

Chairman's statement

This is another good set of results for Sainsbury's with continuing growth in sales and tight cost control leading to further improvements in profit. Underlying profit before tax for the year was up 11.3 per cent to £543 million with underlying basic earnings per share up 12.8 per cent to 22.1 pence. As a result of this further improvement in profitability, the Board is recommending a final dividend of 9.6 pence per share, making a full year dividend of 13.2 pence, an increase of ten per cent over the previous year. This dividend is covered 1.67 times by earnings in line with our long-term policy for dividend cover of 1.50 to 1.75 times.

This year's performance is pleasing for two particular reasons. Firstly, many commentators believed Sainsbury's would be relatively poorly placed for the expected decline in consumer confidence in the UK. 2008 was a year in which growth expectations throughout the world worsened. But while consumer confidence in the UK declined, our performance improved during the year as a result of the strength and resilience of our brand and the actions we took to develop our offer to changing customer trends.

Our universal customer appeal, part of our 'Making Sainsbury's Great Again' ("MSGA") recovery plan, stood us in very good stead but the team also did a great job during the year, extending our entry price point 'basics' range, relaunching core 'own label' products for which Sainsbury's is justly famous, running marketing campaigns such as 'Feed your Family for a Fiver', increasing promotional activity and implementing many other initiatives to boost revenues and control costs. The second reason why the performance was pleasing is that the year marks the end point for the management incentives in the MSGA recovery plan set out in 2004. The targets set in 2004 were widely held to be challenging and in some quarters unrealistic, but have been achieved.

In the current environment there is much discussion about inappropriate management incentives but I believe Sainsbury's recovery is a persuasive example of how reaching strategic goals can be aided by appropriate reward structures, aligning interests of all key stakeholders. In our case, customers and colleagues have benefited from our trading recovery, our top 1,000 managers have achieved good rewards and our shareholders too are participating in our improved performance, despite the recent sharp declines in stock market values worldwide.

In the UK, high levels of government and consumer debt will impact customer attitudes and put business conditions under pressure for some while. This is the market within which we have to operate and we must continue to develop our business appropriately. The grocery sector tends to be relatively well-placed in weaker economic conditions as most people are inclined to prioritise their weekly food shop over more discretionary expenditure. They will however insist on great food and fair prices. Sainsbury's long heritage of offering great product quality, competitive pricing and integrity of sourcing is integral to how we do business and our values are just as relevant today, as we celebrate our 140th anniversary, as they were when we set up shop in 1869.

The last year or so has been dominated by the worldwide slowdown in economic growth triggered by the 'credit crunch' affecting banks and other financial institutions in many countries, and notably the UK. It would be wrong to suggest the Board foresaw the depth and intensity of the financial crisis, but it is true that our solid financial position is a clear advantage in current conditions. In March 2006 almost all Sainsbury's debt was put on a low-cost long-term basis, maturing in 2018 and 2031 and so our need for short-term bank finance is very limited.

We continue to be active in the management of our extensive property assets, with a successful programme of selling the freeholds of properties with limited development potential in order to direct investment to stores which can be extended or otherwise developed in the interests of shareholders. Our joint venture with British Land unlocks significant opportunity to develop a number of our most important stores and deliver an improved customer offer.

I believe we are well positioned to continue our good progress and we have identified opportunities for further growth. While food remains at the heart of Sainsbury's offer, non-food ranges are playing an increasingly important role in our growth. Half our new space is dedicated to non-food and we will be launching non-food offer online during the first half of 2009/10.

Finally, towards the end of 2008 I indicated to the Board that I believed it would be prudent to consider the succession planning for Sainsbury's chairman. Having completed five years in the role, a search for my successor is now being undertaken. The business is in a fundamentally stronger competitive position than in 2004 and is in the hands of an experienced and well-established Board, a fine management team and 150,000 committed colleagues. I am confident Sainsbury's will continue to prosper in these more challenging times.



Philip Hampton
Chairman