

# Notes to the financial statements

## 32 Share-based payments

The Group recognised £40 million (2008: £53 million) of employee costs (note 6) related to share-based payment transactions made during the financial year. Of these, £nil (2008: £2 million) were cash-settled.

National insurance contributions are payable in respect of certain share-based payment transactions and are treated as cash-settled transactions. At 21 March 2009, the carrying amount of national insurance contributions payable was £13 million (2008: £13 million) of which £3 million (2008: £nil) was in respect of vested grants.

The Group operates various share-based payment schemes as set out below:

### (a) Savings Related Share Option Scheme ("SAYE")

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

At 21 March 2009, UK employees held 21,416 five-year savings contracts (2008: 22,074) in respect of options over 22.0 million shares (2008: 20.6 million) and 29,281 three-year savings contracts (2008: 28,332) in respect of options over 18.1 million shares (2008: 15.3 million).

## Notes to the financial statements continued

A reconciliation of option movements is shown below:

	2009 Number of options million	2009 Weighted average exercise price pence	2008 Number of options million	2008 Weighted average exercise price pence
Outstanding at beginning of year	35.9	278	34.5	256
Granted	15.7	224	10.0	331
Forfeited	(5.5)	292	(3.4)	272
Exercised	(6.1)	233	(4.9)	233
Expired	-	-	(0.3)	266
Outstanding at end of year	40.0	262	35.9	278
Exercisable at end of year	2.4	235	2.0	227

The weighted average share price during the period for options exercised over the year was 293 pence (2008: 377 pence).

Details of options at 21 March 2009 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2009 million	Options outstanding 2008 million
3 January 2003 (5 year period)	31 August 2008	239	-	0.9
17 December 2003 (5 year period)	31 August 2009	241	0.9	2.8
15 December 2004 (3 year period)	31 August 2008	217	-	1.1
15 December 2004 (5 year period)	31 August 2010	217	3.7	4.0
15 December 2005 (3 year period)	31 August 2009	231	1.5	4.6
15 December 2005 (5 year period)	31 August 2011	231	4.5	5.0
15 December 2006 (3 year period)	31 August 2010	328	3.2	4.0
15 December 2006 (5 year period)	31 August 2012	328	3.1	3.7
20 December 2007 (3 year period)	31 August 2011	331	4.3	5.6
20 December 2007 (5 year period)	31 August 2013	331	3.3	4.2
17 December 2008 (3 year period)	31 August 2012	224	9.1	-
17 December 2008 (5 year period)	31 August 2014	224	6.4	-
			40.0	35.9

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

	2009	2008
Share price at grant date (pence)	280	413
Exercise price (pence)	224	331
Expected volatility – 3 year period (%)	35.7	23.5
– 5 year period (%)	30.4	25.3
Option life – 3 year period (years)	3.2	3.2
– 5 year period (years)	5.2	5.2
Expected dividends (expressed as dividend yield %)	3.6	1.9
Risk-free interest rate – 3 year period (%)	3.8	4.5
– 5 year period (%)	4.0	4.7
Fair value per option – 3 year period (pence)	86	122
– 5 year period (pence)	85	144

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

## Notes to the financial statements continued

### (b) Colleague Share Option Plan ("CSOP")

The Colleague Share Option Plan operates under the rules of the HMRC Approved Discretionary Share Option Scheme. Under the CSOP, participants are granted options to purchase shares of the Company at a stated exercise price. The exercise of options is conditional upon participants remaining in the employment of the Group for a three-year period after date of grant. Colleagues leaving employment for certain reasons have six months from their leaving date to exercise their options.

At 21 March 2009, a total of 10,034 UK employees (2008: 10,547) participated in the plan and held options over 3.2 million shares (2008: 3.4 million). Options are exercisable between three and ten years from the date of the grant of option. It is intended that there will be no further options granted under this plan.

A reconciliation of option movements is shown below:

	2009 Number of options million	2009 Weighted average exercise price pence	2008 Number of options million	2008 Weighted average exercise price pence
Outstanding at beginning of year	3.4	363	5.7	365
Forfeited	(0.2)	356	(0.3)	352
Exercised	-	-	(2.0)	370
Outstanding at end of year	3.2	363	3.4	363
Exercisable at end of year	3.2	363	3.4	363

The weighted average share price during the period for options exercised over the year was 372 pence (2008: 553 pence).

Details of options at 21 March 2009 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2009 million	Options outstanding 2008 million
2 August 1999	1 August 2009	378	2.7	2.9
2 June 2000	1 June 2010	272	0.5	0.5
			3.2	3.4

### (c) Executive Share Option Plan ("ESOP")

Under the Executive Share Option Plan, participants were granted options to purchase shares in the Company at a stated exercise price. The maximum annual option award was two times basic salary and the grants were agreed by the Remuneration Committee according to the assessed performance and potential of participants.

The exercise of options is conditional upon a performance target based on the growth in the Company's underlying earnings per share ("EPS") relative to inflation over a three-year period. EPS is measured against a fixed starting point over the performance period beginning with the year in which the option was granted. To the extent that the condition is not satisfied in full after three years, it will be retested on a fixed-point basis over four and then five financial years. To the extent the condition is not met after five financial years, the option will lapse.

Once the options vest, participants remaining in the Group's employment or leaving for certain reasons, are entitled to exercise the options between vesting date (normally at the end of the three-year performance period) and the option expiry date, which is ten years from date of grant.

It is intended that there will be no further options granted under this plan.

A reconciliation of option movements is shown below:

	2009 Number of options million	2009 Weighted average exercise price pence	2008 Number of options million	2008 Weighted average exercise price pence
Outstanding at beginning of year	4.1	411	20.4	362
Forfeited	(0.4)	356	(6.3)	332
Exercised	-	-	(5.9)	405
Expired	(1.3)	482	(4.1)	294
Outstanding at end of year	2.4	387	4.1	411
Exercisable at end of year	2.2	395	3.5	437

The weighted average share price during the period for options exercised over the year was 321 pence (2008: 546 pence).

## Notes to the financial statements continued

Details of options at 21 March 2009 are set out below:

Date of grant	Date of expiry	Exercise price pence	Options outstanding 2009 million	Options outstanding 2008 million
10 November 1998	9 November 2008	545	–	1.0
2 August 1999	1 August 2009	378	0.3	0.4
2 June 2000	1 June 2010	272	0.2	0.3
7 June 2001	6 June 2011	427	0.8	0.9
26 July 2001	25 July 2011	407	0.9	0.9
22 May 2003	21 May 2013	257	–	0.4
20 May 2004	19 May 2014	275	0.2	0.2
			<b>2.4</b>	<b>4.1</b>

### (d) Performance Share Plan ("PSP")

The Performance Share Plan was a long-term incentive scheme through which shares were awarded to senior managers on a conditional basis. Under the PSP, participants remaining in the Group's employment or leaving for certain reasons, were entitled to receive a grant of options after a performance period of three years to acquire the shares awarded to them, at any time during the ten years following the date of grant.

The participant's entitlement to receive the grant depended on the Company's Total Shareholder Return ("TSR") – being the increase in the value of a share, including reinvested dividends, compared with a peer group of 11 companies (namely Ahold, Alliance Boots, Carrefour, Casino, DSG International, Kingfisher, Loblaws, Marks & Spencer, Morrisons, Next and Tesco), over the three-year performance period.

If the median performance of the TSR against the comparator group was not achieved at the end of the three-year performance period, the entitlement to receive the grant of options lapsed. At median level, shares to the value of 30 per cent of salary will be released and the award would be pro-rated at every position between the median and first position in the comparator group. The maximum allocation for Directors was a conditional grant of shares equal to 75 per cent of salary.

No further allocations will be made under this plan.

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

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	–	0.9
Released to participants	–	(0.7)
Lapsed	–	(0.2)
Outstanding at end of year	–	–

There were no shares conditionally allocated at 21 March 2009 and at 22 March 2008.

Conditional awards of shares that have fulfilled all conditions at the end of the performance period are represented by options granted to participants to acquire the shares awarded to them. Details of the options outstanding at year-end are set out below:

Date of grant	Date of expiry	Exercise price pence	2009 Options	2009 Shares in respect of options granted	2008 Options	2008 Shares in respect of options granted
16 May 2007	15 May 2017	–	–	–	2	37,627

### (e) All-Employee Share Ownership Plan

(i) In June 2003, under the All-Employee Share Ownership Plan, free shares were awarded to UK employees with more than 12 months' continuous service. The free shares are being held in a trust on behalf of participants and will be forfeited if participants cease to remain in the Group's employment for a period of three years. Shares are released to participants within the first three years for certain reasons. After the three-year period, the shares continue to be held by the trust for a further holding period of two years, unless they are released to participants upon cessation of employment with the Group.

A reconciliation of shares held in the trust is shown below:

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	1.4	1.5
Released to participants	(1.0)	(0.1)
Outstanding at end of year	0.4	1.4

## Notes to the financial statements continued

(ii) From 18 September 2008, under the Sainsbury's share purchase plan, all employees were offered the opportunity to receive one free matching share for every four shares purchased through the savings share purchase plan. Under this scheme, 95,258 matching shares have been awarded, all of which are outstanding at 21 March 2009.

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

	2009	2008
Share price at grant date (pence)	292	–
Exercise price (pence)	–	–
Expected volatility (%)	26.8	–
Option life (years)	3.0	–
Expected dividends (expressed as dividend yield %)	2.6	–
Risk-free interest rate (%)	5.7	–
Fair value per option (pence)	271	–

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

### (f) J Sainsbury plc Share Plan 2005

Under the J Sainsbury plc Share Plan 2005, shares were awarded to participants on the conditional basis that the performance targets are achieved within the four-year performance period, from the financial year beginning 27 March 2005 until the financial year ending March 2009. The levels of awards are scaled according to seniority and there is an opportunity for Executive Directors and eligible Operating Board members to make a personal investment of up to 50 per cent of salary in the plan.

The awards will vest if stretching sales and earnings per share ("EPS") targets are achieved, as shown in table 1 below. The relevant performance multiplier, which is on a sliding scale up to a maximum of five times, will be calculated and applied to the core award of shares, as well as the personal investment of shares, i.e. shares acquired by Executive Directors and eligible Operating Board members. Further, there is an opportunity for partial vesting of up to half the award, if the accelerated performance targets have been met at the end of year three (i.e. financial year ending March 2008) as shown in table 2. No awards will vest unless threshold levels of growth in both sales and EPS are achieved.

Once performance targets have been achieved, options will be granted to participants remaining in the Group's employment or leaving for certain reasons to acquire the shares awarded to them, at nil cost. The options will expire within a year after the end of the four-year performance period. Dividends will accrue on the shares that vest in the form of additional shares.

In order to participate in the plan, participants agreed to surrender options granted to them under the Company's Executive Share Option Plan in 2002, 2003 and 2004.

**Table 1 – Maturity vesting (multiplier applied to the shares)**

4 year EPS growth (compound annual)						
Sales growth in £ billion	<5%	5%	10%	14%	17%	21%
2.50	0.0	1.0	2.0	3.0	4.5	5.0
2.25	0.0	1.0	1.5	2.5	4.0	5.0
2.00	0.0	0.0	1.5	2.0	3.0	4.5
1.75	0.0	0.0	1.5	2.0	2.5	4.0
1.50	0.0	0.0	1.0	1.5	2.0	3.0
1.25	0.0	0.0	0.0	1.0	1.5	2.5
1.00	0.0	0.0	0.0	0.0	1.0	2.0

**Table 2 – Interim vesting (multiplier applied to 50 per cent of the shares)**

3 year EPS growth (compound annual)						
Sales growth in £ billion	<5%	5%	10%	15%	20%	25%
2.50	0.0	1.0	2.0	3.0	4.5	5.0
2.25	0.0	1.0	1.5	2.5	4.0	5.0
2.00	0.0	0.0	1.5	2.0	3.0	4.5
1.75	0.0	0.0	1.5	2.0	2.5	4.0
1.50	0.0	0.0	1.0	1.5	2.0	3.0
1.25	0.0	0.0	0.0	1.0	1.5	2.5
1.00	0.0	0.0	0.0	0.0	1.0	2.0

## Notes to the financial statements continued

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

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	6.1	6.5
Forfeited	(0.1)	(0.4)
Outstanding at end of year	6.0	6.1

Details of shares conditionally allocated at 21 March 2009 are set out below:

Date of conditional award	Shares conditionally allocated 2009 million	Shares conditionally allocated 2008 million
13 July 2005	6.0	6.1

In March 2008, the three-year accelerated performance targets were met. In May 2008 a total number of 15.5 million shares were granted to employees as a result of achieving the performance target. During the year 12.4 million options were exercised. The weighted average share price during the period for options exercised was 332 pence.

A reconciliation of the number of shares is shown below:

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	–	–
Granted	15.5	–
Exercised	(12.4)	–
Expired	(0.2)	–
Outstanding at end of year	2.9	–

### (g) Long-Term Incentive Plan 2006

Under the Long-Term Incentive Plan 2006, shares were conditionally awarded to the top 1,000 managers in the Company, from the Chief Executive to the supermarket store managers. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

The awards will vest if the threshold levels of two co-dependent performance conditions – Return on Capital Employed ("ROCE") and growth in cash flow per share, are achieved over the three-year performance period. The core award can grow by up to four times, dependent on the level of performance. Straight-line vesting will apply if performance falls between two points.

To achieve the maximum multiplier of four, the following criteria are required to be met.

Date of conditional award	Percentage increase to achieve maximum multiplier	
	Cash flow per share %	Return on capital employed %
13 July 2006	18	14
20 June 2007	18	14
28 May 2008	15	15

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

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

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	4.5	2.5
Conditionally allocated	3.3	2.1
Forfeited	(0.4)	(0.1)
Outstanding at end of year	7.4	4.5

## Notes to the financial statements continued

Details of shares conditionally awarded at 21 March 2009 are set out below:

Date of conditional award	Shares conditionally allocated 2009 million	Shares conditionally allocated 2008 million
13 July 2006	2.3	2.4
20 June 2007	1.9	2.1
28 May 2008	3.2	-
	<b>7.4</b>	<b>4.5</b>

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

	2009	2008
Share price at grant date (pence)	346	558
Exercise price (pence)	-	-
Expected volatility (%)	38.8	19.0
Option life (years)	4.2	4.2
Expected dividends (expressed as dividend yield %)	-	-
Risk-free interest rate (%)	4.9	5.6
Fair value per option (pence)	346	558

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

### (h) Deferred Annual Bonus Plan

The Deferred Annual Bonus Plan applies to the top levels of management including Executive Directors and currently comprises around 40 participants in total. The first deferral took place in June 2007, in respect of the bonus awards for the financial year ended 22 March 2008. The second deferral took place in June 2008, in respect of the bonus awards for the financial year ended 22 March 2008. The next deferral will take place in June 2009.

The Plan measures the Company's TSR performance over a three-year period against a bespoke UK and European retail comparator group comprising: Tesco, Morrisons, DSG International, Kingfisher, Home Retail Group, Marks & Spencer, Next, Ahold, Carrefour, Casino, Delhaize and Metro. Alliance Boots was removed from the comparator group following its de-listing.

Up to two matched shares may be awarded for each share deferred depending on the extent to which the TSR measure is achieved. No shares are awarded for below median performance, and the full match will only apply where the Company achieves first place within the comparator group. At median position the match will be 0.5 shares for each deferred bonus share and the share match will be pro-rated at every position between median and first place.

To the extent that the performance condition is met at the end of the three-year performance period, the matched shares will be added to the deferred bonus shares. The deferred bonus shares and half of the matched shares can be accessed immediately, while the remainder will be held over for a further year. Dividends or their equivalents will accrue on shares that vest.

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

	Number of shares 2009 million	Number of shares 2008 million
Outstanding at beginning of year	0.6	-
Granted during the year	0.5	0.6
Outstanding at end of year	<b>1.1</b>	<b>0.6</b>

Details of shares allocated at 21 March 2009 are set out below:

	Share conditionally allocated 2009 million	Share conditionally allocated 2008 million
20 June 2007	0.6	0.6
20 June 2008	0.5	-
	<b>1.1</b>	<b>0.6</b>