



Interim Results 2014/15 and Strategic Review

J Sainsbury plc

David Tyler
Chairman

John Rogers

Chief Financial Officer

Group performance

Highlights

£m	H1	H1	Change
Underlying results	2014/15	2013/14	%
Group sales (inc VAT)¹	13,916	13,953	▼ (0.3)
Retail sales (inc VAT)	13,757	13,953	▼ (1.4)
Retail sales (inc VAT, ex fuel)			▶ 0.0
Retail operating profit	388	440	▼ (11.8)
Financial services operating profit	35	-	n/a
Net finance costs	(54)	(58)	▲ 6.9
Share of JV profits	6	18	▼ (66.7)
Profit before tax	375	400	▼ (6.3)
Tax rate	26.4%	21.5%	▼ 490 bps
Basic EPS	14.5p	16.6p	▼ (12.7)
Interim dividend per share	5.0p	5.0p	▶ 0.0
Statutory results			
Items excluded from underlying results	(665)	33	
(Loss) / profit before tax	(290)	433	

¹ Underlying Group sales (inc VAT) excludes an £11m adjustment for fair value unwind relating to the acquisition of Sainsbury's Bank

Retail

Sales impacted by deflationary environment

**LFL sales
growth¹**

(2.1)%

**Sales from net
new space¹**

2.1%

**Total
sales growth¹**

0.0%

- Contribution from extensions 0.2%²

2014/15 FY Guidance

- Sales impacted by deflationary environment
- Second half LFL expected to be similar to the first half
- Space contribution, excluding extensions and replacements, of around 2.0%

¹ Sales, excluding fuel, including VAT

² Net of disruptions

Retail

Margins under pressure

£m	H1 2014/15	H1 2013/14	Change %
Retail sales (inc VAT)	13,757	13,953	▼ (1.4)
(ex VAT, inc fuel)	12,497	12,684	▼ (1.5)
Retail underlying EBITDAR	982	996	▼ (1.4)
Retail underlying EBITDAR margin %	7.86	7.85	▲ 1 bp
at constant fuel prices	7.80	7.85	▼ (5) bps
Retail underlying operating profit	388	440	▼ (11.8)
Retail underlying operating margin %	3.10	3.47	▼ (37) bps
at constant fuel prices	3.08	3.47	▼ (39) bps

Sainsbury's Bank

Good operational performance

£m	H1 2014/15¹	H1 2013/14²	Change %
Total income³	131	122	▲ 74
Underlying operating profit	35	27	▲ 29.6
Recognised as joint venture	-	12	(100.0)
Consolidated as subsidiary	35	-	n/a
Impact on Group underlying profit	35	12	▲ 191.7
Net interest margin⁴	4.0%	2.7%	▲ 126 bps
Bad debt asset ratio⁵	0.8%	1.3%	▲ 53 bps
Tier 1 Capital Ratio⁶	13.5%	12.5%	▲ 103 bps

2014/15 FY Guidance

- Expect 10 - 15 per cent growth in underlying operating profit

1 6 months to 31 August 2014

2 6 months to 31 August 2013

3 Net interest and net commission income

4 Net interest income / average interest-bearing assets

5 Bad debt expense / gross lending

6 Tier one capital / risk-weighted assets

Items excluded from underlying results

Impairment and onerous contract charge on trading stores and property pipeline

£m	H1 2014/15	H1 2013/14
Impairment and onerous contract charge	(628)	(92)
Pension past service credit	-	158
Sainsbury's Bank transition costs	(23)	(17)
Other items excluded from underlying results	(14)	(16)
Total	(665)	33

2014/15 FY Guidance

- Sainsbury's Bank transition costs are expected to be c.£50m with c.£70m of transition capital expenditure

Underlying finance costs

In line with guidance

£m	H1 2014/15	H1 2013/14	Change %
Net interest cost	(54)	(58)	▲ 6.9
Net interest cover	7.9x	7.9x	
Fixed charge cover	3.0x	3.0x	

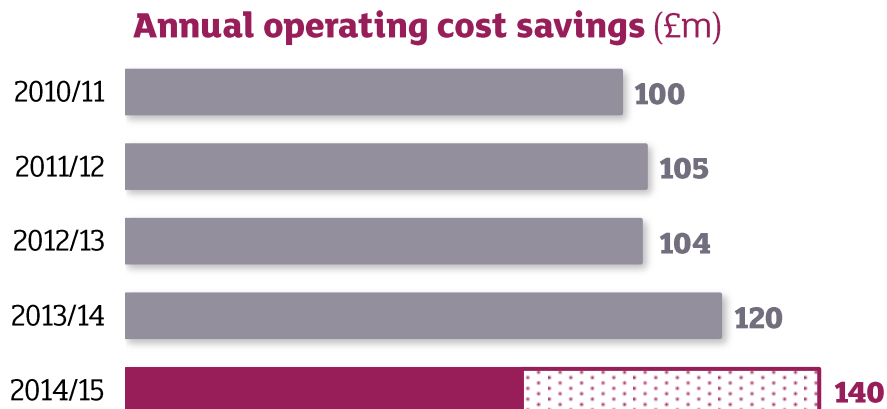
- Capitalised interest £12m (2013/14: £15m)

2014/15 FY Guidance

- Net finance costs to be around £105m
- Capitalised interest to be around £20m
- Tax rate broadly in line with the rate for the half-year

Retail cost savings

Cost inflation of around 2% offset by £75m of savings



2014/15 FY Guidance

- Cost inflation at the lower end of the 2 - 3 per cent range
- Efficiency savings of around £140m

Capital expenditure

In line with guidance

£m	H1 2014/15	H1 2013/14
Core capital expenditure	557	449
Acquisition of freehold properties	(2)	5
Net disposal proceeds	7	(122)
Net capital expenditure	562	332

2014/15 FY Guidance

- Full year core retail capital expenditure similar to 2013/14

Cash flow

Strong Retail working capital performance

£m	H1 2014/15	H1 2013/14
Operating cash flow	620	697
Decrease / (increase) in Retail working capital	312	(2)
Increase in Sainsbury's Bank working capital	(408)	-
Cash from operations	524	695
Interest paid	(76)	(74)
Corporation tax paid	(50)	(55)
Dividends paid	(234)	(225)
Net cash used in investing activities	(555)	(323)
Proceeds from shares	8	5
Other movements	-	(48)
Elimination of movement in Sainsbury's Bank cash and cash equivalent	385	-
Movement in net debt from year end	2	(25)
Net debt	(2,382)	(2,187)

Balance sheet

Maintained balance sheet strength

- Market value of property decreased to £11.9bn
(March 2014: £12.0bn)
- Net debt £2,382m
(March 2014: £2,384m)
- Facilities of £3.6bn
- IAS 19 Revised net pension deficit¹ £634m
(March 2014: £679m)

2014/15 FY Guidance

- Year end net debt position expected to be around £2.4bn

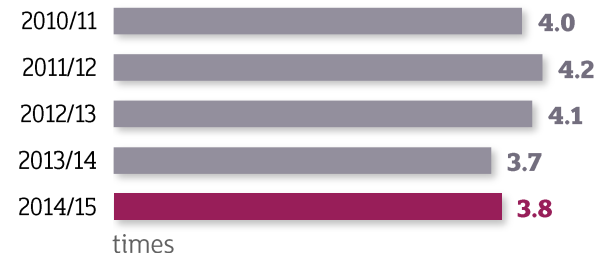
¹ Net of deferred tax

² 2010/11 and 2011/12 not restated for effects of IAS 19 Revised

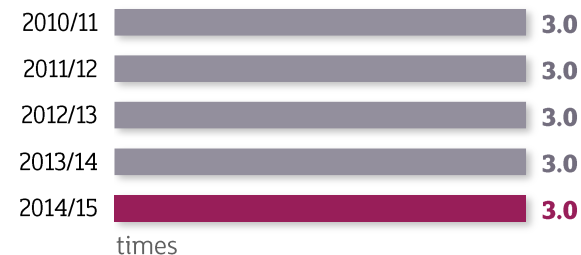
³ Net debt plus capitalised lease obligations (5.5% discount rate) divided by Group underlying EBITDAR

⁴ 2013/14 restated to reflect changes in disclosure of lease lengths beyond five years. Prior years not restated.

Lease adjusted net debt/underlying EBITDAR^{2,3,4} (Rolling 12 month)



Fixed charge cover (H1)² (EBITDAR / interest + rent)



Summary

Trading and operations

- Deflation and accelerating market trends have impacted performance
- Continued strong growth from non-food, convenience, online and Bank
- Strong multi-channel offer
- Differentiated, quality own-brand underpinned by strong values

Key financial measures

- Like-for-like sales declined by 2.1%
- Underlying profit before tax down 6.3% to £375m
- Impairment and onerous contract charge of £628m

Balance sheet

- Key balance sheet metrics remain stable
- Improved working capital within Retail
- Property value broadly flat verses year end at £11.9bn
- Pension deficit reduced
- Net debt in line with expectations

2014/15 FY Guidance

- Given our investment in price in H2, we expect profitability in the second half to be lower than the first half
- First half cost savings and Sainsbury's Bank operating profit outperformed our expectations

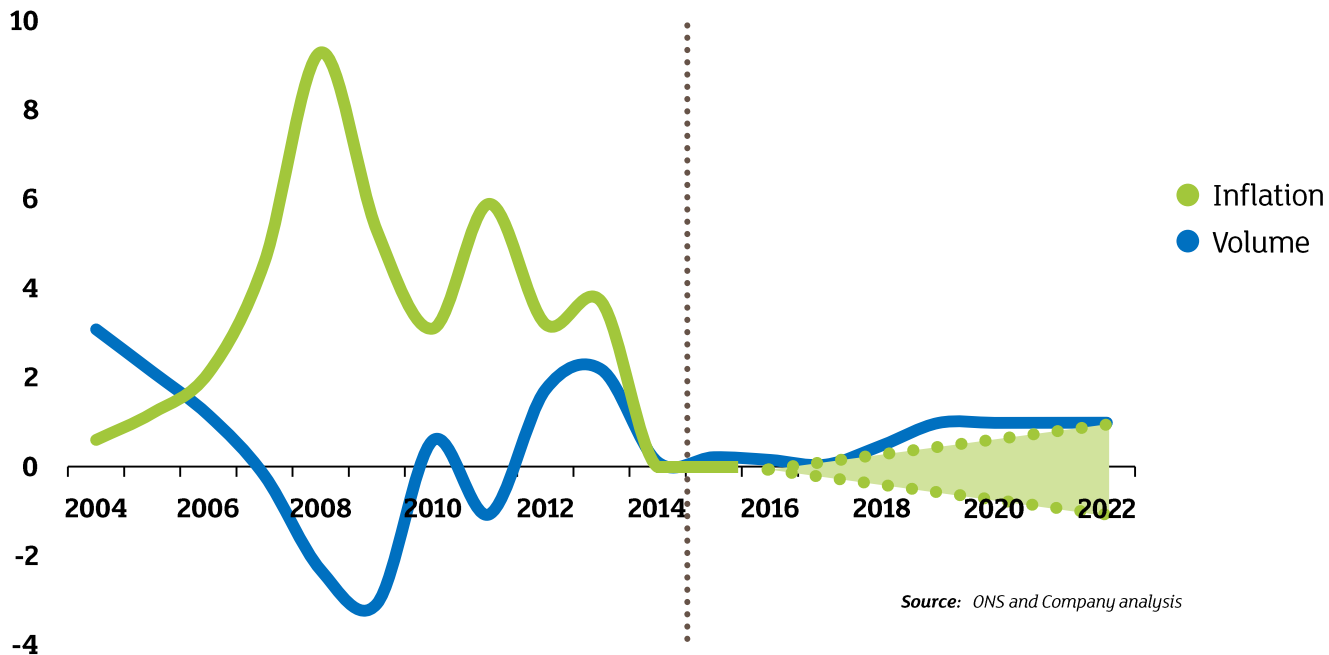
Mike Coupe
Chief Executive

Market context

The market is experiencing cyclical and structural change

Grocery Market Volume & Inflation

YoY % Change



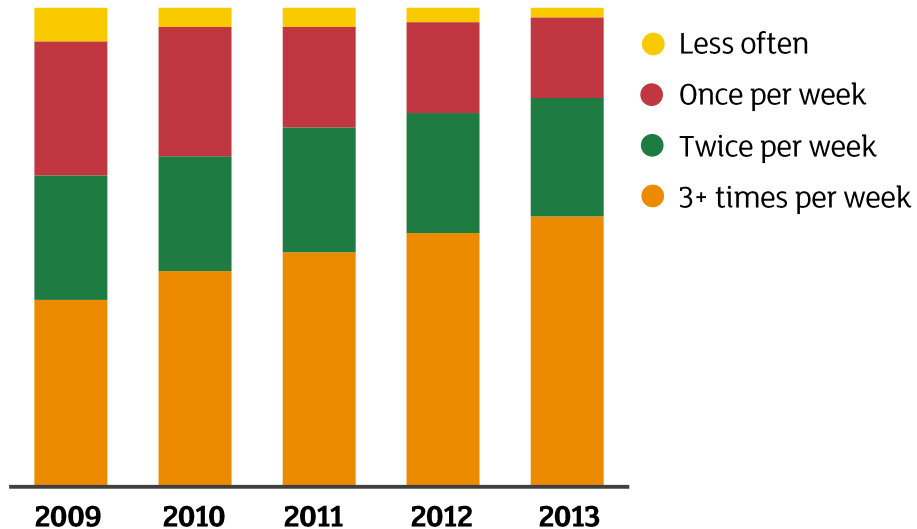
Source: ONS and Company analysis

Market context

Customers are shopping more frequently

Frequency of Grocery Shopping

2009-13 % of Consumers

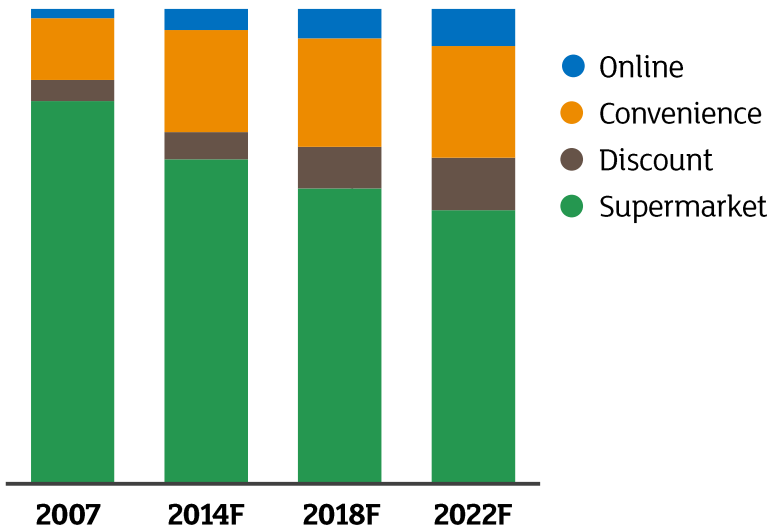


Market context

Convenience, online and discount channels will continue to grow

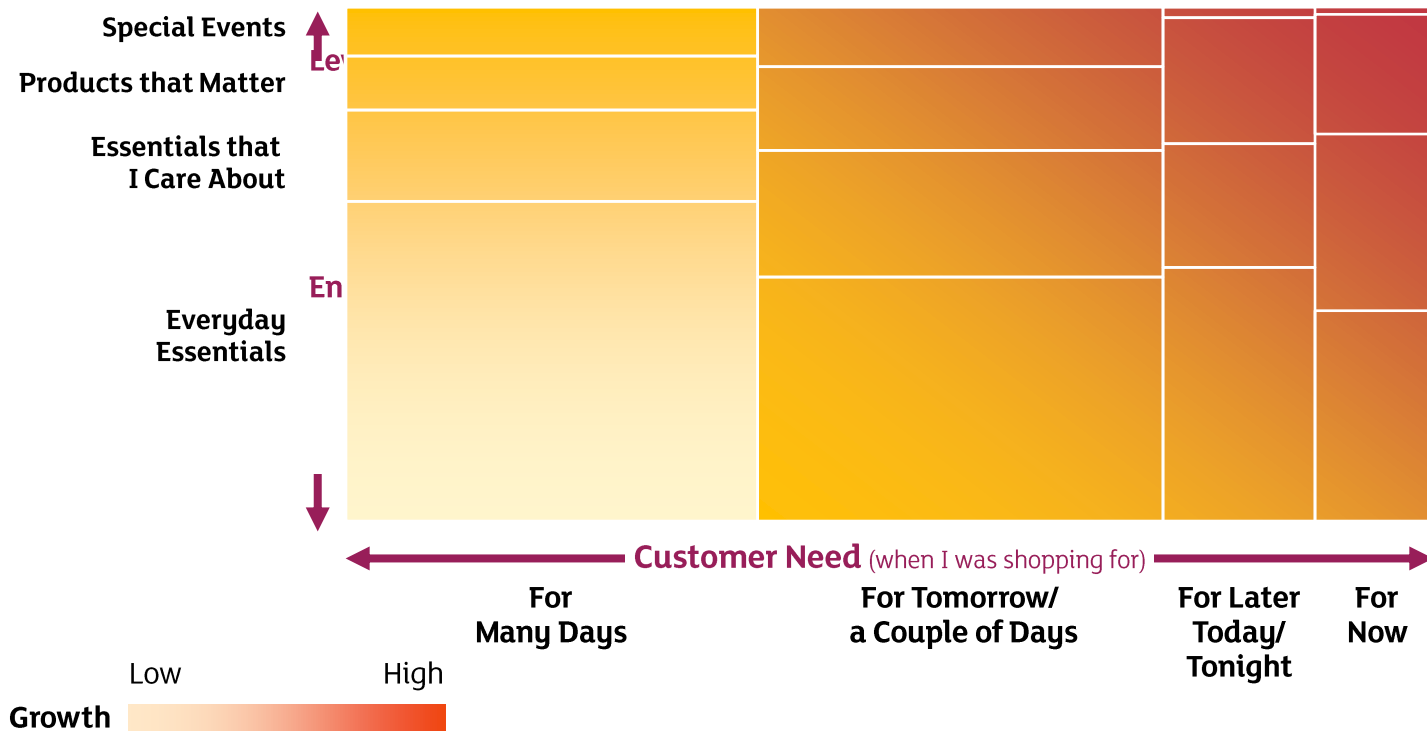
Grocery Market Channel Share

2007-22F % of market



Market context

Customers are changing the way they shop



Building on strong foundations

Sainsbury's has a differentiated offer



Committed to a strong set of values which resonate with our customers and colleagues



Quality leader and customers who care about quality



Strong value proposition underpinned by Brand Match



Growth opportunities in Clothing, General Merchandise and Sainsbury's Bank



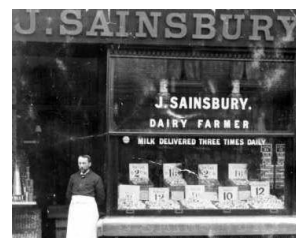
Competitively advantaged portfolio; smaller stores in more affluent, faster growing locations



Established Convenience and Online businesses growing strongly



Delivering great service to our customers



Strong brand heritage

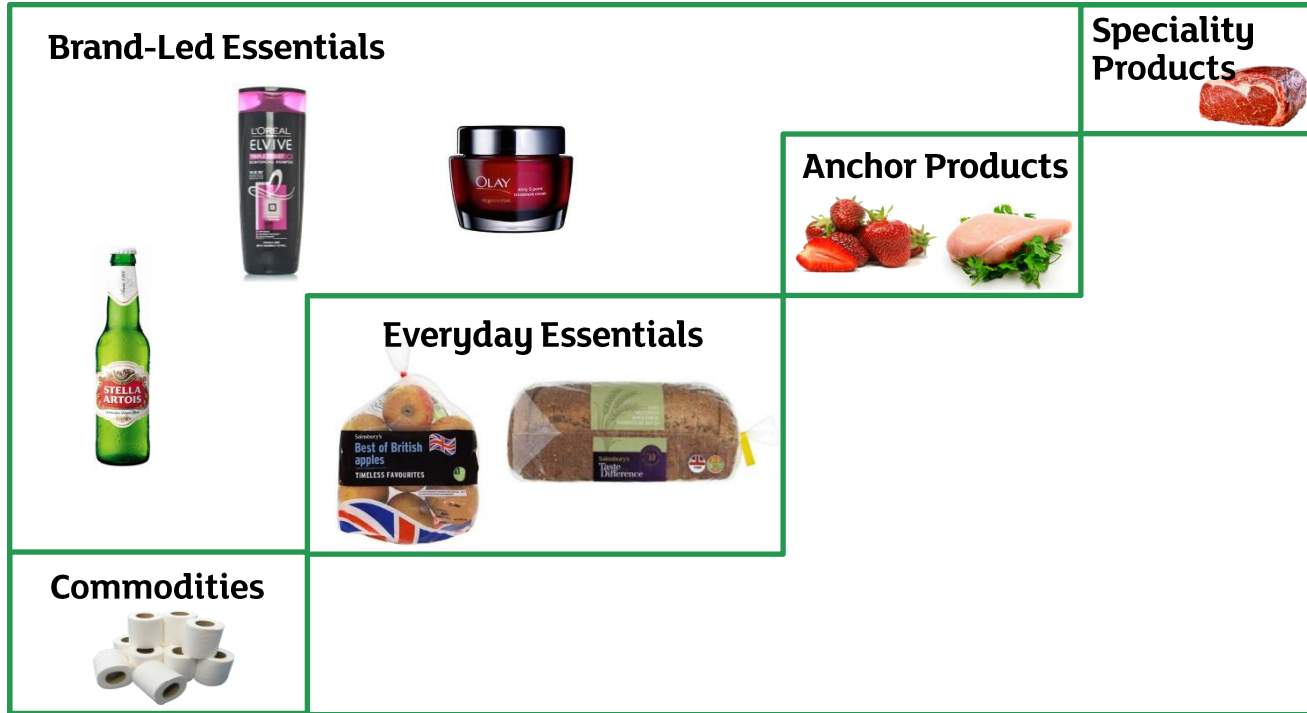


We know our customers better than anyone else

Quality leader and strong value proposition

Investments in quality and price where valued by customers

Importance of Emotional Quality



Importance of Functional Quality

Quality leader and strong value proposition

Innovation: strawberries



- Created exclusive varieties with UK suppliers - consistently win taste panels
- Moved into chill supply chain - fresher product
- Improved life for the customer - complaints down 25%
- LED lighting and new packaging - extended season, reduced waste
- Price parity in the market

Quality leader and strong value proposition

Quality and value: 'Little ones'



- Under-trade
- Working with a trusted supplier
- Long-term relationship driving product differentiation
- High quality own-brand offer
- 85% approvals in product testing
- 7% reduction in price from £4.85 to £4.50

11.25p¹

Sainsbury's

12.47p¹



16.60p^{1,2}

ASDA

1 Sainsbury's Little Ones Dry Fit Nappy Size 5+, 40 nappies
Aldi Mamia Ultra Dry Nappies Size 5+, 36 nappies
Asda Little Angels Comfort Dry Size 5+, 36 nappies

Price per nappy, correct as at Friday 7 November 2014

2 Asda price is base price. Promotional price is 13.90p

Quality leader and strong value proposition

We have made our value proposition simpler

- Simplified price and promotions
- More stable pricing
- Brand Match more focused
- Delivering value to customers in a targeted way

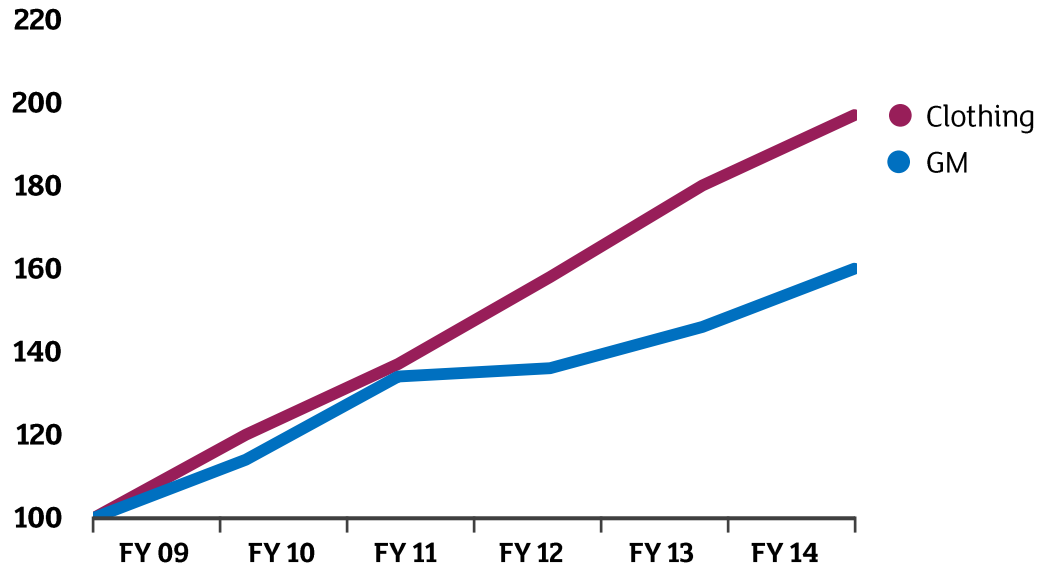


Growth opportunities in non-food and services

Clothing and General Merchandise

Non-food Sales Growth

2009 – 2014 Indexed sales growth from 2009



Growth opportunities in non-food and services

Services

- Strong management team built for the Bank's future
- Performing ahead of expectations
- On track to deliver our transition plan
 - new platform operational from Autumn/Winter 2015
 - cards and loans delivered by Spring/Summer 2016
- Further opportunities in *Mobile by Sainsbury's* and Sainsbury's Energy



Competitively advantaged portfolio

We have reviewed our estate in detail

- Detailed review of the entire estate
- About 75% of our estate is the right size and in the right location
- Competitive advantage in our store locations
- Over the next five years around a quarter of our store portfolio will have some under-utilised space
 - opportunities to reuse this space



Competitively advantaged portfolio

Evolving the supermarket format



- Using right-sized stores to our advantage
- Trialling new supermarket formats
- Focus on ease of shop
- Access, availability and freshness are key
- Giving customers stress-free shop and fast checkout

Competitively advantaged portfolio

Effective use of supermarket space



Strength in growing channels to market

Convenience remains a significant growth channel



- Convenience will remain a growing channel
- Continuing to open c.100 stores per year
- Developing smaller format stores
- Rolling out larger stores over 3k sq ft
- Accretive investments with low capital cost

Strength in growing channels to market

We will focus our investment in our online offer to meet the needs of Sainsbury's shoppers

- Groceries online market continues to grow
- Weekly spend is double when a customer shops in store and online
- Improving our website, freshness, substitutions
- Continuing to invest in click and collect
- Our dark store will help us manage capacity in the London area where we already have high market share
- Clothing online trial - early signs are positive



Strength in growing channels to market

Our new Netto joint venture

- Announced a 15 store trial in partnership with Dansk Supermarked
- Gives footprint in fastest growing segment in the market
- Early days in the trial
- Opportunities to reuse excess space
- Option to invest further if successful
- Shared learning



Delivering great customer service

Colleagues making the difference

- Reduced on-shelf gaps by 45% over five years
- Three Grocer Gold Availability Awards in four years
- New in-day availability management system
- Continuing to invest in customer service
- Rated as number one by suppliers for retail execution



We know our customers better than anyone else

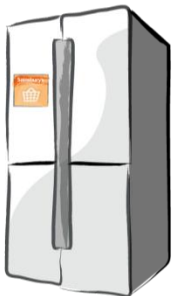
Customer focused online and digital investment

My Kitchen Planner

I have used the asparagus, and cheese and running low on Milk (subscription item)

Meal Planner (Inspiration)

- I want "A Dinner Party for 4"
- A Birthday party for 10 6 year olds



Health Planning

- I need to lose a Stone!
- I am a diabetic
- Goal Setting

Budget Planning

I need to feed my family for £60 a week.



Linked by single sign on



I want it delivered



I want to shop it instore myself



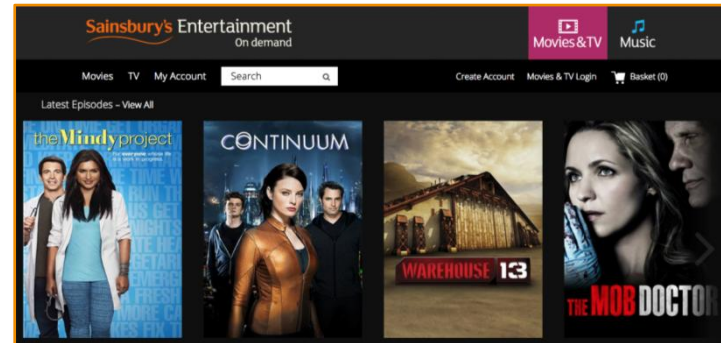
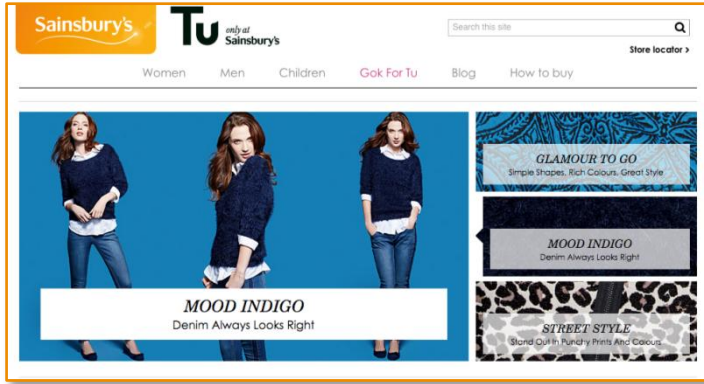
I want to pick it up



Can you pick it up for Me?

We know our customers better than anyone else

Customer focused online and digital investment



Evolving to Win

We will retain our vision and goal and evolve our strategy



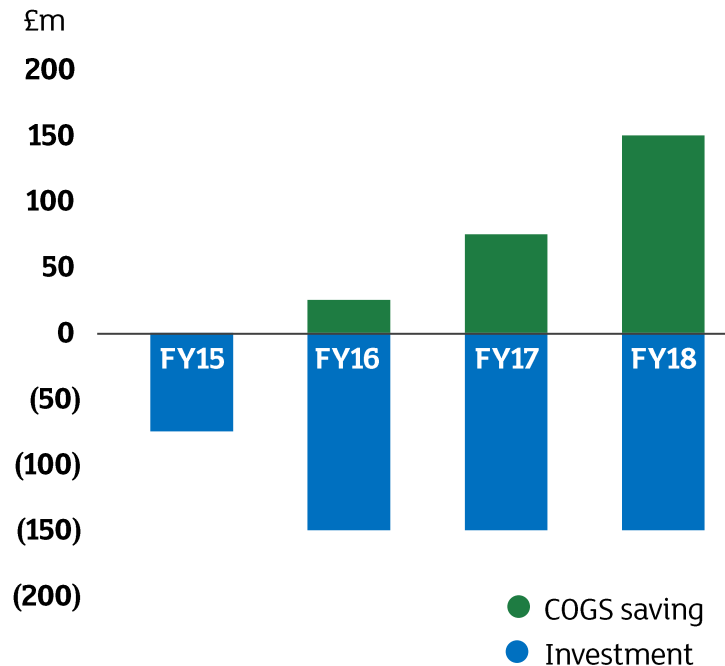
John Rogers
Financial guidance

Financial Guidance

Investments in price, quality and service

- We will secure growth by investing in our differentiated offer
- £150 million in price, of which approximately half will impact the second half
- Price investment recouped through cost of goods efficiencies over time

Investment and COGS savings

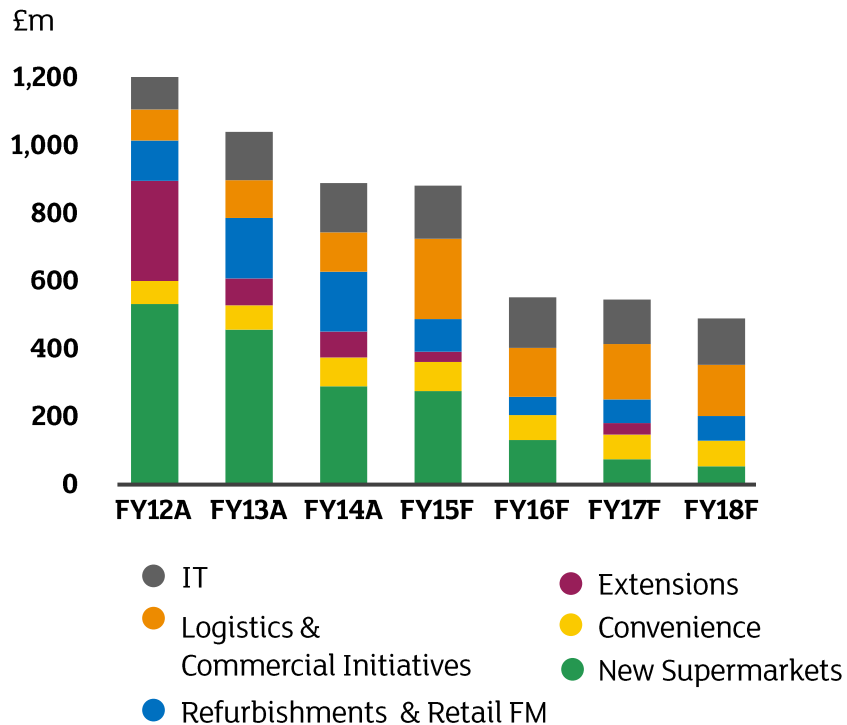


Financial Guidance

Return-enhancing investments

- We will focus on making accretive investments
- Our spend will be rebalanced towards digital & technology and service-focused investments
- We will reduce core capex to £1.6 billion over three years compared to £2.8 billion between 2012/13 and 2014/15
- Capex to sales ratio to be around 2% from 2015/16 onwards

Core capex investment



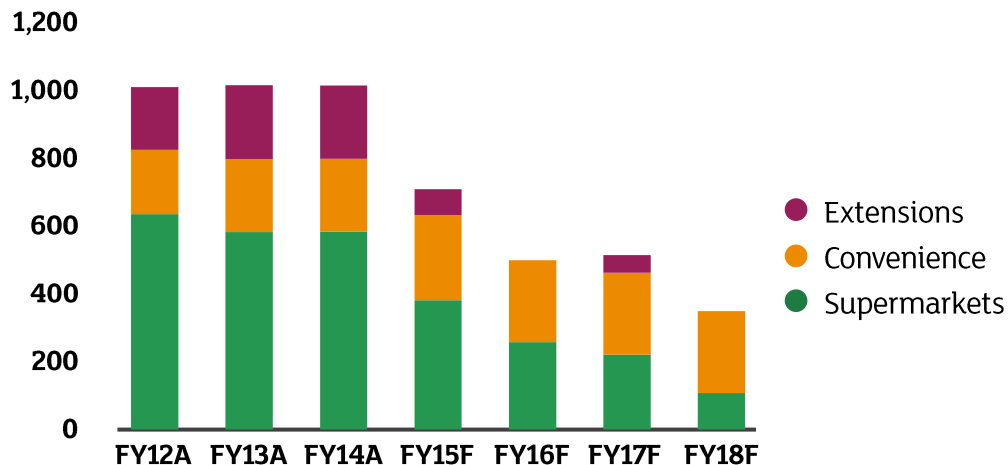
Financial Guidance

Return-enhancing investments

- We will focus our store opening programme on convenience
- Over the next three years we expect to open
 - 8 new supermarkets
 - 4 replacements
 - around 100 convenience stores per year

Gross new space

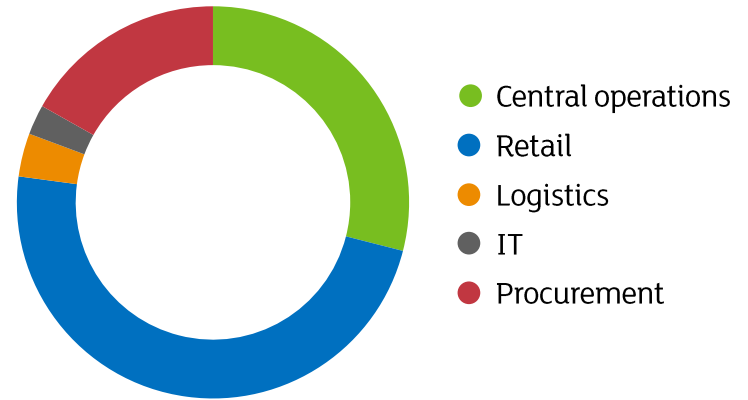
'000 sq ft



Financial Guidance

A step-on in cost reduction

- We will reduce our cost base by £500 million over three years
- Already identified key areas of focus
- Proven track record of delivery



Financial Guidance

Maintaining balance sheet strength

- We will maintain our balance sheet strength
- Expect key metrics to remain stable over time
- Strong focus on working capital management and free cash flow generation
- We will pay an interim dividend of 5.0p per share in 2014/15, fixing cover at 2.0x underlying earnings for full year 2014/15 and the next three years

Financial Guidance

Summary

- We expect supermarket like-for-like sales to be negative for the next few years, but we have robust plans to address this challenge
- Our strategy is to maintain and enhance our differentiated offer through investment in price, quality and service:
 - Price:** £150 million investment with approximately half impacting the second half of 2014/15
 - Quality:** improving 3,000 own-brand products
 - Service:** investing in customer service and the digital experience
- Return-enhancing investment in growth channels of convenience, online and the Bank
- Funded through a number of self-help measures:
 - reduce capex to £1.6 billion over the next three years
 - reduce the cost base by £500 million over the next three years
 - deliver COGS savings to fund price investment over time
- We will continue to pay a dividend whilst maintaining our balance sheet strength, therefore, we will fix cover to 2.0x underlying earnings for 2014/15 and for the next three years

Mike Coupe
Chief Executive

Evolving to Win

We will retain our vision and goal and evolve our strategy

Our vision:

To be the most trusted retailer, where people love to work and shop

Our goal:

We will make our customers' lives easier, offering great quality and service at fair prices, *servicing our customers whenever and wherever they want*



Q & A