018 was 2.3 years (2017: 2.4 years).

Options granted during the year were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

		2018	2017
Share price at grant date (pence)		**238**	231
Exercise price (pence)		**184**	185
Expected volatility	– 3 year period (%)	**27.2**	29.9
	– 5 year period (%)	**26.0**	25.5
Option life	– 3 year period (years)	**3.2**	3.2
	– 5 year period (years)	**5.2**	5.2
Expected dividends (expressed as dividend yield %)		**4.8**	4.9
Risk-free interest rate	– 3 year period (%)	**0.8**	0.8
	– 5 year period (%)	**1.3**	1.6
Fair value per option	– 3 year period (pence)	**51**	49
	– 5 year period (pence)	**49**	45

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

As part of the prior year acquisition of Home Retail Group plc (HRG) colleagues had the option to roll over their HRG Save As You Earn (SAYE) options to a J Sainsbury plc SAYE option or let their HRG options vest. Therefore the above outstanding SAYE options include the rollover options. The calculation of the fair value per option rolled over has not been included within the table above.

b) Long-Term Incentive Plan

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

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

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

30 Share-based payments continued

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

	2018 million	2017 million
Outstanding at the beginning of the year	**5.8**	5.4
Conditionally allocated	**3.2**	2.5
Forfeited	**(1.2)**	(1.7)
Released to participants	**(0.6)**	(0.4)
Outstanding at the end of the year	**7.2**	5.8

The weighted average remaining contractual life of share options outstanding at 10 March 2018 was 1.6 years (2017: 1.8 years).

Details of shares conditionally allocated at 10 March 2018 are set out below:

Date of conditional award	2018 million	2017 million
15 May 2014 (2014 Future Builder)	**0.9**	1.6
14 May 2015 (2015 Future Builder)	**1.6**	1.9
12 May 2016 (2016 Future Builder)	**2.0**	2.3
11 May 2017 (2017 Future Builder)	**2.7**	–
	7.2	5.8

Options to acquire the award of shares were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

	2018	2017
Share price at grant date (pence)	**267**	265
Option life (years)	**4.0**	4.2
Fair value per option (pence)	**267**	265

During the year, a total number of 0.6 million shares were exercised (2017: 0.4 million shares). The weighted average share price during the year for options exercised was 266 pence (2017: 272 pence).

c) Deferred Share Award

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

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

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

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

	2018 million	2017 million
Outstanding at the beginning of the year	**3.0**	2.2
Granted	**2.0**	2.2
Forfeited	**(0.7)**	(0.1)
Exercised	**(0.9)**	(1.3)
Outstanding at the end of the year	**3.4**	3.0

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

	2018 million	2017 million
14 May 2015	**–**	0.9
13 May 2016	**1.8**	2.1
12 May 2017	**1.6**	–
	3.4	3.0

The weighted average remaining contractual life of share options outstanding at 10 March 2018 was 0.5 years (2017: 0.7 years). The weighted average share price during the year for options exercised was 260 pence (2017: 269 pence).

30 Share-based payments continued

d) Bonus Share Award

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

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

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

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

	2018 million	2017 million
Outstanding at the beginning of the year	**10.9**	8.9
Granted	**3.8**	6.3
Exercised	**(3.4)**	(3.8)
Forfeited	**(1.1)**	(0.5)
Outstanding at the end of the year	**10.2**	10.9

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

	2018 million	2017 million
15 May 2014	**–**	2.7
14 May 2015	**2.2**	2.5
13 May 2016	**5.0**	5.7
12 May 2017	**3.0**	–
	10.2	10.9

The weighted average remaining contractual life of share options outstanding at 10 March 2018 was 1.1 years (2017: 1.5 years). The weighted average share price during the year for options exercised was 267 pence (2017: 277 pence).

31 Acquisition of subsidiaries

Accounting policies for business combinations

The Group applies the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of identifiable assets transferred, the liabilities incurred and the equity interests issued by the Group at the acquisition date. Acquisition-related costs are expensed as incurred.

a. Acquisition of Nectar loyalty scheme

On 1 February 2018, the Group acquired 100 per cent of the share capital of Nectar Loyalty Holding Limited, a United Kingdom registered private company which owns the Nectar UK loyalty scheme as well as the remaining 50 per cent share of the Group's joint venture Insight 2 Communication LLP. The acquisition enables the full and independent operation of the Nectar loyalty programme in the UK.

Form of consideration	Consideration fair value at acquisition date £m
Cash	**33**
Acquisition-date fair value of the previously held equity interest	**6**
Total	**39**

None of the goodwill recognised of £147 million is expected to be deductible for income tax purposes. The goodwill was calculated as the difference between the fair value of consideration paid and the fair value of net assets acquired as set out in the following table.

31 Acquisition of subsidiaries continued

The provisional assets and liabilities recognised as a result of the acquisition are as follows:

Fair value of net assets acquired (provisional)	£m
Fixed assets	**3**
Intangible assets	**57**
Trade and other receivables	**141**
Deferred tax assets	**19**
Cash and cash equivalents	**168**
Total assets acquired	**388**
Trade and other payables	**(228)**
Deferred revenue	**(268)**
Total liabilities acquired	**(496)**
Net identifiable assets acquired at fair value	**(108)**
Goodwill arising on acquisition	**147**
Purchase consideration transferred	**39**

In accordance with IFRS 3 'Business Combinations', the acquisition accounting will be finalised within 12 months of the acquisition date of 1 February 2018.

Intangible assets

Intangible assets of £57 million relate to the Nectar brand, customer relationships and reacquired rights in relation to existing contractual relationships with Sainsbury's, as well as acquired software assets.

Trade and other receivables

Trade and other receivables of £141 million includes £nil of provisions for doubtful debts.

Cash and cash equivalents

Cash acquired included cash left in the business to settle accounts payable balances owed to the Group.

Deferred revenue

£265 million of the deferred revenue relates to points issued by issuance partners (including Sainsbury's) but not yet redeemed and has been included within trade and other payables within the Group balance sheet.

Revenue and profit contribution

Prior to acquisition, the Group's accounting policy for Nectar points was to recognise sales net of the cost of Nectar points issued and redeemed, based on agreed rates with Aimia UK. Since acquisition, any points issued and redeemed in Sainsbury's and Argos are accounted for in line with IFRIC 13 'Customer Loyalty Programmes'. Under IFRIC 13, on issuance of Nectar points within the Group, a portion of the transaction price is allocated to the loyalty programme using the fair value of points issued and corresponding deferred revenue recognised in relation to points issued but not yet redeemed or expired. Deferred revenue is then recognised as points are redeemed. Nectar revenue earned from non-Sainsbury's redemption partners is included within other income and recognised once points have been redeemed.

Cash impact of acquisition

	£m
Cash consideration	**(33)**
Cash acquired	**168**
Acquisition of subsidiaries, net of cash acquired (included in cash flow statement)	**135**

Acquisition-related costs

Acquisition-related costs (included in administrative expenses and recognised outside of underlying profit) amount to £2 million in the year (see note 3). In addition, an acquisition fair value gain of £4 million on the previously held equity interest in Insight 2 Communication LLP has been recorded in other income (and excluded from underlying profit before tax).

b. Acquisition of Home Retail Group plc

On 2 September 2016, the Group acquired 100 per cent of the issued share capital of Home Retail Group plc (HRG), a listed company based in the United Kingdom, by means of a Scheme of Arrangement under Part 26 of the Act for a consideration of £1,093 million. The full analysis of the consideration is shown below:

Form of consideration	Consideration fair value at acquisition date £m
Cash of £447 million (being 55p per existing share); fair value is based on Home Retail Group plc's share capital of 813,445,001 shares in existence as at the acquisition date	**447**
£3 million in relation to the contractual requirement to settle certain existing HRG share scheme awards and options	**3**
261 million new J Sainsbury plc shares of 28$^{4}/_{7}$p nominal value each were issued (being 0.321 new J Sainsbury plc shares per existing Home Retail Group plc share); fair value of the consideration is based on a J Sainsbury plc share price of £2.4610 as of 2 September 2016	**643**
Total	**1,093**

31 Acquisition of subsidiaries continued

Home Retail Group's activities mainly comprise General Merchandise retail. The acquisition is expected to accelerate the Group's growth strategy in General Merchandise and Clothing retail as well as its online presence. The combination brings together two of the UK's leading retail businesses with complementary product offers through an integrated, multi-channel proposition.

None of the goodwill recognised of £119 million is expected to be deductible for income tax purposes. The goodwill was calculated as the difference between the fair value of consideration paid and the fair value of net assets acquired as set out in the following table.

The assets and liabilities recognised as a result of the acquisition were finalised in September 2017 and are as follows:

Fair value of net assets acquired	As consolidated at 10 March 2018 £m	As consolidated at 11 March 2017 £m
Fixed assets	**262**	262
Intangible assets	**322**	322
Inventories	**810**	810
Trade and other receivables	**146**	146
Deferred tax assets	**55**	45
Amounts due from Financial Services customers (the 'loan book')	**615**	615
Other financial assets[1]	**59**	59
Cash and cash equivalents[2]	**548**	548
Total assets acquired	**2,817**	2,807
Trade and other payables[2]	**(1,214)**	(1,214)
Provisions	**(175)**	(104)
Defined benefit obligation	**(454)**	(454)
Total liabilities acquired	**(1,843)**	(1,772)
Net identifiable assets acquired at fair value	**974**	1,035
Goodwill arising on acquisition	**119**	58
Purchase consideration transferred	**1,093**	1,093

1 Other financial assets includes £9 million of J Sainsbury plc shares (converted from Home Retail Group plc own shares at the point of acquisition). On consolidation these become J Sainsbury plc own shares in the consolidated statement of changes in equity.
2 Cash and cash equivalents and trade and other payables acquired are both presented gross of the capital return of £226 million.

Intangible assets
Intangible assets include a brand of £179 million relating to the Argos brand name. This reflects its fair value at the acquisition date and is estimated to have a useful economic life of ten years.

Trade and other receivables
Trade and other receivables include £40 million of trade receivables, against which a bad debt provision of £(1) million was held. Also included are prepayments and accrued income of £29 million, and other debtors of £78 million.

Amounts due from Financial Services customers (the 'loan book')
The loan book fair value of £615 million includes a fair value increase of £20 million and a provision for impairment of £(66) million.

Acquisition-related costs
Acquisition-related costs (included in administrative expenses and recognised outside of underlying profit) amounted to £22 million in the prior year (see note 3). In addition £3 million of costs relating to the issuance of J Sainsbury plc shares were recognised directly within equity in the prior year.

Cash impact of acquisition

	£m
Cash consideration	**(447)**
Cash acquired	**548**
Acquisition of subsidiaries, net of cash acquired (included in prior year cash flow statement)	**101**
Capital return to shareholders of Home Retail Group plc (see below)	**(226)**
Net cash impact of acquisition	**(125)**

Capital return
Prior to the acquisition of Home Retail Group plc, it was announced that Home Retail Group plc shareholders would be entitled to a £226 million capital return comprising the following:

- 25.0 pence per share, reflecting the £200 million return to shareholders in respect of the sale of Homebase by Home Retail Group plc on 29 February 2016; and
- 2.8 pence per share (totalling £26 million) in lieu of a final dividend in respect of Home Retail Group plc's financial year ended 27 February 2016.

This was recorded as a liability in the net assets acquired above within trade and other payables. The full amount was paid on 12 September 2016.

31 Acquisition of subsidiaries continued

Finalisation of acquisition balance sheet

The final acquisition balance sheet was consolidated as follows:

	Restated £m	Prior period adjustment £m	As previously reported £m
Balance sheet at 11 March 2017			
Intangibles	**803**	61	742
Current provisions	**(148)**	(13)	(135)
Deferred income tax liability	**(162)**	10	(172)
Non-current provisions	**(186)**	(58)	(128)

There has been no impact on the previously reported income statement, statement of other comprehensive income, statement of changes in equity or cash flow statement.

Since the year-end date of 11 March 2017, movements in the acquisition balance sheet relate to the following:

Provisions
An in-depth review of provisions within HRG has been performed since the acquisition, resulting in changes to the estimates and assumptions applied.

Deferred income tax liability
Relates to deferred tax on the above adjustments.

Intangible assets
Movement to goodwill of £61 million since the prior year-end is as a result of the above adjustments.

32 Operating lease commitments

Accounting policies
Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

a) Operating leases
Assets leased under operating leases are charged directly to the income statement on a straight-line basis over the lease term.

b) Sale and leaseback
A sale and leaseback transaction is one where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer.

For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and the profit or loss from the sale is recognised immediately in the income statement.

c) Leases with predetermined fixed rental increases
The Group has a number of leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the term of the lease.

d) Operating lease income
Operating lease income consists of rentals from sub-tenant agreements and is recognised as earned on a straight-line basis over the lease term.

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

The table below sets out the Group's reasonably certain future lease payments:

	2018 £m	2017 £m
Aggregate future minimum lease payments:		
Within one year	**743**	760
In the second to fifth years inclusive	**2,565**	2,615
After five years	**6,711**	7,117
	10,019	10,492

Further analysis of the Group's future minimum lease payments after five years is as follows:

	2018 £m	2017 £m
Aggregate future minimum lease payments:		
Greater than five years but less than ten years	**2,073**	1,924
Greater than ten years but less than 15 years	**1,396**	1,253
After 15 years	**3,242**	3,940
	6,711	7,117

32 Operating lease commitments continued

The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index linked rent review (with a cap and collar). The timing of when rent reviews take place differs for each lease. The Group has pre-emption rights over a minor number of properties, which provides the Group with the right of first refusal to purchase the property in the event the landlord chooses to sell. The option price payable for the asset in each instance is normally referenced to current market value prevailing at the point of pre-emption.

The Group sublets certain leased properties:

	2018 £m	2017 £m
Aggregate future minimum lease receipts:		
Within one year	**41**	39
In the second to fifth years inclusive	**113**	119
After five years	**119**	116
	273	274

33 Capital commitments

At 10 March 2018, capital commitments contracted, but not provided for by the Group, amounted to £103 million (11 March 2017: £118 million).

34 Financial commitments

Sainsbury's Bank has off balance sheet commitments to extend credit to customers of £267 million (2017: £98 million).

35 Contingent liabilities

The Group has a number of contingent liabilities in respect of historic lease guarantees, particularly in relation to the disposal of assets, which if the current tenant and their ultimate parents become insolvent, may expose the Group to a material liability. This is not expected to materialise.

The Company is currently subject to claims brought by approximately 1,000 employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. The claimants, who are predominantly female store employees, allege that their pay should be equal to that of the Company's predominantly male depot/warehouse employees on the basis that their work is of equal value to that of their depot comparators and that any disparity in pay between these different job positions is not objectively justified. A number of other grocery and other retailers are subject to similar claims.

Typically, claims of this nature can take many years to be determined. Given that the claims against the Company are at an early stage and are currently stayed, the outcome of such claims is highly uncertain at this stage and, at present, it is not possible to predict the number of such claims that may be filed or reasonably estimate any loss or range of loss that may arise from these proceedings were the claims to be upheld. The Company believes that it has strong legal and factual defences to the claims.

36 Related party transactions

a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc Board of Directors and the Operating Board. The key management personnel compensation is as follows:

	2018 £m	2017 £m
Short-term employee benefits	**9**	10
Post-employment employee benefits	**1**	1
Share-based payments	**5**	6
	15	17

Eight key management personnel had credit card balances with Financial Services (2017: nine). These arose in the normal course of business and were immaterial to the Group and the individuals. Three key management personnel held saving deposit accounts with Financial Services (2017: five). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 10 March 2018, the Group entered into various transactions with joint ventures and associates as set out below:

	2018 £m	2017 £m
Management services provided	**1**	8
Income share received from joint ventures and associates	**26**	29
Dividends and distributions received	**37**	65
Proceeds from repayment of loan to joint ventures and associates	**–**	2
Investment in joint ventures	**(9)**	(18)
Disposals of joint ventures	**2**	–
Rental expenses paid	**(46)**	(57)

Year-end balances arising from transactions with joint ventures and associates

	2018 £m	2017 £m
Receivables		
Other receivables	**6**	12
Loans due from joint ventures	**–**	3
Payables		
Loans due to joint ventures	**(5)**	(5)

Insight 2 Communication LLP became a wholly owned subsidiary as at 1 February 2018; up until this point it was a joint venture. All transactions up to the acquisition date have been included above. Outstanding balances as at 10 March 2018 have been excluded as they have now been fully consolidated.

Loans with joint ventures are interest bearing and repayable on demand.

c) Retirement benefit obligations

As discussed in note 29, the Group has entered into an arrangement with the Pension Scheme Trustee as part of the funding plan for the actuarial deficit in the Scheme. Full details of this arrangement are set out in note 29 to these financial statements.

37 Post balance sheet events

On 20 March 2018, subsequent to year-end, the HRG Pension Scheme was merged into the Sainsbury's Pension Scheme. The merger is on a segregated basis with two sections – the Argos section and the Sainsbury's section. There is no change to members' benefits and each section's assets are ring-fenced for the benefit of the members of that section. Further details are included in note 29.

On 19 April 2018, a fixed rate amortising loan from Eddystone Finance plc with a final principal balance of £568 million was repaid in full.

On 30 April 2018, Sainsbury's announced a proposed combination with Asda Group Limited, a wholly owned subsidiary of Walmart Inc. In exchange for the entire issued share capital of Asda, Sainsbury's will issue to Walmart cash of £2.975 billion and £4.3 billion of shares, based on the closing share price of Sainsbury's on 27 April 2018 of 269.8 pence.

The shares will comprise ordinary voting shares representing 29.9 per cent of Sainsbury's enlarged ordinary voting share capital and ordinary non-voting shares, which are convertible into ordinary voting shares such that Walmart will hold 42 per cent of the issued equity share capital of the Combined Business.

Completion of the Combination is expected in the second half of calendar year 2019. The Combination is conditional upon, amongst other things, Sainsbury's shareholder approval, Competition and Markets Authority approval, approvals in connection with the Asda defined benefit pension scheme and other regulatory approvals.

38 Details of related undertakings

All companies listed below are owned by the Group and all interests are in the ordinary share capital, except where otherwise indicated. All subsidiaries have been consolidated.

a) Subsidiary undertakings

The Group holds a majority of the voting rights of the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address*
ARG Personal Loans Limited	UK	100%	Indirect	Avebury
ARG Services Limited	UK	100%	Indirect	33 Holborn
Argos (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Argos (Hong Kong) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Argos Best Sellers Limited	UK	100%	Indirect	33 Holborn
Argos Business Solutions Limited	UK	100%	Indirect	Avebury
Argos Card Transactions Limited	UK	100%	Indirect	33 Holborn
Argos Direct Limited	UK	100%	Indirect	33 Holborn
Argos Distributors (Ireland) Limited	Ireland	100%	Indirect	Unit 7, Ashbourne Retail Park
Argos Extra Limited	UK	100%	Indirect	33 Holborn
Argos Holdings Limited	UK	100%	Indirect	Avebury
Argos Limited	UK	100%	Indirect	Avebury
Argos Retail Group (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Argos Retail Group (Hong Kong) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Argos Retail Group Limited	UK	100%	Indirect	33 Holborn
Argos Superstores Limited	UK	100%	Indirect	33 Holborn
Argos Surbs Investments Limited	UK	100%	Indirect	Avebury
Avebury (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Barleygold Limited	UK	100%	Indirect	50 Bedford Street
Bed Store & More Limited	UK	100%	Indirect	33 Holborn
Bells Stores Limited	UK	100%	Direct	33 Holborn
BLSSP (PHC 7) Limited	UK	100%	Indirect	33 Holborn
Braemar Castle Limited	UK	100%	Direct	33 Holborn
Brand Leader's Limited	UK	100%	Indirect	33 Holborn
Chad Valley Limited	UK	100%	Indirect	33 Holborn
Clearance Bargains Limited	UK	100%	Indirect	33 Holborn
Cliffrange Limited	UK	100%	Indirect	33 Holborn
Coolidge Investments Limited	UK	100%	Indirect	33 Holborn
Financial Recovery Services Limited	UK	100%	Indirect	Avebury
First Stop Stores Limited	UK	100%	Indirect	33 Holborn
Flint Castle Limited	UK	100%	Direct	33 Holborn
Global (Guernsey) Limited	Guernsey	100%	Indirect	Maison Trinity
Habitat Retail Limited	UK	100%	Indirect	Avebury
Holborn UK Investments Limited	UK	100%	Direct	33 Holborn
Home Retail (Asia) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Home Retail (Hong Kong) Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Home Retail Group (Cyprus) Limited	Cyprus	100%	Indirect	Michalaki Karaoli, 8
Home Retail Group (Finance) LLP	UK	100%	Indirect	Avebury
Home Retail Group (Guernsey) LP	Guernsey	100%	Indirect	Maison Trinity
Home Retail Group (Jersey) Limited	Jersey	100%	Indirect	44 Esplanade
Home Retail Group (UK) Limited	UK	100%	Indirect	Avebury
Home Retail Group Card Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Holdings (Overseas) Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Insurance Services Limited	UK	100%	Indirect	Avebury
Home Retail Group Limited	UK	100%	Indirect	Avebury
Home Retail Group Nominees Limited	UK	100%	Indirect	33 Holborn
Home Retail Group Pension Scheme Nominees Limited	UK	100%	Indirect	Avebury
Home Retail Group UK Service Company Limited	UK	100%	Indirect	33 Holborn
Home Store & More Limited	UK	100%	Indirect	33 Holborn
Insight 2 Communication LLP	UK	100%	Indirect	80 Strand
J Sainsbury Common Investment Fund Limited	UK	100%	Indirect	33 Holborn
J Sainsbury Distribution Limited	UK	100%	Direct	33 Holborn

*See full address on page 168.

38 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Address*
J Sainsbury Limited	Ireland	100%	Direct	6th Floor, South Bank House
J Sainsbury Pension Scheme Trustees Limited	UK	100%	Direct	33 Holborn
J Sainsbury Trustees Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores 2002 Limited	UK	100%	Indirect	33 Holborn
Jacksons Stores Limited	UK	100%	Direct	33 Holborn
JS Information Systems Limited	UK	100%	Direct	33 Holborn
JS Insurance Limited	Isle of Man	100%	Direct	Third Floor, St George's Court
JSD (London) Limited	UK	100%	Indirect	33 Holborn
Jungle Online	UK	100%	Indirect	33 Holborn
Jungle.com Holdings Limited	UK	100%	Indirect	33 Holborn
Jungle.com Limited	UK	100%	Indirect	33 Holborn
Maloney's Retail (Shepperton) Stores Limited	UK	100%	Indirect	33 Holborn
Nash Court (Kenton) Limited	UK	100%	Indirect	33 Holborn
Nectar EMEA Limited	UK	100%	Direct	80 Strand
Nectar Loyalty Holding Limited	UK	100%	Direct	80 Strand
Nectar Loyalty Limited	UK	100%	Direct	80 Strand
Premier Incentives Limited	UK	100%	Indirect	33 Holborn
Quarternate Holdings Limited	Jersey	100%	Indirect	44 Esplanade
Ramheath Properties Limited	UK	100%	Direct	33 Holborn
Sainsbury Bridgeco Holdco Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco A Limited	UK	100%	Direct	33 Holborn
Sainsbury Holdco B Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco A Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco B Limited	UK	100%	Indirect	33 Holborn
Sainsbury Propco C Limited	UK	100%	Direct	33 Holborn
Sainsbury Propco D Limited	UK	100%	Direct	33 Holborn
Sainsbury Property Investments Limited	UK	100%	Direct	33 Holborn
Sainsbury's Argos Asia Commercial Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Sainsbury's Argos Asia Sourcing Limited	Hong Kong	100%	Indirect	Units C & D 5/F, D2 Place Two
Sainsbury's Argos Commercial Consulting (Shanghai) Limited	China	100%	Indirect	Room 02-04, 12/F, Tower 1
Sainsbury's Argos Asia Limited	Hong Kong	100%	Indirect	27/F Standard Chartered Tower
Sainsbury's Argos Asia Technical Limited	Hong Kong	100%	Indirect	27/F Standard Chartered Tower
Sainsbury's Bank plc	UK	100%	Direct	33 Holborn
Sainsbury's Commercial Consulting (Dongguan) Company Limited	China	100%	Indirect	Room 1813, 18/F, Block 2, Haide Plaza
Sainsbury's Convenience Stores Limited	UK	100%	Direct	33 Holborn
Sainsburys Corporate Director Limited	UK	100%	Direct	33 Holborn
Sainsbury's Intermediate Holdings Limited	UK	100%	Direct	33 Holborn
Sainsbury's Limited	Ireland	100%	Direct	6th Floor, South Bank House
Sainsbury's Limited	UK	100%	Direct	No.2 Lochrin Square
Sainsbury's Manor GP Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Manor II Property Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Manor Property Limited	UK	100%	Direct	Hurlawcrook Road
Sainsbury's Planet Limited	UK	100%	Direct	33 Holborn
Sainsbury's Supermarkets Limited	UK	100%	Direct	33 Holborn
Software Warehouse Holdings Limited	UK	100%	Indirect	33 Holborn
Stamford House Investments Limited	UK	100%	Indirect	33 Holborn
Stamford Properties One Limited	UK	100%	Direct	33 Holborn
Stamford Properties Three Limited	UK	100%	Direct	33 Holborn
Stamford Properties Two Limited	UK	100%	Direct	33 Holborn
Stanhope Finance Limited	UK	100%	Indirect	33 Holborn
Tintagel Castle Limited	UK	100%	Direct	33 Holborn
Town Centre Retail (Bicester) Limited	UK	100%	Indirect	33 Holborn

*See full address on page 168.

38 Details of related undertakings continued

b) Associated undertakings

The Group has a participating interest in the following undertakings:

Entity	Country of incorporation	Interest	Holding	Address*
3BW Limited	UK	100%	Direct	33 Holborn
Arcus FM Limited	UK	Preference shares	Indirect	Enterprise House
Arcus Solutions Limited	UK	Preference shares	Indirect	Enterprise House
BL Sainsbury Superstores Limited	UK	50%	Indirect	York House
Harvest 2 GP Limited	UK	50%	Indirect	100 Victoria Street
Harvest 2 Limited Partnership	UK	50%	Indirect	100 Victoria Street
Harvest Development Management Limited	UK	50%	Indirect	100 Victoria Street
Harvest GP Limited	UK	50%	Indirect	100 Victoria Street
Hedge End Park Limited	UK	50%	Direct	33 Holborn
Manor II Property Scottish Partnership	UK	0.01%	Indirect	Hurlawcrook Road
Manor Property Scottish Partnership	UK	0.01%	Indirect	Hurlawcrook Road
Manor Scottish Limited Partnership	UK	0.01%	Indirect	Hurlawcrook Road
PXS Limited	UK	85,000 B shares	Indirect	One New Change
Sainsbury's Property Scottish Limited Partnership	UK	10%	Indirect	Hurlawcrook Road
Sainsbury's Property Scottish Partnership	UK	33%	Indirect	Hurlawcrook Road

c) Undertakings other than subsidiaries and associated undertakings

The direct or indirect holder of 100 per cent of the voting interests in the following undertakings is an associate of the Group:

Entity	Country of incorporation	Interest	Holding	Address*
B.L.C.T. (10775) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (11546) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (20720) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (27255) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (38775) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (39214) Limited	Jersey	50%	Indirect	47 Esplanade
B.L.C.T. (39215) Limited	Jersey	50%	Indirect	47 Esplanade
BL Crawley	Jersey	50%	Indirect	47 Esplanade
BL Superstores Finance PLC	UK	50%	Indirect	York House
BL Superstores (Funding) Limited	UK	50%	Indirect	York House
BLS Non Securitised 2012 1 Limited	UK	50%	Indirect	York House
BLS Non-Securitised 2012 2 Limited	UK	50%	Indirect	York House
BLSSP (Cash Management) Limited	UK	50%	Indirect	York House
BLSSP (Lending) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1 2010) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1 2012) Limited	UK	50%	Indirect	York House
BLSSP (PHC 1) Limited	UK	50%	Indirect	York House
BLSSP (PHC 10) Limited	UK	50%	Indirect	York House
BLSSP (PHC 12) Limited	UK	50%	Indirect	York House
BLSSP (PHC 14) Limited	UK	50%	Indirect	York House
BLSSP (PHC 16) Limited	UK	50%	Indirect	York House
BLSSP (PHC 19) Limited	UK	50%	Indirect	York House
BLSSP (PHC 2 2010) Limited	UK	50%	Indirect	York House
BLSSP (PHC 2) Limited	UK	50%	Indirect	York House
BLSSP (PHC 20) Limited	UK	50%	Indirect	York House
BLSSP (PHC 21) Limited	UK	50%	Indirect	York House
BLSSP (PHC 22) Limited	UK	50%	Indirect	York House
BLSSP (PHC 23) Limited	UK	50%	Indirect	York House
BLSSP (PHC 24) Limited	UK	50%	Indirect	York House

*See full address on page 168.

38 Details of related undertakings continued

Entity	Country of incorporation	Interest	Holding	Address*
BLSSP (PHC 25) Limited	UK	50%	Indirect	York House
BLSSP (PHC 28) Limited	UK	50%	Indirect	York House
BLSSP (PHC 3) Limited	UK	50%	Indirect	York House
BLSSP (PHC 32) Limited	UK	50%	Indirect	York House
BLSSP (PHC 33) Limited	UK	50%	Indirect	York House
BLSSP (PHC 34) Limited	UK	50%	Indirect	York House
BLSSP (PHC 35) Limited	UK	50%	Indirect	York House
BLSSP (PHC 5) Limited	UK	50%	Indirect	York House
BLSSP (PHC 6) Limited	UK	50%	Indirect	York House
BLSSP Property Holdings Limited	UK	50%	Indirect	York House
British Land Superstores (Non-Securitised)	UK	50%	Indirect	York House
Clarendon Property Company	UK	50%	Indirect	York House
Harvest 2 Selly Oak Limited	UK	50%	Indirect	100 Victoria Street
Harvest Nominee No. 1 Limited	UK	50%	Indirect	100 Victoria Street
Harvest Nominee No. 2 Limited	UK	50%	Indirect	100 Victoria Street
Pencilscreen Limited	UK	50%	Indirect	York House
Selected Land and Property Company	UK	50%	Indirect	York House
Ten Fleet Place	UK	50%	Indirect	York House
Vyson	UK	50%	Indirect	York House

d) Overseas branches

The Group has the following branches overseas:

Entity	Country	Holding	Address*
Sainsbury's Asia Limited – Bangladesh Liaison Office	India	Indirect	Level 10, Simpletree Anarkali
Sainsbury's Asia Limited – India Branch Office	India	Indirect	Unit No. 1, 1st Floor, Ambience Corporate Tower II
Sainsbury's Commercial Consulting (Dongguan) Company Limited – Shanghai Branch Office	China	Indirect	Suite 2202-2205, 22F., Raffles City

e) Companies in liquidation

Entity	Country of incorporation	Interest	Holding	Address*
J Sainsbury Holdings	Ireland	100%	Indirect	29 Earlsfort
JS Finance Corporation	Ireland	100%	Indirect	29 Earlsfort
Netto Limited	UK	50%	Direct	33 Holborn
Portfolio Investments Ltd	UK	100%	Indirect	Hill House
Romford Developments Limited	UK	50%	Indirect	55 Baker Street
Sainsbury's Basingstoke Limited	UK	100%	Indirect	Hill House
Sainsbury's Entertainment Ltd	UK	100%	Indirect	Hill House
Stockdale Land (Bicester) Limited	UK	100%	Indirect	Hill House

*See full address on page 168.

38 Details of related undertakings continued

Address	Full address
100 Victoria Street	100 Victoria Street, London, SW1E 5JL, United Kingdom
27/F Standard Chartered Tower	27/F Standard Chartered Tower, Millennium City 1, 388 Kwun Tong Road, Kwun, Hong Kong
33 Holborn	33 Holborn, London, EC1N 2HT, United Kingdom
44 Esplanade	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands
47 Esplanade	47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands
50 Bedford Street	50 Bedford Street, Belfast, BT2 7FN, United Kingdom
80 Strand	80 Strand, 6th Floor, London, WC2R 0NN, United Kingdom
6th Floor, South Bank House	6th Floor, South Bank House, Barrow Street, Dublin 4, Republic of Ireland
Avebury	Avebury, 489-499 Avebury Boulevard, Milton Keynes, MK9 2NW, United Kingdom
No.2 Lochrin Square	No.2 Lochrin Square, 96 Fountainbridge, Edinburgh, EH3 9QA, United Kingdom
Enterprise House	Enterprise House, 168-170 Upminster Road, Upminster, Essex, RM14 2RB, United Kingdom
Level 10, Simpletree Anarkali	Level 10, Simpletree Anarkali, 89 Gulshan Avenue Plet 03, Block – CWS(A), Dhaka – 1212, Bangladesh
Maison Trinity	Maison Trinity, Trinity Square, St Peter Port, GY1 4AT, Guernsey, Channel Islands
One New Change	One New Change, London, EC4M 9AF, United Kingdom
Michalaki Karaoli, 8	Michalaki Karaoli, 8, Anemomylos Building, 4th Floor, Flat/Office 401, P.C. 1504, Nicosia, Cyprus
Room 02-04, 12/F., Tower 1	Room 02-04, 12/F., Tower 1, Kerry Everybright City Phase III – Enterprise Centre, No 128 West Tian Mu Road, Ahzbei, Shanghai, 200070, Shanghai, People's Republic of China
Room 1813, 18/F, Block 2, Haide Plaza	Room 1813, 18/F, Block 2, Haide Plaza, No. 200, Hongfu Road, Nancheng District, Dongguan, People's Republic of China
Hurlawcrook Road	Scottish Commercial Office, Hurlawcrook Road, Langlands Park Industrial Estate, East Kilbride, G75 0QH, United Kingdom
Units C & D 5/F, D2 Place Two	Units C & D 5/F, D2 Place Two, No 15 Cheung Shun Street, Cheung Sha Wan, Kowloon, Hong Kong
Unit 7, Ashbourne Retail Park	Unit 7, Ashbourne Retail Park, Ballybin Road, Ashbourne, Republic of Ireland
Unit No. 1, 1st Floor, Ambience Corporate Tower II	Unit No. 1, 1st Floor, Ambience Corporate Tower II, Ambience Island, NH-8, Gurgaon – 122011, Haryana, India
Suite 2202-2205, 22F., Raffles City	Suite 2202-2205, 22F., Raffles City, 268 Xi Zang Middle Road, Shanghai 200001, People's Republic of China
York House	York House, 45 Seymour Street, London, W1H 7LX, United Kingdom
Third Floor, St George's Court	Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man
Hill House	Hill House, 1 Little New Street, London, EC4A 3TR
29 Earlsfort Terrace	Deloitte, 29 Earlsfort Terrace, Dublin 2, Republic of Ireland
55 Baker Street	55 Baker Street, London, W1U 7EU, United Kingdom

Five year financial record

Five year financial record

	2018	2017	2016	2015	2014
Financial results (£m)					
Underlying sales (including VAT, including fuel, including Financial Services)	**31,741**	29,112	25,829	26,122	26,353
Underlying operating profit					
Retail	**625**	626	635	720	873
Financial Services	**69**	62	65	62	6
	694	688	700	782	879
Underlying net finance costs[1]	**(119)**	(119)	(121)	(107)	(111)
Underlying share of post-tax profit from joint ventures	**14**	12	8	6	30
Underlying profit before tax[1,2]	**589**	581	587	681	798
Increase/(decrease) on previous year (%)	**1.4**	(1.0)	(13.8)	(14.7)	5.3
Retail underlying operating margin (%)[3]	**2.24**	2.42	2.74	3.07	3.65
Earnings per share					
Underlying (pence)	**20.4**	21.8	24.2	26.4	32.8
(Decrease)/increase on previous year (%)	**(6.4)**	(9.9)	(8.3)	(19.5)	6.5
Proposed dividend per share (pence)[4]	**10.2**	10.2	12.1	13.2	17.3

1 Net finance costs before non-underlying finance movements, IAS 19 pension financing charge but after accrued coupons on the perpetual securities.
2 Profit before tax from continuing operations before non-underlying items as described in note 3.
3 Retail operating profit margin based on retail sales excluding Value Added Tax, including fuel, excluding Financial Services.
4 Total proposed dividend to ordinary shareholders in relation to the financial year.

Company balance sheet

At 10 March 2018 and 11 March 2017

	Note	2018 £m	2017 £m
Non-current assets			
Investments in subsidiaries	2	**6,013**	5,757
Investments in joint ventures and associates	3	**6**	10
Available-for-sale financial assets	4	**40**	39
Other receivables	5	**219**	1,716
Derivative financial instruments		**7**	6
		6,285	7,528
Current assets			
Trade and other receivables	5	**2,656**	1,042
Derivative financial instruments		**4**	19
Cash and cash equivalents		**309**	300
		2,969	1,361
Total assets		**9,254**	8,889
Current liabilities			
Trade and other payables	6	**(824)**	(375)
Borrowings	7	**(1)**	(1)
Derivative financial instruments		**(3)**	(17)
Provisions	8	**(1)**	–
Taxes payable		**(33)**	(31)
		(862)	(424)
Net current assets		**2,107**	937
Non-current liabilities			
Other payables	6	**–**	(587)
Borrowings	7	**(634)**	(625)
Derivative financial instruments		**(9)**	(4)
Provisions	8	**(1)**	(2)
		(644)	(1,218)
Net assets		**7,748**	7,247
Equity			
Called up share capital	10	**627**	625
Share premium account	10	**1,130**	1,120
Capital redemption reserve	10	**680**	680
Merger reserve	10	**568**	568
Other reserves	10	**23**	28
Retained earnings	11	**4,224**	3,730
Total equity before perpetual securities		**7,252**	6,751
Perpetual capital securities		**248**	248
Perpetual convertible bonds		**248**	248
Total equity		**7,748**	7,247

The notes on pages 172 to 176 form an integral part of these financial statements.

The financial statements on pages 170 to 176 were approved by the Board of Directors on 1 May 2018, and are signed on its behalf by:

Mike Coupe Chief Executive
Kevin O'Byrne Chief Financial Officer

Company statement of changes in equity

for the 52 weeks to 10 March 2018

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 12 March 2017		**625**	**1,120**	**708**	**568**	**3,730**	**6,751**	**248**	**248**	**7,247**
Profit for the period	11	–	–	–	–	665	665	12	6	683
Other comprehensive income	10	–	–	3	–	–	3	–	–	3
Total comprehensive income for the year ended 10 March 2018		–	–	3	–	665	668	12	6	686
Transactions with owners:										
Dividends	11	–	–	–	–	(212)	(212)	–	–	(212)
Distribution to holders of perpetual securities (net of tax)		–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	10, 11	–	–	(8)	–	8	–	–	–	–
Allotted in respect of share option schemes	10, 11	2	10	–	–	33	45	–	–	45
At 10 March 2018		**627**	**1,130**	**703**	**568**	**4,224**	**7,252**	**248**	**248**	**7,748**
At 13 March 2016		550	1,114	711	–	3,240	5,615	248	248	6,111
Profit for the period	11	–	–	–	–	682	682	12	6	700
Other comprehensive income	10	–	–	5	–	–	5	–	–	5
Total comprehensive income for the period ended 11 March 2017		–	–	5	–	682	687	12	6	705
Transactions with owners:										
Dividends	11	–	–	–	–	(232)	(232)	–	–	(232)
Acquisition of subsidiaries		75	–	–	568	(3)	640	–	–	640
Adjustment to consideration in respect of share options		–	–	–	–	3	3	–	–	3
Distribution to holders of perpetual securities (net of tax)	10, 11	–	–	–	–	–	–	(12)	(6)	(18)
Amortisation of convertible bond equity component	10, 11	–	–	(8)	–	8	–	–	–	–
Allotted in respect of share option schemes		–	6	–	–	32	38	–	–	38
At 11 March 2017		625	1,120	708	568	3,730	6,751	248	248	7,247

The notes on pages 172 to 176 form an integral part of these financial statements.

Notes to the Company financial statements

1 Basis of preparation

The parent company's financial statements are prepared in accordance with United Kingdom Accounting Standards, in particular Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the Standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Company's transition date to FRS 101 was 13 March 2016. FRS 101 sets out amendments to IFRS as adopted by the European Union that are necessary to achieve compliance with the Companies Act and related regulations. These amendments had no impact on the statement of comprehensive income, balance sheet or statement of changes in equity for the Company for the year of transition.

The financial year represents the 52 weeks to 10 March 2018 (prior financial year 52 weeks to 11 March 2017).

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- The requirements of IAS 7 to present a cash flow statement.
- The requirements of paragraph 17 of IAS 24 'Related Party Transactions', to disclose information related to key management personnel, and the requirements of IAS 24 to disclose related party transactions between two or more members of a group for wholly owned subsidiaries.
- The requirements of paragraphs 30 and 31 of IAS 8 to disclose information assessing the possible impact of new standards issued but which are not yet effective.
- The requirements of IFRS 7 and IFRS 13 for disclosure of financial instruments and fair values.

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

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement nor a statement of comprehensive income for the Company alone.

The profit after tax for the Company for the year was £683 million (2017: £700 million).

2 Investments in subsidiaries

Accounting policies

Investments in subsidiaries are carried at cost less any impairment loss in the financial statements of the Company.

	2018 £m	2017 £m
Shares in subsidiaries		
At the beginning of the year	**5,757**	4,500
Additions	**256**	1,257
At the end of the year	**6,013**	5,757

Additions in the current year predominantly relate to capital injections into Sainsbury's Bank of £190 million, in addition to the acquisition of Nectar UK of £33 million. Additions in the prior year predominantly relate to the acquisition of Home Retail Group.

3 Investments in joint ventures and associates

Accounting policies

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

	Company shares at cost 2018 £m	Company shares at cost 2017 £m
At the beginning of the year	**10**	33
Additions	**–**	16
Provision for diminution in value of investment	**(4)**	(39)
At the end of the year	**6**	10

A provision of £4 million (2017: £39 million) was made against investments in joint ventures where the carrying amounts exceeded the recoverable amount.

4 Available-for-sale financial assets

Accounting policies

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

	2018 £m	2017 £m
Non-current		
Interest bearing financial assets	**40**	39

5 Other receivables

Accounting policies

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

	2018 £m	2017 £m
Non-current		
Amounts owed by Group companies	**219**	1,716
Current		
Amounts owed by Group companies	**2,642**	1,038
Other debtors	**14**	4
	2,656	1,042

6 Trade and other payables

Accounting policies

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

	2018 £m	2017 £m
Current		
Amounts owed to Group entities	**794**	346
Other payables	**30**	29
	824	375
Non-current		
Amounts owed to Group entities	**–**	587

7 Borrowings

	2018 Current £m	2018 Non-current £m	2018 Total £m	2017 Current £m	2017 Non-current £m	2017 Total £m
Bank loans due 2019	**–**	**199**	**199**	–	199	199
Convertible bond due 2019	**1**	**435**	**436**	1	426	427
Total borrowings	**1**	**634**	**635**	1	625	626

8 Provisions

Accounting policies

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

	Onerous leases and onerous contracts £m	Disposal provision £m	Total £m
At 11 March 2017 and 12 March 2016	1	1	2
Additional provisions	–	–	–
Utilisation of provision	–	–	–
At 10 March 2018	1	1	2

	2018 £m	2017 £m
Disclosed as:		
Current	**1**	–
Non-current	**1**	2
	2	2

9 Taxation

Accounting policies

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

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

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

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income.

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches and joint ventures except where the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

	Capital losses £m	**Rolled over capital gains £m**	**Total £m**
At 12 March 2017	21	(21)	–
Rate change adjustment to income statement	–	–	–
At 10 March 2018	**21**	**(21)**	**–**
At 13 March 2016	22	(22)	–
Rate change adjustment to income statement	(1)	1	–
At 11 March 2017	21	(21)	–

	2018 £m	2017 £m
Total deferred income tax liabilities	**(21)**	(21)
Total deferred income tax assets	**21**	21
Net deferred income tax liability recognised in non-current liabilities	–	–

10 Share capital and reserves

Accounting policies

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

Share capital, share premium and merger reserve

	2018 million	2017 million	2018 £m	2017 £m
Called up share capital				
Allotted and fully paid ordinary shares 28⁴⁄₇p	**2,194**	2,188	**627**	625
Share premium account				
Share premium			**1,130**	1,120

The movements in the called up share capital and share premium accounts are set out below:

	Number of ordinary shares million	Ordinary shares £m	Share premium account £m
At 12 March 2017	2,188	625	1,120
Allotted in respect of share option schemes	6	2	10
At 10 March 2018	**2,194**	**627**	**1,130**
At 13 March 2016	1,924	550	1,114
Acquisition of subsidiaries[1]	261	75	–
Allotted in respect of share option schemes	3	–	6
At 11 March 2017	2,188	625	1,120

1 261 million new J Sainsbury plc shares of 28⁴⁄₇p nominal value each were issued (being 0.321 new J Sainsbury plc shares per existing Home Retail Group plc share); fair value of the consideration is based on a J Sainsbury plc share price of £2.4610 as at 2 September 2016. This is accounted for as £75 million in share capital, plus the premium arising from the consideration in excess of the nominal amount of shares issued of £568 million, which is recognised in the merger reserve as the transaction qualified for merger relief.

Capital redemption and other reserves

	Available-for-sale assets £m	Cash flow hedge reserve £m	Convertible bond reserve £m	Total other reserves £m	Capital redemption reserve £m	Merger reserve £m
At 12 March 2017	10	(3)	21	28	680	568
Acquisition of subsidiaries	–	–	–	–	–	–
Available-for-sale financial assets fair value movements (net of tax)	1	–	–	1	–	–
Items reclassified from cash flow hedge reserve	–	2	–	2	–	–
Amortisation of convertible bond – equity component	–	–	(8)	(8)	–	–
At 10 March 2018	**11**	**(1)**	**13**	**23**	**680**	**568**
At 13 March 2016	6	(4)	29	31	680	–
Acquisition of subsidiaries	–	–	–	–	–	568
Available-for-sale financial assets fair value movements (net of tax)	4	–	–	4	–	–
Cash flow hedges effective portion of fair value movements (net of tax)	–	(1)	–	(1)	–	–
Items reclassified from cash flow hedge reserve	–	2	–	2	–	–
Amortisation of convertible bond – equity component	–	–	(8)	(8)	–	–
At 11 March 2017	10	(3)	21	28	680	568

The available-for-sale assets reserve represents the fair value gains and losses on the available-for-sale financial assets held by the Company. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Company.

The convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014.

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

11 Retained earnings

	2018 £m	2017 £m
Beginning of the year	**3,730**	3,240
Acquisition of subsidiaries	**–**	(3)
Adjustment to consideration in respect of share options	**–**	3
Profit for the year	**665**	682
Dividends paid	**(212)**	(232)
Allotted in respect of share option schemes	**33**	32
Amortisation of convertible bond – equity component	**8**	8
End of the year	**4,224**	3,730

Additional shareholder information

Financial calendar

Ex-dividend date	7 June 2018
Record date	8 June 2018
Last date for return of revocation of DRIP mandates	22 June 2018
Q1 Trading Statement	4 July 2018
Annual General Meeting	11 July 2018
Payment date and DRIP share purchase	13 July 2018
Interim results announced	8 November 2018*
Q3 Trading Statement	9 January 2019*
Preliminary results announced	1 May 2019*
Annual General Meeting	4 July 2019*

*provisional dates

The interim dividend was paid on 4 January 2018.

Shareholder profiles

End of year information as at 10 March 2018

	2018	2017
Number of shareholders	**124,464**	133,332
Number of shares in issue	**2,194,100,874**	2,188,149,787

By size of holding

	Shareholders %		Shares %	
	2018	2017	2018	2017
500 and under	**68.56**	69.13	**0.43**	0.47
501 to 1,000	**11.12**	11.23	**0.47**	0.51
1,001 to 10,000	**18.48**	17.98	**2.89**	3.01
10,001 to 100,000	**1.39**	1.24	**1.97**	1.85
100,001 to 1,000,000	**0.31**	0.29	**5.85**	6.12
Over 1,000,000	**0.13**	0.13	**88.39**	88.04
	100	100	**100**	100

By category of shareholder

	Shareholders %		Shares %	
	2018	2017	2018	2017
Individuals	**96.44**	96.47	**4.84**	5.26
Insurance companies	**0.00**	0.06	**0.00**	0.03
Banks and Nominees	**1.26**	3.18	**81.39**	93.59
Investment Trusts	**0.01**	0.03	**0.01**	0.01
Pension Funds	**0.01**	0.01	**0.01**	0.01
Other Corporate Bodies	**2.29**	0.25	**13.76**	1.1
	100	100	**100**	100

Annual General Meeting (AGM)

The AGM will be held at 11.00am on Wednesday, 11 July 2018 at QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report.

Registrars

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact:

Equiniti Registrars
Aspect House
Spencer Road
Lancing
BN99 6DA
Telephone: 0371 384 2030

Please remember to tell Equiniti if you move house or change bank details or if there is any other change to your account information.

You can view and manage your shareholding online at **www.shareview.co.uk**. You will require your 11-digit Shareholder Reference Number (SRN) to log in. It can be found on share certificates and dividend confirmations.

Dividends

Having your dividends paid directly into your bank or building society account is a more secure way than receiving your dividend by cheque. If you would prefer your dividends to be paid directly into your bank or building society account further information is available from Equiniti (address and telephone number above). You will still receive an annual dividend confirmation detailing each dividend to enable you to complete your tax return to HMRC.

Dividend Reinvestment Plan (DRIP)

The Company has a DRIP, which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. No new shares are allotted under this DRIP and approximately 30,086 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from the Registrars. Alternatively, you can elect to join the DRIP by registering for Shareview at **www.shareview.co.uk**.

Annual Dividend Confirmations

The Company sends out an Annual Dividend Confirmation (ADC) in relation to dividend payments. This means that those shareholders receiving their dividend direct into their bank account will receive an ADC once a year detailing all payments made throughout that year.

Shareholder communications Company website

J Sainsbury plc Interim and Annual Reports, and results announcements are available via the internet on our website at **www.j-sainsbury.co.uk**. As well as providing share price data and financial history, the site also provides background information about the Company, regulatory and news releases, and current issues.

Electronic shareholder communications

The Company encourages all shareholders to receive their shareholder communications electronically in order to reduce our impact on the environment and has set up a facility for shareholders to take advantage of electronic communications. The service allows you to:

- view the Annual Report and Financial Statements on the day it is published;
- receive electronic notification of the availability of future shareholder information (you must register your email for this service);
- check the balance and current value of your shareholding and view your dividend history; and
- submit your vote online prior to a general meeting.

To register visit **www.shareview.co.uk**. You will need your 11-digit Shareholder Reference Number which can be found on your share certificate or recent dividend confirmation.

Shareholder security

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company annual reports. If you receive any unsolicited investment advice, whether over the telephone, through the post or by email:

- make sure you get the name of the person and organisation;
- check that they are properly authorised by the FCA before getting involved by visiting **https://register.fca.org.uk/**; and
- report the matter to the FCA either by calling 0800 111 6768 or by completing an online form at **www.fca.org.uk/consumers/report-scam-unauthorised-firm**

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website **www.scamsmart.fca.org.uk**

Share dealing services

To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or a high street bank who will usually be able to assist you. Alternatively, you may consider using:

- The Share Centre Ltd, who offer a postal dealing service and they can be contacted at The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or Freephone 08000 282812 and quote Sainsbury's; or
- Equiniti, who offer a telephone and internet facility which gives shareholders the opportunity to trade at a known price. The telephone service is available from 8.00am to 4.30pm, Monday to Friday, excluding bank holidays, on telephone number 0345 6037 037. The internet share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting **www.shareview.co.uk/4/Info/Portfolio/Default/en/Home/products/pages/buyandsellshares.aspx**.

Further information and detailed terms and conditions are available on request by calling either provider.

American Depositary Receipts (ADRs)

The Company has a sponsored Level I ADR programme for which the Bank of New York Mellon acts as depositary. The ADRs are traded on the over-the-counter (OTC) market in the US under the symbol JSAIY, where one ADR is equal to four ordinary shares. All enquiries relating to ADRs should be addressed to:

BNY Mellon
Shareowner Services
PO Box 30170
College Station
TX 77842-3170

Toll Free Telephone # for domestic callers: 1-888-269-2377

International callers can call: +1-201-680-6825

Website: **www.mybnymdr.com**

Email: shrrelations@bnymellon.com

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form may be obtained from Equiniti. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from **www.sharegift.org**.

Tax information – Capital Gains Tax (CGT)

For CGT purposes, the market value of J Sainsbury plc ordinary shares on 31 March 1982 adjusted for all capital adjustments was 91.99 pence and B shares 10.941 pence.

CGT information on historic Home Retail Group corporate actions can be found in the Investor Section on our website **www.j-sainsbury.co.uk/investor-centre**.

Share capital consolidation

The original base cost of shares apportioned between ordinary shares of 28 4/7 pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding came into existence. The market value for CGT purposes of any share or security quoted on the Stock Exchange Daily Official List is generally the lower of the two quotations on any day plus one quarter of the difference between the values.

On Monday, 19 July 2004 the values were determined as follows:

New ordinary shares 257.5 pence

B shares 35 pence

Historic share capital consolidation information relating to Home Retail Group can be found in the Investor Section on our website **www.j-sainsbury.co.uk/investor-centre**.

Key contacts and advisers

General contact details

For general enquiries about Sainsbury's Bank call: 0808 540 5060

For any customer enquiries please contact our Sainsbury's Customer Careline by calling: 0800 636 262 or Argos helpline by calling: 0345 640 2020

Registered office

J Sainsbury plc
33 Holborn
London EC1N 2HT
Registered number 185647

Investor relations

James Collins
Head of Investor Relations
J Sainsbury plc
Store Support Centre
33 Holborn
London EC1N 2HT

investorrelations2@sainsburys.co.uk

Registrar

Equiniti Registrars
Aspect House
Spencer Road
Lancing
BN99 6DA

www.shareview.co.uk

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitors

Linklaters LLP
One Silk Street
London EC2Y 8HQ

Stockbrokers

UBS
5 Broadgate
London
EC2M 2QS

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Cautionary statement

Certain statements included in this Annual Report are forward looking and are therefore subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied because they relate to future events. These forward-looking statements include, but are not limited to, statements relating to the Company's expectations. Forward-looking statements can be identified by the use of relevant terminology including the words: 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'plans', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding our intentions, beliefs or current expectations and those of our officers, Directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the businesses we operate. Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Alternative performance measures

In the reporting of financial information, the Directors use various APMs which they believe provide additional useful information for understanding the financial performance and financial health of the Group. These APMs should be considered in addition to, and are not intended to be a substitute for IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures. All of the following APMs relate to the current period's results and comparative periods where provided.

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Income statement			
Like-for-like sales	**No direct equivalent**	Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year. The relocation of Argos stores into Sainsbury's supermarkets are classified as new space, while the host supermarket is classified as like-for-like. The measure is used widely in the retail industry as an indicator of current trading performance and is useful when comparing growth between retailers that have different profiles of expansion, disposals and closures.	The reported retail like-for-like sales growth of 1.3 per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for the 52 weeks to 10 March 2018, i.e. assuming that Argos sales are in the base. Additionally, the impact of the disposal of Pharmacy is not treated as like-for-like. See movements below:

	2018	2017
Underlying retail like-for-like (exc. fuel, inc. Argos in base)	**1.3%**	–
Underlying net new space impact (exc. Pharmacy, inc. Argos in base)	**0.3%**	0.8%
Underlying total retail sales growth (exc. fuel, exc. Pharmacy, inc. Argos in base)	**1.6%**	0.8%
Argos consolidation & Pharmacy impact	**8.4%**	13.3%
Underlying total retail sales growth (exc. fuel, inc. Pharmacy impact, exc. Argos in base)	**10.0%**	14.1%
Fuel impact	**(1.2)%**	(1.5)%
Underlying total retail sales growth (inc. fuel)	**8.8%**	12.6%
Bank impact	**0.2%**	0.1%
Underlying Group sales inc VAT	**9.0%**	12.7%

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Underlying Group sales	**Revenue**	Total sales less acquisition fair value unwinds on Argos Financial Services. This is the headline measure of revenue for the Group. It shows the annual rate of growth in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying profit before tax	**Profit before tax**	Profit or loss before tax before any items recognised which, by virtue of their size and/or nature, do not reflect the Group's underlying performance.	A reconciliation of underlying profit before tax is provided in note 3 of the financial statements.
Retail underlying operating profit	**Profit before tax**	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying basic earnings per share	**Basic earnings per share**	Earnings per share using underlying profit as described above. This is a key measure to evaluate the performance of the business and returns generated for investors.	A reconciliation of the measure is provided in note 8 of the financial statements.
Retail underlying EBITDAR	**No direct equivalent/Profit before tax**	Retail underlying operating profit as above, before rent, depreciation and amortisation. Retail rent excludes £2 million relating to Sainsbury's Bank.	A reconciliation of the measure is provided on page 38 of the Financial Review. A reconciliation of Group rent is provided in note 5 of the financial statements.

Cash flows and net debt

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
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 4 of the financial statements includes a reference to show what has been combined in these line items.	See table below

	Ref	2018 £m	2017 £m
Net interest paid	a	**(105)**	(108)
Strategic capital expenditure	b	**(80)**	(92)
Acquisition of subsidiaries	c	**135**	(128)
Repayment of borrowings	d	**(174)**	(211)
Other	e	**(2)**	6

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Retail free cash flow[1]	**Net cash generated from operating activities**	Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure and after investments in joint ventures and associates and Sainsbury's Bank capital injections. This measures cash generation, working capital efficiency and capital expenditure of the retail business.	See table below

Reconciliation of retail free cash flow	2018 £m	2017 £m
Cash generated from retail operations	**1,259**	929
Add back: Exceptional pension contribution	**–**	199
Net interest paid (ref (a) above)	**(105)**	(108)
Corporation tax	**(72)**	(87)
Retail purchase of property, plant and equipment	**(553)**	(622)
Retail purchase of intangible assets	**(69)**	(58)
Retail proceeds from disposal of property, plant and equipment	**54**	55
Add back: Strategic capital expenditure	**80**	92
Dividends and distributions received	**37**	65
Investment in joint ventures and associates	**(9)**	(16)
Bank capital injections	**(190)**	(130)
Free cash flow	**432**	319

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Cash generated from retail operations (per Financial Review)	**Cash generated from operations**	Retail cash generated from operations after changes in working capital but before pension contributions and exceptional pension contributions. This enables management to assess the cash generated from its core retail operations.	The reconciliation between retail and Group cash generated from operations is provided in note 4 of the financial statements.
Core retail capital expenditure	**No direct equivalent**	Capital expenditure excludes Sainsbury's Bank, after proceeds on disposals and before strategic capital expenditure. This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance. The reconciliation from the cash flow statement is included here.	See table below

Reconciliation of free cash flow	2018 £m	2017 £m
Purchase of property, plant and equipment	**(473)**	(530)
Purchase of intangibles	**(69)**	(58)
Cash capital expenditure before strategic capital expenditure (note 4)	**(542)**	(588)
Strategic capital expenditure (ref (b) above)	**(80)**	(92)
Proceeds on disposal	**54**	55
Cash capital expenditure including strategic capital expenditure	**(568)**	(625)
Capitalised interest	**(7)**	(7)
Other (including strategic capital expenditure)	**80**	85
Total net retail core capital expenditure	**(495)**	(547)

1 The definition of retail free cash flow has changed in the financial year from 'net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure' to 'net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure and after investments in joint ventures and associates and Sainsbury's Bank capital injections'.

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Cash flows and net debt			
Retail net debt	**Borrowings, cash, derivatives and available-for-sale financial assets, finance leases**	Net debt includes the capital injections in to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities. It is calculated as: available-for-sale assets (excluding equity investments) + net derivatives + net cash and cash equivalents + loans + finance lease obligations. This shows the overall strength of the balance sheet alongside the liquidity and its indebtedness and whether the Group can cover its debt commitments.	A reconciliation of the measure is provided in note 26 of the financial statements.
Gearing	**No direct equivalent**	Retail net debt divided by Group net assets. Gearing measures the Group's proportion of borrowed funds to its equity.	Retail net debt as per above and net assets as per the Group balance sheet.
Other			
Lease adjusted net debt/ underlying EBITDAR	**No direct equivalent**	Net debt plus capitalised lease obligations divided by Group underlying EBITDAR. This helps management measure the ratio of the business's debt to operational cash flow.	A reconciliation of this is provided in the Financial Review on page 41.
Return on capital employed	**No direct equivalent**	Return on capital employed is calculated as return divided by average capital employed. Return is defined as underlying profit before interest and tax. Capital employed is defined as net assets excluding net debt. The average is calculated on a 14 point basis. This represents the total capital that the Group has utilised in order the generate profits. Management use this to assess the performance of the business.	An explanation of the calculation is provided in the Financial Review on page 41.
Interest cover	**No direct equivalent**	Underlying operating profit, plus underlying share of post-tax profit from joint ventures and associates, divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs. This measures the ability of the Group to pay the interest on its outstanding debt. This measurement is used by creditors, lenders and investors to determine the risk of lending funds to the Group.	Underlying operating profit as per note 4 of the financial statements. Underlying share of post-tax profit from joint ventures and associates as per note 4 of the financial statements. Underlying net finance costs as per note 6 of the financial statements.
Fixed charge cover	**No direct equivalent**	Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs. This helps assess the Group's ability to satisfy fixed financing expenses from performance of the business.	EBITDAR is reconciled in the Financial Review on page 41. Underlying net finance costs as per note 6 of the financial statements.

Glossary

Active Kids – Our nationwide scheme to help inspire school children to take more exercise and to eat more healthily. Launched in 2005, Active Kids is open to all nursery, primary and secondary schools as well as Scouts and Girl Guides in the UK. **www.sainsburys.co.uk/activekids**

Annual General Meeting (AGM) – This year the AGM will be held on Wednesday 18 July 2018 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am.

Argos Financial Services (AFS) – ARG Personal Loans Limited; Home Retail Group Card Services Limited; and Home Retail Group Insurance Services Limited.

basics – Sainsbury's entry level own-brand range of products.

bps – Basis points.

by Sainsbury's – Core own-label brand.

Click & Collect – Service which allows customers to place general merchandise and grocery orders online for collection in-store.

CMBS – Commercial Mortgage Backed Securities.

Corporate Responsibility and Sustainability (CR&S) – The need to act responsibly in managing our impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment.

CPI – Consumer Price Index.

Dividend cover –Underlying profit after tax from continuing operations attributable to ordinary shareholders divided by total value of dividends declared during the year.

Earnings Per Share (EPS) – Earnings attributable to ordinary shareholders of the parent divided by the weighted average number of ordinary shares in issue during the year, excluding those held by ESOP Trusts, which are treated as cancelled.

Fairtrade – The Fairtrade label is an independent consumer label that guarantees a fair deal for marginalised workers and small scale farmers in developing countries. Producers receive a minimum price that covers the cost of production and an extra premium that is invested in the local community. **www.fairtrade.org.uk**

Fair value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FTSE4Good – The FTSE Group, an indexing company, runs the FTSE4Good index series to measure the performance of companies that meet corporate responsibility standards, and to facilitate investment in those companies. **www.ftse.com/products/indices/FTSE4Good**

FVTPL – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

Group – The Company and its subsidiaries.

IFRIC – International Financial Reporting Interpretations Committee.

IFRSs – International Financial Reporting Standard(s).

Joint venture (JV) – A business jointly owned by two or more parties.

Kantar Worldpanel (Kantar) – An independent third party providing data on the UK Grocery Market.

Live Well for Less – Sainsbury's customer commitment to continue to help people live the life they want to live, with quality products at fair prices.

LTIP – Long-Term Incentive Plan.

MSC – Marine Stewardship Council.

Nectar – One of the most popular loyalty schemes in the UK.

Non-controlling interest – The equity in a subsidiary not attributable, directly or indirectly, to the Company.

OFT – Office of Fair Trading.

PRA – Prudential Regulation Authority.

Real discount rate – Discount rate less inflation rate.

RPI – Retail Price Index.

Taste the Difference – Sainsbury's premium own-brand range of products.

Total Shareholder Return (TSR) – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

Tu – Sainsbury's own-label clothing range.