Registered Company number:
05644624

Sainsbury Propco B Limited

Annual Report and Financial Statements

For the 52 weeks to 4 March 2023

Sainsbury Propco B Limited
Strategic report
for the 52 weeks to 4 March 2023
Registered company number: 05644624

Principal activities and review of business
The principal activities of the Sainsbury Propco B Limited (the 'Company') are the ownership and rental of supermarket outlets to J Sainsbury plc and its subsidiary companies (the 'Group') and to raise finance secured against its property.

The Company's profit for the financial year was £44 million (2022: £43 million). The financial position as at 4 March 2023 is shown in the balance sheet set out on page 8.

All material operations are carried out in the United Kingdom.

A full review of the business and the market can be found in the 2023 Annual Report and Financial Statements of J Sainsbury plc, the ultimate parent undertaking, on the following website: www.about.sainsburys.co.uk.

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 not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 44 to 57 of the Group's Annual Report and Financial Statements 2023, which does not form part of this report. Further details on the financial risks relating to the Company are set out in note 28 of the Group's Annual Report and Financial Statements 2023.

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

Key Performance Indicators (KPIs)
The Directors of J Sainsbury plc manage the Group's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using KPIs 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 2 to 35 of the Group's Annual Report, which does not form part of this report.

Financial risk management
The financial risk management and policies of the Group, which include those of the Company, are disclosed in note 28 on pages 164 to 177 of the Group's Annual Report.

Section 172 statement and stakeholder engagement
The Board believes that it has acted in accordance with Section 172(1) of the Companies Act 2006 during the year ended 4 March 2023. 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 governance framework of J Sainsbury plc and its subsidiaries (the 'Group'). During the year, the Directors continued to focus on engagement with the Company's stakeholders, most notably the Group. The Directors primarily used scheduled Group Property committee meetings and Group Operating Board meeting to consider and engage with the Group. These interactions informed key decisions that the Directors made during the year, such as approving the Company's financial statements.

Further details on how the Group engaged with its stakeholders, can be found in the 2023 Annual Report for J Sainsbury plc on pages 24-29.
As per Section 54(1) of the Modern Slavery Act 2015, our 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 4 March 2023 to prevent modern slavery and human trafficking in our own operations and supply chains.

By order of the Board:

Jamie Cowen
Director
9 August 2023

Sainsbury Propco B Limited
Directors' report
for the 52 weeks to 4 March 2023

The Directors present their report and the audited financial statements of Sainsbury Propco B Limited (the 'Company') for the 52 weeks to 4 March 2023. The prior financial year's financial statements were for the 52 weeks to 5 March 2022.

Dividends
During the financial year there were nil dividends recommended or paid (2022: £nil).

Going concern
As at 4 March 2023 the company had retained earnings of £288 million (2022: £244 million) and made a profit of £41 million (2022: £57 million).

The financial statements have been prepared on the going concern basis on the grounds that the ultimate parent company, J Sainsbury plc has confirmed its present intention to provide financial support such that the Company is able to repay its liabilities as they fall due for a period of twelve months from the date on which these financial statements are signed.

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

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

Jamie Cowen
Sainsbury's Corporate Director Limited

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:

Sainsbury's Corporate Secretary Limited

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 ultimate parent company purchased and maintained Directors' and Officers' liability insurance throughout 2022/23, which was renewed for 2023/24. 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.

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

Independent Auditors
Ernst & Young LLP, have indicated their willingness to continue in office.

By order of the Board:

Jamie Cowen
Director
9 August 2023

Sainsbury Propco B Limited
Statement of Directors' responsibilities
for the 52 weeks to 4 March 2023

The Directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements are required by law to 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 in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable UK Accounting Standards 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 proper accounting records that 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. Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and Directors' report, that comply with that law and those regulations.

Leon Smith
Leon Smith (Aug 9, 2023 15:13 GMT+1)
Leon Smith
on behalf of Sainsburys Corporate Director Limited
Director
9 August 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAINSBURY PROPCO B LIMITED

Opinion

- We have audited the financial statements of Sainsbury Propco B Limited for the 52 week period ended 4 March 2023 which comprise the Statement of profit or loss and comprehensive income, the Balance sheet, the Statement of changes in equity and the related notes 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs at 4 March 2023 and of its profit for the 52 week period for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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, 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.

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 twelve months from when the financial statements are authorised for issue.

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 as set on pages 1 to 3, 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 Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

Our approach was as follows:

- 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 Companies Act 2006 and relevant UK tax compliance regulations.
- We understood how Sainsbury Propco B Limited 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, internal audit reports and through 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 considering the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of those responsible for legal and compliance procedures, internal audit and management. In addition, we completed procedures to conclude on the compliance of the disclosures in the annual report and financial statements with all applicable reporting requirements.

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
8996C57A753B45A...

Tom Sanders (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
10 August 2023

Sainsbury Propco B Limited
Statement of profit or loss and other comprehensive income
for the 52 weeks to 4 March 2023

	Note	2023 £m	2022 £m
Revenue		**114**	108
Cost of sales		**(8)**	(8)
Gross profit		**106**	100
Other expenses		**(2)**	-
Operating profit	3	**104**	100
Finance costs	5	**(45)**	(48)
Profit before tax		**59**	52
Income tax expense	6	**(15)**	(9)
Profit for the financial year		**44**	43
Other comprehensive income			
Items that may be reclassified subsequently to the income statement:			
Cash flow hedges effective portion of fair value movements		-	8
Transferred to income statement		(4)	10
Deferred tax on items that may be reclassified		1	(4)
Total comprehensive income for the year		**41**	**57**

The notes on pages 10 to 19 are an integral part of these financial statements.

Sainsbury Propco B Limited
Balance sheet
at 4 March 2023

	Note	2023 £m	2022 £m
Non-current assets			
Investment properties	7	**1,220**	1,231
		1,220	1,231
Current assets			
Trade and other receivables	8	**12**	11
Derivative financial assets		**2**	5
		14	16
Total assets		**1,234**	1,247
Current liabilities			
Trade and other payables	9	**(29)**	(10)
Borrowings	10	**(48)**	(44)
Derivative financial liabilities		**-**	(1)
		(77)	(55)
Net current liabilities		**(63)**	(40)
Non-current liabilities			
Other payables	9	**(67)**	(102)
Borrowings	10	**(491)**	(531)
Deferred income tax liability		**-**	(1)
		(558)	(634)
Net assets		**599**	558
Equity			
Called up share capital	11	**310**	310
Other reserves		**1**	4
Retained earnings	12	**288**	244
Total equity		**599**	558

The notes on pages 10 to 19 are an integral part of these financial statements.

The financial statements on pages 7 to 19 were approved by the Board of Directors on 9 August 2023, and are signed on its behalf by:

Leon Smith
Leon Smith (Aug 9, 2023 15:13 GMT+1)

Leon Smith
on behalf of Sainsburys Corporate Director Limited
Director
9 August 2023

Sainsbury Propco B Limited
Statement of changes in equity
for the 52 weeks to 4 March 2023

	Note	Called up share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
At 6 March 2022		**310**	**4**	**244**	**558**
Profit for the year		**-**	**-**	**44**	**44**
Other comprehensive loss		**-**	**(4)**	**-**	**(4)**
Tax relating to Other comprehensive loss		**-**	**1**	**-**	**1**
At 4 March 2023	**11,12**	**310**	**1**	**288**	**599**
At 7 March 2021		310	(10)	201	501
Profit for the year		-	-	43	43
Other comprehensive income		-	18	-	18
Tax relating to Other comprehensive income		-	(4)	-	(4)
At 5 March 2022	**11,12**	310	4	244	558

The notes on pages 10 to 19 are an integral part of these financial statements.

Sainsbury Propco B Limited
Notes to the financial statements
for the 52 weeks to 4 March 2023

1 General information

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

The financial year represents the 52 weeks to 4 March 2023 (prior financial year: 52 weeks to 5 March 2022).

2 Accounting policies

(a) Statement of compliance

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

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the Standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition measurement and disclosure requirements of adopted International Financial Reporting Standards (IFRS).

The Company is a qualifying entity for the purposes of FRS 101. The results of the Company are consolidated into the Annual Report and Financial Statements 2023 of J Sainsbury plc, available on the Group's website.

FRS 101 sets out amendments to IFRS that are necessary to achieve compliance with the Companies Act and related regulations. These amendments had no impact on the Statement of comprehensive income, Balance sheet or Statement of changes in equity for the Company for the year ended 4 March 2023.

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

- The requirements of IAS 7 to present a cash flow statement.
- The requirements of paragraph 17 of IAS 24, Related Party Transactions, to disclose information related to key management personnel, and the requirements of IAS 24 to disclose related party transactions between two or more members of a group for wholly owned subsidiaries.
- The requirements of paragraphs 30 and 31 of IAS 8 to disclose information assessing the possible impact of new standards issued but which are not yet effective.
- The requirements of IFRS 7 and IFRS 13 for disclosure of financial instruments and fair values.
- The requirement of IAS 1, Presentation of financial statements' comparative information requirements in respect of Property, plant and equipment and Intangible assets.
- The requirements of IFRS 15 to disclose the disaggregation of revenue

(b) Basis of preparation

The financial statements are presented in pound sterling, rounded to the nearest million (£m) unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2c.

Amendments to published standards

Effective for the Company in these financial statements:

The Company has considered the following amendments to published standards that are effective for the Company for the financial year beginning 6 March 2022 and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements other than disclosures.

- Amendments to IFRS 3 'Business Combinations' – Reference to the Conceptual Framework
- Amendments to IAS 16 'Property, Plant and Equipment' – Proceeds before Intended Use
- Amendments to IAS 37 'Provisions, Contingent Assets and Contingent Liabilities' – Onerous Contracts – Costs of Fulfilling a Contract
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' – Subsidiary as a first-time adopter
- Amendments to IFRS 9 'Financial Instruments' – Fees in the '10 per cent' test for derecognition of financial liabilities

Sainsbury Propco B Limited
Notes to the financial statements (continued)
for the 52 weeks to 4 March 2023

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

- Amendments to IAS 41 'Agriculture' – Taxation in fair value measurements

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

- Amendments to IAS 1 'Presentation of Financial Statements' on the classification of liabilities as current or non-current
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2 'Making Materiality Judgements' on the disclosure of accounting policies
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of accounting estimates
- Amendments to IAS 12 'Income Taxes' on Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction
- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 16 'Leases' on Lease Liability in a Sale and Leaseback
- Amendments to IAS 1 'Presentation of Financial Statements' on Non-current Liabilities with Covenants

The Company has considered the impact of the remaining above standards and revisions and have concluded that they will not have a significant impact on the Company's financial statements.

Going concern
As at 4 March 2023 the company had retained earnings of £288 million (2022: £244 million) and made a profit of £41 million (2022: £57 million).

The financial statements have been prepared on the going concern basis on the grounds that the ultimate parent company, J Sainsbury plc has confirmed its present intention to provide financial support such that the Company is able to repay its liabilities as they fall due for a period of twelve months from the date on which these financial statements are signed.

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

Revenue
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms net of any lease incentives given to the lessee and is included in revenue in the statement of profit or loss due to its operating nature.

Cost of sales
Cost of sales consists of all costs associated with the investment properties, including depreciation.

Other income
Other income consists of the profit on disposal of property, plant and equipment and investment property.

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

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

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

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

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

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

- Freehold buildings and leasehold properties – 50 years, or the lease term if shorter
- Freehold land is not depreciated

Impairment of non-financial assets
At each reporting date, the Company reviews the carrying amounts of its property, plant and equipment and investment property to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. For property, plant and equipment and investment property, the CGU is deemed to be each trading store.

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

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

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

Financial instruments
Financial assets
The Company classifies all of its financial assets at amortised cost in accordance with IFRS 9.

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, 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.

Sainsbury Propco B Limited
Notes to the financial statements (continued)
for the 52 weeks to 4 March 2023

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

For the Company, these are financial assets that are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and where the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company initially measures these financial assets at fair value plus transaction costs. Subsequently these assets are carried at amortised cost less impairment using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Impairment of financial assets
Loan loss impairments are accounted for using a 3 stage forward-looking expected credit loss (ECL) approach in line with IFRS 9. IFRS 9 requires the Company to record an allowance for ECL for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

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

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

Financial liabilities
Interest-bearing bank loans and overdrafts 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.

Finance charges, 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 year in which they arise.

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

To qualify for hedge accounting, the Company documents at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Company also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will be 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 interest rate risk on long term borrowings. 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 the cash flow hedge of a firm commitment or forecasted transaction 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.

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

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

c) Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS 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:

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

Lease term
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, if it is reasonably certain not to be exercised.

The Company has the option under some of its leases to either lease the assets for additional terms, or terminate the lease early (a break option). The Company applies judgement in evaluating whether it is reasonably certain to exercise these options. That is, it considers all relevant factors that create an economic incentive for it to exercise them. For leased properties, this includes the current and expected profitability of the respective site, as well as the length of time until the option can be exercised. The judgement currently applied is that the Company assumes contractual terms unless it is reasonably certain that an extension or break option will be applied.

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the options to renew (e.g. a change in business strategy). Any reassessment of the lease term will be reflected in a recalculation of the lease liability and respective right-of-use asset.

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

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

2 Accounting policies (continued)
(c) Significant accounting judgements, estimates and assumptions (continued)

Income taxes
The Company recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the year when such determination is made. Detail of the tax charge is set out in note 6.

Fair value of Investment properties
The Company carries its investment properties using the "cost method" which is cost less accumulated depreciation and any recognised impairment loss. For disclosure purposes the Company engaged an independent valuation specialist to assess fair value as at 4 March 2023. A valuation methodology based on a discounted cash flow (DCF) model was used. Please refer to note 7 for the key assumptions used to determine the fair value of the properties.

3 Operating profit

	2023 £m	2022 £m
Operating profit is stated after charging the following items:		
Depreciation charge for the year	**(8)**	(8)

There were £nil (2022: £nil) direct operating expenses arising from investment property that did not generate rental income during the year.

The auditors' remuneration, in the current and prior year, has been borne by Sainsbury's Supermarkets Ltd, a Group company that makes no recharge to the Company.

4 Employees and Directors' remuneration

The average monthly number of persons (including Directors) employed by the Company during the financial year was £nil (2022: nil).

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

5 Finance costs

	2023 £m	2022 £m
Amounts payable to parent company	**(6)**	(25)
Interest payable - other loans	**(39)**	(23)
Finance costs	**(45)**	(48)

6 Income tax expense

The income tax expense for the financial year was £15m (2022: £9 million).

The effective tax rate of 26 percent (2022: 21 per cent) is higher than (2022: higher than) the standard rate of corporation tax in the UK. The differences are explained below:

	2023 £m	2022 £m
Profit before tax	**59**	52
Income tax at UK corporation tax rate of 19% (2022: 19%)	**11**	10
Effects of underlying items:		
Disallowed depreciation on UK properties	**2**	1
Under-provision in previous years	**2**	-
Group relief claimed for £nil consideration	**-**	(2)
Total income tax expense in income statement	**15**	**9**

It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change was enacted during the previous accounting period, and deferred tax balances were revalued accordingly.

The Spring Budget on 21 March 2023 confirmed the introduction of Pillar 2 reporting requirements for the UK. This has not been enacted to date, but the rules are expected to apply to the Company. Pillar 2 reporting will see the introduction of a global minimum 15 per cent tax rate by the end of 2023, and the Company will be required to file certain returns evidencing the payment of tax at this rate. The potential impact of this is currently being assessed, but the Company does not consider there to be a material exposure at this stage.

7 Investment property

	Land and buildings £m
Cost	
At 6 March 2022	**1,354**
Disposals	**(3)**
At 4 March 2023	**1,351**
Accumulated depreciation and impairment	
At 5 March 2022	**123**
Depreciation expense for the year	**8**
At 4 March 2023	**131**
Net book value at 4 March 2023	**1,220**

Cost	
At 5 March 2022	1,354
Accumulated depreciation and impairment	
At 7 March 2021	115
Depreciation expense for the year	8
At 5 March 2022	123
Net book value at 5 March 2022	1,231

The Company owns 48 (2022: 48) supermarket properties (land and buildings) with a net book value of £1,220 million (2022: £1,231 million), which has been pledged as security for long-term financing (note 10).

The fair value of the Company's investment properties at 4 March 2023 was £1,868 million (2022: £2,299 million). The valuation was carried out by CBRE Limited, independent valuers from the Company. The basis of the valuation used in calculating the fair value was 'Investment Value' using yield rates ranging from 4.75% to 6.90% (2022: 3.50% to 5.35%).

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

8 Other receivables

	2023 £m	2022 £m
Current		
Amounts due from Group Companies	**12**	11
	12	11

Amounts due from Group companies are denominated in pound sterling, non-interest bearing, and payable on demand.
Amounts due from Group companies are not considered overdue or impaired.

9 Other payables

	2023 £m	2022 £m
Current		
Amounts owed to Parent company	(5)	(1)
Tax payable	(24)	(9)
	(29)	(10)
Non-current		
Amounts owed to the Parent company	(67)	(102)
	(67)	(102)

The non-current amount due to parent company is at a fixed interest rate of 9.9 percent and is re-payable in 2025.

10 Borrowings

	2023 Current (£m)	2023 Non-current (£m)	2023 Total (£m)	2022 Current (£m)	2022 Non-current (£m)	2022 Total (£m)
Secured loan						
25 year loan due 2031	48	491	539	(45)	(530)	(575)
Total borrowings	48	491	539	(45)	(530)	(575)

Secured loans
The Company's long-term borrowings comprise an inflation linked amortising loan from finance company Longstone Finance plc with an outstanding principal value of £527 million (2022: £566 million) fixed at a real rate of 2.36 percent where principal and interest are uplifted annually by RPI subject to a cap at five percent and floor at nil percent with a carrying amount of £539 million (2022: £575 million) with a final repayment date of April 2031.

The Company's long-term financing is secured over the Company's 48 supermarket properties (2022: 48) (note 7).

The Company has entered into inflation swaps with the ultimate parent company J Sainsbury plc to convert £490 million (2022: £490 million) of the £527 million (2022: £566 million) loan due 2031 from RPI linked interest to fixed rate interest for periods maturing April 2023. These transactions have been designated as cash flow hedges.

11 Called up share capital

	2023 £m	2022 £m	2023 million	2022 million
Called up share capital				
Allotted and fully paid - ordinary shares at £1 each	**310**	310	**310**	310

12 Retained Earnings

	£m
At 6 March 2022	**244**
Profit for the year	**44**
At 4 March 2023	**288**
At 7 March 2021	201
Profit for the year	43
At 5 March 2022	244