

Sainsbury's Supermarkets Ltd

Annual Report and Financial Statements

For the 52 weeks to 2 March 2024

Sainsbury's Supermarkets Ltd
Strategic report
for the 52 weeks to 2 March 2024

Principal activities and review of business

The principal activities of the Company are Food, General Merchandise and Clothing retailing. All material operations are carried out in the United Kingdom.

In February 2024, we set out our Next Level Sainsbury's strategy, focussing on four key outcomes underpinned by a revised purpose. The Company is one of the main operating companies within the J Sainsbury plc group (the "Group") and its Directors are members of the Group's Operating Board.

A full review of the business, strategy and the business model can be found in the 2024 Annual Report and Financial Statements of J Sainsbury plc (the Group's Annual Report), the parent undertaking, on the following website:
www.about.sainsburys.co.uk/ar2024.

Revenue for the Company increased to £27,877 million for the financial year (2023: £26,693 million). Grocery sales increased 9.4% as we continue to prioritise value for customers, inflating behind key competitors and winning volume market share. General merchandise sales declined slightly as the weather impacted seasonal sales performance, alongside tough market conditions.

The Company generated an underlying profit before tax of £264 million (2023: £181 million). This was driven by incremental profit from higher grocery volumes and cost savings from our Save to Invest programme. Higher grocery volumes were the result of continued switching gains from competitors, reflecting Sainsbury's improved value proposition, product innovation and improved availability. The Save to Invest program helped to mitigate significant operating cost inflation, including the cost of continued investment in our colleagues. Higher grocery profits were partially offset by lower general merchandise margins, reflecting higher promotional sales participation in tough trading conditions and the impact on margins of lower sales in higher margin seasonal categories. The profit before tax of the Company is £273 million (2023: £137 million) and the profit after tax for the financial year is £204 million (2023: £129 million).

Net assets of the Company were £4,059 million (2023: £4,684 million). The decrease was predominantly as a result of the dividend of £600 million (2023: £nil) declared and paid to its parent J Sainsbury plc. The net retirement benefit surplus in the Company also decreased to £741 million (2023: £1,020 million) as a result of remeasurement losses recognised within other comprehensive income. Separately, the Company derecognised £1,042 million of lease liabilities and £1,031 million of right-of-use assets respectively as a result of the Group's transaction to purchase Supermarket Income REIT's beneficial interest in a commercial property investment pool.

Section 172 Statement

The Board believes that it has acted in accordance with Section 172(1) of the Companies Act 2006 during the year ended 2 March 2024. This requires each Director to act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, have regard to the interest of other stakeholders, whilst maintaining high standards of business conduct.

The Company is a wholly-owned subsidiary of J Sainsbury plc and its stakeholder engagement is integrated within the Group's governance framework. During the year, the Directors continued to focus on engagement with the Company's stakeholders, most notably the Group, customers, colleagues and suppliers. It is the day-to-day responsibility of individual Directors to engage with stakeholders relevant to their roles in the Group.

Further details on how the Group engaged with its stakeholders, can be found on pages 22 to 29 of the Group Annual Report.

Wates Corporate Governance Principles

The Company's governance and business decisions are integrated with the Group. For the year ended 2 March 2024, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (Principles). The Company's parent company, of J Sainsbury plc, has complied in full with the Principles and Provisions of the UK Corporate Governance Code 2018.

Set out below is how we have applied the Principles over the past year.

Principle 1 - Purpose and leadership

During the year, the Board was involved in developing the Group's purpose and strategic priorities. Details of which can be found on pages 8 to 17 of the Group Annual Report. Feedback from stakeholders was taken into account when determining the Group's strategic priorities, details of which can be found on pages 22 to 29 of the Group Annual Report.

Principle 2 - Board composition

As at 2 March 2024, the Board consisted of eight members and the biographies of the current Directors can be found on our website <https://about.sainsburys.co.uk/about-us/our-management#operating-board>.

As the Company is a wholly owned subsidiary of J Sainsbury plc, it concentrates on the day-to-day management of the Group and execution of strategy set out by the Board of J Sainsbury plc. The Board of J Sainsbury plc has independent Non-Executive Directors that oversee the work of the Company and provide constructive challenge and ensure efficient decision-making. The Company's Board size, structure and succession planning is reviewed on a regular basis to ensure it aligns with business's needs and the needs of our stakeholders.

Diversity and inclusion

Our vision is to be the most trusted retailer, where people love to work and shop. That means harnessing talent, creativity and diversity of colleagues in an environment where everyone can thrive. We are committed to being a truly inclusive employer where all our colleagues are treated fairly and with respect and are encouraged to develop their skills and fulfil their potential.

The Group's CEO and the Operating Board provide clear and committed leadership and accountability of our inclusion agenda, with members of the Operating Board acting as sponsors across wellbeing, diversity and inclusion, and our Colleague Networks. The governance of diversity, equity and inclusion is a regular part of the Operating Board agenda to ensure ongoing progress and focus.

Principle 3 - Director Responsibilities

The current Directors of the Company and their responsibilities are detailed in their biographies on our website <https://about.sainsburys.co.uk/about-us/our-management#operating-board>.

To support its work the Board relies upon certain Group Committees, each of which has approved Terms of Reference setting out its areas of responsibility. The Committees include the Group Operating Board, Business Performance Review, Group Data Governance Committee, Group Safety Committee, Plan for Better Steering Committee and the Customer, Commercial and Channels Forum. For more information about these Group Committees, see page 74 of the Group Annual Report.

Principle 4 - Opportunity and Risk

Details of the Group's business model can be found on pages 8 and 9 of the Group Annual Report. The risk management process is embedded through the Group and is supported by the bottom-up risk process within divisions and governance forums. For more information on the Group's Principal Risks and Uncertainties, see pages 53 to 61 of the Group Annual Report.

The internal controls framework encompasses controls relating to financial reporting, operations, compliance, and risk management. More information can be found on page 98 of the Group Annual Report.

Principle 5 - Remuneration

Pay and benefits for colleagues across the business is integrated within the Group's remuneration structure. The Group's objective is to have a fair, equitable and competitive total reward package that encourages colleagues to serve and help every customer, drives profitable sales and provides opportunities for colleagues to share in Sainsbury's success.

The Group Board determines the pay and benefits for colleagues across the business and the Group Remuneration Committee is responsible for:

- Determining and agreeing with the Board a transparent Remuneration Policy which supports the Company's strategy and promotes long-term sustainable success
- Setting the Remuneration Policy and individual remuneration arrangements for the Chair, Executive Directors and Operating Board Directors
- Reviewing and noting remuneration trends and reward policies applying to all colleagues, considering alignment to culture and taking these into account when determining executive pay
- Approving the service agreements of each Executive Director, including termination arrangements
- Considering the achievement of the performance conditions under annual and long-term incentive arrangements

For more information on the work of the Group Remuneration Committee during the year, see pages 99 to 117 of the Group Annual Report.

Principle 6 – Stakeholder relationship and engagement

The Board has always deeply engaged with the Group's purpose, vision, values and goals recognising that they underpin everything we do as a business and help us strengthen relationships with our key stakeholders. It is the day-to-day responsibility of individual Directors to engage directly with stakeholders relevant to their roles and to provide this feedback to the Board at each meeting.

The disclosure below provides further detail on how the Board has engaged with stakeholders.

Who are our stakeholders?	How do we engage with them?
The Group	Through the Group Operating Board and other Group Committees detailed in the Group Annual Report on page 74.
Customers Over two-thirds of the total retail shoppers in the UK have shopped with Sainsbury's over the last year.	The Company's customer engagement activities are integrated within the Group activities. These include: <ul style="list-style-type: none"> • 3.2 million responses this year across all of our Sainsbury's and Argos customer feedback programmes. • Nectar data, which helps us understand how customers are shopping. • Qualitative customer focus groups and quantitative surveys. • Social media listening. • Brand tracking, which assesses the performance and perception of our different brands • I Care, a satisfaction survey which helps us understand the overall shopping experience for our customers.

Who are our stakeholders?	How do we engage with them?
<p>Colleagues Our colleagues include everyone who is employed by the business.</p>	<p>The Company's colleague engagement activities are integrated within the Group activities. These include:</p> <ul style="list-style-type: none"> • Regular Non-Executive Director, Chief Executive and Operating Board meetings with our workforce advisory panel, the National Make It Better Together group, to directly understand the views of colleagues from across the business via their elected peers. • Operating Board Director Listening Sessions to provide an opportunity to hear directly from colleagues across the business. • Continual two-way communication through internal channels, including monthly live presentations, question and answer sessions and internal social media discussions with the Operating Board. • Honest, confidential colleague feedback on what it is like to work for the business through our annual colleague engagement survey, 'We're Listening', and regular pulse surveys. • Colleague feedback through topic-specific 'temperature check' surveys throughout the year, helping us to understand colleagues' views and sentiments. • Regular updates provided to the Board and its Committees on culture, engagement, diversity, equity and inclusion, colleague pay and benefits and talent and succession.
<p>Suppliers Our goods for retail suppliers are fundamental to the quality and variety of products we sell and enable us to meet the high standards that we set ourselves.</p> <p>Our goods not for retail suppliers provide operational excellence and access to new technology and innovation that ensures we keep pace with the evolving and changing needs of our business.</p>	<p>The Company's supplier engagement activities are integrated within the Group's activities. These include:</p> <ul style="list-style-type: none"> • Supplier events to bring suppliers and senior decision-makers together and share progress. • Consistent communication and updates with our supply base through online supplier portals. • Taking part in annual, independent surveys which benchmarked us against other retailers and highlighted areas for improvement; these included the Supplier Advantage survey and the Groceries Supply Code of Practice supplier survey. • Clearly communicated expectations in relation to our Plan for Better commitments through sustainability working groups for collaboration and engagement. • Publishing our Modern Slavery Statement to ensure suppliers understand the importance of preventing Modern Slavery and human trafficking to our business. • Setting up new sustainability working groups with suppliers.
<p>Communities Nurturing resilient communities is at the heart of our brand heritage and we have a long history of making a positive difference to the communities we serve, both locally and internationally.</p>	<p>The Company's community activities are integrated within the Group's activities.</p> <p>Regular updates on our community strategy are provided to the Group Corporate Responsibility and Sustainability Committee and the Group Board. Customer and colleague feedback provided the Board with valuable information on how we can best support our customers and local communities, particularly in relation to household financial challenges.</p>
<p>Shareholders The Company's shareholder is J Sainsbury plc. J Sainsbury plc is a listed, public limited company and has institutional, large investors and private shareholders.</p>	<p>The Board receives regular updates from the Board of J Sainsbury plc through the Chief Executive Officer and Chief Financial Officer. The Board attends the annual strategy conference with the Board of J Sainsbury plc, and the Directors from both companies meet on an adhoc basis, as necessary.</p> <p>The Board also receives reports and updates on J Sainsbury plc shareholder relations. These summarise key feedback from its principal shareholders.</p>

Further details on how the Group engaged with its stakeholders, can be found in the Group Annual Report on pages 22-29.

As per Section 54(1) of the Modern Slavery Act 2015, the Company's Slavery and Human Trafficking Statement is published annually on our Group website. The statement covers the activities of the Group and details the steps taken during the year ended 2 March 2024 to prevent modern slavery and human trafficking in our own operations and supply chains.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 53 to 61 of the Group Annual Report, which does not form part of this report.

Financial risk management

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

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

Liquidity risk

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

The principal operational cash flow of the 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. The Company finances its operations through retained profits, leases and intra-group borrowings. As a result the Company's liquidity risk is closely aligned to that of the Group.

Cash flow forecasts are produced to assist management in identifying future liquidity requirements. The Group's liquidity policy sets a minimum funding headroom of £500 million in excess of forecast funding requirements over a rolling 12-month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding contingent committed credit facilities.

The Group has a £1,000 million unsecured committed facility in the form of a Revolving Credit Facility split into two Facilities, a £500 million Facility (A) and a £500 million Facility (B). Facility A has a maturity of December 2028 and Facility B has a maturity of December 2027. The Term Loan has a maturity of March 2026. The Revolving Credit Facility was undrawn at 2 March 2024.

Credit risk

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

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

a. Market Risk

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

b. Foreign currency risk

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

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

c. Interest rate risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates and is managed by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

d. Commodity risk

Commodity risk is the risk of increased costs arising from unexpected movements in commodity prices impacting the Company's own use consumption of electricity, gas and diesel. The Company hedges own use consumption of electricity and gas with forward purchases under flexible purchasing arrangements with its suppliers as well as power purchase agreements for electricity. The Company uses a combination of purchasing agreements and financial derivatives to hedge fuel exposures on a layered basis using contracts for difference.

Key performance indicators ('KPIs')

The Directors of J Sainsbury plc manage the Group's operations on a divisional basis. The Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, are discussed on pages 44 to 45 of the Group Annual Report, which does not form part of this report.

Non-financial and sustainability information statement

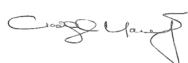
The Directors consider that the climate-related risks and opportunities of the Company, including how they are identified, assessed and managed, are integrated with those of J Sainsbury plc. The principal climate-related risks and opportunities for the Company are included in the Group's scenario analysis and are monitored by the Directors.

The climate-related risks and opportunities of the Group, and its arrangements for managing them (including the related time periods and potential impacts on the Group's business model and strategy), are discussed on pages 30 to 43 of the Group Annual Report, which does not form part of this report.

Task Force on Climate-related Financial Disclosures (TCFD)

The Directors have committed to reduce Greenhouse Gas (GHG) emissions within our own operations to Net Zero by 2035 and reduce our Scope 3 emissions in-line with a 1.5°C trajectory. As signatories of the TCFD, we are committed to providing consistent information to our stakeholders and the Group disclosure can be found on pages 30 to 43 of the Group Annual Report.

By order of the Board



Clodagh Moriarty
Director
29 August 2024

Sainsbury's Supermarkets Ltd
Directors Report
for the 52 weeks to 2 March 2024
Registered number: 03261722

Directors Report

The Directors present their report and the audited financial statements of Sainsbury's Supermarkets Ltd (the 'Company') for the 52 weeks to 2 March 2024. The prior financial year's financial statements were for the 52 weeks to 4 March 2023.

Directors

The directors that held office during the year and up to the date of approval of the financial statements were as follows:

A Risley (resigned 29 May 2023)
B Bergin (appointed 5 March 2024)
C Moriarty
G Biggart
J Brown (resigned 31 March 2024)
M Given
P Issar (appointed 30 May 2023)
P Nickolds (resigned 10 February 2024)
R Bartlett
S Roberts
T Fallowfield (resigned 5 July 2024)

There were no other appointments or resignations after the year end.

Company Secretary

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

N Grant (appointed 5 July 2024)
T Fallowfield (resigned 5 July 2024)

Dividend

The Company declared and paid a dividend during the financial year of £600 million (2023: £nil) to its parent J Sainsbury plc.

Directors' indemnities

The Directors are indemnified to the extent permitted by the Articles of Association of the Company in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The parent company purchased and maintained Directors' and Officers' liability insurance throughout 2023/24, which was renewed for 2024/25. The insurance covers all Directors and Officers of companies in the Group. Neither the indemnities nor insurance provide cover in the event that the Director or Officer is proved to have acted fraudulently.

Directors' liability insurance

During the year and up to the date of approval of the financial statements the Company maintained liability insurance for its directors. The Group also maintains third party indemnification provisions for certain directors, under which the Group has agreed to indemnify those directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the Company and any of its associated companies. These indemnities are Qualifying Third Party Indemnity Provisions as defined in Section 234 of the Companies Act 2006 and copies are available for inspection at the registered office of the Group during business hours on any weekday except public holidays.

Employment policies

The Company values the different perspectives, experiences and abilities of all our colleagues. We ensure that those living with a disability or long-term health condition are fully and fairly considered for employment with the Company through well-developed policies for the equal treatment of all. We have a workplace adjustments process in place for our colleagues who find themselves with a disability or long-term health condition; workplace adjustments can be made at any point during a colleague's employment with us. We are committed to providing equal opportunities for all colleagues and applicants through recruitment, training, development and promotion. Further information can be found on pages 18 to 21 and 87 of the Group Annual Report, which does not form part of this report.

Ethical policies

The Company takes bribery extremely seriously and is committed to ensuring compliance with laws and regulations. Colleagues are expected to abide by a set of clearly communicated formal policies, such as the Anti-Bribery and Corruption Policy. Training in support of these policies is provided to colleagues especially in the commercial divisions, firstly during their induction into the Company and thereafter through annual refreshers.

Corporate responsibility and Sustainability

The Company's parent has developed a wide variety of projects and policies to meet the needs of stakeholders under the heading 'Corporate Responsibility and Sustainability Committee Report'. Further details can be found on pages 15 to 17 of the Group Annual Report, which does not form part of this report.

Political Donations

The Company has made no political donations and incurred no items of political expenditure during the year (2023: £nil).

Essential contracts

The Company has contractual and other arrangements with numerous third parties in support of its business activities. None of the arrangements is individually considered to be essential to the Company's business.

Financial risk management

This is discussed in the Strategic Report on pages 6-7.

Going concern and future developments

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Further information is included within note 2 of the financial statements. The Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

The assessment period for the purposes of considering going concern is the 12 months from the date on which these financial statements are signed.

Disclosure of information to auditors

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

Independent auditors

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

By order of the Board



Clodagh Moriarty

Director

29 August 2024

Sainsbury's Supermarkets Ltd
Statement of Directors' responsibilities
for the 52 weeks to 2 March 2024

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

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

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

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

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

Each of the Directors, whose names are listed in the Directors' Report, confirms that, to the best of their knowledge:

- The financial statements, which have been prepared in accordance with the relevant financial reporting framework give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- The Strategic Report contained in the financial statements includes a fair review of the development and performance of the business and the position of the Company, together with a description of the emerging and principal risks and uncertainties that it faces; and
- The financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board



Bláthnaid Bergin
Director
29 August 2024

Opinion

We have audited the financial statements of Sainsbury's Supermarkets Ltd for the period ended 2 March 2024 which comprise the Income statement, the Statement of comprehensive income, the Statement of financial position, the Statement of changes in equity and the related notes 1 to 28, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- ▶ give a true and fair view of the Company's affairs as at 2 March 2024 and of its profit for the period then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

How we evaluated management's assessment

- We understood the process undertaken by the directors to assess going concern.
- The Company is reliant on support from its parent, J Sainsbury plc. We have obtained and inspected the letter of support issued by the directors of J Sainsbury plc to the directors of the Company confirming their support for the period of 12 months after the date of issue of these financial statements.
- We have obtained the annual report and accounts of J Sainsbury plc for the 52-week period ended 2 March 2024 and reviewed the latest market announcements, trading updates and management accounts to further corroborate the financial position of J Sainsbury plc.
- We have made inquiries of the EY audit team which audits J Sainsbury plc to assess the ability of J Sainsbury plc to provide financial support to the Company until 31 August 2025. The Group audit team have performed the following procedures in relation to management's going concern assessment of J Sainsbury plc:
 - Obtained Group management's assessment prepared in July 2024 supporting their ability to provide the ongoing financial support pledged. This included assessing the adequacy of the going concern assessment to 31 August 2025 and considering the existence of any significant events or conditions beyond this period.
 - Assessed the completeness of the risks and uncertainties identified by Group management in relation to their going concern assessment. This included considering whether any new information had become available since the April 2024 assessment that may cast doubt on the Group's ability to continue as a going concern.
 - Confirmed the stress testing scenarios and mitigation actions performed by management were still appropriate.
 - Performed additional audit procedures in respect of the period between 24 April 2024, the date of the audit opinion on the annual report and accounts of J Sainsbury plc for the 52-week period ended 2 March 2024, and the date of approval of these financial statements to determine whether there have been any changes that would require us to reconsider the conclusions of Group management.
 - Considered actual trading performance subsequent to the Group's period end and compared to the budget used in the year-end assessment.
- We reviewed the Company's going concern disclosures included in the financial statements, in order to assess whether the disclosures were appropriate and in conformity with reporting standards.

Our key observations

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue, given the ability to rely on the parental support.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- ▶ the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- ▶ the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the United Kingdom Accounting Standards including FRS 101 “Reduced Disclosure Framework”, the UK Companies Act 2006 and industry-related legislation such as compliance with the requirements of the Groceries Supply Code of Practice.
- We understood how Sainsbury’s Supermarkets Ltd is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, as well as consideration of the results of our audit procedures.
- We assessed the susceptibility of the Company’s financial statements to material misstatement, including how fraud might occur by making an assessment of the key fraud risks to the Company and the manner in which such risks may manifest themselves in practice, based on our previous knowledge of the Company as well as an assessment of the current business environment. We identified a risk in relation to management override of controls to recognise supplier income amounts, cut-off for fixed supplier income amounts, and judgement and estimation related to supplier rebates. We also identified a fraud risk of management override of controls in relation to manual adjustments to revenue. Our audit procedures included testing, on a sample basis, agreements, settlements and underlying calculations of arrangements with suppliers and testing appropriateness of journal entries meeting pre-defined criteria and impacting revenue.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved testing manual journals, with a focus on journals posted to revenue journals indicating large or unusual transactions based on our understanding of the business, enquiries of legal counsel, Internal audit, and management. In addition, we completed procedures to conclude compliance of the disclosures in the accounts with all applicable reporting requirements. If any instances of non-compliance with laws and regulations were identified, we performed sufficient and appropriate audit procedures, as necessary.

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

Use of our report

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

DocuSigned by:
Ernst & Young LLP
297F0715A8894DB...

Amy Winepress (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

29 August 2024

Sainsbury's Supermarkets Ltd
Income statement
for the 52 weeks to 2 March 2024

	52 weeks to 2 March 2024			52 weeks to 4 March 2023		
	Underlying	Non- underlying items (Note 5)	Total	Underlying	Non- underlying items (Note 5)	Total
	£m	£m	£m	£m	£m	£m
Revenue	27,877	-	27,877	26,693	-	26,693
Cost of sales	(26,250)	(98)	(26,348)	(25,291)	(317)	(25,608)
Gross profit/(loss)	1,627	(98)	1,529	1,402	(317)	1,085
Administrative expenses	(934)	(22)	(956)	(809)	(4)	(813)
Other income	12	97	109	19	236	255
Operating profit/(loss)	6	705	(23)	612	(85)	527
Finance income	7	2	43	2	50	52
Finance costs	7	(443)	(11)	(433)	(9)	(442)
Profit/(loss) before tax		264	9	181	(44)	137
Income tax (expense)/credit	9	(90)	21	(43)	35	(8)
Profit/(loss) for the financial year		174	30	138	(9)	129

The notes on pages 18 to 50 form an integral part of these financial statements.

Sainsbury's Supermarkets Ltd
Statement of comprehensive income
for the 52 weeks to 2 March 2024

		52 weeks to 2 March 2024	52 weeks to 4 March 2023
	Note	£m	£m
Profit for the financial year		204	129
Items that will not be subsequently reclassified to the income statement			
Remeasurement on defined benefit pension schemes	23	(319)	(1,187)
Cash flow hedges fair value movements – inventory hedges		(33)	66
Current tax relating to items not reclassified	9	-	19
Deferred tax relating to items not reclassified	9	80	278
		(272)	(824)
Items that may be subsequently reclassified to the income statement			
Cash flow hedges fair value movements - non-inventory hedges		(76)	(11)
Items reclassified from cash flow hedge reserve		-	(24)
Deferred tax on items that may be reclassified	9	22	10
		(54)	(25)
Total other comprehensive loss for the year (net of tax)		(326)	(849)
Total comprehensive loss for the year		(122)	(720)

The notes on pages 18 to 50 form an integral part of these financial statements.

Sainsbury's Supermarkets Ltd
Statement of financial position
for the 52 weeks to 2 March 2024

	Note	2 March 2024 £m	4 March 2023 £m
Non-current assets			
Property, plant and equipment	11	5,665	5,606
Right-of-use assets	12	7,470	8,112
Intangible assets	13	405	372
Investments in subsidiaries	14	3	3
Investments in joint ventures and associates	15	1	2
Trade and other receivables	17	98	64
Derivative financial assets		10	131
Net retirement benefit surplus	23	741	1,020
		14,393	15,310
Current assets			
Inventories	16	1,226	1,191
Trade and other receivables	17	2,515	2,371
Taxes receivable		17	7
Derivative financial assets		2	26
Cash and cash equivalents		214	272
		3,974	3,867
Assets held for sale	18	9	8
		3,983	3,875
Total assets		18,376	19,185
Current liabilities			
Trade and other payables	19	(4,283)	(3,767)
Borrowings	20	(1)	-
Lease liabilities	12	(627)	(1,598)
Derivative financial liabilities		(15)	(10)
Provisions	21	(48)	(46)
		(4,974)	(5,421)
Net current liabilities		(991)	(1,546)
Non-current liabilities			
Trade and other payables	19	(3)	(12)
Lease liabilities	12	(9,177)	(8,883)
Derivative financial liabilities		(1)	(2)
Deferred income tax liability	9	(81)	(132)
Provisions	21	(81)	(51)
		(9,343)	(9,080)
Total liabilities		(14,317)	(14,501)
Net assets		4,059	4,684
Equity			
Called up share capital	22	2,900	2,900
Other reserves		(4)	63
Retained earnings		1,163	1,721
Total equity shareholders' funds		4,059	4,684

The notes on pages 18 to 50 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29 August 2024, and are signed on its behalf by:



Bláthnaid Bergin
Director

Registered number: 03261722

Sainsbury's Supermarkets Ltd
Statement of changes in equity
for the 52 weeks to 2 March 2024

	Note	Called up share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
At 5 March 2023		2,900	63	1,721	4,684
Profit for the financial year		-	-	204	204
Other comprehensive loss		-	(109)	(319)	(428)
Tax relating to other comprehensive loss		-	22	80	102
Total comprehensive loss for the financial year ended 2 March 2024		-	(87)	(35)	(122)
Cash flow hedge gains transferred to inventory		-	20	-	20
Transactions with owners:					
Dividends	10	-	-	(600)	(600)
Share-based payment	24	-	-	77	77
At 2 March 2024		2,900	(4)	1,163	4,059

	Note	Called up share capital £m	Other reserves £m	Retained earnings £m	Total Equity £m
At 6 March 2022		2,900	94	2,424	5,418
Profit for the financial year		-	-	129	129
Other comprehensive income/(loss)		-	41	(890)	(849)
Tax relating to other comprehensive income/(loss)		-	-	-	-
Total comprehensive income/(loss) for the financial year ended 4 March 2023		-	41	(761)	(720)
Cash flow hedges losses transferred to inventory		-	(72)	-	(72)
Transactions with owners:					
Share-based payment	24	-	-	58	58
At 5 March 2023		2,900	63	1,721	4,684

The notes on pages 18 to 50 form an integral part of these financial statements.

1 General information

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

The financial year represents the 52 weeks to 2 March 2024 (prior financial year 52 weeks to 4 March 2023).

The principal activities of the Company are Food, General Merchandise and Clothing retailing. All material operations are carried out in the United Kingdom.

2 Basis of Preparation and Accounting Policies

(a) Statement of compliance

The financial statements are prepared in accordance with United Kingdom Accounting standards, in particular Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) as issued by the Financial Reporting Council and the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to:

- the requirements of IAS 7 to present a cash flow statement.
- the requirements of paragraph 17 and 18A 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 IFRS 7 and IFRS 13 for disclosure of financial instruments and fair values.
- The requirement of IAS 1 to present comparative information in respect of property, plant and equipment and intangible assets.
- The requirements of IAS 36 to disclose assumptions, the effect of changes in assumptions and valuation techniques.
- The requirements of IFRS 15 to disclose the disaggregation of revenue.
- The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment

Where relevant, equivalent disclosures have been given in the consolidated financial statements of J Sainsbury plc into which the Company is consolidated. These are separate financial statements. The Company is exempt from preparing consolidated financial statements as it is wholly owned part of a Group whose consolidated financial statements are publicly available.

(b) Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments and defined benefit scheme assets.

Significant accounting policies have been included in Note 2. Significant accounting policies have been applied consistently to all periods presented in the financial statements.

New accounting standards, amendments to standards and IFRIC interpretations which became applicable during the year or have been published but are not yet effective, were either not relevant or had no, or no material impact on the Company's results or net assets other than disclosures.

In respect of IFRS 18: 'Presentation and Disclosure in Financial Statements' which was issued in June 2024 and, subject to UK endorsement, will first be effective for the Company for the financial year ending 2028, the impacts will be presentational only, but the Company is currently still assessing the full effects which currently are not yet practicable to quantify

The accounting policies have remained unchanged from those disclosed in the Financial Statements for the financial year ended 4 March 2023.

2 Basis of Preparation and Accounting Policies (continued)

(c) Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue for a period of at least 12 months from the date of approval. The parent company, J Sainsbury plc, has confirmed it will provide financial support to assist the Company for a period of at least 12 months from the date of approval to repay its liabilities as and when they fall due, but only to the extent that money is not otherwise available to meet such liabilities. Therefore the going concern assessment of the Company is linked to the Group's going concern and viability assessment which is included within the Group Annual Report on pages 62 to 63 and 137 to 138.

In assessing the Company's ability to continue as a going concern, the Directors have considered the Group's most recent corporate planning and budgeting processes. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecasted future funding requirements over three years, with a further two years of indicative movements.

In performing the above analysis, the Directors have made certain assumptions around the availability and effectiveness of the mitigating actions available to the Company. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses, and dividend payments.

The Group's most recent corporate planning and budgeting processes incorporates assumed cashflows to address climate change risks, including those associated with the Group's Plan for Better commitment which include reducing environmental impacts and meeting customer expectations in this area, notably through reducing packaging and energy usage across the estate. Climate-related risks do not result in any material uncertainties affecting the Company's ability to continue as a going concern.

As a consequence of the work performed, the Directors considered it appropriate to adopt the going concern basis in preparing the Financial Statements with no material uncertainties to disclose.

3 Material Accounting Policies

3.1 Revenue

Revenue arises from the sale of goods and services in the course of the Company's ordinary activities, net of returns, related discounts and excluding Value Added Tax (VAT). Revenue is recognised when the Company has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation.

Sale of goods

Revenue from the sale of goods is recognised at point of sale or, where later, upon collection by, or delivery to, the customer as this is the point in which control has passed. Where consideration has been received in advance of the performance obligation being satisfied, a contract liability is recognised.

Other revenue items

Other revenue items comprise income from commissions and wholesale revenue made directly to third-party customers.

Commission revenue relates to the sale of third-party products where it has been determined that the Group is acting as an agent. Sales commission from third parties is recognised when the related goods or services are sold.

Other income

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

3 Material Accounting Policies (continued)

3.2 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.

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and directly affect the Company's reported margin.

Income from supplier arrangements is recognised when earned by the Company when all obligations per the terms of the contract have been satisfied. Any supplier arrangements which are linked to inventory purchases are included within the cost of the related inventory, and therefore recognised within cost of sales once the inventory is sold. Unpaid amounts relating to supplier arrangements are recognised within trade and other receivables, unless there is a legal right of offset, in which case it is recognised within trade and other payables. Amounts which have been invoiced at the balance sheet date are categorised as supplier arrangements due and those not yet invoiced are categorised as accrued supplier arrangements.

3.3 Finance income and costs

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

3.4 Taxation

Current tax

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

Deferred tax

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

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

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

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

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

3.5 Property, plant and equipment

a) Land and buildings

Land and buildings are held at historical cost less accumulated depreciation and any recognised provision for impairment as determined in accordance with note 3.8. 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, including any directly attributable internal payroll-related costs for employees who are associated with projects in order to bring the assets into use. This includes capitalised borrowing costs.

3 Material Accounting Policies (continued)

b) Fixtures and equipment

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised provision for impairment as determined in accordance with note 3.8. 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, including any directly attributable internal payroll-related costs for employees who are associated with projects in order to bring the assets into use.

c) Work in progress

Capital work in progress is held at cost less any provision for impairment.

d) Depreciation

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

- Freehold buildings and leasehold improvements – 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 (which excludes land) is not depreciated prior to being available for its intended commercial use.

e) Disposals and retirement

The gain or loss on disposal or retirement of an asset is determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and is recognised within operating profit.

f) Climate change impacts

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period. This includes consideration over climate change-related risks which may impact the useful lives or residual values of the Group's assets, such as the impact of flood risks on store and non-store assets, changes in regulations related to carbon emissions and any anticipated replacement of existing assets with new technologies.

g) 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.

3.6 Leases

a) Company as lessee

The Company's lease portfolio is principally comprised of property leases of land and buildings in relation to stores, distribution centres and support offices, but also includes other assets such as motor vehicles. The leases have varying terms and often include break clauses or options to renew beyond the non-cancellable periods.

The Company presents additions to lease liabilities and right-of-use assets in line with the disclosure requirements of IFRS 16 Leases. In doing so, additions to right-of-use assets and lease liabilities in note 12 include the net impact of new leases, terminations, modifications, and reassessments.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. All the right-of-use assets are recognised on a historical cost convention.

The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

3 Material Accounting Policies (continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease and are measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments and variable lease payments that depend on an index or a rate (using the relevant rate at the commencement date of the lease), less any lease incentives receivable. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs. For agreements which contain both lease and non-lease components, such as cleaning and maintenance services, the non-lease component is excluded from the lease payments used to measure the lease liabilities.

The IBRs depend on the start date and term of the lease, and are determined based on a reference (risk free) rate and adjustments to reflect the Company's credit risk.

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease (a break clause), if it is reasonably certain not to be exercised.

After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is remeasured when there is a change in the future lease payments due to a change in the lease term such as a recognition of an extension or break option, a change in the fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to groups of underlying leases that are considered uniformly low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are expensed to the income statement.

b) Company as lessor

The Company leases out owned properties and sublets leased properties under operating and finance leases. Such properties include mall units, stores and units within stores.

Subleases

Classification is assessed with reference to the head lease right-of-use asset. This assessment considers, among other factors, whether the sublease represents the majority of the remaining life of the head lease. The ratio of rental income to head lease rental payments is used to determine how much of the right-of-use asset should be derecognised, or analysis of square foot leased in the headlease and sublease where appropriate. This assessment takes into consideration whether the sublease/headlease are above or below market rate.

Finance leases

Amounts due under finance leases are recorded as a receivable at an amount equal to the net investment in the lease. This is initially calculated and recognised using the IBR prevalent in the underlying headlease at the recognition date. Any difference between the derecognised right-of-use asset and the newly recognised amounts due for leases under finance leases is immediately recognised in the income statement. The Company recognises finance income over the lease term, reflecting a constant periodic rate of return on the Company's net investment in the lease.

Operating leases

Operating lease income is recognised as earned on a straight-line basis over the lease term

3 Material Accounting Policies (continued)

3.7 Intangible assets

a) Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Company'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

Software and licences which are capitalised include costs incurred to acquire the assets as well as any external and internal costs incurred in the development of software. External and internal costs are external direct costs, as well as directly attributable internal payroll-related costs for employees who are associated with projects in order to bring the assets into use. Costs associated with internally generated software are recognised as an intangible asset only if they can be separately identified, it is probable that the asset will generate future economic benefits which exceed one year, and the cost can be measured reliably. Software under development is not amortised, but held at cost less any impairment loss.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Costs associated with maintaining computer software are recognised as an expense as incurred.

c) Cloud computing arrangements

Software as a Service (SaaS) arrangements are service contracts providing the Company with the right to access a cloud provider's application software over the contract period. Typically, such arrangements involve ongoing licence fees to obtain access to the cloud provider's application software, as well as upfront costs incurred to configure or customise the SaaS solution.

Configuration and customisation costs are capitalised in the following instances as intangible assets:

- The Company has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor.
- The costs incurred meet the definition of and recognition criteria for an intangible asset. This includes for example the development of software code that enhances or modifies, or creates additional capability to, existing systems controlled by Sainsbury's.

Where these conditions are not met, costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Where the configuration or customisation of a SaaS solution is performed by the SaaS vendor, consideration is given to whether this activity is distinct from the provision of the solution itself. This assessment considers the nature of the activities, and whether Sainsbury's can benefit from any of the services in isolation. Where the activity is not considered distinct, the costs are capitalised as a prepayment and amortised over the expected useful life of the solution.

d) Amortisation

Amortisation is calculated to write down the cost of the assets to their residual values, on a straight-line basis over their useful economic life, using the following rates:

- Computer software – five to 15 years
- Configuration and customisation costs capitalised as part of SaaS arrangements – life of the SaaS arrangement
- Goodwill not amortised

Capital work in progress is not amortised prior to being available for its intended commercial use.

3 Material Accounting Policies (continued)

3.8 Impairment

a) Non-financial assets

Property, plant and equipment (PPE), right-of-use assets, and intangible assets are assessed on an ongoing basis to determine whether there is an indication that the net book value is no longer supportable. 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 (VIU), is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is impaired to its recoverable amount.

Identification of a cash-generating unit

CGUs are deemed the smallest group of assets that independently generate cash inflows and are independent of the cash flows generated by other assets and are identified within the respective reportable operating segments.

Retail

CGUs are deemed to be corporate level business units, trading stores, store pipeline development sites or in certain cases for Argos, a cluster of stores.

PPE, intangible assets and right-of-use assets are allocated to the store CGU they are associated with. For non-store assets, including depots and IT assets, these are allocated to store CGUs where it can be done on a reasonable and consistent basis, otherwise these are allocated to the CGU corporate level to which they relate.

Goodwill recognised on acquisition of retail chains of stores is allocated, where possible, to respective store CGUs, otherwise it is attributed to the acquired business as a whole.

Where there has been a change in the estimates used to determine the recoverable amount and an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, although not to exceed the carrying amount that would have been determined had no impairment loss been recognised. Any impairment loss or reversal of impairment is recognised in the income statement.

Goodwill is assessed annually by measuring the recoverable amount of the CGU, calculated as the higher of fair value less cost to dispose and VIU. Where the carrying value of the CGU exceeds the recoverable amount, an impairment loss is recognised in the income statement. The impairment charge is allocated first against goodwill and then pro rata against other assets within the CGU by reference to the carrying amount of each remaining asset in the CGU. Impairment losses recognised for goodwill are not subsequently reversed.

3.9 Inventories

Inventories comprise goods held for resale and are valued on a standard cost or weighted average cost basis which approximates to actual cost and is carried at the lower of cost or net realisable value.

Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or damaged items where appropriate.

3.10 Trade and other receivables

Trade and other receivables are non-interest bearing and are on commercial terms. They are initially recognised at fair value and subsequently measured at amortised cost less allowances for expected credit losses, using the simplified approach under IFRS 9, with adjustments for factors specific to each receivable.

3 Material Accounting Policies (continued)

3.11 Assets held for sale

Assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and also only when the sale is highly probable within one year from the date of classification and the assets are available for sale in their present condition. Assets held for sale are stated at the lower of the carrying amount and fair value less costs to dispose. Any amounts no longer classified as assets held for sale are measured at the lower of its carrying amount before the asset was classified as held for sale, adjusted for any depreciation that would have been recognised had the asset not been classified as held for sale, and its recoverable amount at the date of the subsequent decision not to sell.

3.12 Trade and other payables

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

Trade payables are initially recognised at fair value, which is typically the invoiced amount and then held at amortised cost. They are shown net of supplier arrangements due where there is a contractual right of offset.

3.13 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefits 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.

Property provisions

Where the Company no longer operates from a leased property, onerous property contract provisions are recognised for the least net cost of exiting from the contract. The amounts provided are based on the Company's best estimates of the likely committed outflows and site closure dates. These provisions do not include rent in accordance with IFRS 16, however do include unavoidable costs related to the lease such as service charges and insurance.

Property provisions also include provisions for dilapidations which are recognised where the Company has the obligation to make-good its leased properties, which is when a decision to exit a lease has been made. This is the point at which a reliable estimate of the expected cost for dilapidations can be made. These provisions are recognised based on historically settled dilapidations which form the basis of the estimated future cash outflows. Any difference between amounts expected to be settled and the actual cash outflow will be accounted for in the period when such determination is made.

Where the Company is able to exit lease contracts before the expiry date or agree sublets, this results in the release of any associated property provisions. Such events are subject to the agreement of landlords, therefore the Company makes no assumptions on the ability to either exit or sublet a property until a position is agreed. Utilisation of the above amounts is expected to be incurred in conjunction with the profile of the leases to which they relate.

Insurance provisions

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

Restructuring provisions

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

Other provisions

Predominantly comprises provisions for long service awards.

3 Material Accounting Policies (continued)

3.14 Financial Instruments

The Company classifies all of its financial assets as either amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

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

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

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

a) Financial instruments at amortised cost

Financial assets that are principally held for the collection of contractual cash flows and which pass the SPPI test are classified as amortised cost. For the Company this includes cash and receivables. The Company has no intention of trading these assets. With the exception of trade receivables that do not contain a significant financing component, the Company initially measures these financial assets at fair value plus transaction costs. Subsequently these assets are carried at amortised cost less impairment using the effective interest rate method. Income from these financial assets is calculated on an effective interest rate basis and is recognised in the income statement.

b) Impairment of financial assets

Loan loss impairments are accounted for using a forward-looking expected credit loss (ECL) approach in line with IFRS 9. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. For trade receivables, the Company establishes provisions against trade receivables to reflect the lifetime expected credit loss, consistent with the simplified approach under IFRS 9.

c) Financial liabilities

The Company recognises all of its financial liabilities at amortised cost and all derivative financial liabilities are classified as FVPL.

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

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

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

d) Fair value estimation

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

e) Offsetting financial instruments

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

3 Material Accounting Policies (continued)

3.15 Derivative financial instruments and hedge accounting

The Company 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 they arise.

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

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

Cash flow hedges

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

If a cash flow hedge is hedging a firm commitment or forecast transaction that results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability. This applies to the Company's foreign currency hedges in relation to inventory purchases.

3.16 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.

To be classified as cash and cash equivalents, an asset must:

- Be readily convertible into cash;
- Have an insignificant risk of changes in value; and
- Have a maturity period of typically three months or less at acquisition.

3.17 Employee benefits

a) Defined benefit pension scheme

The surplus or deficit recognised in the balance sheet for defined benefit schemes 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.

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.

3 Material Accounting Policies (continued)

IFRIC 14

Under IFRIC 14, a company is required to measure any economic benefits available to it in the form of refunds or reductions to future contributions at the maximum amount that is consistent with the terms and conditions of the pension scheme. These are regarded as available to a company if it has an unconditional right to realise them at some point during the life of the pension scheme or when all benefits are finally settled. Such an unconditional right would not exist when the availability of the refund or the reduction in future contribution would be contingent upon factors beyond the company's control.

Management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such no adjustment has been made for potential additional liabilities. In forming this conclusion management has considered whether the Company can control the run-off of the Scheme until there are no liabilities left, consistent with IFRIC 14. For example, if the Trustee has a unilateral power to wind up the Scheme while there are liabilities remaining, then it is viewed that the Company cannot access surplus through this route. For both sections, management have assessed that the Company can control run-off until no liabilities remain by complying with its obligations under the Scheme rules and pensions legislation, and there will therefore be a gradual settlement of the planned liabilities over the life of each section.

The Scheme rules list certain situations under which the Trustee can wind up the Scheme; however, whilst there is gradual settlement of the Scheme's liabilities, these are concluded to be within the control of the Company. As a result, it is concluded that the Trustee does not have a unilateral power to wind up the Scheme nor augment benefits while the Scheme is ongoing.

b) Retirement benefit surplus/obligations

The surplus or deficit recognised in the balance sheet for defined benefit schemes 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.

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.

c) Long service awards

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

d) Share-based payments

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

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

3 Material Accounting Policies (continued)

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

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

3.18 Investment in subsidiaries, joint ventures and associates

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

At each reporting period, the Company considers impairment of its investment in subsidiaries by estimating the recoverable amounts of the investments, which are based on either the net assets of the subsidiary, or value-in-use calculations. Where a value-in-use calculation is used, discounted cash flows have been derived from Board approved cash flow projections for four years and then extrapolated into perpetuity with an assumed growth rate of 2.0%, discounted at a pre-tax rate of 9%. Any impairment loss is immediately recognised in the income statement.

3.19 Foreign currency

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.

4 Significant accounting judgements, estimates and assumptions

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

Judgements

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

Non-underlying items

In order to provide shareholders with additional insight into the year-on-year performance of the business, an adjusted measure of profit (underlying profit before tax) is provided to supplement the reported IFRS numbers, which reflects how the business measures performance internally. This adjusted measure excludes items recognised in reported profit or loss before tax which, if included, could distort comparability between periods.

Determining which items are to be adjusted requires judgement, in which the Company considers items which are significant either by virtue of their size and/or nature, or that are non-recurring. The same assessment is applied consistently to any reversals of prior non-underlying items.

Underlying profit is not an IFRS measure and therefore not directly comparable to other companies. Analysis of the composition of non-underlying items is set out in note 5.

Lease terms

The inclusion of a lease extension period or lease break period in the lease term is a key judgement for the Company and considers all relevant factors that create an economic incentive for it to exercise them. For leased properties, this includes the current and expected profitability of the respective site, as well as the length of time until the option can be exercised. Any changes to the Company's judgement over lease terms will impact both the right-of-use asset and lease liability.

4 Significant accounting judgements, estimates and assumptions (continued)

Sources of estimation uncertainty

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

a) Impairment of non-financial assets

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

b) Post-employment benefits

Assets

The Scheme holds some private market assets as they are expected to deliver a more favourable risk/return profile than public market equivalents. These assets are relatively illiquid (likely to be realised over c.5 years) but the Scheme holds sufficient liquid assets (cash, gilts and other liquid securities) to be confident that it can meet its pension and collateral obligations over time.

The valuation of these assets is based on the audited accounts of the funds, where available, and net asset value statements from the investment managers where recent accounts are not available. For many of these investments, the valuations provided are at 30 September. A roll-forward is therefore required to be performed for these valuations, adjusting for cash received or paid and applying the changes seen in relevant liquid indices. The valuation of these assets is sensitive to the indices used and a sensitivity to changes in these indices is set out in note 23(c).

Liabilities

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

Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 21. The carrying value of the retirement benefit obligations will be impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate. Sensitivities are included in note 21.

c) Lease liabilities

The discount rate used to calculate the lease liability is the rate implicit in the lease if it can be readily determined, or the Group's incremental borrowing rate (IBR) if not.

The IBRs depend on the start date and term of the lease, and are determined based on a number of inputs including a reference (risk free) rate and adjustments to reflect the Group's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the group and quoted credit default swaps ("CDS"). Note 12 (e) includes the impact that a reasonable possible change in the IBR would have had on the lease liability additions and modifications during the year.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

5 Non-underlying items

2024					2023				
	Restructuring and impairment	Pensions	Other	Total	Restructuring and impairment	Pensions	Other	Total	
Note	5.1	5.2	5.3		5.1	5.2	5.3		
	£m	£m	£m	£m	£m	£m	£m	£m	
Cost of sales	(53)	-	(45)	(98)	(288)	-	(29)	(317)	
Admin income/(expense)	(17)	(5)	-	(22)	(5)	3	(2)	(4)	
Other income	-	-	97	97	-	-	236	236	
Affecting operating profit/(loss)	(70)	(5)	52	(23)	(293)	3	205	(85)	
Net finance income/(costs)	(1)	43	(10)	32	-	50	(9)	41	
Affecting profit/(loss) before tax	(71)	38	42	9	(293)	53	196	(44)	
Income tax (charge)/credit	8			21				35	
Affecting profit/(loss) after tax	(71)	38	42	30	(293)	53	196	(9)	

5.1 Restructuring Programmes and impairment

In the year ended 6 March 2021, the Group announced a restructuring programme to accelerate the structural integration of Sainsbury's and Argos; create a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos; and further rationalise/repurpose the Company's supermarkets and convenience estate. The programme also considered the Company's Store Support Centre ways of working.

Separate from restructuring initiatives and property-related transactions, the Company has assessed whether there were any indicators of impairment or reversals of impairment. No indicators were present in the current financial year which therefore resulted in no non-restructuring related impairments or reversals of impairment. In the prior financial year, the level of uncertainty within the wider macroeconomic environment, including sustained increases in the Bank of England gilt rates, represented an indicator of impairment. It was determined that the increase in discount rates was a significant impairment indicator and therefore a full impairment review was undertaken.

		2024		2023	
Note		Sainsbury's structural integration	Sainsbury's structural integration	Impairment of non- financial assets	Total
		£m	£m	£m	£m
Non-financial	- Property, plant and equipment	1	-	127	127
asset impairments	- Right-of-use assets	-	-	142	142
	- Intangible assets	-	5	16	21
		1	5	285	290
Accelerated depreciation of assets	a)	8	7	-	7
Employee costs	b)	27	-	-	-
Property closure provisions	c)	30	(7)	-	(7)
Other	d)	5	3	-	3
		71	8	285	293

- a) The remaining useful economic lives of corresponding sites have been reassessed to align with closure dates, resulting in an acceleration in depreciation of these assets. The existing depreciation of these assets (depreciation that would have been recognised absent of a closure decision) is recognised within underlying expenses, whereas accelerated depreciation above this is recognised within non-underlying expenses.
- b) Comprises severance costs.
- c) Relates to onerous lease costs, dilapidations and strip-out costs on sites that have been identified for closure, as well as business rates for sites the Company no longer operates from which are recognised as incurred. 2023 includes amounts reversed in relation to sites no longer being exited as part of the programme.
- d) Comprises predominantly consultancy costs.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

5 Non-underlying items (continued)

5.2 Pensions

Such amounts relate to the defined benefit pension scheme (the Scheme) and are treated as non-underlying owing to the Scheme being closed to future accrual and accordingly not forming part of ongoing operating activities. More detailed analysis is included in note 23.

5.3 Other

		2024	2023
		£m	£m
ATM business rates reimbursement		-	(3)
Non-operating property related transactions		(2)	8
Non-underlying finance and fair value movements	a)	56	38
Income from subsidiary entities	b)	(96)	(237)
Recharges to Group companies		-	(2)
		(42)	(196)

- a) Comprises £46 million (2023: £29 million) within cost of sales relating to unfavourable movements on long-term, fixed price power purchase arrangements (PPAs) with independent producers. These are classified as derivatives which are not in a hedge relationship and owing to potentially significant fluctuations in value from external market factors are treated as non-underlying to enable consistency between periods. Remaining movements of £10 million (2023: £9 million) are within net finance costs and relate to lease interest paid on impaired non-trading sites.
- b) Intercompany dividends and mark-ups on intercompany recharges are excluded from underlying items as they are not considered part of the day-to-day activities of the business. Income from subsidiary entities in 2023 includes £224 million following the dissolution of Sainsbury's Property Scottish Partnership during the year.

6 Operating profit

Operating profit is stated after charging/(crediting):

		2024	2023
	Note	£m	£m
Employee costs	8	3,109	2,951
Inventories recognised as an expense within cost of sales		22,197	21,379
Write down of inventories		615	534
Depreciation	- Property, plant and equipment	446	484
	- Right-of-use assets	573	560
Amortisation	- Intangible assets	110	87
Impairment of non-financial assets		1	274
Impairment of goodwill		-	16
Short-term lease expense		22	16
Sublet income		(46)	(47)
Finance income from sub-leasing of Right-of-use assets		(4)	(2)
(Profit) / Loss on disposal	- Property, plant and equipment	(1)	1
	- Lease terminations	2	-
Foreign exchange loss		1	1

	2024	2023
	£m	£m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company	0.5	0.5
Fees payable to the Company's auditor for other services:		
Audit related assurance services	0.0	0.0
Total fees	0.5	0.5

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

7 Finance income and costs

	2024			2023		
	Underlying	Non-	Total	Underlying	Non-	Total
	£m	underlying	£m	£m	underlying	£m
IAS 19 pension financing income	-	43	43	-	50	50
Finance income on net investment in leases	2	-	2	2	-	2
Finance Income	2	43	45	2	50	52
Unsecured borrowings	(1)	-	(1)	-	-	-
Lease liabilities	(435)	(10)	(445)	(432)	(9)	(441)
Provisions - amortisation of discount	-	(1)	(1)	-	-	-
Interest capitalised - qualifying assets	1	-	1	1	-	1
Intercompany interest	(8)	-	(8)	(2)	-	(2)
Finance costs	(443)	(11)	(454)	(433)	(9)	(442)

Interest on lease liabilities included £193 million (2023: £185 million) of intercompany interest costs.

8 Employee costs

	2024	2023
	£m	£m
Wages and salaries, including bonus and termination benefits	2,658	2,539
Social security costs	208	188
Pension costs – defined contribution schemes	166	172
Share-based payments expense	77	52
	3,109	2,951

Employee numbers

	2024	2023
	'000	'000
Average number of employees, including Directors:		
Full-time	48.8	56.0
Part-time	86.7	92.1
	135.5	148.1
Full-time equivalent	88.3	96.1

In addition to the above, 1,582 (2023: 1,444) full-time employees and 1,602 (2023: 1,464) full-time equivalent employees are employed by the Company; however, the related employee costs are borne directly by JS Information Systems Limited, a fellow subsidiary of J Sainsbury plc.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

9 Income tax expense

	2024 £m	2023 £m
Current tax		
UK corporation tax	27	25
Over-provision in prior years	(6)	(2)
	21	23
Deferred tax		
Origination and reversal of temporary differences	43	(10)
Under provision in prior years	4	2
Adjustment from change in applicable rate of deferred tax	1	(7)
	48	(15)
Total income tax expense in income statement	69	8
Analysed as:		
Underlying tax	90	43
Non-underlying tax	(21)	(35)
Total income tax expense in income statement	69	8
Underlying tax rate	34.1%	19.0%
Effective tax rate	25.3%	5.8%

The effective tax rate of 25.3% (2023: 5.8%) is higher than (2023: lower than) the standard rate of corporation tax in the UK as a result of the differences below:

	52 weeks to 2 March 2024			52 weeks to 4 March 2023		
	Underlying	Non-underlying	Total £m	Underlying	Non-underlying	Total £m
Profit before tax	264	9	273	181	(44)	137
Income tax at UK corporation tax rate of 24.6% (19.00%):	65	2	67	34	(8)	26
Disallowed depreciation on UK properties	23	-	23	17	-	17
Non-taxable dividends received	-	(23)	(23)	-	(45)	(45)
Restructuring and impairments	-	-	-	-	17	17
Other	3	-	3	-	1	1
Under/(over) provision in prior years	(2)	-	(2)	(1)	1	-
Revaluation of deferred tax balances	1	-	1	(7)	(1)	(8)
Derecognition of capital losses	-	-	-	-	-	-
	90	(21)	69	43	(35)	8

The Spring Budget on 21 March 2023 confirmed the introduction of Pillar Two reporting requirements for the UK, and were enacted on 18 July 2023, confirming that the rules will apply to the Sainsbury's Group the financial year ending 1 March 2025. Pillar Two reporting introduced a global minimum 15 per cent tax rate by the end of 2023 and the Sainsbury's Group will be required to file certain returns evidencing the payment of tax at this rate. The potential impact of this has been assessed and the Sainsbury's Group does not consider that there is a material top-up tax liability at this stage, under the transitional safe harbour rules. Following this assessment, the Sainsbury's Group does not consider there to be a significant impact on its subsidiary undertakings.

It is unclear if the Pillar Two model rules create additional temporary difference, whether to remeasure deferred taxes and which tax rate to use to measure deferred taxes. The Sainsbury's Group has therefore applied the mandatory temporary exception in the amended IAS 12 'Income Taxes' from the requirement to recognise or disclosure information about deferred tax assets and liabilities related to the proposed Pillar Two model rules.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

9 Income tax expense (continued)

Income tax (credited) or charged to equity and/or other comprehensive income:

	Current tax	Deferred tax	2024			2023
	£m	£m	Total	Current tax	Deferred tax	Total
	£m	£m	£m	£m	£m	£m
Share based payment reserve	(3)	3	-	(1)	(4)	(5)
Actuarial reserve	-	(80)	(80)	(19)	(278)	(297)
Fair value movements	-	(22)	(22)	-	(10)	(10)
	(3)	(99)	(102)	(20)	(292)	(312)

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

Deferred tax

Movements in deferred tax assets and liabilities (prior to the offsetting of the balances within the same tax jurisdiction):

	Accelerated capital allowances	Capital losses	Fair value movements	Rolled over capital gains	Retirement benefit obligations	Share- based payments	Leases	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
5 March 2023	(145)	30	(23)	(62)	(251)	31	295	(7)	(132)
Credit/(charge) to income statement	(28)	-	-	1	(9)	6	(20)	3	(47)
Credit to equity or other comprehensive income	-	-	22	-	80	(3)	-	-	99
Revaluation adjustment to income statement	(1)	-	-	-	-	-	-	-	(1)
Derecognition of deferred tax asset	-	-	-	-	-	-	-	-	-
2 March 2024	(174)	30	(1)	(61)	(180)	34	275	(4)	(81)
6 March 2022	(168)	30	(33)	(62)	(516)	17	309	(18)	(441)
Prior year adjustment to income statement	(3)	-	-	-	-	-	-	1	(2)
Credit/(charge) to income statement	20	-	-	-	(10)	7	(15)	8	10
(Charge)/credit to equity or other comprehensive income	-	-	10	-	279	3	-	-	292
Revaluation adjustment to income statement	6	-	-	-	(3)	3	1	2	9
Revaluation adjustment to equity or other comprehensive income	-	-	-	-	(1)	1	-	-	-
4 March 2023	(145)	30	(23)	(62)	(251)	31	295	(7)	(132)

	2024	2023
	£m	£m
Total deferred income tax liabilities	(420)	(488)
Total deferred income tax assets	339	356
Net deferred income tax liability recognised in non-current liabilities	(81)	(132)

Deferred income tax assets have not been recognised in respect of capital losses of £275 million (2023: £290 million) for which their use against chargeable capital gains is restricted. These capital losses have no date of expiry. 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.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

10 Dividends

The Company declared and paid a dividend during the financial year of £600 million (2023: £nil) to its parent J Sainsbury plc.

11 Property, plant and equipment

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At beginning of financial year	6,227	4,642	10,869
Additions capitalised expenditure	257	371	628
capitalised interest	1	-	1
Disposals	(129)	(430)	(559)
Transfer to assets held for sale	(8)	-	(8)
At end of financial year	6,348	4,583	10,931
Accumulated depreciation and impairment			
At beginning of financial year	1,962	3,301	5,263
Depreciation expense	113	333	446
Impairment loss	-	1	1
Disposals	(10)	(430)	(440)
Transfer to assets held for sale	(4)	-	(4)
At end of financial year	2,061	3,205	5,266
Net book value at 2 March 2024	4,287	1,378	5,665
Capital work-in-progress included above	116	33	149

The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.8 per cent (2023: 6.1 per cent).

12 Leases

12.1 Company as lessee

a) Right-of-use assets

	2024			2023		
	Land and buildings £m	Equipment £m	Total £m	Land and buildings £m	Equipment £m	Total £m
Net book value						
At beginning of financial year	7,845	267	8,112	8,184	241	8,425
New leases and modifications	862	100	962	282	107	389
Impairment charge	-	-	-	(141)	(1)	(142)
Depreciation charge	(490)	(83)	(573)	(480)	(80)	(460)
Derecognised as part of asset acquisition	(1,031)	-	(1,031)	-	-	-
At end of financial year	7,186	284	7,470	7,845	267	8,112

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

12 Leases (continued)

b) Lease liabilities

	2024	2023
	£m	£m
At beginning of financial year	10,481	10,642
New leases and modifications	784	266
Derecognised as part of asset acquisition	(1,042)	-
Interest expense	445	441
Payments	(864)	(868)
At end of financial year	9,804	10,481
Current	627	1,598
Non-current	9,177	8,883

During the financial year, the J Sainsbury's Group purchased Supermarket Income REIT's beneficial interest in a commercial property investment pool. The Company had previously exercised purchase options on 21 leased supermarkets held by this property investment pool. As a result of this transaction, the Company derecognised £1,042 million in lease liabilities and £1,031 million in right-of-use assets respectively, as disclosed in the above tables. The Company now leases these supermarkets from other entities within the J Sainsbury's Group.

c) Maturity analysis

	2024	2023
	£m	£m
Contractual undiscounted cash flows		
Less than 1 year	908	2,032
1 to 2 years	881	934
2 to 3 years	849	903
3 to 4 years	801	870
4 to 5 years	784	828
Total less than 5 years	4,223	5,567
5 to 10 years	3,777	3,991
10 to 15 years	2,675	3,115
More than 15 years	4,202	5,165
Total undiscounted lease liability	14,877	17,838
Lease liability in the balance sheet	9,804	10,481
Analysed as:		
Current	627	1,598
Non-current	9,177	8,883

d) Undiscounted future rental payments not currently included within the reported lease liability

	2024	2023
	£m	£m
Extension options expected to not be exercised	4,498	4,781
Lease breaks expected to be exercised	339	347

12 Leases (continued)

e) Sensitivity to changes in discount rate

	2024
	Increase/(decrease) in lease liability recognised
	£m
Increase in IBR of 3%	(157)
Decrease in IBR of 3%	169

The reference rates for incremental borrowing rates (IBR), which are determined quarterly, are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the Company and quoted credit default swaps (CDS).

f) Lease liabilities subject to specific terms (typically occurring on an annual or five-yearly basis)

	2024	2023
	£m	£m
Inflation-linked rentals	2,817	2,745
Subject to rent reviews	217	232
Leases that have been signed but not yet commenced	73	101

g) Lease cash flows

	2024	2023
	£m	£m
Total cash outflow for leases (excludes sublet income)	(887)	(885)

12.2 Company as lessor

a) Maturity analysis of lease receivables classified as finance leases:

	2024	2023
	£m	£m
Contractual undiscounted cash flows		
Less than 1 year	7	7
1 to 5 years	16	19
More than 5 years	10	9
	33	35

b) Maturity analysis of lease receivable classified as operating leases:

	2024	2023
	£m	£m
Less than 1 year	20	18
1 to 2 years	17	15
2 to 3 years	15	13
3 to 4 years	12	11
4 to 5 years	11	9
5 to 10 years	37	31
10 to 15 years	7	9
More than 15 years	11	12
Total undiscounted lease payments receivable	130	118

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

13 Intangible assets

	Goodwill	Computer software	Total
	£m	£m	£m
Cost			
At 5 March 2023	80	510	590
Additions	-	143	143
Disposals	-	(42)	(42)
At 2 March 2024	80	611	691
Accumulated amortisation and impairment			
At 5 March 2023	45	173	218
Amortisation expense	-	110	110
Impairment loss	-	-	-
Disposals	-	(42)	(42)
At 2 March 2024	45	241	286
Net book value at 2 March 2024	35	370	405
Capital work-in-progress included above	-	16	16

Goodwill is comprised of:

	2024	2023
	£m	£m
Jacksons Stores Limited	18	18
Bells Stores Limited	6	6
Other	11	11
	35	35

The key assumptions in the value in use calculations are detailed in the Group accounts on pages 160 to 161.

14 Investments in subsidiaries

	2024	2023
	£m	£m
At beginning of financial year	3	359
Derecognised during the year	-	(356)
At end of financial year	3	3

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

14 Investments in subsidiaries (continued)

The direct and indirect subsidiaries of the Company are:

Entity	Country of registration or incorporation	Share of ordinary allotted capital and voting rights	Holding	Address ¹
Barleygold Limited	UK	100.00%	Direct	50 Bedford Street
BLSSP (PHC 7) Limited	UK	100.00%	Direct	33 Holborn
Coolidge Investments Limited	UK	100.00%	Direct	33 Holborn
Argos (N.I.) Limited	UK	100.00%	Direct	Forestside Shopping Centre
Nash Court (Kenton) Limited	UK	100.00%	Direct	33 Holborn
Sainsbury's Argos Asia Commercial Limited	Hong Kong	62.50%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Limited	Hong Kong	62.50%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Sourcing Limited	Hong Kong	62.50%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Asia Technical Limited	Hong Kong	62.50%	Indirect	Unit 904, 9/F, Tower 2
Sainsbury's Argos Commercial Consulting (Shanghai) Limited	China	62.50%	Indirect	26/F, Tower
Sainsbury's (NI) Ltd	UK	100.00%	Direct	Forestside Shopping Centre
Sainsbury's SL Limited	UK	100.00%	Direct	33 Holborn
Town Centre Retail (Bicester) Limited	UK	100.00%	Direct	33 Holborn

¹ See full address on page 193 of the J Sainsbury plc Annual Report 2024.

15 Investments in joint ventures and associates

	2024	2023
	£m	£m
	£m	£m
At beginning of financial year	2	2
Derecognised during the year	(1)	-
At end of financial year	1	2

During the year, the company derecognised it's investment of £900,000 in 3BW Limited.

	Year-end	Share of ordinary allotted capital	Country of registration or incorporation	Address ¹
Harvest 2 Limited Partnership	31-Mar	50%	UK	100 Victoria Street
Nectar 360 Services LLP	2-Mar	50%	UK	33 Holborn

¹ See full address on page 191 of the J Sainsbury plc Annual Report 2024.

16 Inventories

	2024	2023
	£m	£m
Gross finished goods	1,274	1,238
Inventory provision	(48)	(47)
	1,226	1,191

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 2 March 2024 was £22,179 million (2023: £21,379).

Inventory losses and provisions recognised as an expense for the year were £615 million (2023: £537 million).

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

17 Trade and other receivables

	2024					2023
	Non-current	Current	Total	Non-current	Current	Total
	£m	£m	£m	£m	£m	£m
Trade receivables	-	60	60	-	55	55
Amounts owed by Parent Company	-	605	605	-	284	284
Amounts owed by other Group entities	2	1,724	1,726	-	1,888	1,888
Other receivables	59	57	116	49	68	117
Prepayments and accrued income	37	69	106	15	76	91
	98	2,515	2,613	64	2,371	2,435

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

Receivables balances with other Group entities are reviewed for potential impairment based on the ability of the counterparty to meet its obligations. This is assessed by considering the net asset position and whether the amounts owed to the Company are covered. No impairment losses were recognised in the year.

18 Assets held for sale

	2024	2023
	£m	£m
Opening balance	8	8
Classified as held for sale in the year	8	6
No longer classified as held for sale	(2)	-
Sold in the year	(5)	(6)
Closing balance	9	8

The fair value of assets held for sale is based on independent market valuations of the assets.

Amounts no longer classified as held for sale relate to circumstances where it is no longer considered highly probable that a sale will occur within the next 12 months. Amounts reclassified are adjusted for any depreciation or amortisation that would have been recognised had the asset not been classified as held for sale.

19 Trade and other payables

	2024					2023
	Non-current	Current	Total	Non-current	Current	Total
	£m	£m	£m	£m	£m	£m
Trade payables	2	3,251	3,253	-	2,741	2,741
Amounts owed to other Group entities	-	295	295	-	257	257
Other payables	-	413	413	3	390	393
Accruals and deferred income	1	324	325	9	379	388
	3	4,283	4,286	12	3,767	3,779

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

Amounts owed to Parent company bear interest at Bank of England base rate plus 1.5 per cent and are repayable on demand. Interest bearing amounts owed to other Group entities are charged at a rate of 12 month SONIA plus 1.0 per cent. All amounts are repayable on demand.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

20 Borrowings

	Current	Non-current	2024 Total	Current	Non-current	2023 Total
	£m	£m	£m	£m	£m	£m
Bank overdrafts	1	-	1	-	-	-

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

21 Provisions

	Property provisions	Insurance provisions	Sainsbury's structural integration provisions	Other provisions	Total
	£m	£m	£m	£m	£m
At 5 March 2023	53	36	2	6	97
Additional provisions	37	16	31	-	84
Unused amounts released	(17)	2	(1)	-	(16)
Utilisation of provision	(8)	(16)	(12)	-	(36)
At 2 March 2024	65	38	20	6	129
Current	19	8	20	1	48
Non-current	46	30	-	5	81
At 6 March 2022	70	36	15	7	128
Additional provisions	15	22	5	-	42
Unused amounts released	(26)	(1)	(4)	(1)	(32)
Utilisation of provision	(6)	(21)	(14)	-	(41)
At 4 March 2023	53	36	2	6	97
Current	31	12	2	1	46
Non-current	22	24	-	5	51

Climate change considerations

The Company takes into account the potential impact of climate change on its legal and constructive obligations, such as regulations related to carbon emissions, environmental liabilities and natural disasters. The Company has reviewed its provisions and concluded that no adjustments need to be made for climate change risks, nor that any new provisions need to be recognised for climate-related matters.

22 Called up share capital

	2024 million	2023 million	2024 £m	2023 £m
Called up share capital				
Allotted and fully paid ordinary shares £100	29	29	2,900	2,900

23 Retirement benefit obligations

Background

Retirement benefit obligations relate to the Sainsbury's section of the Sainsbury's Pension Scheme plus unfunded pension liabilities relating to senior former employees of Sainsbury's.

This section holds the assets and liabilities of the original Sainsbury's Pension Scheme prior to acquisition of Home Retail Group. The section's assets are segregated by deed and ring fenced for the benefit of the members of this section. The Scheme is run by a corporate trustee with nine directors.

The Scheme is also used to pay life assurance benefits to current (including new) colleagues.

23 Retirement benefit obligations (continued)

Sainsbury's section of the Sainsbury's Pension Scheme

The section was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. There are three benefit categories: final salary, career average and cash balance. Final salary and career average benefits are determined by service and salary. Cash balance benefits are determined by the accrued retirement account credits.

Triennial valuation

The Trustee's triennial valuation is used to determine the contributions required for the Scheme to pay all the benefits due, now and in the future. The Trustee must allow for a level of prudence resulting in these assumptions placing a relatively high value on the Scheme's liabilities. By contrast, IAS 19 'Employee Benefits' requires companies to value the liabilities on a 'best estimate' basis which places a lower value on the liabilities and therefore a more favourable financial position. As such, the accounting value is different to the result obtained using the Trustee's triennial valuation basis.

The most recent triennial valuation was as at 30 September 2021, resulting in an actuarial surplus of £130 million (comprising a surplus of £231 million in the Sainsbury's section and a £101 million deficit in the Argos section) on a technical provisions basis. The asset-backed contributions structure (ABC) established by Sainsbury's in July 2019 continues to deliver as planned.

Under the ABC structure, properties with a valuation of £1,350 million were transferred into a newly formed property holding company - Sainsbury's Property Holdings Limited (Propco) from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. The Propco is a wholly owned subsidiary of the Group and leases the transferred properties to other Group companies. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership, in which the Scheme holds an interest.

The Partnership is controlled by Sainsbury's and its results are consolidated by the Group. The Scheme's investment in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets.

The value of the properties transferred to the Propco remains in the Group's property, plant and equipment on the balance sheet, and the Group retains full operational flexibility to extend, develop and substitute them.

The Scheme's interest in the Partnership entitled it to annual distributions over up to 20 years initially through three payment streams:

- 1) Payments to the Sainsbury's section (£15 million per year) which stopped from December 2021
- 2) Payments to the Argos section (£20 million per year)
- 3) Switching payment stream, paid to either the Sainsbury's section or Argos section (initially £23 million per year, increasing to £33 million by 2038)

The payments to the Sainsbury's and Argos sections (streams 1 and 2) would stop in 2030, or when the relevant section reached its funding target, if earlier. The Sainsbury's section reached its funding target on 31 December 2021 and so the first payment stream was permanently switched off, even though the subsequent updating of assumptions under the 2021 triennial valuation resulted in a small deficit on this funding basis.

The switching stream (stream 3) was initially paid to the Sainsbury's section until it reached the funding target, when it switched to the Argos section. Payments continue until 2038 or until both sections have reached their funding targets, if earlier.

The level of property in the Propco reduces as the Scheme reaches the funding targets. The level of security was designed to reduce as the Scheme's funding level improves, as the risk of a Group insolvency to the Scheme reduces. Once a section reaches a specific funding target for three consecutive quarters, the level of security that the Scheme can access reduces at the following 31 March in line with the Residual Security Amount (RSA) caps set out in the ABC framework. The security is currently provided by properties in the ABC which are valued annually. If the value of the security is outside a corridor either side of the RSA, the Company must top up if the value is less, or can choose to remove property from the Propco if the value is higher; however, if a default event were to occur, the Scheme would only have rights over the security to the value of the RSA - any excess value would remain in the Propco and revert to the Company.

23 Retirement benefit obligations (continued)

Unfunded pension liabilities

The unfunded pension liabilities are unwound when each employee either retires and draws their pension or the pension is taken as a lump sum on retirement or upon leaving.

a) Income statement

		2024 £m	2023 £m
Excluded from underlying profit before tax:			
Interest cost on pension liabilities	a)	(251)	(190)
Interest income on plan assets		294	240
Total included in finance income		43	50
Defined benefit pension scheme expenses		(5)	(5)
Settlement gains	b)	-	8
Total (excluded from underlying profit before tax)		38	53

a) Includes interest of £1m for the unfunded pension scheme (2023: £nil).

b) 2023: A settlement credit relating to a gain on payments made to members exiting the scheme relative to the liabilities.

b) Remeasurements included in other comprehensive income

		2024 £m	2023 £m
Return on plan assets, excluding amounts included in interest		(267)	(4,011)
Actuarial (losses)/gains arising from changes in			
Finance assumptions		(32)	2,965
Demographic assumptions		100	32
Experience		(106)	(173)
Total actuarial (losses)/ gains	a)	(38)	2,824

a) Includes £nil for the unfunded pension scheme (2023: £8m).

c) Balance sheet

	Assets £m	Obligations £m	2024 Net £m	Assets £m	Obligations £m	2023 Net £m
As at the beginning of the financial year	6,160	(5,140)	1,020	10,235	(8,082)	2,153
Interest income/(cost)	294	(251)	43	240	(190)	50
Remeasurement (losses)/gains	(280)	(39)	(319)	(4,011)	2,824	(1,187)
Pension scheme expenses	-	(5)	(5)	(5)	-	(5)
Employer contributions	-	-	-	1	-	1
Benefits (paid)/received	(248)	250	2	(269)	269	-
Settlement (losses)/gains	-	-	-	(31)	39	8
As at the end of the financial year	5,926	(5,185)	741	6,160	(5,140)	1,020

Investment strategy and risks associated with the Company's defined benefit pension scheme

The investment strategy of the Scheme is determined by the Trustee. The Trustee considers that its primary responsibility in respect of investments is to ensure, for the duration of the Scheme, that funds will be available to meet the benefit payment obligations as they fall due. The Trustee continues to target being funded on a gilts +0.5% p.a. basis, while limiting the downside risk associated with investment policy wherever possible. The investment objectives target a 50% or better chance of being fully funded on this basis by the end of 2024 for the Argos section and the end of 2028 for the Sainsbury's section.

In July 2024 the UK Court of Appeal (Virgin Media Ltd v NTL Pension Trustees II Ltd & ors) upheld the UK High Court's original ruling that certain historical amendments for contracted out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation.

23 Retirement benefit obligations (continued)

The Trustee and the Company, like many trustees of potentially affected schemes, will continue to consider and assess the implications of the ruling, any new regulations that the Government may issue in response and what steps, if any, might need to be taken.

The risks associated with achieving the above strategy are as follows:

Risk	Description	Mitigation
Investment Strategy and implementation	<p>Misalignment of the investment strategy relative to changes in liabilities reduces the future resources available to meet pension obligations.</p> <p>The strategy also includes addressing sustainability, ESG and climate risks which exist across the activities of the entities in which the Scheme ultimately invests. Investment managers may not have appropriate policies and procedures in place to address ESG risks.</p> <p>Poor execution, attention to regulation or underperformance in applying the strategy could lead to lower funding levels.</p>	<p>Using an FCA regulated investment advisor, a liability-driven investment (LDI) framework has been adopted to generate excess asset returns aligned to liabilities by largely removing interest and inflation uncertainties.</p> <p>ESG and related risks are incorporated into the Statement of Investment Principles (SIP), and an annual TCFD report and Implementation Statement are published covering risk management and goals.</p> <p>Investment managers have signed up to international ESG principles and are requested to confirm that they operate in line with the Trustee's policies on ESG.</p> <p>Investment mandates are monitored closely against portfolio benchmarks set out in investment guidelines. The Investment Committee will terminate consistently underperforming mandates and reallocate capital.</p>
Investment Liquidity	Insufficient liquidity to meet cashflow requirements to make collateral top up requests to manage the Scheme's derivative positions and member benefit payments.	The Scheme adopts a collateral sufficiency framework to ensure that sufficient liquid assets are maintained. The Investment Adviser liaises with the Scheme Actuary and Pensions Department to determine current and future cash flow requirements.
Investment Counterparty	Financial losses may be incurred due to failure of counterparties or inability to roll-over derivative positions.	Asset Managers manage credit limits for all their derivative counterparty exposures and monitor positions over derivative roll dates.
Inflation	Scheme obligations are linked to inflation whereby a higher long-term inflation rate leads to higher liabilities.	The Scheme's LDI portfolio and inflation-linked investments reduce inflation risk by aligning assets movements to changes in inflation expectations. Inflation increases are subject to maximum caps.
Interest rate	Scheme liabilities are determined using discount rates linked to corporate bond and gilt yields for accounting and funding purposes, respectively. A decrease in yields increases liabilities.	The Scheme's LDI portfolio reduces this risk on a funding basis. Whilst the accounting basis may differ because of divergence between corporate bond and gilt yields, other assets held in the portfolio help to provide an additional hedge.
Sustainability, including ESG and climate	<p>Investment managers do not have appropriate policies and procedures in place to identify such risks and opportunities.</p> <p>A broad range of these risks exists across the activities of the entities in which the Scheme ultimately invests which include exposure to climate transition, a lack of diversity, equity and inclusion, or poor corporate governance.</p>	<p>ESG, stewardship and other related risks are incorporated into the Statement of Investment Principles. The Trustee publishes an annual TCFD report and an Implementation Statement which details how climate risks are managed. Day to day management of ESG risks is delegated to investment managers who are requested to confirm that they operate in line with the Trustee's policies.</p> <p>A Net Zero carbon emission goal by 2050 has been adopted and follows new climate governance and reporting standards. The Scheme's investment managers have signed up to the UN Principles of Responsible Investment and have Net Zero targets.</p>
Longevity	The Scheme pays benefits longer than expected due to members living longer than assumed.	Longevity risk is monitored with the aim of achieving sufficient funding levels which take account of the potential for increased life expectancy.

Sainsbury's Supermarkets Ltd
Notes to the financial statements (continued)
for the 52 weeks to 2 March 2024

23 Retirement benefit obligations (continued)

Since 2023, no new risks have been identified; however, some have been either combined or set out differently for presentational purposes.

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

	Quoted	2024 Unquoted a)	Quoted	2023 Unquoted
	£m	£m	£m	£m
Liability matching assets	2,973	1,286	2,528	1,507
Growth assets				
Equity				
Private	-	332	-	429
Alternatives				
Real Estate	-	383	-	491
Private Debt	-	494	-	607
Diversified Growth	-	274	-	265
Cash and Cash equivalents	184	-	333	-
	3,157	2,769	2,861	3,299

a) Certain unquoted fixed interest securities, private equity and debt investments and property investments are stated at fair value. These fair values may differ from their realisable values due to the absence of liquid markets in these investments.

The Sainsbury's Pension Scheme adopts a liability driven investment (LDI) framework to manage its funding risk and reduce volatility by largely removing the interest rate and inflation rate impacts of its liabilities. As a result, the value of the Scheme's assets changes in the similar way to its liabilities, which helps maintain its ability to pay benefits and therefore member security over the long term.

Of the above assets, £2,930 million are denominated in sterling and £2,849 million are denominated in foreign currencies.

The valuation of these assets is based on the audited accounts of the funds, where available, and net asset value statements from the investment managers where recent accounts are not available. For many of the investments, the valuations provided are at 30 September. The Company therefore performs a roll-forward for these valuations, adjusting for cash received or paid and applying the changes seen in relevant liquid indices as follows:

Index returns from 30 September 2023 to 2 March 2024

Asset Class	Returns
Global equity USD return	18.5%
Global High Yield Debt USD return	7.3%
US loans USD return	4.5%
UK REITS GBP return	9.6%

The roll-forward has increased the valuation of illiquid assets by £48 million. A 1 per cent increase/decrease in the indices used would have caused a £10.3 million increase/decrease in the adjustment.

d) Assumptions

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

Assumptions	2024	2023
	%	%
Discount rate	5.00	5.00
Inflation rate - RPI	3.20	3.25
Inflation rate - CPI	2.55	2.55
Future pension increases	1.95 - 3.00	1.90 - 2.95

23 Retirement benefit obligations (continued)

Discount rate

The discount rate for the Scheme is derived from the expected yields on high quality corporate bonds over the duration of the Group's pension scheme and extrapolated in line with gilts with no theoretical growth assumptions. High quality corporate bonds are those for which at least one of the main ratings agencies considers to be at least AA (or equivalent).

Inflation

The Government's intention to amend the RPI calculation methodology to be aligned to that already in use for the calculation of the CPI (including housing) takes effect from 2030. As a result, the Group has assumed that RPI will be aligned with CPI post 2030, resulting in a single weighted average RPI-CPI gap of 1.00% p.a. up to 2030 (2023: 0.70% p.a.).

Mortality

The base mortality assumptions use the SAPS S2 and SAPS S3 tables for the Sainsbury's and Argos sections, respectively, with adjustments to reflect the Scheme's population.

Following the completion of the 2021 triennial valuation and consideration of the previous three years of mortality experience both in the Scheme and the UK as a whole, the Company has decided to update the actuarial mortality base tables that determine the life expectancy assumptions to reflect a best-estimate adjustment derived from analysis carried out for the valuation. Future mortality improvements for the 2024 year-end are CMI 2022 projections with a long-term rate of improvement of 1.0 per cent p.a. Future mortality improvements for the 2023 year-end were CMI 2021 projections with a long-term rate of improvement of 1.25 per cent p.a.

While COVID-19 had an impact on mortality in 2020, the impact on future mortality trends is currently unknown. All IAS 19 calculations use the CMI model which measures potential changes to future mortality trends. The Group's policy is to use the available version as at the year-end which is CMI 2022, which was released in June 2023.

As a result of the significant change to mortality in the CMI 2020 model, the CMI modified the calibration process for CMI 2020 to allow choice on the weighting placed on an individual year's data. For the Core version of CMI 2020, a weight of zero per cent was applied to 2020 data and weightings of 100 per cent for other years, so the potentially exceptional 2020 experience was ignored when modelling future improvements. This approach has been amended for CMI 2022, with zero per cent weighting applied to 2020 and 2021 data and 25% weighting applied to 2022 data, to reflect the view that the sustained and less volatile mortality experience provides greater evidence of a change to future mortality trends.

A 10 per cent weighting above the core parameters has been applied, reflecting that mortality rates for 2022 were higher and for 2023 are expected to be higher than 2019, and recognising the uncertain outlook. From 2028, mortality improvements are in line with the CMI 2022 Core model. The impact of different weightings on the Scheme liabilities is included in the sensitivities section within this note.

Life expectancy at age 65

	2024		2023	
	Sainsbury's section Main Scheme Years	Sainsbury's section Executive Scheme Years	Sainsbury's section Main Scheme Years	Sainsbury's section Executive Scheme Years
Members aged 65 at balance sheet date				
Male pensioner	18.9	22.2	19.5	22.7
Female pensioner	22.8	23.4	23.3	24.0
Members aged 45 at balance sheet date				
Male pensioner	19.8	23.1	20.7	24.0
Female pensioner	23.9	24.6	24.9	25.5

23 Retirement benefit obligations (continued)

e) Sensitivities

The present value of the Scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on the discount rate. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates. The carrying value of the retirement benefit obligations is impacted by changes to any of the assumptions used, however is most sensitive to changes in the discount rate.

The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the impact for a given change in assumption while keeping all others constant, thus meaning that interdependencies between the assumptions have not been taken into account in the analysis. The sensitivities reflect the upper ends of a range of reasonably possible changed in principal assumptions.

		Sainsbury's	
		£m	£m
Financial sensitivities			
Discount rate	+/- 0.1%	(73)	74
Discount rate	+/- 1.0%	(666)	819
Inflation rate	+/- 0.1%	36	(44)
Inflation rate	+/- 1.0%	383	(396)
Inflation rate for future pension increases	+/- 0.1%	17	(25)
Inflation rate for future pension increases	+/- 1.0%	177	(221)
Demographic sensitivities			
Life expectancy	+/- 1 year	170	(166)
Change 2020, 2021 and 2022 weighting parameters in CMI 2022	- 10%/+15%	41	(33)

The arms' length value of the interest in the Sainsbury's Thistle Scottish Limited Partnership pension asset, as assessed by an independent actuary, is sensitive to the assumption around the Trustee's future investment strategy. The values include an assumption that the investment strategy de-risks, in a linear fashion, over a period broadly aligned with the duration of the section's liabilities. De-risking is a change in the asset allocation to a portfolio in which the funding level volatility is very low. If no de-risking assumption was made, for the accounts ended 2 March 2024, then the value of the plan assets would be £2.3 million lower than with the inclusion of a de-risking strategy.

f) Future benefit payments

The duration of the plan liabilities are around 15 years.

Timing of benefit payments (undiscounted)

	2024	2023
	£m	£m
Within the next 12 months (next financial year)	227	212
Between 2 and 5 years	1,038	981
Between 6 and 15 years	3,414	3,304
Between 16 and 25 years	3,400	3,412
Beyond 25 years	4,178	4,380
Total expected payments	12,257	12,289

24 Share-based payments

a) Savings-Related Share Option Scheme (Sharesave)

The Company 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 (and historically also five-year) savings period are entitled to use their savings to purchase shares in the Company at a pre-stated exercise price.

Employees leaving for certain reasons can use their savings to purchase shares within six months of their leaving

b) Long-Term Incentive Plan

Under the Long-Term Incentive Plan, shares are conditionally awarded to Senior Leaders of the Company. 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, which are financial and non-financial non-market conditions, have been met, the awards vest and the participants are able to exercise 100% of the awards received. For 2020 awards and prior, recipients were only able to receive 50% of their awards after three years and 50% of their awards after four years. From 2021 onwards, schemes vest and participants are able to exercise after three years. Awards will expire five years from the grant date.

For Executive Directors, awards will normally be subject to a two-year holding period following the end of the three-year performance period. Awards will expire six years from the date of grant.

For awards granted in and before the year ended 4 March 2023, a core share award was granted which could grow by up to four times, dependent on the level of performance. For awards granted in the year to 2 March 2024, the maximum share award is allocated, and the award will vest between 0 per cent and 100 per cent based on performance against targets. Awards are structured as nil-cost.

Dividends will accrue on the shares that vest in the form of additional shares, except for certain colleagues who are unable to receive dividend equivalents due to financial services regulations.

c) Nil-Cost Share Award

The nil-cost share schemes include Deferred Share Awards, Bonus Share Awards and other Conditional Awards.

The last awards made under the Deferred Share Award plan were made in 2021. All awards outstanding in 2023 were released to participants in 2024.

Senior Leaders receive a percentage of their bonus award in shares. Before 2021, bonus awards had a three-year deferral period. However, awards granted from 2021 now have a deferral period of two years, except for certain colleagues who are subject to a deferral period due to financial services regulations.

Other conditional awards relate to the retention and recruitment of Senior Leaders as part of the wider reward strategy. Awards vest, typically between one and three years, subject to participants remaining in employment at the vesting date.

Dividends accrue on these shares and vest in the form of additional shares released at the end of the deferral period.

28,726,180 share options (2023: 22,067,759) were exercised during the year, with a weighted average share price at exercise of £2.69 per share (2023: £2.46)

	2024	2023
Weighted average remaining contractual life for options outstanding	2.2 years	2.4 years
Range of exercise prices for options outstanding	£nil - £2.60	£nil - £2.60

25 Related party transactions

(a) Joint Ventures and other related parties

Balances arising from transactions (all at arm's length) with joint ventures and associates

	2024	2023
	£m	£m
Payables		
Other payables	(1)	(2)

26 Capital commitments

	2024	2023
	£m	£m
Capital commitments contracted, but not provided for	109	132

27 Parent and Ultimate Controlling Entity

The Company's immediate parent undertaking, ultimate parent and controlling party is J Sainsbury plc, a company incorporated in the United Kingdom and registered in England and Wales. The largest and smallest group of undertakings for which group financial statements have been prepared are that of J Sainsbury plc. Copies of these financial statements are available from its registered office at J Sainsbury plc, 33, Holborn, London, EC1N 2HT.

28 Contingent liabilities

Along with other retailers, the Company is currently subject to claims from current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. There are currently circa 17,000 equal pay claims from circa 11,700 claimants and the Company believes that further claims may be served. The claimants are alleging that their work within Sainsbury's stores is or was of equal value to that of colleagues working in Sainsbury's distribution centres, and that differences in terms and conditions relating to pay are not objectively justifiable. The claimants are seeking the differential back pay based on the higher wages in distribution depots, and the equalisation of wages and terms and conditions on an ongoing basis.

There are three stages in the tribunal procedure for equal value claims of this nature and the claimants will need to succeed in all three. The first stage is whether store claimants have the legal right to make the comparison with depot workers. Following European and Supreme Court decisions in other litigation, Sainsbury's has conceded this point. The second stage is the lengthy process to determine whether any of the claimants' roles are of equal value to their chosen comparators. In the event that any of the claimants succeed at the second stage, there will be a third stage comprising further hearings, in the following years, to consider Sainsbury's material factor defences, relating to non-discriminatory reasons for any pay differential. Completion of these two stages is likely to take many years, which will involve hearings and appeals. It is not possible to predict a final date with any certainty. If the Group is unsuccessful at the end of the litigation the liability could be material but due to the complexity and multitudinous factual and legal uncertainties we are not in a position to predict an outcome, quantum or impact at this stage. There are substantial factual and legal defences to these claims and the Group intends to defend them vigorously.

Given that the outcome of the second and third stages in the litigation remains highly uncertain at this stage, the Company cannot make any assessment of the likelihood nor quantum of any outcome and accordingly, no provision has been recognised.











Sainsbury' Supermarket Ltd FY24 Financial Statements

Final Audit Report

2024-08-29

Created:	2024-08-29
By:	Hayden Smith (hayden.smith@sainsburys.co.uk)
Status:	Signed
Transaction ID:	CBJCHBCAABAAbJSFc1RFRp5LIi927-SU6hyE5RqiKv3C

"Sainsbury' Supermarket Ltd FY24 Financial Statements" History

-  Document created by Hayden Smith (hayden.smith@sainsburys.co.uk)
2024-08-29 - 07:46:41 GMT- IP address: 163.116.162.120
-  Document emailed to blathnaid.bergin@sainsburys.co.uk for signature
2024-08-29 - 07:50:59 GMT
-  Document emailed to clodagh.moriarty@sainsburys.co.uk for signature
2024-08-29 - 07:50:59 GMT
-  Email viewed by clodagh.moriarty@sainsburys.co.uk
2024-08-29 - 08:05:14 GMT- IP address: 163.116.177.126
-  Email viewed by blathnaid.bergin@sainsburys.co.uk
2024-08-29 - 08:29:26 GMT- IP address: 172.224.224.22
-  Signer blathnaid.bergin@sainsburys.co.uk entered name at signing as Blathnaid Bergin
2024-08-29 - 09:10:00 GMT- IP address: 163.116.162.209
-  Document e-signed by Blathnaid Bergin (blathnaid.bergin@sainsburys.co.uk)
Signature Date: 2024-08-29 - 09:10:02 GMT - Time Source: server- IP address: 163.116.162.209
-  Signer clodagh.moriarty@sainsburys.co.uk entered name at signing as Clodagh Moriarty
2024-08-29 - 11:45:42 GMT- IP address: 163.116.177.138
-  Document e-signed by Clodagh Moriarty (clodagh.moriarty@sainsburys.co.uk)
Signature Date: 2024-08-29 - 11:45:44 GMT - Time Source: server- IP address: 163.116.177.138
-  Agreement completed.
2024-08-29 - 11:45:44 GMT



Adobe Acrobat Sign